

CITY OF TEA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2022

Prepared by the
Administration and Finance Departments

**CITY OF TEA, SOUTH DAKOTA
TABLE OF CONTENTS**

INTRODUCTORY SECTION

	Page
List of Principal Officials	1
FINANCIAL SECTION	
Independent Auditors' Report	2 – 4
GOVERNMENT-WIDE FINANCIAL STATEMENTS	
Statement of Net Position	5
Statement of Activities	6 – 7
FUND FINANCIAL STATEMENTS	
Governmental Funds Financial Statements	
Balance Sheet	8
Reconciliation of the Balance Sheet to the Statement of Net Position	9
Statement of Revenues, Expenditures, and Changes in Fund Balances	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	11
Proprietary Funds Financial Statements	
Statement of Net Position	12
Statement of Revenues, Expenses, and Changes in Net Position	13
Statement of Cash Flows	14
NOTES TO THE FINANCIAL STATEMENTS	15 – 38
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, General Fund	39 – 40
Notes to Required Supplementary Information – Budgetary Reporting	41
Schedule of the City's Proportionate Share of Net Pension Liability (Asset)	42
Schedule of the City's Contributions	43
Notes to Required Supplemental Information – Pension Liability (Asset)	44 – 45
SUPPLEMENTARY INFORMATION	
Governmental Nonmajor Funds Combining Financial Statements	
Balance Sheet	46 – 47
Statement of Revenues, Expenditures, and Changes in Fund Balances	48 – 49

**CITY OF TEA, SOUTH DAKOTA
TABLE OF CONTENTS**

FINANCIAL SECTION – (CONTINUED)

	Page
Budgetary Comparison Schedules	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, Nonmajor Special Revenue Funds	50 – 51
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, Capital Project Funds	52 – 53
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, Debt Service Funds	54 – 55
Single Audit	
Schedule of Expenditures of Federal Awards	56
Notes to Expenditures of Federal Awards.....	57
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	58 – 59
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.....	60 – 61
Schedule of Findings and Questioned Costs	62 – 63
Schedule of Prior Year Findings	64
Corrective Action Plan	65

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CITY OF TEA, SOUTH DAKOTA

List of Principal Officials
December 31, 2022

Title	Name
Mayor	Casey Voelker
Council Member	Lynn DeYoung
Council Member	Joe Weis
Council Member	Aaron Otten
Council Member	Jim Erick
Council Member	Terry Woessner
Council Member	Ruby Zuraff
City Finance Officer	Dawn Murphy
City Attorney	Todd Meierhenry
City Administrator	Justin Weiland



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INDEPENDENT AUDITORS' REPORT

To the City Council
 City of Tea, South Dakota

Report on the Audit of the Financial Statements

Unmodified and Disclaimer of Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information; and we were not engaged to audit the discretely presented component unit, of the City of Tea, South Dakota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Tea, South Dakota's basic financial statements as listed in the table of contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Discretely Presented Component Unit	Disclaimer
General Fund	Unmodified
Hagedorn Infrastructure Capital Project Fund	Unmodified
Gateway Boulevard Capital Project Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Disclaimer of Opinion on the Discretely Presented Component Unit

We do not express an opinion on the financial statements of the discretely presented component unit of the City of Tea, South Dakota. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

Unmodified Opinions on Governmental Activities, Business-type Activities, Each Major Fund, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above 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 of Tea, South Dakota, as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Housing & Redevelopment Component Unit (HRCU) have not been audited, and we were not engaged to audit the HRCU financial statements as part of our audit of the City of Tea, South Dakota's basic financial statements. HRCU financial activities are included in the City of Tea, South Dakota's basic financial statements as a discretely presented component unit and reflect assets of \$101,468, net position of \$98,468, and revenues of \$1,133,284 as of and for the year ended December 31, 2022.

Basis for Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in accordance with 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Tea, South Dakota, 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 unmodified audit opinions.

Emphasis of a Matter

As described in Note 19 to the financial statements, in 2022, the City adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 87, Leases. 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 accounting principles generally accepted in the United States of America, and 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 of Tea, South Dakota'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

Auditors' Responsibilities for the Audit of the Discretely Presented Component Unit

Our responsibility is to conduct an audit of the City of Tea, South Dakota's financial statements in accordance with generally accepted auditing standards and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

We are required to be independent of the City of Tea, South Dakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditors' Responsibilities for the Audit of the Governmental Activities, the Business-type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards 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 of Tea, South Dakota'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 of Tea, South Dakota'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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's proportionate share of the net pension liability (asset), and schedule of the City's contributions to the South Dakota Retirement System on 39 through 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tea, South Dakota's basic financial statements. The combining and individual nonmajor fund financial statements, budgetary comparison schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 combining and individual nonmajor fund financial statements, budgetary comparison schedules, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 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 City'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.

Williams & Company, P.C.
Certified Public Accountants
Le Mars, Iowa
January 16, 2024

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF NET POSITION
December 31, 2022

	Primary Government			Unaudited
	Governmental Activities	Business-Type Activities	Total	Component Unit Housing & Redevelopment
ASSETS				
Cash and Cash Equivalents	\$ 3,332,117	\$ 182,832	\$ 3,514,949	\$ 98,468
Receivables:				
Taxes	36,150	-	36,150	-
Accounts	8,801	237,509	246,310	-
Special Assessments	1,960,379	-	1,960,379	-
Notes Receivable	1,200,000	-	1,200,000	-
Due from Other Governmental Agencies	735,827	269,613	1,005,440	-
Prepaid Expenses	42,723	19,339	62,062	-
Internal Balances	654,445	(654,445)	-	-
Restricted Assets:				
Cash and Cash Equivalents	1,801,786	1,173,919	2,975,705	3,000
Net Pension Asset	4,313	856	5,169	-
Land	2,289,963	285,768	2,575,731	-
Construction in Progress	4,517,845	16,394,584	20,912,429	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation/Amortization	31,757,024	19,188,853	50,945,877	-
Total Assets	<u>48,341,373</u>	<u>37,098,828</u>	<u>85,440,201</u>	<u>101,468</u>
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	396,592	78,626	475,218	-
LIABILITIES				
Accounts Payable	744,756	863,914	1,608,670	-
Accrued Wages	36,287	4,768	41,055	-
Accrued Interest Payable	52,589	114,770	167,359	-
Accrued Taxes	3,058	342	3,400	-
Revenue Collected in Advance	563,988	-	563,988	-
Payables from Restricted Assets:				
Customer Deposits	-	73,522	73,522	3,000
Noncurrent Liabilities:				
Due within one year:				
Lease Agreements	5,447	-	5,447	-
Revenue Bonds Payable	560,000	447,668	1,007,668	-
Due in more than one year:				
Lease Agreements	20,777	-	20,777	-
Revenue Bonds Payable	10,531,151	12,057,304	22,588,455	-
Total Liabilities	<u>12,518,053</u>	<u>13,562,288</u>	<u>26,080,341</u>	<u>3,000</u>
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	256,447	50,842	307,289	-
Total Deferred Inflows of Resources	<u>256,447</u>	<u>50,842</u>	<u>307,289</u>	<u>-</u>
NET POSITION				
Net Investment in Capital Assets	27,352,375	23,161,941	50,514,316	-
Restricted for:				
Debt Service	3,780,975	1,059,149	4,840,124	-
Capital Improvements	677,562	-	677,562	-
SDRS Pension Purposes	144,458	28,640	173,098	-
Other Purposes	-	-	-	3,000
Unrestricted	4,008,095	(685,406)	3,322,689	95,468
Total Net Position	<u>\$ 35,963,465</u>	<u>\$ 23,564,324</u>	<u>\$ 59,527,789</u>	<u>\$ 98,468</u>

