

CITY OF SUMMERSET, SOUTH DAKOTA

Financial Statements

December 31, 2022 and 2023



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Independent Auditor's Report

Honorable Mayor and City Commissioners
City of Summerset, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Summerset, South Dakota (the City), as of and for the years ended December 31, 2022 and December 31, 2023 and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying modified cash basis of accounting financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2022 and December 31, 2023 and the respective changes in financial position thereof for each of the years then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* (GAS), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the modified cash basis of accounting financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and GAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and GAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Pension Contributions, and the Notes to the Supplementary Information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, the budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Pension Contributions, and the Notes to the Supplementary Information are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of City Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Schedule of City Officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and distribution is not limited.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

October 15, 2024

BASIC FINANCIAL STATEMENTS

City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2022

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 3,674,279 | \$ 884,702 | \$ 4,558,981 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | <u>387,898</u> | <u>-</u> | <u>387,898</u> |
| TOTAL ASSETS | <u>\$ 4,062,177</u> | <u>\$ 884,702</u> | <u>\$ 4,946,879</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt Service | \$ 1,807,647 | \$ - | \$ 1,807,647 |
| Customer Deposits | - | 41,360 | 41,360 |
| Unrestricted | <u>2,254,530</u> | <u>843,342</u> | <u>3,097,872</u> |
| TOTAL NET POSITION | <u>\$ 4,062,177</u> | <u>\$ 884,702</u> | <u>\$ 4,946,879</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2022

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Net Position | | |
|----------------------------------|---------------------|----------------------|---|--|--------------------------|---------------------|
| | | Charges for Services | Capital Grants, Loans and Contributions | Governmental Activities | Business-type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | \$ 469,078 | \$ 68,035 | \$ 322,454 | \$ (78,589) | \$ - | \$ (78,589) |
| Public Safety | 836,826 | 778 | 4,997 | (831,051) | - | (831,051) |
| Public Works | 791,162 | 191,429 | - | (599,733) | - | (599,733) |
| Culture and Recreation | 35,490 | - | - | (35,490) | - | (35,490) |
| Conservation and Development | 11,087 | - | 2,000 | (9,087) | - | (9,087) |
| Debt Service* | 296,800 | - | - | (296,800) | - | (296,800) |
| Total Governmental Activities | 2,440,443 | 260,242 | 329,451 | (1,850,750) | - | (1,850,750) |
| Business-type Activities: | | | | | | |
| Sewer | 1,029,798 | 798,440 | - | - | (231,358) | (231,358) |
| TOTAL PRIMARY GOVERNMENT | \$ 3,470,241 | \$ 1,058,682 | \$ 329,451 | (1,850,750) | (231,358) | (2,082,108) |
| GENERAL RECEIPTS | | | | | | |
| Taxes: | | | | | | |
| Property Taxes | | | | 1,413,296 | - | 1,413,296 |
| Sales Tax | | | | 1,092,398 | - | 1,092,398 |
| State Shared Receipts | | | | 50,569 | - | 50,569 |
| County Shared Receipts | | | | 9,524 | - | 9,524 |
| Unrestricted Investment Earnings | | | | 4,352 | 162 | 4,514 |
| Miscellaneous Receipts | | | | 132,217 | - | 132,217 |
| Total General Receipts | | | | 2,702,356 | 162 | 2,702,518 |
| CHANGE IN NET POSITION | | | | 851,606 | (231,196) | 620,410 |
| NET POSITION - BEGINNING | | | | 3,210,571 | 1,115,898 | 4,326,469 |
| NET POSITION - ENDING | | | | \$ 4,062,177 | \$ 884,702 | \$ 4,946,879 |

*The City of Summerset does not have interest and principal expenses directly related to the functions presented above. This amount includes indirect interest and principal expenses on general long-term debt.

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2022

| | <u>General Fund</u> | <u>Tax Increment District #1 - Debt Service Fund</u> | <u>Non-major Third Penny Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|---|---|
| ASSETS | | | | |
| Cash and Cash Equivalents | \$ 2,170,037 | \$ 1,419,749 | \$ 84,493 | \$ 3,674,279 |
| Restricted Cash and Cash Equivalents | <u>-</u> | <u>387,898</u> | <u>-</u> | <u>387,898</u> |
| TOTAL ASSETS | <u>\$ 2,170,037</u> | <u>\$ 1,807,647</u> | <u>\$ 84,493</u> | <u>\$ 4,062,177</u> |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| For Debt Service | \$ - | \$ 1,807,647 | \$ - | \$ 1,807,647 |
| Committed: | | | | |
| For Economic Development | - | | 84,493 | 84,493 |
| Unassigned | <u>2,170,037</u> | <u>-</u> | <u>-</u> | <u>2,170,037</u> |
| TOTAL FUND BALANCES | <u>\$ 2,170,037</u> | <u>\$ 1,807,647</u> | <u>\$ 84,493</u> | <u>\$ 4,062,177</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2022

| | General Fund | Tax Increment District #1 - Debt Service Fund | Non-major Third Penny Fund | Total Governmental Funds |
|---|------------------|--|----------------------------------|--------------------------------|
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 656,402 | \$ 756,266 | \$ - | \$ 1,412,668 |
| General Sales and Use Taxes | 1,027,740 | - | - | 1,027,740 |
| Gross Receipts Taxes | 5,769 | - | 58,889 | 64,658 |
| Penalties and Interest on Delinquent Taxes | 628 | - | - | 628 |
| Licenses and Permits | 68,035 | - | - | 68,035 |
| Intergovernmental Receipts: | | | | |
| Federal Grants | 325,404 | - | - | 325,404 |
| State Grants | 3,697 | - | - | 3,697 |
| State Shared Receipts: | | | | |
| Liquor Tax Reversion | 20,825 | - | - | 20,825 |
| Motor Vehicle Licenses | 29,744 | - | - | 29,744 |
| County Shared Receipts: | | | | |
| County Road Tax | 1,310 | - | - | 1,310 |
| Other | 8,214 | - | - | 8,214 |
| Charges for Goods and Services: | | | | |
| Solid Waste Collections | 189,079 | - | - | 189,079 |
| Fines and Forfeits: | | | | |
| Court Fines and Costs | 778 | - | - | 778 |
| Miscellaneous Receipts: | | | | |
| Street Light Fees | 1,200 | - | - | 1,200 |
| Contributions | 350 | - | - | 350 |
| Investment Earnings | 1,393 | 2,959 | - | 4,352 |
| Other | 133,367 | - | - | 133,367 |
| Total Receipts | 2,473,935 | 759,225 | 58,889 | 3,292,049 |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds (Continued)
For the Year Ended December 31, 2022

| | General Fund | Tax Increment District #1 - Debt Service Fund | Non-major Third Penny Fund | Total Governmental Funds |
|--|---------------------|--|----------------------------------|--------------------------------|
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative | 48,872 | - | - | 48,872 |
| Executive | 18,988 | - | - | 18,988 |
| Elections | 335 | - | - | 335 |
| Financial Administration | 261,275 | - | - | 261,275 |
| Government Building and Engineering | 139,608 | - | - | 139,608 |
| Public Safety: | | | | |
| Police | 787,201 | - | - | 787,201 |
| Fire Department | 32,850 | - | - | 32,850 |
| Protective Inspection | 7,722 | - | - | 7,722 |
| Public Works: | | | | |
| Highways and Streets | 395,921 | - | - | 395,921 |
| Sanitation | 105,654 | - | - | 105,654 |
| Parks and Recreation | 12,616 | - | - | 12,616 |
| Conservation and Development: | | | | |
| Planning and Zoning | 11,087 | - | - | 11,087 |
| Economic Development | - | - | 22,874 | 22,874 |
| Debt Service | - | 296,800 | - | 296,800 |
| Capital Outlay | 298,640 | - | - | 298,640 |
| Total Disbursements | <u>2,120,769</u> | <u>296,800</u> | <u>22,874</u> | <u>2,440,443</u> |
| NET CHANGE IN FUND BALANCE | 353,166 | 462,425 | 36,015 | 851,606 |
| FUND BALANCE - BEGINNING | <u>1,816,871</u> | <u>1,345,222</u> | <u>48,478</u> | <u>3,210,571</u> |
| FUND BALANCE - ENDING | <u>\$ 2,170,037</u> | <u>\$ 1,807,647</u> | <u>\$ 84,493</u> | <u>\$ 4,062,177</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2022

