

CITY OF MARTIN SOUTH DAKOTA

Financial Statements

December 31, 2022



City of Martin, South Dakota
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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*

Board of Trustees
City of Martin, 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, and each major fund of the City of Martin, South Dakota (the City), as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 11, 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings and Management's Response as items 2022-001 and 2022-002 that we consider 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 no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

City of Martin, South Dakota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Management's Response. 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 entity'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 entity'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

Chadron, South Dakota

January 11, 2024

City of Martin, South Dakota
Schedule of Findings and Management's Response
December 31, 2022

Material Weakness

Internal Control over Financial Reporting

Lack of Segregation of Duties

2022-001 *Condition:* Internal controls are designed to safeguard assets and help prevent or detect losses from employee dishonesty or error. The City of Martin, South Dakota has a concentration of incompatible duties related to the cash receipts and disbursements processes (Including payroll).

Criteria: Internal controls are designed to safeguard assets and prevent or detect losses from employee dishonesty or error. The City has a general lack of segregation of duties, which is a fundamental concept in a good system of internal control.

Cause: The City has a limited number of office personnel. There is often only one employee in the office receiving payments from customers which prevents proper segregation of duties related to transaction cycles noted above.

Effect: There is the potential that intentional or unintentional errors could be made and not be detected.

Repeat of Prior Year Finding: This finding was reported in the prior year as item 2021-01 and has been reported since 2013.

Auditor's Recommendation: The Board should be aware of this condition and realize that the concentration of duties among a limited number of individuals is not desirable from a control perspective. Although proper segregation may not be possible due to the limited number of office personnel, the City can implement improvements to reduce the risk of errors or fraud. As the City accepts cash payments, there should always be more than one individual in the office.

Management's Response: The City of Martin is a fairly small city with two employees who handle the accounting, reporting, billing, and all other administrative functions needed by the City. The two employees have implemented procedures to segregate responsibilities and provide cross reviews of work performed to the extent possible.

Responsible Parties: Finance Officer and Assistant Finance Officer

Time Frame: Ongoing

Material Weakness

Internal Control over Financial Reporting

Drafting the Financial Statements and Related Notes

2022-002 *Condition:* The City requests its auditor to draft the year-end financial statements and accompanying notes.

Criteria: Establishing internal controls over the preparation of the financial statements and accompanying notes is the responsibility of management. The City should have an internal control system in place related to oversight and review of the preparation of the financial statements.

Cause: The City does not have an internal control system in place to prepare the financial statements and related notes. This condition is common in an organization of this size due to the limited number of office staff.

City of Martin, South Dakota
Schedule of Findings and Management's Response (Continued)
December 31, 2022

Effect: The City engages its auditor to draft the financial statements and related notes to the financial statements. The possibility of fraud or errors occurring and not being detected or corrected is present.

Repeat of Prior Year Finding: This finding was reported in the prior year as item 2021-02.

Auditor's Recommendation: We recommend management develop a system of internal control to ensure proper reporting of financial statements and the notes to the financial statements. If management does not have the resources or expertise to prepare the financial statements, we recommend that a qualified CPA be engaged to mitigate or eliminate this control weakness.

Management's Response: Management agrees with the finding. This is a common issue with governments of this size and management feels comfortable with this practice. The City will implement suggested controls wherever cost-effective. Management does provide the auditors with a trial balance and supporting schedules that are used in the preparation of the financial statements.

Responsible Parties: Finance Officer

Time Frame: Ongoing

Independent Auditor's Report

Mayor and City Council
City of Martin, South Dakota

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2022, and the respective changes in modified cash basis financial position thereof for the year 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*, 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

The City's 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 one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 *Government Auditing Standards* 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 *Government Auditing Standards*, 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 financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedules, Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), and Schedule of Pension contributions are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The aforementioned supplementary 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. We have applied certain limited procedures to the supplementary information which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 List of City Officials is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The list 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 January 11, 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 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.