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022**

Functions/Programs	Expenses	Program Revenues		Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 720,303	\$ 240,388	\$ -	\$ 5,000
Public Safety	1,215,032	68,825	52,964	-
Public Works	1,678,064	32,837	1,161,187	234,881
Health and Welfare	4,653	-	-	-
Culture and Recreation	705,360	231,165	-	-
Community Development	383,501	-	-	-
Debt Service	346,405	-	-	-
Total Governmental Activities	5,053,318	573,215	1,214,151	239,881
Business-Type Activities:				
Water	1,238,222	1,271,200	-	1,004,101
Wastewater	833,508	1,730,981	-	5,478,844
Total Business-Type Activities	2,071,730	3,002,181	-	6,482,945
Component Units - Unaudited:				
Housing & Redevelopment	881,093	889,567	-	-
Total Component Unit	\$ 881,093	\$ 889,567	\$ -	\$ -
General Revenues:				
Property Taxes				
Sales and Other Taxes				
Interest				
Miscellaneous				
Gain on Sale of Capital Assets				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-Type Activities	Total	Unaudited Component Unit Housing & Redevelopment
\$ (474,915)	\$ -	\$ (474,915)	\$ -
(1,093,243)		(1,093,243)	-
(249,159)		(249,159)	-
(4,653)		(4,653)	-
(474,195)		(474,195)	-
(383,501)		(383,501)	-
(346,405)		(346,405)	-
<u>(3,026,071)</u>		<u>(3,026,071)</u>	-
	1,037,079	1,037,079	-
	6,376,317	6,376,317	-
	<u>7,413,396</u>	<u>7,413,396</u>	-
-	-	-	8,474
-	-	-	<u>8,474</u>
2,846,529	-	2,846,529	-
3,634,848	-	3,634,848	-
51,366	20,108	71,474	10
117,402	74,018	191,420	-
-	-	-	243,707
<u>6,650,145</u>	<u>94,126</u>	<u>6,744,271</u>	<u>243,717</u>
3,624,074	7,507,522	11,131,596	252,191
<u>32,339,391</u>	<u>16,056,802</u>	<u>48,396,193</u>	<u>(153,723)</u>
<u>\$ 35,963,465</u>	<u>\$ 23,564,324</u>	<u>\$ 59,527,789</u>	<u>\$ 98,468</u>

CITY OF TEA, SOUTH DAKOTA
BALANCE SHEET
Governmental Funds
December 31, 2022

	General	Hagedorn Infrastructure Project	Gateway BLVD Capital Project	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,454,588	\$ -	\$ 30,555	\$ 846,974	\$ 3,332,117
Receivables (Net where applicable, of allowance for uncollectibles):					
Taxes	35,919	-	-	231	36,150
Accounts	8,801	-	-	-	8,801
Special Assessments	696,406	-	-	1,263,973	1,960,379
Notes Receivable	1,200,000	-	-	-	1,200,000
Due from Other Funds	2,476,983	-	-	-	2,476,983
Due from Other Governmental Agencies	304,202	-	282,288	149,337	735,827
Restricted Assets:					
Cash and Cash Equivalents	1,368,142	-	-	433,644	1,801,786
Total Assets	<u>8,545,041</u>	<u>-</u>	<u>312,843</u>	<u>2,694,159</u>	<u>11,552,043</u>
LIABILITIES					
Accounts Payable	645,123	72,883	26,479	271	744,756
Accrued Wages	36,287	-	-	-	36,287
Accrued Taxes	3,058	-	-	-	3,058
Revenue Collected in Advance	563,988	-	-	-	563,988
Due to Other Funds	-	1,492,172	-	330,366	1,822,538
Total Liabilities	<u>1,248,456</u>	<u>1,565,055</u>	<u>26,479</u>	<u>330,637</u>	<u>3,170,627</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	25,004	-	-	12,973	37,977
Unavailable revenue - special assessments	696,406	-	-	1,248,304	1,944,710
Unavailable revenue - other	1,200,000	-	-	-	1,200,000
Total Deferred Inflows of Resources	<u>1,921,410</u>	<u>-</u>	<u>-</u>	<u>1,261,277</u>	<u>3,182,687</u>
FUND BALANCES					
Restricted:					
Debt Service	1,368,142	-	-	535,471	1,903,613
Capital Improvement	-	-	-	664,816	664,816
Assigned:					
Capital Projects	-	(1,565,055)	-	184,029	(1,381,026)
Unassigned	4,007,033	-	286,364	(282,071)	4,011,326
Total Fund Balances (Deficits)	<u>5,375,175</u>	<u>(1,565,055)</u>	<u>286,364</u>	<u>1,102,245</u>	<u>5,198,729</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 8,545,041</u>	<u>\$ -</u>	<u>\$ 312,843</u>	<u>\$ 2,694,159</u>	<u>\$ 11,552,043</u>

CITY OF TEA, SOUTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
December 31, 2022