| | <u>Sewer Fund</u> |
|----------------------------------|--------------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ <u>884,702</u> |
| TOTAL ASSETS | \$ <u><u>884,702</u></u> |
| NET POSITION | |
| Restricted for Customer Deposits | \$ 41,360 |
| Unrestricted | <u>843,342</u> |
| TOTAL NET POSITION | \$ <u><u>884,702</u></u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2022

| | Sewer Fund |
|--|---------------|
| OPERATING RECEIPTS | |
| Revenue Dedicated to Servicing Debt | \$ 798,440 |
| OPERATING DISBURSEMENTS | |
| Personal Services | 200,725 |
| Other Current Operating Disbursements | 569,859 |
| Total Operating Disbursements | 770,584 |
| Net Operating Income | 27,856 |
| NONOPERATING RECEIPTS (DISBURSEMENTS) | |
| Investment Earnings | 162 |
| Debt Service | (99,904) |
| Capital Outlay | (159,310) |
| Net Nonoperating Disbursements | (259,052) |
| CHANGE IN NET POSITION | (231,196) |
| NET POSITION - BEGINNING | 1,115,898 |
| NET POSITION - ENDING | \$ 884,702 |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2023

| | <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|---------------------------|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 1,838,457 | \$ 1,086,086 | \$ 2,924,543 |
| Restricted Assets: | | | |
| Cash and Cash Equivalents | <u>1,916,814</u> | <u>-</u> | <u>1,916,814</u> |
| TOTAL ASSETS | <u>\$ 3,755,271</u> | <u>\$ 1,086,086</u> | <u>\$ 4,841,357</u> |
| NET POSITION | | | |
| Restricted for: | | | |
| Debt Service | \$ 2,425,444 | \$ - | \$ 2,425,444 |
| Customer Deposits | - | 40,960 | 40,960 |
| Unrestricted | <u>1,329,827</u> | <u>1,045,126</u> | <u>2,374,953</u> |
| TOTAL NET POSITION | <u>\$ 3,755,271</u> | <u>\$ 1,086,086</u> | <u>\$ 4,841,357</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Activities - Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2023

| Functions/Programs | Disbursements | Program Receipts | | Net (Disbursements) Receipts and Changes in Net Position | | |
|----------------------------------|---------------------|----------------------|---|--|--------------------------|---------------------|
| | | Charges for Services | Capital Grants, Loans and Contributions | Governmental Activities | Business-type Activities | Total |
| PRIMARY GOVERNMENT | | | | | | |
| Governmental Activities: | | | | | | |
| General Government | \$ 657,688 | \$ 113,062 | \$ 196,976 | \$ (347,650) | \$ - | \$ (347,650) |
| Public Safety | 906,931 | 33 | 5,284 | (901,614) | - | (901,614) |
| Public Works | 1,376,650 | 202,501 | - | (1,174,149) | - | (1,174,149) |
| Health and Welfare | 650 | - | - | (650) | - | (650) |
| Culture and Recreation | 44,470 | - | - | (44,470) | - | (44,470) |
| Conservation and Development | 14,513 | - | - | (14,513) | - | (14,513) |
| Capital Outlay | 4,740,355 | - | 3,596,279 | (1,144,076) | - | (1,144,076) |
| Debt Service* | 296,800 | - | - | (296,800) | - | (296,800) |
| Total Governmental Activities | 8,038,057 | 315,596 | 3,798,539 | (3,923,922) | - | (3,923,922) |
| Business-type Activities: | | | | | | |
| Sewer | 1,019,670 | 769,912 | - | - | (249,758) | (249,758) |
| TOTAL PRIMARY GOVERNMENT | \$ 9,057,727 | \$ 1,085,508 | \$ 3,798,539 | (3,923,922) | (249,758) | (4,173,680) |
| GENERAL RECEIPTS | | | | | | |
| Taxes: | | | | | | |
| Property Taxes | | | | 1,591,554 | - | 1,591,554 |
| Sales Tax | | | | 1,085,987 | - | 1,085,987 |
| State Shared Receipts | | | | 51,367 | - | 51,367 |
| County Shared Receipts | | | | 14,617 | - | 14,617 |
| Unrestricted Investment Earnings | | | | 53,238 | - | 53,238 |
| Debt Proceeds | | | | 757,198 | 6,896 | 764,094 |
| Miscellaneous Receipts | | | | 63,055 | 444,246 | 507,301 |
| Total General Receipts | | | | 3,617,016 | 451,142 | 4,068,158 |
| CHANGE IN NET POSITION | | | | (306,906) | 201,384 | (105,522) |
| NET POSITION - BEGINNING | | | | 4,062,177 | 884,702 | 4,946,879 |
| NET POSITION - ENDING | | | | \$ 3,755,271 | \$ 1,086,086 | \$ 4,841,357 |

*The City of Summerset does not have interest and principal expenses directly related to the functions presented above. This amount includes indirect interest and principal expenses on general long-term debt.

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2023

| | General Fund | Tax Increment District #1 - Debt Service Fund | Tax Increment District #2 - Debt Service Fund | Capital Projects Fund | Non-major Third Penny Fund | Total Governmental Funds |
|---|---------------------|--|--|-----------------------------|----------------------------------|--------------------------------|
| ASSETS | | | | | | |
| Cash and Cash Equivalents | \$ 1,603,759 | \$ 337,603 | \$ 171,027 | \$ (386,878) | \$ 112,946 | \$ 1,838,457 |
| Restricted Cash and Cash Equivalents | - | 1,916,814 | - | - | - | 1,916,814 |
| TOTAL ASSETS | <u>\$ 1,603,759</u> | <u>\$ 2,254,417</u> | <u>\$ 171,027</u> | <u>\$ (386,878)</u> | <u>\$ 112,946</u> | <u>\$ 3,755,271</u> |
| FUND BALANCES | | | | | | |
| Restricted: | | | | | | |
| For Debt Service | \$ - | \$ 2,254,417 | \$ 171,027 | \$ - | \$ - | \$ 2,425,444 |
| Committed: | | | | | | |
| For Economic Development | - | - | - | - | 112,946 | 112,946 |
| Unassigned | 1,603,759 | - | - | (386,878) | - | 1,216,881 |
| TOTAL FUND BALANCES | <u>\$ 1,603,759</u> | <u>\$ 2,254,417</u> | <u>\$ 171,027</u> | <u>\$ (386,878)</u> | <u>\$ 112,946</u> | <u>\$ 3,755,271</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis -
Governmental Funds
For the Year Ended December 31, 2023

| | <u>General Fund</u> | <u>Tax Increment District #1 - Debt Service Fund</u> | <u>Tax Increment District #2 - Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Non-major Third Penny Fund</u> | <u>Total Governmental Funds</u> |
|---|-------------------------|--|--|--------------------------------------|---|---|
| RECEIPTS | | | | | | |
| Taxes: | | | | | | |
| General Property Taxes | \$ 707,237 | \$ 712,690 | \$ 171,027 | \$ - | \$ - | \$ 1,590,954 |
| General Sales and Use Taxes | 1,030,712 | - | - | - | - | 1,030,712 |
| Gross Receipts Taxes | - | - | - | - | 55,275 | 55,275 |
| Penalties and Interest on Delinquent Taxes | 600 | - | - | - | - | 600 |
| Licenses and Permits | 113,062 | - | - | - | - | 113,062 |
| Intergovernmental Receipts: | | | | | | |
| Federal Grants | 196,976 | - | - | 3,596,279 | - | 3,793,255 |
| State Shared Receipts: | | | | | | |
| Liquor Tax Reversion | 20,429 | - | - | - | - | 20,429 |
| Motor Vehicle Licenses | 30,938 | - | - | - | - | 30,938 |
| County Shared Receipts: | | | | | | |
| Other | 14,617 | - | - | - | - | 14,617 |
| Charges for Goods and Services: | | | | | | |
| Solid Waste Collections | 201,901 | - | - | - | - | 201,901 |
| Fines and Forfeits: | | | | | | |
| Court Fines and Costs | 33 | - | - | - | - | 33 |
| Miscellaneous Receipts: | | | | | | |
| Code Enforcement | 600 | - | - | - | - | 600 |
| Contributions | 5,284 | - | - | - | - | 5,284 |
| Investment Earnings | 22,358 | 30,880 | - | - | - | 53,238 |
| Other | 63,055 | - | - | - | - | 63,055 |
| Total Receipts | <u>2,407,802</u> | <u>743,570</u> | <u>171,027</u> | <u>3,596,279</u> | <u>55,275</u> | <u>6,973,953</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis -
Governmental Funds (Continued)
For the Year Ended December 31, 2023