Casey Peterson, LTD

Casey Peterson, LTD

Rapid City, South Dakota
January 11, 2024

BASIC FINANCIAL STATEMENTS

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

	Governmental Activities	Business-type Activities	Total Primary Government
ASSETS			
Cash and Cash Equivalents	\$ 2,033,014	\$ 1,159,910	\$ 3,192,924
Restricted Assets:			
Cash and Cash Equivalents	-	360,475	360,475
Certificates of Deposit	<u>3,371</u>	<u>25,000</u>	<u>28,371</u>
TOTAL ASSETS	<u>\$ 2,036,385</u>	<u>\$ 1,545,385</u>	<u>\$ 3,581,770</u>
NET POSITION			
Restricted for:			
Debt Service	\$ -	\$ 65,282	\$ 65,282
Customer Deposits	-	38,366	38,366
Hodson Park	24,162	-	24,162
Crime Stoppers	2,505	-	2,505
City Improvements	337,781	-	337,781
Unrestricted	<u>1,671,937</u>	<u>1,441,737</u>	<u>3,113,674</u>
TOTAL NET POSITION	<u>\$ 2,036,385</u>	<u>\$ 1,545,385</u>	<u>\$ 3,581,770</u>

The accompanying notes are an integral part of this statement.

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

Functions/Programs	Disbursements	Charges for Services	Operating Grants and Contributions	Net (Disbursements) Receipts and Changes in Net Position		
				Primary Government		
				Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 169,395	\$ 218,975	\$ -	\$ 49,580	\$ -	\$ 49,580
Public Safety	453,575	-	-	(453,575)	-	(453,575)
Public Works	282,447	20,840	90,391	(171,216)	-	(171,216)
Conservation and Development	41,260	-	-	(41,260)	-	(41,260)
Culture and Recreation	156,977	8,203	-	(148,774)	-	(148,774)
Total Governmental Activities	<u>1,103,654</u>	<u>248,018</u>	<u>90,391</u>	<u>(765,245)</u>	<u>-</u>	<u>(765,245)</u>
Business-type Activities:						
Water	485,895	445,940	94,492	-	54,537	54,537
Sewer	151,827	139,695	-	-	(12,132)	(12,132)
Sanitation	111,559	113,122	-	-	1,563	1,563
Total Business-type Activities	<u>749,281</u>	<u>698,757</u>	<u>94,492</u>	<u>-</u>	<u>43,968</u>	<u>43,968</u>
TOTAL PRIMARY GOVERNMENT	\$ 1,852,935	\$ 946,775	\$ 184,883	\$ (765,245)	\$ 43,968	\$ (721,277)
GENERAL RECEIPTS						
Taxes:						
Sales Taxes			504,279	-	504,279	
Property Taxes			245,435	-	245,435	
State Shared Receipts			24,373	-	24,373	
County Shared Receipts			50,386	-	50,386	
Interest Earnings			104,974	6,627	111,601	
Miscellaneous Receipts			32,186	-	32,186	
Total General Receipts			<u>961,633</u>	<u>6,627</u>	<u>968,260</u>	
CHANGE IN NET POSITION			196,388	50,595	246,983	
NET POSITION, BEGINNING OF YEAR			1,839,997	1,494,790	3,334,787	
NET POSITION, END OF YEAR			\$ 2,036,385	\$ 1,545,385	\$ 3,581,770	

The accompanying notes are an integral part of this statement.

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

	General Fund	BBB Tax	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 1,981,613	\$ 51,401	\$ 2,033,014
Restricted Certificates of Deposit	3,371	-	3,371
TOTAL ASSETS			
	<u>\$ 1,984,984</u>	<u>\$ 51,401</u>	<u>\$ 2,036,385</u>
FUND BALANCE			
Restricted for:			
Hodson Park	\$ 24,162	\$ -	\$ 24,162
Crime Stoppers	2,505	-	2,505
City Improvements	286,380	51,401	337,781
Assigned For:			
Swimming Pool	2,371	-	2,371
Fireworks	489	-	489
Capital Street Improvements	607,230	-	607,230
Unassigned	1,061,847	-	1,061,847
TOTAL FUND BALANCE			
	<u>\$ 1,984,984</u>	<u>\$ 51,401</u>	<u>\$ 2,036,385</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	BBB Tax	Total Governmental Funds
GENERAL RECEIPTS			
Property Taxes	\$ 191,762	\$ 53,673	\$ 245,435
Sales and Use Taxes	504,279	-	504,279
Licenses and Permits	28,999	-	28,999
Intergovernmental Receipts			
Federal Payments in Lieu of Taxes	8,475	-	8,475
State Shared Revenues	15,898	-	15,898
County Shared Revenues	50,386	-	50,386
State and Federal Grants	90,391	-	90,391
Charges for Services	219,019	-	219,019
Miscellaneous Revenue	<u>137,053</u>	<u>107</u>	<u>137,160</u>
Total Revenues	<u>1,246,262</u>	<u>53,780</u>	<u>1,300,042</u>

The accompanying notes are an integral part of this statement.