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds (page 8)	\$	5,198,729
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds		38,564,832
Unavailable revenues that do not provide current financial resources for governmental activities		3,182,687
Accrued expenses from the balance sheet that do not require current financial resources for governmental activities		(52,589)
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources		42,723
Pension related deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, are not due and payable in the current year and, therefore are not reported in the governmental funds		140,145
Long-term liabilities, including bonds payable and lease agreements are not due and payable in the current period and therefore are not reported in the funds		(11,117,375)
The net pension asset does not provide resources in the current period and therefore is not reported in the funds		4,313
		4,313
Total Net Position - Governmental Activities (page 5)	\$	35,963,465

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
For the Year Ended December 31, 2022

	General	Hagedorn Infrastructure Project	Gateway BLVD Capital Project	Other Governmental Funds	Total Governmental Funds
Revenue:					
Property Taxes	\$ 2,697,220	\$ -	\$ -	\$ 136,685	\$ 2,833,905
Sales and Other Taxes	3,495,336	-	-	139,512	3,634,848
Special Assessments	-	-	-	490,370	490,370
Licenses and Permits	226,695	-	-	-	226,695
Intergovernmental	502,980	-	668,274	139,981	1,311,235
Charges for Services	247,545	-	-	-	247,545
Fines and Forfeits	1,891	-	-	-	1,891
Interest on Investments	41,687	-	-	9,679	51,366
Contributions	5,000	-	-	-	5,000
Miscellaneous	117,402	-	-	-	117,402
Total Revenue	<u>7,335,756</u>	<u>-</u>	<u>668,274</u>	<u>916,227</u>	<u>8,920,257</u>
Current Expenditures:					
General Government	704,199	-	-	-	704,199
Public Safety	3,007,651	-	-	-	3,007,651
Public Works	1,018,148	-	-	844,511	1,862,659
Culture and Recreation	381,087	-	-	-	381,087
Community Development	383,501	-	-	-	383,501
Health and Welfare	4,653	-	-	-	4,653
Capital Outlay:					
Public Works	-	1,410,017	2,752,429	6,262	4,168,708
Debt Service	727,186	-	-	177,408	904,594
Total Expenditures	<u>6,226,425</u>	<u>1,410,017</u>	<u>2,752,429</u>	<u>1,028,181</u>	<u>11,417,052</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,109,331</u>	<u>(1,410,017)</u>	<u>(2,084,155)</u>	<u>(111,954)</u>	<u>(2,496,795)</u>
Other Financing Sources (Uses):					
Lease Proceeds	29,078	-	-	-	29,078
Transfers In	99,033	-	1,900,000	-	1,999,033
Transfers Out	(1,900,000)	-	-	(99,033)	(1,999,033)
Total Other Financing Sources (Uses)	<u>(1,771,889)</u>	<u>-</u>	<u>1,900,000</u>	<u>(99,033)</u>	<u>29,078</u>
Net Change in Fund Balances	(662,558)	(1,410,017)	(184,155)	(210,987)	(2,467,717)
Fund Balances (Deficits) - Beginning of Year	6,037,733	(155,038)	470,519	1,313,232	7,666,446
Fund Balances (Deficits) - End of Year	<u>\$ 5,375,175</u>	<u>\$ (1,565,055)</u>	<u>\$ 286,364</u>	<u>\$ 1,102,245</u>	<u>\$ 5,198,729</u>

CITY OF TEA, SOUTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2022

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds (page 10) \$ (2,467,717)

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization expense in the current year:

Expenditures for Capital Assets	\$ 6,613,704	
Depreciation/Amortization Expense	<u>(853,075)</u>	5,760,629

Revenues reported in the funds that are not available to provide current financial resources 12,624

Accrued interest expense that does not require current financial resources (1,137)

Governmental funds report special assessments as revenue when it becomes available, but the statement of activities includes special assessments as revenue when levied (255,489)

The issuance of indebtedness provides current financial resources to the governmental funds without affecting net position. The statement of activities does not reflect the proceeds from the issuance of long-term debt. The proceeds from the issuance of long-term debt for the year was: (29,078)

Pension expenses reported in the Statement of Activities do not require the use of current financial resources 38,700

Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources 3,406

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds without affecting the net position. The Statement of Activities does not reflect the payment of principal on long-term debt. The principal paid on long-term debt during the current year was: 562,136

Change in net position of governmental activities (page 7) \$ 3,624,074

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF NET POSITION
Proprietary Funds
December 31, 2022**

	<u>Water</u>	<u>Sewer</u>	<u>Totals</u>
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 178,686	\$ 4,146	\$ 182,832
Receivables (Net where applicable, of allowance for uncollectibles):			
Accounts	102,425	135,084	237,509
Due from Other Governmental Agencies	118,766	150,847	269,613
Prepaid Insurance	15,907	3,432	19,339
Due From Other Funds	-	450,000	450,000
Total Current Assets	<u>415,784</u>	<u>743,509</u>	<u>1,159,293</u>
Noncurrent Assets:			
Restricted Assets:			
Restricted Cash	749,400	424,519	1,173,919
Net Pension Asset	428	428	856
Land	266,140	19,628	285,768
Construction in Progress	754,720	15,639,864	16,394,584
Infrastructure, Property and Equipment, Net of Accumulated Depreciation/Amortization	10,711,432	8,477,421	19,188,853
Total Noncurrent Assets	<u>12,482,120</u>	<u>24,561,860</u>	<u>37,043,980</u>
Total Assets	<u>12,897,904</u>	<u>25,305,369</u>	<u>38,203,273</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>39,313</u>	<u>39,313</u>	<u>78,626</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	133,300	730,614	863,914
Accrued Wages	2,384	2,384	4,768
Accrued Interest Payable	80,661	34,109	114,770
Accrued Taxes	171	171	342
Due to Other Funds	714,852	389,593	1,104,445
Customer Deposits	73,522	-	73,522
Revenue Bonds Payable - Current	196,238	251,430	447,668
Total Current Liabilities	<u>1,201,128</u>	<u>1,408,301</u>	<u>2,609,429</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	4,243,554	7,813,750	12,057,304
Total Noncurrent Liabilities	<u>4,243,554</u>	<u>7,813,750</u>	<u>12,057,304</u>
Total Liabilities	<u>5,444,682</u>	<u>9,222,051</u>	<u>14,666,733</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	<u>25,421</u>	<u>25,421</u>	<u>50,842</u>
NET POSITION			
Net Investment in Capital Assets	7,292,500	15,869,441	23,161,941
Restricted for:			
Debt Service	668,739	390,410	1,059,149
SDRS Pension Purposes	14,320	14,320	28,640
Unrestricted	(508,445)	(176,961)	(685,406)
Total Net Position	<u>\$ 7,467,114</u>	<u>\$ 16,097,210</u>	<u>\$ 23,564,324</u>