| | General Fund | Tax Increment District #1 - Debt Service Fund | Tax Increment District #2 - Debt Service Fund | Capital Projects Fund | Non-major Third Penny Fund | Total Governmental Funds |
|--|------------------|--|--|-----------------------------|----------------------------------|--------------------------------|
| DISBURSEMENTS | | | | | | |
| General Government: | | | | | | |
| Legislative | 76,956 | - | - | - | - | 76,956 |
| Executive | 29,776 | - | - | - | - | 29,776 |
| Elections | 1,181 | - | - | - | - | 1,181 |
| Financial Administration | 242,571 | - | - | - | - | 242,571 |
| Government Building and Engineering | 283,006 | - | - | - | - | 283,006 |
| Public Safety: | | | | | | |
| Police | 863,891 | - | - | - | - | 863,891 |
| Fire Department | 33,114 | - | - | - | - | 33,114 |
| Protective Inspection | 3,035 | - | - | - | - | 3,035 |
| Public Works: | | | | | | |
| Highways and Streets | 367,665 | - | - | - | - | 367,665 |
| Sanitation | 133,898 | - | - | - | - | 133,898 |
| Health and Welfare: | | | | | | |
| Humane Society | 650 | - | - | - | - | 650 |
| Parks and Recreation | 17,648 | - | - | - | - | 17,648 |
| Conservation and Development: | | | | | | |
| Planning and Zoning | 14,513 | - | - | - | - | 14,513 |
| Economic Development | - | - | - | - | 26,822 | 26,822 |
| Debt Service | - | 296,800 | - | - | - | 296,800 |
| Capital Outlay | 906,176 | - | - | 4,740,355 | - | 5,646,531 |
| Total Disbursements | <u>2,974,080</u> | <u>296,800</u> | <u>-</u> | <u>4,740,355</u> | <u>26,822</u> | <u>8,038,057</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis -
Governmental Funds (Continued)
For the Year Ended December 31, 2023

| | General Fund | Tax Increment District #1 - Debt Service Fund | Tax Increment District #2 - Debt Service Fund | Capital Projects Fund | Non-major Third Penny Fund | Total Governmental Funds |
|-----------------------------------|---------------------|--|--|-----------------------------|----------------------------------|--------------------------------|
| OTHER FINANCING SOURCES | | | | | | |
| Proceeds from Long-term Debt | - | - | - | 757,198 | - | 757,198 |
| NET CHANGE IN FUND BALANCE | (566,278) | 446,770 | 171,027 | (386,878) | 28,453 | (306,906) |
| FUND BALANCE - BEGINNING | 2,170,037 | 1,807,647 | - | - | 84,493 | 4,062,177 |
| FUND BALANCE - ENDING | <u>\$ 1,603,759</u> | <u>\$ 2,254,417</u> | <u>\$ 171,027</u> | <u>\$ (386,878)</u> | <u>\$ 112,946</u> | <u>\$ 3,755,271</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2023

| | <u>Sewer Fund</u> |
|----------------------------------|-----------------------|
| ASSETS | |
| Cash and Cash Equivalents | \$ <u>1,086,086</u> |
| TOTAL ASSETS | <u>\$ 1,086,086</u> |
| NET POSITION | |
| Restricted for Customer Deposits | \$ 40,960 |
| Unrestricted | <u>1,045,126</u> |
| TOTAL NET POSITION | <u>\$ 1,086,086</u> |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Net Position-
Proprietary Funds
For the Year Ended December 31, 2023

| | Sewer Fund |
|--|---------------|
| OPERATING RECEIPTS | |
| Revenue Dedicated to Servicing Debt | \$ 769,912 |
| Total Operating Receipts | 769,912 |
| OPERATING DISBURSEMENTS | |
| Personal Services | 221,461 |
| Other Current Operating Disbursements | 643,462 |
| Total Operating Disbursements | 864,923 |
| Net Operating Loss | (95,011) |
| NONOPERATING RECEIPTS (DISBURSEMENTS) | |
| Investment Earnings | 6,896 |
| Debt Service | (99,903) |
| Capital Outlay | (54,844) |
| Other | 444,246 |
| Total Nonoperating Receipts | 296,395 |
| CHANGE IN NET POSITION | 201,384 |
| NET POSITION - BEGINNING | 884,702 |
| NET POSITION - ENDING | \$ 1,086,086 |

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. REPORTING ENTITY

The reporting entity of the City of Summerset, South Dakota (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. These statements include all funds of the overall government except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and each function of the City's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions and loan proceeds that are restricted to meeting the operational or capital requirements of a particular program. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, receipts, and disbursements. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City, or if it meets the following criteria:

1. Total assets, liabilities, receipts, or disbursements of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, receipts, or disbursements of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always considered to be a major fund.

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

Third Penny Fund - To account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions. The use of this tax is restricted by City Ordinance 34.21.020 and shall be levied for land acquisition, architectural fees, construction costs, payments for the civic center, auditorium, or athletic facility buildings including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City, its facilities, attractions, and activities per SDCL 10-52A-2. This is not a major fund.

Capital Projects Funds - Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

Capital Projects Fund - To account for financial resources to be used for the expansion of the waste water treatment plant. This is a major fund.

Debt Service Funds - Debt service funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest, and related costs.

Tax Increment District #1 & #2 - Accounts for the accumulation of property tax receipts received on the tax increment district and the payment of long-term debt principal and interest as related to the tax increment district. These funds are both major funds.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Sewer Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). The City did not have fiduciary funds as of December 31, 2022 or 2023.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City’s basis of accounting is the modified cash basis, which is a basis of accounting other than GAAP. Under GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus is used and applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type activities are presented using the modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a customer transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the City applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. CASH AND CASH EQUIVALENTS

The City pools its cash resources for deposit purposes. The proprietary funds have access to their cash resources on demand.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and short-term investments with a term to maturity at the date of acquisition of three months or less. Certificates of deposit whose term to maturity at the date of acquisition exceeds three months are carried at cost and included in cash and cash equivalents.

E. RESTRICTED CASH DEPOSITS

The City maintains restricted cash deposits for utility customer account deposits and debt service reserves required by loan agreements in relation to the tax increment financing.

F. CAPITAL ASSETS

Government-wide Financial Statements:

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner in the government-wide financial statements.

G. LONG-TERM LIABILITIES

Long-term liabilities include, but are not limited to, financing notes and leases.

As discussed in Note 1.C. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures, and Changes in Fund Balances. On the Statement of Activities, the principal and interest are reported as debt service.

H. REVENUE RECEIVED IN ADVANCE

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. PROGRAM RECEIPTS

Program receipts derive directly from the program itself or parties other than the City's taxpayers or citizenry as a whole. Program receipts are classified into three categories as follows:

1. *Charges for Services* - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. *Program-specific Operating Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. *Program-specific Capital Grants and Contributions* - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

J. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

K. EQUITY CLASSIFICATIONS

Government-Wide Financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

1. *Restricted Net Position* - Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (b) law through constitutional provisions or enabling legislation.
2. *Unrestricted Net Position* - All other net position that does not meet the definition of Restricted Net Position.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - Includes amounts that are constrained for specific purposes that are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - Includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Commissioners and do not lapse at year-end.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned - Includes amounts that are constrained by the City management and are intended to be used for specific purposes but are neither restricted nor committed. The City Commissioners have given management the authority to create assignments of fund equity.

Unassigned - Includes positive amounts within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The City uses restricted amounts first when both restricted and unrestricted fund balances are available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Proprietary fund equity is classified the same as in the government-wide financial statements.