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

	General Fund	BBB Tax	Total Governmental Funds
DISBURSEMENTS			
General Government:			
Legislative	14,802	-	14,802
Attorney	25,161	-	25,161
Elections	44	-	44
Financial Administration	97,899	-	97,899
Other General Government	26,049	-	26,049
Public Safety:			
Police	342,463	-	342,463
Fire	61,986	-	61,986
Protective Inspection	6,934	-	6,934
Public Works:			
Highways and Streets	113,418	-	113,418
Street Development	9,726	-	9,726
Snow Removal	27,655	-	27,655
Street Lights	40,727	-	40,727
Airport	35,334	-	35,334
Culture and Recreation:			
Parks	81,906	-	81,906
Markota	17,349	-	17,349
Pool	8,129	-	8,129
Golf	26,570	-	26,570
Museums	3,816	-	3,816
Conservation and Development	-	41,260	41,260
Capital Outlay	103,012	-	103,012
Debt Service - Principal	18,009	-	18,009
Debt Service - Interest	1,405	-	1,405
Total Disbursements	<u>1,062,394</u>	<u>41,260</u>	<u>1,103,654</u>
Excess of Revenues over Expenditures	<u>183,868</u>	<u>12,520</u>	<u>196,388</u>
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	<u>30,000</u>	<u>(30,000)</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	213,868	(17,480)	196,388
FUND BALANCE, BEGINNING OF YEAR	<u>1,771,116</u>	<u>68,881</u>	<u>1,839,997</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,984,984</u>	<u>\$ 51,401</u>	<u>\$ 2,036,385</u>

The accompanying notes are an integral part of this statement.

City of Martin, South Dakota
Statement of Net Position - Modified Cash Basis - Proprietary Funds
December 31, 2022

	Water Fund	Sewer Fund	Sanitation Fund	Total Proprietary Funds
ASSETS				
Cash and Cash Equivalents	\$ 693,682	\$ 444,799	\$ 21,429	\$ 1,159,910
Restricted Cash	299,016	41,269	20,190	360,475
Restricted Certificates of Deposit	<u>25,000</u>	<u>-</u>	<u>-</u>	<u>25,000</u>
TOTAL ASSETS	<u>\$ 1,017,698</u>	<u>\$ 486,068</u>	<u>\$ 41,619</u>	<u>\$ 1,545,385</u>
NET POSITION				
Restricted:				
Debt Service	\$ 24,013	\$ 41,269	\$ -	\$ 65,282
Customer Deposits	38,366	-	-	38,366
Unrestricted	<u>955,319</u>	<u>444,799</u>	<u>41,619</u>	<u>1,441,737</u>
TOTAL NET POSITION	<u>\$ 1,017,698</u>	<u>\$ 486,068</u>	<u>\$ 41,619</u>	<u>\$ 1,545,385</u>

The accompanying notes are an integral part of this statement.