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Proprietary Funds
For the Year Ended December 31, 2022

	Business-Type		
	Water	Sewer	Totals
Operating Revenues:			
Charges for Services	\$ 1,271,200	\$ 1,730,981	\$ 3,002,181
Operating Expenses:			
Personal Services	169,315	129,137	298,452
Insurance	17,831	4,966	22,797
Professional Services	-	54,679	54,679
Repairs and Maintenance	5,920	5,274	11,194
Supplies and Materials	636,528	95,208	731,736
Travel and Conference	-	129	129
Utilities	12,129	61,395	73,524
Billing and Administration	30,436	41,453	71,889
Depreciation	240,265	289,161	529,426
Total Operating Expenses	1,112,424	681,402	1,793,826
Operating Income	158,776	1,049,579	1,208,355
Nonoperating Income (Expense):			
Interest Income	11,087	9,021	20,108
Rental Income	74,018	-	74,018
Miscellaneous, net	-	(3,094)	(3,094)
Interest Expense	(125,798)	(149,012)	(274,810)
Total Nonoperating Income (Expense)	(40,693)	(143,085)	(183,778)
Income Before Contributions	118,083	906,494	1,024,577
Contributions			
Capital Grants	766,629	5,478,844	6,245,473
Contributed Capital Revenue	237,472	-	237,472
Total Contributions	1,004,101	5,478,844	6,482,945
Change in Net Position	1,122,184	6,385,338	7,507,522
Net Position - Beginning	6,344,930	9,711,872	16,056,802
Net Position - Ending	\$ 7,467,114	\$ 16,097,210	\$ 23,564,324

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF CASH FLOWS
Proprietary Funds
For the Year Ended December 31, 2022

	Business-Type		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 1,137,703	\$ 1,030,756	\$ 2,168,459
Cash Received from Interfund Services Provided	18,285	4,457	22,742
Cash Paid to Suppliers for Goods and Services	(645,773)	(264,547)	(910,320)
Cash Paid to Employees for Services	(171,767)	(131,589)	(303,356)
Other Nonoperating Revenues	74,018	-	74,018
Net Cash Provided by Operating Activities	<u>412,466</u>	<u>639,077</u>	<u>1,051,543</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and Construction of Capital Assets	(820,252)	(8,897,680)	(9,717,932)
Proceeds from Bond Issuance	75,072	1,777,664	1,852,736
Principal Paid on Notes, Bonds and Leases	(189,862)	(143,554)	(333,416)
Receipts from Other Governments	766,629	5,478,844	6,245,473
Interest Paid on Notes and Bonds	(86,520)	(254,645)	(341,165)
Net Cash (Used) by Capital and Related Financing Activities	<u>(254,933)</u>	<u>(2,039,371)</u>	<u>(2,294,304)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Due to Other Funds	21,209	372,838	394,047
Net Cash Provided by Non-Capital Financing Activities	<u>21,209</u>	<u>372,838</u>	<u>394,047</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and Dividends on Investments	11,087	9,021	20,108
Net Cash Provided by Investing Activities	<u>11,087</u>	<u>9,021</u>	<u>20,108</u>
Net Increase (Decrease) in Cash and Cash Equivalents	189,829	(1,018,435)	(828,606)
Cash and Cash Equivalents at Beginning of Year	738,257	1,447,100	2,185,357
Cash and Cash Equivalents at End of Year	<u>\$ 928,086</u>	<u>\$ 428,665</u>	<u>\$ 1,356,751</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 158,776	\$ 1,049,579	\$ 1,208,355
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:			
Depreciation/Amortization	240,265	289,161	529,426
Other Nonoperating Income (Expense)	74,018	(3,094)	70,924
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	(3,131)	(5,669)	(8,800)
Due From Other Governmental Agencies	(118,766)	(150,847)	(269,613)
Prepaid Expenses	(4,701)	390	(4,311)
Net Pension Asset	36,869	36,869	73,738
Pension Related Deferred Outflows	8,324	8,324	16,648
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			
Accounts Payable	61,772	1,261	63,033
Customer Deposits	6,685	-	6,685
Accrued Wages	175	175	350
Accrued Taxes	12	12	24
Pension Related Deferred Inflows	(47,832)	(47,832)	(95,664)
Unearned Revenue	-	(539,252)	(539,252)
Total Adjustments	<u>253,690</u>	<u>(410,502)</u>	<u>(156,812)</u>
Net Cash Provided by Operating Activities	<u>\$ 412,466</u>	<u>\$ 639,077</u>	<u>\$ 1,051,543</u>
Supplemental Schedule of Noncash Capital and Related Financing Activities			
Developer and City Contribution of Capital Assets	\$ 237,472	\$ -	\$ 237,472
	<u>\$ 237,472</u>	<u>\$ -</u>	<u>\$ 237,472</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position			
Cash and Cash Equivalents	\$ 178,686	\$ 4,146	\$ 182,832
Restricted Cash and Cash Equivalents	749,400	424,519	1,173,919
	<u>\$ 928,086</u>	<u>\$ 428,665</u>	<u>\$ 1,356,751</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tea was incorporated in 1906 under the provisions of South Dakota Codified Law, as amended. The City operates under the Council-Manager form of government. The funds included in this report are controlled by or dependent upon the municipality's governing board.

The City's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

The reporting entity of the City of Tea consists of the primary government (which includes all of the funds, organizations, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Housing and Redevelopment Commission of the City of Tea, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the City of Tea Housing and Redevelopment Commission, PO Box 128, Tea, South Dakota 57064.

The City participates in a joint venture with 20 other entities. See Note 11 for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the City.

B. Basis of Presentation

Government-Wide Financial Statements:

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

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program of function and, therefore, are clearly identifiable to a particular function.

Program revenues 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. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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, deferred outflows or resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City can electively add funds, as major funds, which have specific community focus. The non-major funds are combined into a single column in the fund financial statements.

Governmental Fund Types – The focus of the governmental funds' measurement (in the fund statements) is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund types of the City:

General Fund – The General fund is the general operating fund of the municipality. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt Service Fund – The debt service funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs not being financed by proprietary funds.