The City has established a fund balance reserve policy for the General Fund. The total amount set aside is \$500,000. The policy provides for a budget stabilization reserve of 15 - 20% of annual operating expenditures; an emergency reserve for unforeseen disasters or accidents of 15 - 20% of annual operating expenditures, and a working capital reserve of 5 - 10% of annual operating expenditures. These reserves have not been designated for specific purposes and, as such, are presented in unassigned fund balance in the General Fund.

NOTE 2 - DEPOSITS AND INVESTMENTS

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are as follows:

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts that exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating, which may not be less than "AA," or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments

In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any banker or trust company designated by the political subdivision as its fiscal agent. In the years ended December 31, 2022 and 2023, the City did not hold any investments as defined by the Governmental Accounting Standards Board.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. In years ending December 31, 2022 and 2023, the City's deposits were adequately secured by FDIC Insurance and collateralized with pledged securities.

Interest Rate Risk - The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rates.

Credit Risk - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

Under the modified cash basis of accounting, investments are stated at cost.

NOTE 3 - DEFICIT FUND BALANCES

As of December 31, 2023, the following funds had deficit fund balances in the amounts shown:

| | |
|-----------------------|--------------|
| Capital Projects Fund | \$ (386,878) |
|-----------------------|--------------|

The deficit is due to the timing of receiving loan draws for the waster water treatment plant expansion.

NOTE 4 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 5 - COMMITMENTS

The following is a summary of changes in long-term debt commitments for the year ended December 31, 2022:

| | Beginning Balance <u>12/31/2021</u> | Additions | Payments | Ending Balance <u>12/31/2022</u> | Due in One Year |
|--|---|-------------|---------------------|--|--------------------|
| Tax Increment Financing Note | \$ 1,613,953 | \$ - | \$ (226,704) | \$ 1,387,249 | \$ 234,999 |
| State Revolving Fund Loan | 178,715 | - | (11,970) | 166,745 | 12,334 |
| Clean Water State Revolving Fund Loan | <u>1,661,813</u> | - | <u>(41,547)</u> | <u>1,620,266</u> | <u>42,596</u> |
| | <u>\$ 3,454,481</u> | <u>\$ -</u> | <u>\$ (280,221)</u> | <u>\$ 3,174,260</u> | <u>\$ 289,929</u> |

The following is a summary of changes in long-term debt commitments for the year ended December 31, 2023:

| | Beginning Balance <u>12/31/2022</u> | Additions | Payments | Ending Balance <u>12/31/2023</u> | Due in One Year |
|--|---|-------------------|---------------------|--|--------------------|
| Tax Increment Financing Note | \$ 1,387,249 | \$ - | \$ (237,019) | \$ 1,150,230 | \$ 245,693 |
| State Revolving Fund Loan | 166,745 | - | (12,334) | 154,411 | 12,708 |
| Clean Water State Revolving Fund Loan | 1,620,266 | - | (42,596) | 1,577,670 | 43,671 |
| Clean Water Project Bond | <u>-</u> | <u>757,198</u> | <u>-</u> | <u>757,198</u> | <u>-</u> |
| | <u>\$ 3,174,260</u> | <u>\$ 757,198</u> | <u>\$ (291,949)</u> | <u>\$ 3,639,509</u> | <u>\$ 302,072</u> |

The Tax Increment Financing Note requires semi-annual \$148,400 payments including interest at 4.5%. Interest paid for the years ended December 31, 2022 and 2023 were \$70,096 and \$59,781, respectively. The final payment is due June 2028. The fund balance of the Tax Increment District #1 Fund is restricted to the purpose of paying this debt. In addition, the City has pledged customer surcharges of the Sewer Fund for the purpose of repaying this debt.

The City has an outstanding State Revolving Fund Loan for the installation of reed beds at the Wastewater Treatment Plant. The loan matures in March 2033 and requires quarterly payments of \$4,300, including interest at 3%. Interest paid for the years ended December 31, 2022 and 2023 was \$5,228 and \$4,864, respectively. This debt is paid by the Sewer Fund.

The City has an outstanding Clean Water State Revolving Fund Loan for improvements to the Wastewater Treatment Plant. The loan matures in November 2049 and requires quarterly payments of \$20,676, including interest at 2.5% beginning February 2020. Interest paid for the years ended December 31, 2022 and 2023 was \$41,158 and \$40,109, respectively. This debt is paid by the Sewer Fund.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 5 - COMMITMENTS (CONTINUED)

During the year ended December 31, 2023, the City was awarded a \$5,923,042 Clean Water Project Bond Series 2023. This is a 15-year loan at 2% interest with the first payment being due August 15, 2025 with 4 quarterly payments being made annually. This debt is for wastewater treatment plant improvements and is to be paid with TIF #4. Only \$757,198 has been drawn down as of December 31, 2023.

The City was in compliance with debt covenants for the years ending December 31, 2022 and 2023. The debt covenants consist of a bond reserve of \$368,901 and \$1,896,272, respectively, and asset management reserve of \$18,997 and \$20,542, respectively, recorded in the Statement of Net Position - Modified Cash Basis. Deposits are maintained in a savings account.

Pledged Revenues

The City has pledged customer surcharges of the Sewer Fund for the retirement of its tax increment financing note as previously mentioned. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the years ended December 31:

| | 2022 | 2023 |
|-------------------------------------|--------------|--------------|
| Current Year Principal and Interest | \$ 296,800 | \$ 296,800 |
| Pledged Revenue: | | |
| Tax Increment Receipts | \$ 756,266 | \$ 712,690 |
| Sewer Fund Receipts | 798,440 | 769,912 |
| Total Pledged Revenue | \$ 1,554,706 | \$ 1,482,602 |

The annual requirements to amortize all debt outstanding as of December 31, 2022 are as follows:

| | Tax Increment Financing Note | | State Revolving Fund | | Clean Water State Revolving Fund | | Totals | |
|-----------|---------------------------------|--------------|----------------------|------------|-------------------------------------|--------------|------------|--------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| 2023 | \$ 61,801 | \$ 234,999 | \$ 4,864 | \$ 12,334 | \$ 40,109 | \$ 42,596 | \$ 106,774 | \$ 289,929 |
| 2024 | 51,107 | 245,693 | 4,490 | 12,708 | 39,034 | 43,671 | 94,631 | 302,072 |
| 2025 | 39,927 | 256,873 | 4,105 | 13,093 | 37,932 | 44,773 | 81,964 | 314,739 |
| 2026 | 28,237 | 268,563 | 3,707 | 13,491 | 36,803 | 45,902 | 68,747 | 327,956 |
| 2027 | 16,016 | 280,784 | 3,298 | 13,900 | 35,644 | 47,061 | 54,958 | 341,745 |
| 2028-2032 | 3,252 | 100,337 | 8,846 | 76,087 | 159,796 | 253,729 | 171,894 | 430,153 |
| 2033-2037 | - | - | 1,722 | 25,132 | 126,125 | 287,400 | 127,847 | 312,532 |
| 2038-2042 | - | - | - | - | 87,984 | 325,541 | 87,984 | 325,541 |
| 2043-2047 | - | - | - | - | 44,783 | 368,742 | 44,783 | 368,742 |
| 2048-2052 | - | - | - | - | 4,558 | 160,851 | 4,558 | 160,851 |
| | \$ 200,340 | \$ 1,387,249 | \$ 31,032 | \$ 166,745 | \$ 612,768 | \$ 1,620,266 | \$ 844,140 | \$ 3,174,260 |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 5 - COMMITMENTS (CONTINUED)