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

	Water Fund	Sewer Fund	Sanitation Fund	Total Proprietary Funds
OPERATING RECEIPTS				
Charges for Service	\$ 442,940	\$ 138,832	\$ 98,706	\$ 680,478
Miscellaneous Receipts	3,000	863	14,416	18,279
Total Operating Receipts	<u>445,940</u>	<u>139,695</u>	<u>113,122</u>	<u>698,757</u>
OPERATING DISBURSEMENTS				
Personal Services	83,702	75,270	10,176	169,148
Utilities	38,182	1,093	470	39,745
Materials (Cost of Goods Sold)	63,872	23,662	98,133	185,667
Other Current Disbursements	31,779	13,803	2,780	48,362
Total Operating Disbursements	<u>217,535</u>	<u>113,828</u>	<u>111,559</u>	<u>442,922</u>
OPERATING INCOME	<u>228,405</u>	<u>25,867</u>	<u>1,563</u>	<u>255,835</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)				
Grant Receipts	94,492	-	-	94,492
Capital Outlays	(166,887)	(3,043)	-	(169,930)
Principal Payments	(81,779)	(29,161)	-	(110,940)
Interest Payments	(19,694)	(5,795)	-	(25,489)
Interest Earnings	5,398	1,229	-	6,627
Net Nonoperating Receipts (Disbursements)	<u>(168,470)</u>	<u>(36,770)</u>	<u>-</u>	<u>(205,240)</u>
CHANGE IN NET POSITION	<u>59,935</u>	<u>(10,903)</u>	<u>1,563</u>	<u>50,595</u>
NET POSITION, BEGINNING	<u>957,763</u>	<u>496,971</u>	<u>40,056</u>	<u>1,494,790</u>
NET POSITION, ENDING	<u>\$ 1,017,698</u>	<u>\$ 486,068</u>	<u>\$ 41,619</u>	<u>\$ 1,545,385</u>

The accompanying notes are an integral part of this statement.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

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) as described within this note. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

A. REPORTING ENTITY

The reporting entity of the City of Martin, 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 - Modified Cash Basis and the Statement of Activities - Modified Cash Basis display information about the City. These statements include the financial activities 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 City has no fiduciary funds.

The Statement of Activities - Modified Cash Basis presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and for 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 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. The funds of the City are organized into two major categories: governmental and proprietary. 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, receipts, or disbursements of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, receipts, or disbursements of the individual governmental or enterprise fund are at least five percent 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 Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

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 the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Liquor, Lodging, and Dining Gross Receipts Tax (BBB) Fund - To account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions. This tax shall be used 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 promotion and advertising of the City per SDCL 10-52A-2. This fund was established at the direction of the governing body through a local ordinance. This fund is a major fund.

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, disbursements paid, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit, even if that government is not expected to make any payments, is not payable solely from fees and charges of the activity.
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund - Financed primarily by user charges this fund accounts for the operation of the municipal waterworks system and related facilities (SDCL 9-47-1). This fund is a major fund.

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.

Sanitation Fund - Financed primarily by user charges, this fund accounts for the operation of the solid waste program (SDCL 9-32-11). This fund is a major fund.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

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" receipts and expenditures are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The City follows the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, transactions are recorded 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 Statement of Net Position - Modified Cash Basis and the Statement of Activities - Modified Cash Basis, 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 as defined below.

Fund Financial Statements:

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

Basis of Accounting

In the Statement of Net Position - Modified Cash Basis, the Statement of Activities - Modified Cash Basis, and the fund financial statements, the 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. The City presents negative cash balances rather than inter-fund loans.

Acceptable modifications to the modified cash basis of accounting implemented by the City in these financial statements include the recording of investments (certificates of deposits with terms to maturity more than 90 days from the date of acquisition) arising from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related receipts (such as accounts receivable and revenue billed or provided services not yet collected) and certain liabilities and their related disbursements (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.

If the City applied accounting principles generally accepted in the United States of America, 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.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. DEPOSITS AND INVESTMENTS

The City pools its cash resources for deposit purposes. The proprietary fund has access to its cash resources on demand.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at the date of acquisition of three months or less.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at the date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6.

The City maintains restricted cash deposits for the debt reserves required by debt agreements and for customer utility deposits.

E. CAPITAL ASSETS

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 government-wide financial statements. The fund financial statements and the proprietary financial statements report such purchases as capital outlays.

Under the modified cash basis of accounting, cash payments for lease activities are a cost of the program for which they were acquired and the amount paid in cash in both the government-wide and fund financial statements. Right-to-use lease assets arising from leasing activities are not reported as assets in the modified cash basis financial statements.

F. LONG-TERM LIABILITIES

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated but are reported as a separate program cost category.

Long-term debt arising from cash transactions of all funds is not reported as liabilities in the modified cash basis financial statements.

Under the modified cash basis of accounting, cash payments for lease activities are recorded as expenditures in the function benefitting from the use of the leased asset. Allocations are made where appropriate. Lease liabilities arising from leasing activities are not reported as liabilities in the modified cash basis financial statements.