Capital Projects Funds – The capital project funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. Operating revenues and expenses are distinguished from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses, and depreciation on capital assets. The United States Generally Accepted Accounting Principles used are those applicable to similar businesses in the private sector.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds – Enterprise funds are used to account for those operations (a) that are financed and operated in a manner similar to private business or enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) 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.

The City reports the following major governmental funds:

General Fund –The General fund is always considered to be a major fund—see the description above

Capital Project Funds:

Hagedorn Infrastructure Capital Project Fund – This fund is used to account for the use of financial resources to be used for the construction of the Hagedorn Industrial Park improvement project.

Gateway Boulevard Capital Project Fund – This fund is used to account for the use of financial resources to be used for the construction of the Gateway Boulevard improvement project.

The City reports the following major enterprise funds:

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

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

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.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-Wide Financial Statements:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide Statement of Net Position and Statement of Activities, governmental, and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Tea, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2022, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

E. Deposits

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 date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2022 are recorded as prepaid items in the government-wide financial statements and in the proprietary funds financial statements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of December 31, 2022, balances of short-term interfund amounts payable or receivable have been recorded as “due to other funds” and “due from other funds.”

H. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

I. Interfund Eliminations and Reclassifications

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities which are presented as “internal balances.”

J. Capital Assets

Capital assets, which includes property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Position and in the proprietary fund Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Machinery, equipment, and buildings with initial individual costs of \$500 and \$25,000, respectively, or more are considered capital assets. Infrastructure has been capitalized using historical or estimated historical of \$50,000 or more beginning in 1980 required by GASB 34. Depreciation expense is calculated using the straight-line method over the following useful lives:

Improvements other than Buildings	20-100 Years
Buildings	15-50 Years
Machinery and Equipment	4-20 Years

K. Leases

City as Lessee: The City is the lessee for noncancellable leases of copy machines. The City has recognized a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the City determines the discount rate it uses to discount the expected lease payments to present value, lease term and lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments and a purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred inflows and deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

M. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City and net pension liability (asset) are recognized on an accrual basis of accounting.

N. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of general obligation bonds, revenue bonds, lease agreements, and special assessment bonds.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources) while

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

O. Amortization of Bond Discounts and Premiums

For governmental fund types, bond premiums and discounts, are recognized during the current period. Bond proceeds are reported as other financing sources gross of the applicable premium or discount. For proprietary fund types, bond premiums and discounts, are deferred and amortized over the life of the bonds based on interest expense which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

P. Equity Classifications

Government-Wide Statements:

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – This component consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – This component consists of net position with constraints placed on their use either by (a) external groups such as creditors, granters, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets” are considered unrestricted.

Fund Financial Statements:

Governmental fund equity is classified fund balance and may distinguish between “Restricted,” “Assigned,” and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Q. 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 position are available.

R. Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, 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 or because of legal contractual constraints

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions 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 highest level of decision-making authority and does not lapse at year-end
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered, restricted, or committed (may be assigned by the City Council)
- 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 balance is 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 expenditures are made.

S. Program Revenues

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues 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.

T. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

NOTE 2 – CASH AND CASH EQUIVALENTS

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 summarized below:

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 which 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

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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.

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.

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.

Concentration of Investment – The City places no limit on the amount that may be invested in any one issuer.

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 deposits and investments to the fund making the investment.

Restricted Cash – Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 260,020	Bond covenants
General Fund	174,602	Economic development
General Fund	933,520	Capital improvements
Nonmajor Governmental	433,644	Bond covenants
Water Fund	592,193	Bond covenants
Water Fund	73,522	Utility customer deposits
Water Fund	83,685	Economic development
Sewer Fund	340,834	Bond covenants
Sewer Fund	83,685	Economic development
	<u>\$ 2,975,705</u>	

NOTE 3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the city taxes and remits them to the City. City property tax revenues are recognized to the extent that they are used to finance each year's appropriations.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City:

General Fund	\$27
Bond Redemption Funds	As Required by Bond Agreement
Judgement Fund (Upon Judgement Being Made)	\$10

State statute allows the tax rates to be raised by special election of the voters.

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 4 – RECEIVABLES AND PAYABLES (CONTINUED)

At December 31, 2022, amounts due from other governments were as follows:

Due from the State of South Dakota for local option sales tax	\$	301,639
Due from the State of South Dakota for Hazard Mitigation Grant funding		139,981
Due from the State of South Dakota for American Rescue Plan Act funding		269,613
Due from the State of South Dakota for Build Grant funding		282,288
Due from the State of South Dakota for other		11,919
Total	\$	<u>1,005,440</u>

The City expects all receivables to be collected within one year aside from a note receivable with Lincoln County created by a July 1, 2021 agreement whereby the County agreed to transfer a segment of Highway 106 to the City along with \$1,500,000 to assist with improvements and maintenance. The note bears no interest and is scheduled to be paid over the next 8 years as follows:

Year	Principal
2023	\$ 150,000
2024	150,000
2025	150,000
2026	150,000
2027	150,000
2028 - 2030	450,000
	\$ 1,200,000

NOTE 5 – ESTIMATED UNCOLLECTIBLE RECEIVABLES

An allowance for uncollectible utility accounts receivable is provided based upon analysis of historical trends. The allowance for uncollectible receivables at December 31, 2022 consisted of the following:

Fund	Utility Accounts Receivable
Water Fund	\$ 8,730
Sewer Fund	6,744
Total	\$ 15,474

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2022 is as follows:

Primary Government	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022
Governmental Activities:				
Capital Assets, not being depreciated/amortized				
Land	\$ 2,289,963	\$ -	\$ -	\$ 2,289,963
Construction in Progress	14,301,077	6,014,764	15,797,996	4,517,845
Total Capital Assets, not being depreciated/amortized	<u>16,591,040</u>	<u>6,014,764</u>	<u>15,797,996</u>	<u>6,807,808</u>
Capital Assets, being depreciated/amortized:				
Lease Agreements	-	29,078	-	29,078
Buildings	4,221,598	-	-	4,221,598
Improvements, other than Buildings	17,849,901	16,314,858	-	34,164,759
Machinery and Equipment	2,298,001	53,000	-	2,351,001
Total Capital Assets, being depreciated/amortized	<u>24,369,500</u>	<u>16,396,936</u>	<u>-</u>	<u>40,766,436</u>
Less Accumulated Depreciation/Amortization for:				
Lease Agreements	-	2,945	-	2,945
Buildings	1,410,029	91,286	-	1,501,315
Improvements, other than Buildings	5,074,274	637,740	-	5,712,014
Machinery and Equipment	1,672,034	121,104	-	1,793,138
Total Accumulated Depreciation/Amortization	<u>8,156,337</u>	<u>853,075</u>	<u>-</u>	<u>9,009,412</u>
Total Capital Assets being depreciated/amortized, net	<u>16,213,163</u>	<u>15,543,861</u>	<u>-</u>	<u>31,757,024</u>
Governmental Activities Capital Assets, net	<u>\$ 32,804,203</u>	<u>\$ 21,558,625</u>	<u>\$ 15,797,996</u>	<u>\$ 38,564,832</u>