The annual requirements to amortize all debt outstanding as of December 31, 2023 are as follows:

| | Tax Increment Financing Note | | State Revolving Fund | | Clean Water State Revolving Fund | | Clean Water Project Bond | | Totals | |
|-----------|------------------------------|---------------------|----------------------|-------------------|----------------------------------|---------------------|--------------------------|-------------------|---------------------|---------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| 2024 | \$ 51,107 | \$ 245,693 | \$ 4,490 | \$ 12,708 | \$ 39,034 | \$ 43,671 | \$ - | \$ - | \$ 94,631 | \$ 302,072 |
| 2025 | 39,927 | 256,873 | 4,105 | 13,093 | 37,932 | 44,773 | 295,165 | 91,914 | 377,129 | 406,653 |
| 2026 | 28,237 | 268,563 | 3,708 | 13,490 | 36,803 | 45,902 | 113,842 | 372,273 | 182,590 | 700,228 |
| 2027 | 16,016 | 280,784 | 3,298 | 13,900 | 35,644 | 47,061 | 106,341 | 293,011 | 161,299 | 634,756 |
| 2028 | 3,252 | 98,317 | 2,877 | 14,322 | 34,457 | 48,248 | - | - | 40,586 | 160,887 |
| 2029-2033 | - | - | 7,595 | 78,395 | 153,393 | 260,132 | - | - | 160,988 | 338,527 |
| 2034-2038 | - | - | 96 | 8,503 | 118,872 | 294,653 | - | - | 118,968 | 303,156 |
| 2039-2043 | - | - | - | - | 79,769 | 333,756 | - | - | 79,769 | 333,756 |
| 2044-2048 | - | - | - | - | 35,477 | 378,048 | - | - | 35,477 | 378,048 |
| 2049-2053 | - | - | - | - | 1,276 | 81,426 | - | - | 1,276 | 81,426 |
| | <u>\$ 138,539</u> | <u>\$ 1,150,230</u> | <u>\$ 26,169</u> | <u>\$ 154,411</u> | <u>\$ 572,657</u> | <u>\$ 1,577,670</u> | <u>\$ 515,348</u> | <u>\$ 757,198</u> | <u>\$ 1,252,713</u> | <u>\$ 3,639,509</u> |

NOTE 6 - LEASES

The City leases various equipment under financing agreements. Future lease payments due as of December 31, 2022 are comprised of the following:

| | |
|---|------------------|
| Ford Police Interceptor Lease. Due in monthly installments of \$1,479 through November 2023. Financed through the General Fund. | \$ 16,269 |
| Equipment Lease for Bobcat. Due in monthly installments of \$1,079 through May 2023. Financed through the General Fund. | <u>5,395</u> |
| | <u>\$ 21,664</u> |

The City leases various equipment under financing agreements. Future lease payments due as of December 31, 2023 are comprised of the following:

| | |
|---|------------------|
| Equipment Lease for Body Cameras. Due in annual installments of \$12,454 through 2027. Financed through the General Fund. | <u>\$ 49,816</u> |
|---|------------------|

Annual lease payments to maturity for all leases outstanding as of December 31, 2023 are as follows:

| Year Ending December 31, | Equipment Lease Payment Amounts | Totals |
|--------------------------|---------------------------------|-------------------|
| 2024 | \$ 12,454 | \$ 12,454 |
| 2025 | 12,454 | 12,454 |
| 2026 | 12,454 | 12,454 |
| 2027 | <u>12,454</u> | <u>12,454</u> |
| | <u>\$ 49,816</u> | <u>\$ 236,720</u> |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 7 - TAX ABATEMENTS

The City has an active Tax Increment Financing (TIF #1) district in which the City has a loan agreement with Rural Development to provide for the cost of upgrades to its sewer facility. Under the agreement, property tax increments received by the City are remitted as loan payments to Rural Development. The district was approved by resolution by the City Council as allowed by South Dakota Codified Law Section 11-9. When the loan is paid or TIF #1 is dissolved in accordance with state statutes, all property tax revenue will be distributed to the appropriate taxing entities. Increments totaling \$756,266 and \$712,690 were received by the City and payments of \$296,800 were made to Rural Development during 2022 and 2023, respectively.

For the year ended December 31, 2023, the City has an active Tax Increment Financing (TIF #2) district in which the City has a loan agreement with the State of South Dakota Board of Water and Natural Resources to provide for the cost of upgrades to the waste water treatment plant. Under the agreement, property tax increments received by the City are remitted as loan payments to the State of South Dakota Board of Water and Natural Resources. The district was approved by resolution of the City Council as allowed by South Dakota Codified Law Section 11-9. When the loan is paid off or the TIF #2 is dissolved in accordance with state statutes, all property tax revenues will be distributed to the appropriate taxing entities. Property tax increments totaling \$171,027 were received by the City and no payments were made as payments do not start until August 2025.

NOTE 8 - PENSION PLAN

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS). The SDRS is a hybrid defined-benefit plan designed with several defined contribution plan-type provisions and is administered by the SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions is found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Benefits Provided

SDRS has four class members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members who were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 8 - PENSION PLAN (CONTINUED)

Members who were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5% of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the calendar years ended December 31, 2023, 2022, and 2021 were \$57,551, \$56,128, and \$46,036 respectively, and were equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2022, SDRS was 100.10% funded and accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2022 and reported by the City as of December 31, 2022 are as follows:

| | |
|--|-------------------|
| Proportionate Share of Pension Liability | \$ 5,129,274 |
| Less: Proportionate Share of Net Pension Restricted for Pension Benefits | <u>5,132,707</u> |
| Proportionate Share of Net Pension Liability (Asset) | <u>\$ (3,434)</u> |

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023**

NOTE 8 - PENSION PLAN (CONTINUED)

At June 30, 2023, SDRS was 100.07% funded and accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2023 and reported by the City as of December 31, 2023 are as follows:

| | |
|--|-------------------|
| Proportionate Share of Pension Liability | \$ 5,284,611 |
| Less: Proportionate Share of Net Pension Restricted for Pension Benefits | <u>5,288,170</u> |
| Proportionate Share of Net Pension Liability (Asset) | <u>\$ (3,560)</u> |

The net pension asset was measured as of June 30, 2022 and 2023, and the total pension liability used to calculate net pension asset was based on a projection of the City's share of contributions to the plan relative to the contributions of all participating entities. As of June 30, 2022, the City's proportion was .036335%, which was an increase of .0086790% from its proportion measured as of June 30, 2021. At June 30, 2023, the City's proportion was .0364690%, which is an increase of .0001340% from its proportion measured as of June 30, 2022.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2022 and 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|------------------|---|
| Inflation | 2.50% |
| Salary Increases | Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service |
| Discount Rate | 6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%. |
| Future COLAs | 2022: 2.10% 2023: 1.91% |

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020:

- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT-2010
 - Other Class A Members: PubG-2010
 - Public Safety Members: PubS-2010
- Retired Members:
 - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65.
 - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above.
 - Public Safety Retirees: PubS-2010, 102% of rates at all ages.

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023**

NOTE 8 - PENSION PLAN (CONTINUED)

- Beneficiaries:
 - PubG-2010 contingent survivor mortality table.
- Disabled Members:
 - Public Safety: PubS-2010 disabled member mortality table.
 - Others: PubG-2010 disabled member mortality table.

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2022.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the Council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed-income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|---------------|----------------------|--|
| Global Equity | 58.0% | 3.7% |
| Fixed Income | 30.0% | 1.1% |
| Real Estate | 10.0% | 2.6% |
| Cash | 2.0% | 0.4% |
| | 100.0% | |

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 8 - PENSION PLAN (CONTINUED)

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

| Asset Class | Target Allocation | Long-term Expected Real Rate of Return |
|-----------------------|-------------------|--|
| Public Entity | 56.3% | 3.8% |
| Investment Grade Debt | 22.8% | 1.7% |
| High Yield Debt | 7.0% | 2.7% |
| Real Estate | 12.0% | 3.5% |
| Cash | 1.9% | 0.8% |
| | 100.0% | |

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Changes in the Discount Rate

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate for the year ended December 31, 2022:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|---|-------------|-----------------------|--------------|
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ 713,015 | \$ (3,434) | \$ (588,962) |

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023**

NOTE 8 - PENSION PLAN (CONTINUED)

The following presents the City’s proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the City’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate for the year ended December 31, 2023:

| | 1% Decrease | Current Discount Rate | 1% Increase |
|--|-------------|-----------------------------|--------------|
| City's Proportionate Share of the Net Pension Liability (Asset) | \$ 729,580 | \$ (3,560) | \$ (603,128) |

Pension Plan Fiduciary Net Position

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

NOTE 9 - RISK ASSESSMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2022 and 2023, the City managed risks as follows:

Unemployment Benefits

The City has coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by State law and managed by the State of South Dakota. During the years ended December 31, 2022 and 2023, no claims were paid for unemployment benefits. At December 31, 2023, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk-sharing facilities to the members, to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The City’s responsibility is to promptly report and to cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Member’s Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, officials’ liability, automobile liability and damage, property damage, and law enforcement liability.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2022 and 2023

NOTE 9 - RISK ASSESSMENT (CONTINUED)

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing Members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing Member with such a partial refund because the departing Member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing Member pursuant to the revised IGC.