G. PROGRAM RECEIPTS

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

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.

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.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. The City had no program-specific capital grants and contributions in the current year.

H. 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.

I. EQUITY CLASSIFICATIONS

Government-wide Financial Statements:

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

Restricted Net Position - Consists of net position with constraints placed on the use either by external groups or law.

Unrestricted Net Position - Includes all other net positions that do not meet the definition of restricted net position.

Fund Financial Statements:

The City classifies governmental fund balances as follows:

Nonspendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form, such as inventories or prepaids, or because of legal or contractual constraints. The City has no nonspendable fund balances.

Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, grantors, or contributors or amounts constrained due to constitutional provision or enabling legislation.

Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Commissioners by resolution and do not lapse at year-end. No commitments have been made by the City.

Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Commissioners.

Unassigned - Includes positive fund balance 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/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 disbursements are made.

The City does not have a formal minimum fund balance policy.

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

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. APPLICATION OF NET POSITION

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net positions are available.

K. REVENUES 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.

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 percent 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 may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at the date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022, the City's bank balances above FDIC limits are insured and collateralized in compliance with the South Dakota Public Deposit Protection Collateral Program.

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

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

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. The City has all of its deposits in demand deposits and certificates of deposits.

Assignment of Investment Income - 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 investments to the fund making the investment.

NOTE 3 - RESTRICTED CASH AND INVESTMENTS

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are for bond redemption and asset management reserves required by the USDA debt agreement. Deposits are required until the account balances equal the amount of one year's payment. The City has made appropriate reserve deposits and is in compliance with these requirements.

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.

NOTE 5 - COMMITMENTS

As discussed in Note 1.c., the financial statements 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. The City does report the principal and interest payments on long-term debt as debt service expenditures on the Statement of Receipts, Disbursements, and Changes in Fund Net Position - Proprietary Fund. On the Statement of Activities, the principal and interest portion of these debt service payments are reported within the appropriate expense function. The City has included the summary of changes in long-term liabilities for the year ended December 31, 2022, due to the importance of the information provided:

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 5 - COMMITMENTS (CONTINUED)

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

	Balance 12/31/21	Additions	Deletions	Balance 12/31/22	Due Within One Year
Bonds					
Water Improvements	\$ 512,086	\$ -	\$ (71,452)	\$ 440,634	\$ 32,744
Sewer Improvements	160,106	-	(3,683)	156,423	3,795
Sewer Improvements	48,276	-	(25,478)	22,798	4,903
Water Improvements #2	<u>387,941</u>	<u>-</u>	<u>(10,327)</u>	<u>377,614</u>	<u>10,535</u>
Total Bonds	<u>\$ 1,108,409</u>	<u>\$ -</u>	<u>\$ (110,940)</u>	<u>\$ 997,469</u>	<u>\$ 51,977</u>
Notes from Direct Borrowings:					
Caterpillar Loader	\$ 7,335	\$ -	\$ (7,335)	\$ -	\$ -
2020 Dodge Durango	21,031	-	(5,025)	16,006	5,182
2021 Dodge Durango	<u>28,396</u>	<u>-</u>	<u>(5,649)</u>	<u>22,747</u>	<u>5,826</u>
Total Direct Borrowings	<u>\$ 56,762</u>	<u>\$ -</u>	<u>\$ (18,009)</u>	<u>\$ 38,753</u>	<u>\$ 11,008</u>
Total Commitments	<u>\$ 1,165,171</u>	<u>\$ -</u>	<u>\$ (128,949)</u>	<u>\$ 1,036,222</u>	<u>\$ 62,985</u>

Long-term debt at December 31, 2022, is comprised of the following:

Water Improvements - State Drinking Water Revolving Loan in the amount of \$920,000 requiring quarterly payments of \$10,866 including interest at a rate of 2.5% with final maturity in October 2023. Payments are made from water service charges in the Water Fund. \$ 440,634

Sewer Improvements - USDA Rural Development loan for a sewer lagoon stabilization project in the amount of \$416,000 requiring monthly payments of \$1,531 including interest at a rate of 3.0% with final maturity in August 2050. Payments are made from the Sewer Fund. 179,221