Construction in progress at December 31, 2022 for the governmental activities consisted of costs associated various street and infrastructure additions and improvements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Balance January 1, 2022	Additions	Deletions	Balance December 31, 2022
Business-Type Activities:				
Capital Assets, not being depreciated/amortized				
Land	\$ 285,768	\$ -	\$ -	\$ 285,768
Construction in Progress	14,240,138	9,948,231	7,793,785	16,394,584
Total Capital Assets, not being depreciated/amortized	<u>14,525,906</u>	<u>9,948,231</u>	<u>7,793,785</u>	<u>16,680,352</u>
Capital Assets, being depreciated/amortized:				
Buildings	963,378	-	-	963,378
Improvements, other than Buildings	12,576,652	8,039,440	-	20,616,092
Intangible Asset	2,927,110	-	-	2,927,110
Machinery and Equipment	247,398	-	-	247,398
Total Capital Assets, being depreciated/amortized	<u>16,714,538</u>	<u>8,039,440</u>	<u>-</u>	<u>24,753,978</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	61,129	19,783	-	80,912
Improvements, other than Buildings	4,042,866	436,075	-	4,478,941
Intangible Asset	775,152	58,542	-	833,694
Machinery and Equipment	156,552	15,026	-	171,578
Total Accumulated Depreciation/Amortization	<u>5,035,699</u>	<u>529,426</u>	<u>-</u>	<u>5,565,125</u>
Total Capital Assets being depreciated/amortized, net	<u>11,678,839</u>	<u>7,510,014</u>	<u>-</u>	<u>19,188,853</u>
Business-Type Activities Capital Assets, net	<u>\$ 26,204,745</u>	<u>\$ 17,458,245</u>	<u>\$ 7,793,785</u>	<u>\$ 35,869,205</u>

Construction in progress at December 31, 2022, for the business-type activities consisted of costs associated various infrastructure additions and improvements.

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 16,789
Public Works	460,903
Culture and Recreation	324,343
General Government	<u>51,040</u>
Total depreciation/amortization expense - Governmental Activities	<u>\$ 853,075</u>
Business-Type Activities:	
Water	\$ 240,265
Sewer	<u>289,161</u>
Total depreciation/amortization expense - Business-Type Activities	<u>\$ 529,426</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Reconciliation of Net Investment in Capital Assets:

	Governmental Activities	Business-type Activities
Land	\$ 2,289,963	\$ 285,768
Construction in Progress	4,517,845	16,394,584
Capital Assets (net of accumulated depreciation/amortization)	31,757,024	19,188,853
Less: Lease Agreements	26,224	-
Revenue Bonds	11,091,151	12,504,972
Accounts Payable	95,082	202,292
	<u>27,352,375</u>	<u>23,161,941</u>
Net Investment in Capital Assets	\$ 27,352,375	\$ 23,161,941

NOTE 7 – LONG-TERM DEBT

A summary of the changes in long-term debt for the year ended December 31, 2022 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Lease Agreements	\$ -	\$ 29,078	\$ 2,854	26,224	\$ 5,447
Bonds Payable:					
Sales Tax Revenue	9,715,000	-	425,000	9,290,000	445,000
Bond Premium	480,433	-	19,282	461,151	-
Special Assessments	1,455,000	-	115,000	1,340,000	115,000
Governmental Activity Long-Term Liabilities	<u>\$ 11,650,433</u>	<u>\$ 29,078</u>	<u>\$ 562,136</u>	<u>\$ 11,117,375</u>	<u>\$ 565,447</u>
Business-Type Activities:					
Bonds Payable:					
State Revolving Funds (Direct Borrowing)	\$ 10,033,378	\$ 1,852,736	\$ 290,242	\$ 11,595,872	\$ 402,725
USDA Bonds (Direct Borrowing)	952,274	-	43,174	909,100	44,943
Business-type Activity Long-Term Liabilities	<u>\$ 10,985,652</u>	<u>\$ 1,852,736</u>	<u>\$ 333,416</u>	<u>\$ 12,504,972</u>	<u>\$ 447,668</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Bonds Payable

A summary of the City's December 31, 2022 bonded indebtedness is as follows:

	Date of Issue	Interest Rates	Final Due Date	Fund Paid	Annual Payments	Amount Originally Issued	Outstanding December 31, 2022
Revenue Bonds:							
2019 Sales Tax	2019	2.00-3.60%	2038	General	\$55,000-\$125,000	\$ 1,825,000	\$ 1,415,000
2019 Sales Tax	2019	1.85-3.375%	2039	General	60,000-130,000	1,985,000	1,765,000
2013 Sales Tax	2013	1.00-4.20%	2025	General	15,000-90,000	905,000	260,000
2021 Sales Tax	2021	3.00-4.00%	2046	Capital Project	160,000-335,000	6,010,000	5,850,000
2019 Special Assessment	2019	2.15-4.00%	2038	Debt Service	35,000-105,000	880,000	690,000
2010 Special Assessment	2010	1.00-5.25%	2030	Debt Service	100,000-195,000	1,585,000	650,000
Revenue Bonds (Direct Borrowing):							
2003 Clean Water State Revolving Loan	2003	3.50%	2024	Sewer	34,553	495,490	50,279
2007 Clean Water State Revolving Loan	2007	3.25%	2029	Sewer	53,681	858,000	302,517
2007 Drinking Water State Revolving Loan	2007	3.25%	2028	Water	154,372	2,263,723	742,321
2010 Clean Water State Revolving Loan	2010	3.00%	2031	Sewer	56,339	845,000	410,386
2020 Clean Water State Revolving Loan	2020	2.21%	2052	Sewer	46,856	4,147,615	4,404,677
2021 Drinking Water State Revolving Loan	2021	2.13%	2051	Water	8,920	790,000	770,956
2021 Drinking Water State Revolving Loan	2021	2.13%	2053	Water	21,943	2,017,415	2,017,415
2021 Clean Water State Revolving Loan	2021	2.13%	2052	Sewer	15,830	1,402,000	1,376,719
2007 USDA Drinking Water Revenue Bond	2007	4.375%	2038	Water	62,892	1,175,000	702,158
1993 USDA Drinking Water Revenue Bond	1993	5.625%	2033	Water	11,052	173,000	84,455
1997 USDA Drinking Water Revenue Bond	1997	5.375%	2037	Water	12,384	200,000	122,487
2022 Clean Water State Revolving Loan	2022	2.13%	2054	Sewer	\$17,184	1,520,602	1,520,602
Total Revenue Bonds						<u>\$ 29,077,845</u>	<u>\$ 23,134,972</u>

The state revolving loans, the USDA revenue bonds, and note to Sioux Falls are direct borrowings. All contracts state that in an event of default, all or a portion of the outstanding balance may become immediately due.