The City carries a \$500 deductible for the governmental general liability coverage, a \$500 deductible for law enforcement liability coverage, and a \$500 deductible for the municipal property and officials' liability coverage.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation

The City joined the South Dakota Municipal League of Worker's Compensation, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$900,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

NOTE 10 - RESTRICTED NET POSITION

Net position of \$1,807,647 and \$2,425,444 is restricted by debt covenants for debt service and \$41,360 and \$40,960 are restricted by funding sources for customer deposits for the year ended December 31, 2022 and 2023, respectively.

NOTE 11 - SUBSEQUENT EVENTS

The City has considered subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2022

| | <u>Budgeted Amounts</u> | | <u>Budgetary Basis - Actual Amounts</u> | <u>Positive (Negative) Variance</u> |
|---|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 663,383 | \$ 663,383 | \$ 656,402 | \$ (6,981) |
| General Sales and Use Taxes | 700,000 | 700,000 | 1,027,740 | 327,740 |
| Amusement Taxes | 3,000 | 3,000 | 5,769 | 2,769 |
| Penalties and Interest on Delinquent Taxes | - | - | 628 | 628 |
| Licenses and Permits | 42,750 | 42,750 | 68,035 | 25,285 |
| Intergovernmental Revenue: | | | | |
| Federal Grants | 374,999 | 374,999 | 325,404 | (49,595) |
| State Grants | 9,240 | 9,240 | 3,697 | (5,543) |
| State Shared Revenue: | | | | |
| Liquor Tax Reversion | 12,000 | 12,000 | 20,825 | 8,825 |
| Motor Vehicle Licenses (5%) | 20,000 | 20,000 | 29,744 | 9,744 |
| County Shared Revenue: | | | | |
| County Road Tax | 1,310 | 1,310 | 1,310 | - |
| Other | - | - | 8,214 | 8,214 |
| Charges for Goods and Services: | | | | |
| Solid Waste Collections | 180,000 | 180,000 | 189,079 | 9,079 |
| Fines and Forfeits: | | | | |
| Court Fines and Costs | - | - | 778 | 778 |
| Miscellaneous Revenue: | | | | |
| Street Light Fees | 2,250 | 2,250 | 1,200 | (1,050) |
| Investment Earnings | - | - | 1,393 | 1,393 |
| Other | <u>23,650</u> | <u>23,650</u> | <u>133,367</u> | <u>109,717</u> |
| Total Receipts | <u>2,032,582</u> | <u>2,032,582</u> | <u>2,473,935</u> | <u>441,353</u> |

See the independent auditor's report and notes to the supplementary information.

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis -
General Fund (Continued)
For the Year Ended December 31, 2022

| | <u>Budgeted Amounts</u> | | <u>Budgetary Basis - Actual Amounts</u> | <u>Positive (Negative) Variance</u> |
|---------------------------------|-------------------------|---------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative | 147,866 | 147,866 | 48,872 | 98,994 |
| Executive | 16,345 | 19,445 | 18,988 | 457 |
| Elections | 1,000 | 1,000 | 335 | 665 |
| Financial Administration | 214,725 | 244,725 | 261,275 | (16,550) |
| Building and Engineering | 118,965 | 118,965 | 183,605 | (64,640) |
| Public Safety: | | | | |
| Police | 722,589 | 767,589 | 796,254 | (28,665) |
| Fire Department | 35,257 | 35,257 | 32,850 | 2,407 |
| Protective Inspection | 15,500 | 15,500 | 7,722 | 7,778 |
| Public Works: | | | | |
| Highways and Streets | 890,311 | 890,311 | 641,511 | 248,800 |
| Sanitation | 146,099 | 146,099 | 105,654 | 40,445 |
| Health and Welfare: | | | | |
| Humane Society | 250 | 250 | - | 250 |
| Parks and Recreation | 18,300 | 18,300 | 12,616 | 5,684 |
| Conservation and Development: | | | | |
| Planning and Zoning | 21,889 | 21,889 | 11,087 | 10,802 |
| Debt Service | 18,913 | 18,913 | - | 18,913 |
| Total Disbursements | <u>2,368,009</u> | <u>2,446,729</u> | <u>2,120,769</u> | <u>325,960</u> |
| CHANGE IN CASH BASIS | | | | |
| FUND BALANCE | (335,427) | (414,147) | 353,166 | 767,313 |
| FUND BALANCE - BEGINNING | <u>1,816,871</u> | <u>1,816,871</u> | <u>1,816,871</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 1,481,444</u> | <u>\$ 1,402,724</u> | <u>\$ 2,170,037</u> | <u>\$ 767,313</u> |

See the independent auditor's report and notes to the supplementary information.

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2023

| | <u>Budgeted Amounts</u> | | <u>Budgetary Basis - Actual Amounts</u> | <u>Positive (Negative) Variance</u> |
|---|-------------------------|------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| RECEIPTS | | | | |
| Taxes: | | | | |
| General Property Taxes | \$ 719,814 | \$ 719,814 | \$ 707,237 | \$ (12,577) |
| General Sales and Use Taxes | 800,000 | 800,000 | 1,030,712 | 230,712 |
| Amusement Taxes | 3,000 | 3,000 | - | (3,000) |
| Penalties and Interest on Delinquent Taxes | - | - | 600 | 600 |
| Licenses and Permits | 45,600 | 45,600 | 113,062 | 67,462 |
| Intergovernmental Revenue: | | | | |
| Federal Grants | 100,000 | 100,000 | 196,976 | 96,976 |
| State Shared Revenue: | | | | |
| Liquor Tax Reversion | 12,000 | 12,000 | 20,429 | 8,429 |
| Motor Vehicle Licenses (5%) | 20,000 | 20,000 | 30,938 | 10,938 |
| Street Lights Fee Revenue | 2,250 | 2,250 | - | (2,250) |
| County Shared Revenue: | | | | |
| County Road Tax | 1,310 | 1,310 | - | (1,310) |
| Other | - | - | 14,617 | 14,617 |
| Charges for Goods and Services: | | | | |
| Solid Waste Collections | 180,000 | 180,000 | 201,901 | 21,901 |
| Fines and Forfeits: | | | | |
| Court Fines and Costs | - | - | 33 | 33 |
| Miscellaneous Revenue: | | | | |
| Code Enforcement | - | - | 600 | 600 |
| Contributions | - | - | 5,284 | 5,284 |
| Investment Earnings | - | - | 22,358 | 22,358 |
| Other | <u>27,275</u> | <u>27,275</u> | <u>63,055</u> | <u>35,780</u> |
| Total Receipts | <u>1,911,249</u> | <u>1,911,249</u> | <u>2,407,802</u> | <u>496,553</u> |

See the independent auditor's report and notes to the supplementary information.

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis -
General Fund (Continued)
For the Year Ended December 31, 2023

| | <u>Budgeted Amounts</u> | | <u>Budgetary Basis - Actual Amounts</u> | <u>Positive (Negative) Variance</u> |
|---------------------------------|-------------------------|---------------------|---|---|
| | <u>Original</u> | <u>Final</u> | | |
| DISBURSEMENTS | | | | |
| General Government: | | | | |
| Legislative | 225,124 | 268,224 | 76,956 | 191,268 |
| Executive | 35,445 | 37,445 | 29,776 | 7,669 |
| Elections | 1,000 | 1,181 | 1,181 | - |
| Financial Administration | 232,019 | 260,119 | 242,571 | 17,548 |
| Building and Engineering | 181,705 | 307,705 | 307,204 | 501 |
| Public Safety: | | | | |
| Police | 869,681 | 901,681 | 870,782 | 30,899 |
| Fire Department | 35,257 | 35,257 | 33,114 | 2,143 |
| Protective Inspection | 8,000 | 8,000 | 3,035 | 4,965 |
| Public Works: | | | | |
| Highways and Streets | 1,424,707 | 1,424,707 | 859,853 | 564,854 |
| Sanitation | 196,749 | 521,749 | 516,797 | 4,952 |
| Health and Welfare: | | | | |
| Humane Society | 1,000 | 1,000 | 650 | 350 |
| Parks and Recreation | 726,000 | 726,000 | 17,648 | 708,352 |
| Conservation and Development: | | | | |
| Planning and Zoning | <u>19,239</u> | <u>19,239</u> | <u>14,513</u> | <u>4,726</u> |
| Total Disbursements | <u>3,955,926</u> | <u>4,512,307</u> | <u>2,974,080</u> | <u>1,538,227</u> |
| CHANGE IN CASH BASIS | | | | |
| FUND BALANCE | (2,044,677) | (2,601,058) | (566,278) | 2,034,780 |
| FUND BALANCE - BEGINNING | <u>2,170,037</u> | <u>2,170,037</u> | <u>2,170,037</u> | <u>-</u> |
| FUND BALANCE - ENDING | <u>\$ 125,360</u> | <u>\$ (431,021)</u> | <u>\$ 1,603,759</u> | <u>\$ 2,034,780</u> |

See the independent auditor's report and notes to the supplementary information.