Water Improvements #2 - State Drinking Water Revolving loan in the amount of \$440,525 requiring quarterly payments of \$4,502, including interest at a rate of 2.0% with final maturity in January 2050. Payments are made from water service user surcharges in the Water Fund. 377,614

2020 Dodge Durango - Equipment loan with a bank in the amount of \$26,000 requiring quarterly payments of \$1,400 including interest at a rate of 2.95% with final maturity in December 2025. Payments are made from the General Fund. 16,006

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 5 - COMMITMENTS (CONTINUED)

2021 Dodge Durango - Equipment loan with a bank in the amount of \$29,973 requiring quarterly payments of \$1,609 including interest at a rate of 2.95% with final maturity in December 2026. Payments are made from the General Fund.

	22,747
	<u>\$ 1,036,222</u>

The annual requirements to amortize the long-term liability outstanding as of December 31, 2022, including interest are as follows:

	Bonds		Direct Borrowings	
	Principal	Interest	Principal	Interest
2023	\$ 51,977	\$ 23,452	\$ 11,008	\$ 1,025
2024	53,270	22,159	11,336	698
2025	54,608	20,821	11,668	356
2026	55,979	19,450	4,741	69
2027	54,132	18,067	-	-
2028 - 2032	279,063	70,482	-	-
2033 - 2037	167,590	39,836	-	-
2038 - 2042	105,582	26,642	-	-
2043 - 2047	118,449	13,774	-	-
2048 - 2052	56,819	1,571	-	-
	<u>\$ 997,469</u>	<u>\$ 256,254</u>	<u>\$ 38,753</u>	<u>\$ 2,148</u>

NOTE 6 - LEASES

The City leases a copy machine over a term of three years, with monthly payments of \$174, expiring in September 2025. Payments made during the year ended December 31, 2022 were \$4,708. Future lease payments are as follows:

	Lease Payment
2023	\$ 2,092
2024	2,092
2025	1,569

NOTE 7 - PENSION PLAN

Plan Information

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer hybrid defined benefit pension plan administered by 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://sdtrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 7 - PENSION PLAN

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 retirement benefits 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.

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 the single-life benefit, the 60% joint and survivor benefit, or the 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 third 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 third quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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% to 0.0%.

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 7 - PENSION PLAN

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 fiscal years ended December 31, 2022, 2021, and 2020, equal to required contributions each year were \$32,289, \$26,299, and \$26,461, respectively.

Pension Liabilities (Assets)

At June 30, 2022, SDRS is 100.1% funded and, accordingly, has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City as of this measurement period ending June 30, 2022 and as of December 31, 2022 are as follows:

Proportionate Share of Pension Liability	\$ 2,942,468
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>2,944,438</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (1,970)</u>

At December 31, 2022, the City had a liability (asset) of \$(1,970) for its proportionate share of the net pension liability (asset). This asset is not reflected in the financial statements due to the modified cash basis of reporting. The net pension liability (asset) was measured as of June 30, 2022 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.020844%, which is an increase of 0.002311% from its proportion measured as of June 30, 2021.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2022 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	2.10%

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

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

- 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.
- 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.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for the 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%	2.70%

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).

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 7 - PENSION PLAN (CONTINUED)

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:

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 409,029	\$ (1,970)	\$ (337,865)

Pension Plan Fiduciary Net Position

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

NOTE 8 - RISK MANAGEMENT

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 year ended December 31, 2022, the City managed its risks as follows:

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 and 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 County's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident that could result in a claim being made by or against the County. The County pays a Members' Annual Operating Contribution to provide liability coverage detailed below under an occurrence-based policy. 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 County pays an annual premium to the pool to provide coverage for torts, theft or damage to property, and errors and omissions of public officials.

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 that 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 has no deductible for general liability coverage, a \$5,000 deductible for errors and omissions of public officials, and a \$500 deductible for all other claims.

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.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 8 - RISK MANAGEMENT (CONTINUED)

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. There were no claims paid during the year ended December 31, 2022 and no claims are expected next year.

Workmen's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), 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 Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 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 over the past three years.