Annual debt service requirements to maturity for all debt outstanding as of December 31, 2022 are as follows:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Governmental Activities			Business-Type Activities		
	Revenue Bonds			Revenue Bonds - Direct Borrowing		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 560,000	\$ 347,037	\$ 907,037	\$ 447,668	\$ 332,503	\$ 780,171
2024	560,000	328,349	888,349	485,646	323,634	809,280
2025	580,000	309,489	889,489	540,433	271,236	811,669
2026	490,000	289,772	779,772	555,893	255,776	811,669
2027	505,000	272,889	777,889	571,834	239,837	811,671
2028 - 2032	2,485,000	1,090,551	3,575,551	2,012,737	1,012,444	3,025,181
2033 - 2037	2,310,000	710,539	3,020,539	1,909,456	765,118	2,674,574
2038 - 2042	1,845,000	343,594	2,188,594	1,780,066	546,458	2,326,524
2043 - 2047	1,295,000	98,400	1,393,400	1,955,069	349,679	2,304,748
2048 - 2052	-	-	-	2,089,910	131,663	2,221,573
2053 - 2054	-	-	-	156,260	3,354	159,614
	<u>\$ 10,630,000</u>	<u>\$ 3,790,620</u>	<u>\$ 14,420,620</u>	<u>\$ 12,504,972</u>	<u>\$ 4,231,702</u>	<u>\$ 16,736,674</u>

Lease Agreements

On December 22, 2021, the City signed a five-year lease as lessee for the use of a copy machine; however, payments did not initiate until May 2022 when the copier was delivered. The agreement requires monthly payments of \$324 at a rate of 2.00%. As of December 31, 2022, the City reported a lease liability of \$16,988. During the fiscal year, the City paid principal of \$2,376 and interest of \$212.

On December 22, 2021, the City signed a five-year lease as lessee for the use of a copy machine; however, payments did not initiate until October 2022 when the copier was delivered. The agreement requires monthly payments of \$170 at a rate of 2.00%. As of December 31, 2022, the City reported a lease liability of \$9,236. During the fiscal year, the City paid principal of \$478 and interest of \$32.

The remaining obligations associated with these leases is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2023	\$ 5,447	\$ 475	\$ 5,922
2024	5,557	365	5,922
2025	5,669	253	5,922
2026	5,784	138	5,922
2027	3,767	28	3,795
	<u>\$ 26,224</u>	<u>\$ 1,259</u>	<u>\$ 27,483</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 8 – RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2022 was as follows:

Major Purposes:			
Debt Service - External Creditors	\$	4,840,124	
Capital Improvements - Enabling Legislation		677,562	
Total Major Purposes			\$ 5,517,686
Other Purposes:			
SDRS Pension	\$	173,098	
Total Other Purposes			173,098
Total Restricted Net Position			\$ 5,690,784

NOTE 9 – INTERFUND TRANSFERS

The following is a summary of transfers between funds for the year ended December 31, 2022:

Transfer Out	Transfer In		
	General	Gateway BLVD Capital Project	Total Transfer Out
Tax 3rd Penny	\$ 8,904	\$ -	\$ 8,904
General	-	1,900,000	1,900,000
2003 N Half Brian	90,129	-	90,129
Total Transfer In	\$ 99,033	\$ 1,900,000	\$ 1,999,033

Transfers are used to:

- 1) Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
- 2) To use unrestricted revenues collected in the general fund to finance various programs account for in other funds in accordance with budgetary authorizations.

NOTE 10 – RISK MANAGEMENT

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

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled results 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 and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 10 – RISK MANAGEMENT (CONTINUED)

reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and 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 Members' 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 torts, thefts, errors and omissions, automobile, and general liability.

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 official's liability; \$2,000 deductible for law enforcement liability coverage; zero deductible for general liability; \$250 deductible for buildings, contents, miscellaneous property and EDP hardware; automobile liability with \$100 deductible for comprehensive and \$250 deductible for auto collision.

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 Workers Compensation 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 the behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and 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. 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 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 never exceeded the liability coverage.

Unemployment Benefits

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

NOTE 11 – 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 defined benefit pension plan administered by

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 – PENSION PLAN (CONTINUED)

SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions.

The SDRS provides retirement, disability, and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are 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://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, 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 that 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 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.

Members that 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 percent joint and survivor benefit, or a 100 percent 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 percent 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 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, 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.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 – PENSION PLAN (CONTINUED)

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 years ended 2022, 2021, and 2020, equal to required contributions each year, were as follows:

Year	Amount
2022	\$ 89,068
2021	\$ 73,520
2020	\$ 72,476

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2022, SDRS is 100.1% 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 net position restricted for pension benefits	\$ 7,719,814
Less: proportionate share Net Pension restricted for pension benefits	\$ 7,724,983
Proportionate share of net pension liability (asset)	\$ (5,169)

At December 31, 2022, the City reported an asset of \$5,169 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 and the total pension asset used to calculate the net pension 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 0.05468600%, which is an increase of 0.00085300% from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the City recognized a reduction in pension expense of \$43,978. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 – PENSION PLAN (CONTINUED)

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience	\$ 98,380	\$ 336
Changes in assumption	328,473	287,863
Net Difference between projected and actual earnings on pension plan investments	-	12,385
Changes in Proportion and difference between City contributions and proportionate share of contributions	13	6,705
City contributions subsequent to the measurement date	48,352	-
TOTAL	\$ 475,218	\$ 307,289

\$48,352 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ending December 31	
2023	\$ 29,288
2024	70,276
2025	(82,231)
2026	102,244
Total	\$ 119,577

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%

Mortality Rates

- 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:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 – PENSION PLAN (CONTINUED)

- 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 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%
Total	<u>100.0%</u>	

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 from 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 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 11 – PENSION PLAN (CONTINUED)

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 1,073,123	\$ (5,169)	\$ (886,417)

Pension Plan Fiduciary Net Position

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

NOTE 12 – JOINTLY GOVERNED ORGANIZATION

The City is a member of the Lewis and Clark Regional Water System Inc. (The "System"). The System, in conjunction with the following municipalities and water systems, provide drinking water to consumers.