**City of Summerset, South Dakota
Schedule of the City's Proportionate Share
of the Net Pension Liability (Asset)
For the Years Ended December 31**

| Year* | City's Proportion of the Net Pension Liability (Asset) | City's Proportionate Share of the Net Pension Liability (Asset) | City's Covered Payroll | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset) |
|-------|---|--|------------------------------|--|--|
| 2023 | 0.0364690% | \$ (3,560) | \$ 818,918 | 0.43% | 100.07% |
| 2022 | 0.0363350% | (3,434) | 746,848 | 0.46% | 100.10% |
| 2021 | 0.0276560% | (211,798) | 542,011 | 39.08% | 105.52% |
| 2020 | 0.0234863% | (1,020) | 437,960 | 0.23% | 100.04% |
| 2019 | 0.0214991% | (2,278) | 405,145 | 0.56% | 100.09% |
| 2018 | 0.0191046% | (446) | 348,085 | 0.13% | 100.02% |
| 2017 | 0.0179915% | (1,633) | 314,202 | 0.52% | 100.10% |
| 2016 | 0.0182256% | 61,564 | 304,559 | 20.21% | 96.89% |
| 2015 | 0.0189862% | (80,526) | 297,645 | 27.05% | 104.10% |

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset, which is June 30. Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See the independent auditor's report and notes to the supplementary information.

**City of Summerset, South Dakota
Schedule of Pension Contributions
South Dakota Retirement System**

| Year* | Contractually- required Contribution | Contributions in Relation to the Contractually- required Contribution | Contribution Deficiency (Excess) | City's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------|--|--|--|------------------------------|--|
| 2023 | \$ 57,551 | \$ 57,551 | \$ - | \$ 831,393 | 6.9% |
| 2022 | 56,128 | 56,128 | - | 808,878 | 6.9% |
| 2021 | 46,036 | 46,036 | - | 657,413 | 7.0% |
| 2020 | 31,459 | 31,459 | - | 456,431 | 6.9% |
| 2019 | 29,693 | 29,693 | - | 432,602 | 6.9% |
| 2018 | 25,584 | 25,584 | - | 377,689 | 6.8% |
| 2017 | 22,004 | 22,004 | - | 318,481 | 6.9% |
| 2016 | 21,429 | 21,429 | - | 309,923 | 6.9% |
| 2015 | 20,478 | 20,478 | - | 299,196 | 6.8% |

*Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See the independent auditor's report and notes to the supplementary information.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Years Ended December 31, 2022 and 2023

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting and present capital outlay and debt service expenditures within each department rather than as separate functions similar to the Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. At the regular City Council meeting in September each year, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding, and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council. The City did not encumber any amounts at December 31, 2023.

NOTE 3 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following represents the overdrafts of the expenditures compared to appropriations at the legal level of budgetary control for the General Fund as of December 31, 2022:

| | <u>Appropriations</u> | <u>Total Spent</u> | <u>Overdraft of Expenditures</u> |
|--|-----------------------|--------------------|----------------------------------|
| General Fund: | | | |
| General Government: Financial Administration | \$ 244,725 | \$ 261,275 | \$ (16,550) |
| General Government: Building and Engineering | \$ 118,965 | \$ 183,605 | \$ (64,640) |
| Public Safety: Police | \$ 767,589 | \$ 796,254 | \$ (28,665) |

NOTE 4 - 2022 PENSION CONTRIBUTIONS

Changes from Prior Valuation

The June 30, 2022 Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

See independent auditor's report.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Years Ended December 31, 2022 and 2023

NOTE 4 - 2022 PENSION CONTRIBUTIONS (CONTINUED)

The details of the changes since the last valuation are as follows:

Benefit Provision Changes

During the 2022 Legislative Session, no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2021 and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022 actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification, and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

See independent auditor's report.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Years Ended December 31, 2022 and 2023

NOTE 4 - 2022 PENSION CONTRIBUTIONS (CONTINUED)

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

Actuarial Method Changes

Actuarial method changes with minor impact were implemented for this valuation after a recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.

NOTE 5 - 2023 PENSION CONTRIBUTIONS

Changes from Prior Valuation

The June 30, 2023, Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2022, Actuarial Valuation.

The details of the changes since the last valuation are as follows.

Benefit Provision Changes

During the 2023 Legislative Session, no significant SDRS benefit changes were made and emergency medical services personnel prospectively became Class B Public Safety members.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2022 the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2023 SDRS COLA was limited to a restricted maximum of 2.10%. For the June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 2.10%.

As of June 30, 2023 the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2024 SDRS COLA is limited to a restricted maximum of 1.91%. The July 2024 SDRS COLA will equal inflation, between 0% and 1.91%. For this June 30, 2023 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.91%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

See independent auditor's report.

SINGLE AUDIT INFORMATION

Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Honorable Mayor and City Commissioners
City of Summerset, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Summerset, South Dakota (the City), as of and for the years ended December 31, 2022 and 2023 and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 15, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Questioned Costs, as items 2023-001, 2023-002, and 2023-003 to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2023-001 and 2023-003.

City of Summerset, South Dakota's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Management's Responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

October 15, 2024

Independent Auditor's Report on Compliance for Each
Major Program and Report on Internal Control over
Compliance in Accordance with the Uniform Guidance

Honorable Mayor and City Commissioners
City of Summerset, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Summerset, South Dakota's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the years ended December 31, 2022 and December 31, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended December 31, 2022 and December 31, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota

October 15, 2024

City of Summerset, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2022 and 2023

SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of the City of Summerset, South Dakota (the City).
- b. Instances of material weaknesses related to the audit of the financial statements were reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* was noted during the audit.
- c. Instances of noncompliance material to the financial statements, which would be required to be reported in accordance with *Government Auditing Standards* were noted during the audit.
- d. The Independent Auditor's Report on Compliance for Each Major Program and Report on Internal Control over Compliance Required by the Uniform Guidance for the City expressed an unmodified opinion on all major programs.
- e. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
- f. The federal award tested as a major program was:
 - Assistance Listing #21.027 Coronavirus State and Local Fiscal Recovery Funds
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. The City of Summerset, South Dakota did not qualify as a low-risk entity.

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness and Noncompliance
Internal Control over Financial Reporting
Statutory Noncompliance

2023-001 *Condition:* During our review of statutory compliance, we noted the City had over-expended the budgets in the General and Sewer Funds for 2022 and over-expended the budget in the Sewer Fund for 2023.

Criteria: Management and the City Commission should monitor budget-to-actual expenses by fund and department to ensure compliance with the approved budget. Amendments to the budget should be created when new funding sources, such as grants or loans, are identified.

Cause: The City did not appropriately budget for current year expenses.

Effect: The City is not in compliance with South Dakota state statutes.

Auditor's Recommendation: We recommend City management review State statutes regarding budgeting and monitor the budget throughout the year to determine if budget amendments are needed.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

See independent auditor's report.

City of Summerset, South Dakota
Schedule of Findings and Questioned Costs
December 31, 2022 and 2023

Material Weakness

Internal Control over Financial Reporting

Drafting the Schedule of Expenditures of Federal Awards

2023-002 *Condition:* The City requests its auditor to draft the Schedule of Expenditures of Federal Awards.