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage also includes a \$2,000,000 lifetime maximum payment per person. The City does not carry additional health insurance coverage to pay claims in excess of this upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

NOTE 9 - RESTRICTED NET POSITION

The amount classified as restricted net position at December 31, 2022 is classified as follows:

	Governmental Funds	Proprietary Funds	Total
By Donor	\$ 26,667	\$ -	\$ 26,667
By Grantor	337,781	-	337,781
By Creditor	-	103,648	103,648
	<u>\$ 364,448</u>	<u>\$ 103,648</u>	<u>\$ 468,096</u>

NOTE 10 - INTERFUND TRANSFERS

During the year ended December 31, 2022, the City transferred \$30,000 from the BBB fund to the General fund for use in promoting the City.

City of Martin, South Dakota
Notes to the Financial Statements
December 31, 2022

NOTE 11 - PLEDGED REVENUES

In accordance with certain debt agreements, the City has pledged revenues for the repayment of debt obligations. The City has pledged water user revenues for the repayment of state revolving fund bonds. Virtually all revenues of the water fund are pledged for the repayment of debt, including a specific water user surcharge that is assessed to all users monthly.

NOTE 12 - SUBSEQUENT EVENTS

Management has evaluated 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 Martin, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
December 31, 2022

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes:				
Property Taxes	\$ 191,881	191,881	\$ 191,762	\$ (119)
Sales and Use Taxes	449,900	449,900	504,279	54,379
Licenses and Permits	26,050	26,050	28,999	2,949
Intergovernmental Receipts:				
Federal Payments in lieu of taxes	6,000	6,000	8,475	2,475
State Shared Revenue	12,500	12,500	15,898	3,398
County Shared Revenues	27,000	27,000	50,386	23,386
Grants	605,864	605,864	90,391	(515,473)
Charges for Services	212,010	212,010	219,019	7,009
Miscellaneous Revenue	126,890	178,500	137,053	(41,447)
Total Receipts	<u>1,658,095</u>	<u>1,709,705</u>	<u>1,246,262</u>	<u>(463,443)</u>
DISBURSEMENTS				
General Government:				
Legislative	18,960	18,960	14,802	4,158
Attorney	40,000	40,000	25,161	14,839
Elections	500	500	44	456
Financial Administration	99,450	99,450	97,899	1,551
Other	118,575	154,015	31,489	122,526
Public Safety:				
Police	373,950	390,950	384,655	6,295
Fire	31,050	62,514	61,986	528
Protective Inspection	10,000	10,000	6,934	3,066
Public Works:				
Highways and Streets	120,600	136,400	131,234	5,166
Street Development	101,300	101,300	31,858	69,442
Snow Removal	35,450	39,720	37,244	2,476
Street Lights	48,300	48,300	40,727	7,573
Airport	605,250	605,250	41,384	563,866
Culture and Recreation:				
Parks	51,750	96,750	92,480	4,270
Markota	25,200	25,200	17,349	7,851
Pool	36,850	36,850	16,762	20,088
Golf	27,000	27,000	26,570	430
Museum	<u>4,920</u>	<u>4,920</u>	<u>3,816</u>	<u>1,104</u>
Total Disbursements	<u>1,749,105</u>	<u>1,898,079</u>	<u>1,062,394</u>	<u>835,685</u>

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

City of Martin, South Dakota
Budgetary Comparison Schedule - Budgetary Basis -
General Fund (Continued)
December 31, 2022

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(91,010)</u>	<u>(188,374)</u>	<u>183,868</u>	<u>(1,299,128)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>103,225</u>	<u>103,225</u>	<u>30,000</u>	<u>(73,225)</u>
NET CHANGE IN FUND BALANCE	12,215	(85,149)	213,868	(1,372,353)
FUND BALANCE - BEGINNING	<u>1,771,116</u>	<u>1,771,116</u>	<u>1,771,116</u>	<u>-</u>
FUND BALANCE, ENDING	\$ <u>1,783,331</u>	\$ <u>1,685,967</u>	\$ <u>1,984,984</u>	\$ <u>(1,372,353)</u>

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

City of Martin, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - BBB Fund
December 31, 2022

	Budgeted Amounts		Actual (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
RECEIPTS				
Taxes:				
Property Taxes	\$ 20,000	\$ 55,000	\$ 53,673	\$ (1,327)
Investment Earnings	<u>-</u>	<u>-</u>	<u>107</u>	<u>107</u>
Total Receipts	<u>20,000</u>	<u>55,000</u>	<u>53,780</u>	<u>(1,220)</u>
DISBURSEMENTS				
Conservation and Development				
Economic Development	<u>13,500</u>	<u>48,500</u>	<u>41,260</u>	<u>7,240</u>
Total Disbursements	<u>13,500</u>	<u>48,500</u>	<u>41,260</u>	<u>7,240</u>
Excess (Deficiency) of Revenues over (Under) Expenditures	<u>6,500</u>	<u>6,500</u>	<u>12,520</u>	<u>6,020</u>
OTHER FINANCING SOURCES (USES)				
Transfers In (Out)	<u>(62,500)</u>	<u>(62,500)</u>	<u>(30,000)</u>	<u>32,500</u>
NET CHANGE IN FUND BALANCE	(56,000)	(56,000)	(17,480)	38,520
FUND BALANCE, BEGINNING OF YEAR	68,881	68,881	68,881	-
FUND BALANCE, END OF YEAR	\$ 12,881	\$ 12,881	\$ 51,401	\$ 38,520

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

City of Martin, South Dakota
Schedule of the City's Proportionate Share
of the Net Pension Liability (Asset)
December 31, 2022

	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)
	City's Proportionate Chare of Net Pension Liability (Asset)	City's Covered Payroll
	City's Proportion of the Net Pension Liability (Asset)	(Asset)
2022	0.0208440%	\$ (1,970)
2021	0.0185330%	\$ (141,931)
2020	0.0201914%	\$ (877)
2019	0.0202178%	\$ (2,143)
2018	0.0202390%	\$ (472)
2017	0.2161310%	\$ (19,614)
2016	0.0211693%	\$ 71,508
2015	0.0207955%	\$ (88,200)
		\$ 677,292
		854,833
		817,533
		740,650
		774,400
		740,817
		757,350
		723,317
		0.29%
		16.60%
		0.11%
		0.29%
		0.06%
		2.65%
		9.44%
		12.19%
		100.10%
		105.52%
		100.04%
		100.09%
		100.02%
		100.10%
		96.89%
		104.10%

* The amounts presented for each year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

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

City of Martin, South Dakota
Schedule of Pension Contributions
South Dakota Retirement System

	Contributions in Relation to the					City's Covered Payroll	Contributions as a Percentage of Covered Payroll
	Contractually Required Contribution	Contractually Required Contribution	Contribution Deficiency (Excess)				
2022	\$ 32,289	\$ 32,289	\$ -			\$ 472,435	6.83%
2021	\$ 26,299	\$ 26,299	\$ -			\$ 854,750	3.08%
2020	\$ 26,461	\$ 26,461	\$ -			\$ 854,533	3.10%
2019	\$ 26,326	\$ 26,326	\$ -			\$ 779,092	3.38%
2018	\$ 25,022	\$ 25,022	\$ -			\$ 757,525	3.30%
2017	\$ 26,046	\$ 26,046	\$ -			\$ 757,609	3.44%
2016	\$ 25,455	\$ 25,455	\$ -			\$ 749,083	3.40%
2015	\$ 23,478	\$ 23,478	\$ -			\$ 740,334	3.17%

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

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

City of Martin, South Dakota
Notes to the Supplementary Information
December 31, 2022

NOTE 1 - BASIS OF PRESENTATION

The budgetary comparison schedule has been prepared on the modified cash basis of accounting and presents capital outlay and debt service disbursements within each function similar to the Statement of Activities - Modified Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

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

1. At the first regular Council meeting in September of each year or within 10 days thereafter, the City Council introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements 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 line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board 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 governing board. The City did not encumber any amounts at December 31, 2022.

NOTE 3- 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.

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%.

See independent auditor's report.

City of Martin, South Dakota
Notes to the Supplementary Information
December 31, 2022

NOTE 3- PENSION CONTRIBUTIONS (CONTINUED)

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 an 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%.

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.

See independent auditor's report.

City of Martin, South Dakota
List of City Officials
December 31, 2022

MAYOR

Gary Rahill

COUNCIL MEMBERS

Tootie Moffitt

Gloria Claussen

Gregg Claussen

Lindsee Harris

Kevin Rascher

Jay Yohner

FINANCE OFFICER

Jean Kirk

See independent auditor's report.