Criteria: Establishing internal controls over the preparation of the Schedule of Expenditures of Federal Awards and drafting the Schedule of Expenditures of Federal Awards are the responsibility of management. The City should have a system of internal control in place related to the preparation of the Schedule of Expenditures of Federal Awards.

Cause: The City does not have a system of internal control in place to prepare the Schedule of Expenditures of Federal Awards.

Effect: The City engages its auditor to draft the Schedule of Expenditures of Federal Awards and related notes. There is a risk that errors may occur and not be detected.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with the City's auditor drafting the Schedule of Expenditures of Federal Awards because of cost or other considerations. If the City chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft Schedule of Expenditures of Federal Awards and related notes.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

Material Weakness and Noncompliance

Internal Control over Financial Reporting

Late Filing of Data Collection Form

2023-003 *Condition:* The audit was not completed, and the Data Collection Form and reporting package were not submitted within the required timeframe.

Criteria: Per Uniform Guidance 200.512, the audit must be completed, and the Data Collection Form and reporting Package must be submitted either 30 calendar days after the receipt of the auditor's report or nine months after the end of the audit period, whichever is earlier.

Cause: Delays in the issuance of the audit caused the delay in the filing of the Data Collection Form. These delays were due to staffing turnover in the City's finance office resulting in delays in beginning the audit.

Effect: The City is not in compliance with federal regulations

Auditor's Recommendation: We recommend management monitor the filing deadlines for future periods that may require a Single Audit.

View of Management: Management agrees with the finding. A response can be found in the Corrective Action Plan.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL PROGRAM AUDIT

No findings related to the major federal award audit were reported in the current year.

See independent auditor's report.

MICHAEL KITZMILLER,
MAYOR

COMMISSION:
CLYDE HIRSCH
GWENN MARKHAM
MICHAEL J. OSTEN
SIDNEY READE

CITY OF
SUMMERSET



CITY HALL
7055 LEISURE LANE
SUMMERSET, SD 57718

TEL: 605.718.9858
FAX: 605.718.9883

WWW.SUMMERSET.US

PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

There were no prior audit findings.

See independent auditor's report.

MICHAEL KITZMILLER,
MAYOR

COMMISSION:
CLYDE HIRSCH
GWENN MARKHAM
MICHAEL J. OSTEN
SIDNEY READE

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CORRECTIVE ACTION PLAN (UNAUDITED)

The City of Summerset, South Dakota respectfully submits the following corrective action plan for the years ended December 31, 2022 and 2023.

Name and address of independent public accounting firm:

Casey Peterson, LTD
909 Saint Joseph Street, Ste
101 Rapid City, SD 57701

FINDINGS - FINANCIAL STATEMENT AUDIT

Material Weakness

Internal Control over Financial Reporting

Statutory Noncompliance

2023-001 *Condition:* During our review of statutory compliance, we noted the City had over-expended the budget in the General and Sewer Funds.

Criteria: Management and the City Commission should monitor budget-to-actual expenses by fund and department to ensure compliance with the approved budget. Amendments to the budget should be created when new funding sources, such as grants or loans, are identified.

Auditor's Recommendation: We recommend City management review State statutes regarding budgeting and revise the method for preparing the annual budget to include funds and departments. The budget should be monitored throughout the year and in the month of June to determine if budget amendments will be needed for the revenue stream and expenditures.

Management's Response: Management will provide the City Commission a budget-to-actual report monthly and determine if budget amendments need to be proposed by management and approved by the City Commission. City staff responsible for these actions would be the City's Finance Officer and these changes will be ongoing.

Material Weakness

Internal Control over Financial Reporting

Drafting the Schedule of Expenditures of Federal Awards

2023-002 *Condition:* The City requests its auditor to draft the Schedule of Expenditures of Federal Awards.

Criteria: Establishing internal controls over the preparation of the Schedule of Expenditures of Federal Awards and drafting the Schedule of Expenditures of Federal Awards are the responsibility of management. The City should have a system of internal control in place related to the preparation of the Schedule of Expenditures of Federal Awards.

See independent auditor's report.

MICHAEL KITZMILLER,
MAYOR

COMMISSION:
CLYDE HIRSCH
GWENN MARKHAM
MICHAEL J. OSTEN
SIDNEY READE

CITY OF
SUMMERSET



CITY HALL
7055 LEISURE LANE
SUMMERSET, SD 57718

TEL: 605.718.9858
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CORRECTIVE ACTION PLAN (UNAUDITED) (CONTINUED)

Auditor's Recommendation: It is the responsibility of management and those charged with governance to decide whether to accept the degree of risk associated with the City's auditor drafting the Schedule of Expenditures of Federal Awards because of cost or other considerations. If the City chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft Schedule of Expenditures of Federal Awards and related notes.

Management's Response: This is a common condition for cities of similar size and management feels comfortable with the practice. The City will implement suggested controls wherever cost-effective by December 31, 2024.

Material Weakness and Noncompliance
Internal Control over Financial Reporting
Late Filing of Data Collection Form

2023-003 *Condition:* The audit was not completed, and the Data Collection Form and reporting package were not submitted within the required timeframe.

Criteria: Per Uniform Guidance 200.512, the audit must be completed, and the Data Collection Form and reporting Package must be submitted either 30 calendar days after the receipt of the auditor's report or nine months after the end of the audit period, whichever is earlier.

Auditor's Recommendation: We recommend management monitor the filing deadlines for future periods that may require a Single Audit.

Management's Response: Management will more closely monitor the filing deadlines for future periods where a Single Audit is required. These changes will be ongoing.

If there are any questions regarding this plan, please contact Brielle Schrock, Finance Officer, at the City of Summerset, South Dakota, 7055 Leisure Lane, Summerset, SD 57718, or at (605) 718-9858.

Sincerely,

Brielle Schrock, Financial Officer
City of Summerset, South Dakota

See independent auditor's report.

City of Summerset, South Dakota
Schedule of Expenditures of Federal Awards
For the Years Ended December 31, 2022 and 2023

| Assistance Listing Number | Major Program | Cluster/Program Name | Pass-through Entity, if Applicable | Entity Identifying Number | 2022 Amount | 2023 Amount | Total |
|--|------------------|--|--|---------------------------------|-------------------|---------------------|--------------------|
| U.S. Department of Justice | | | | | | | |
| 16.710 | N | Public Safety Partnership and Community Policing Grants | N/A | 2020UMWX0187 | \$ 77,196 | \$ 190,851 | \$ 268,047 |
| U.S. Department of Transportation | | | | | | | |
| Highway Safety Cluster: | | | | | | | |
| 20.600 | N | State and Community Highway Safety | South Dakota Department of Public Safety - Highway Safety | 2022-00-08 | 4,997 | 6,125 | 11,122 |
| U.S. Department of Treasury | | | | | | | |
| Coronavirus State and Local Fiscal Recovery Funds | | | | | | | |
| 21.027 | Y | Coronavirus State and Local Fiscal Recovery Funds (Note 4) | South Dakota Bureau of Finance and Management | N/A | 243,211 | - | 243,211 |
| 21.027 | Y | Coronavirus State and Local Fiscal Recovery Funds | South Dakota Department of Agriculture - State of South Dakota | 2022G-ARP-200 | - | 3,596,279 | 3,596,279 |
| Total Coronavirus State and Local Fiscal Recovery Funds | | | | | <u>243,211</u> | <u>3,596,279</u> | <u>3,839,490</u> |
| TOTAL FEDERAL FINANCIAL ASSISTANCE | | | | | <u>\$ 248,208</u> | <u>\$ 3,602,404</u> | <u>\$3,850,612</u> |

NOTE 1: The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City of Summerset under programs of the federal government for the year ended December 31, 2022 and 2023. Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: The City has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 3: No funds were passed down to subrecipients.

NOTE 4: Federal reimbursements are not based upon specific expenditures. Therefore, the amounts reported here represent cash received rather than federal expenditures.

See independent auditor's report.

OTHER INFORMATION

**City of Summerset, South Dakota
City Officials
December 31, 2022 and 2023**

MAYOR

Melanie Torno

COMMISSIONERS

David Butler
Clyde Hirsch
Mike Kitzmiller
Sidney Reade
Stephanie White

CITY ADMINISTRATOR

Lisa Schieffer

See independent auditor's report.