South Dakota		Minnesota	Iowa
Beresford	Minnehaha CWC	Lincoln-Pipestone RWS	Hull
Centerville	Parker	Luverne	Rock Rapids
Harrisburg	Sioux Falls	Rock County RWS	Sheldon
Lennox	South Lincoln RWS	Worthington	Sibley
Lincoln County RWS	Tea		Sioux Center
Madison			

The System will collect, treat, and distribute drinking water to the entities involved upon completion. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City entered into an amended agreement with the System to provide 1.1 million gallons of drinking water per day to ensure that future water supply needs of the City can be met. In all, it is estimated that the City of Tea's share of the \$529.3 million (July 2007 dollars) System project is currently \$2.8 million, in July 2007 dollars. The City's investment to date of \$2.8 million is recorded in the Water Enterprise Fund as an intangible asset. The City's prepayment was financed by the issuance of Drinking Water Revenue Bonds, Series 2007. Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The actual commitment costs may be higher due to cost indexing, construction over-runs and decreases in federal funding. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated lifespan upon the receipt of benefits from the System.

NOTE 13 – PLEDGED REVENUES

The City has pledged future water and sewer customers' revenues, net of specified operating expenses, to repay \$4,439,792 in water system revenue bonds and \$8,065,180 in sewer system revenue bonds. Proceeds from the bonds provided financing for the construction of water and sewer system infrastructure.

The water bonds are payable solely from water customer net revenues and are payable through 2053. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,929,358. Principal and interest paid for the current year and total customer net revenue were \$276,382 and \$158,776, respectively.

The sewer bonds are payable solely from sewer customer and net revenues and are payable through 2054. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$10,807,317. Principal and interest paid

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 13 – PLEDGED REVENUES (CONTINUED)

for the current year and total customer net revenues were \$398,199 and \$1,049,579, respectively.

NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES

The purpose of the City's interfund balances is to help finance the short-term cash flow shortages of various funds. Short-term interfund receivable and payable balances as of December 31, 2022 were as follows:

<u>Fund Due To</u>	<u>Fund Due From</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Fund	\$ 18,500
General Fund	Nonmajor Governmental Fund	45,670
General Fund	Nonmajor Governmental Fund	265,418
General Fund	Nonmajor Governmental Fund	778
General Fund	Hagedorn Infrastructure Fund	1,492,172
General Fund	Water Fund	264,852
General Fund	Sewer Fund	389,593
Sewer	Water Fund	450,000
		<u>\$ 2,926,983</u>

NOTE 15 – DEFICIT FUND EQUITY

The City has four funds with deficit equity balance at December 31, 2022. The City intends to finance this deficit fund equity with transfers from the General Fund. The individual fund deficits were as follows:

Hagedorn Infrastructure Project	\$ 1,565,055
TIF #2	\$ 18,500
Street Maintenance Assessment.....	\$ 262,793
2003 N Half Brian/N. Main Assessments	\$ 778

NOTE 16 – CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling \$38,721,979 for street construction, a law enforcement center, and other various improvements. As of December 31, 2022, costs of \$29,928,637 had been incurred against the contracts. The balance of \$8,793,342 remaining at December 31, 2022 will be paid as work on the projects progresses.

NOTE 17 – VIOLATIONS OF FINANCE-RELATED LEGAL REQUIREMENTS

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents disbursements exceeding the amounts budgeted for the current fiscal year:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2022**

NOTE 17 – VIOLATIONS OF FINANCE-RELATED LEGAL REQUIREMENTS (CONTINUED)

General Fund		
General Government		
Executive	\$	3,662
Other	\$	37,817
Public Works		
Highways and Streets	\$	139,398
Culture and Recreation		
Libraries	\$	2,831
 Gateway Boulevard Capital Project Fund		
Capital Outlay		
Public Works	\$	195,429

We will continue to review monthly expenditures to budget reports and make supplemental appropriations as time is available at year end.

NOTE 18 – REVENUE COLLECTED IN ADVANCE

In November 2007, the City signed an escrow agreement with a local developer whereby the developer agreed to prepay their contribution to the project before work began. The project has not yet been initiated, so these funds remain in an interest-bearing escrow account. The agreement requires that any interest be used on future construction work, so as interest is collected, the City defers recognizing revenue until work begins on the project. Interest deferred in 2022 totaled \$8,842, bringing the balance of the escrow account to \$563,988 as of December 31, 2022.

NOTE 19 – ACCOUNTING CHANGE

The Governmental Accounting Standards Board Statement No. 87, Leases, was implemented during fiscal year 2022. The new requirements required the reporting of certain lease assets and liabilities which were previously not reported. The result of these changes had no effect on the beginning net position.

NOTE 20 – PROSPECTIVE ACCOUNTING CHANGE

The Governmental Accounting Standards Board has issued Statement No. 96, Subscription-Based Information Technology Arrangements. This statement will be implemented for the fiscal year ending December 31, 2023. The revised requirements of this statement will require reporting certain assets and liabilities for the right-to-use another party's information technology software alone or in combination with tangible capital assets that are not currently reported.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TEA, SOUTH DAKOTA
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
General Fund
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance
	Original	Final		Positive (Negative)
Revenues:				
Property Taxes	\$ 2,722,385	\$ 2,722,385	\$ 2,697,220	\$ (25,165)
Sales and Other Taxes	2,602,000	2,602,000	3,495,336	893,336
Licenses and Permits	113,600	113,600	226,695	113,095
Intergovernmental	256,600	256,600	502,980	246,380
Charges for Service	134,000	134,000	247,545	113,545
Fines and Forfeits	600	600	1,891	1,291
Interest on Investments	2,000	2,000	41,687	39,687
Contributions	5,000	5,000	5,000	-
Miscellaneous	25,400	25,400	117,402	92,002
Total Revenues	<u>5,861,585</u>	<u>5,861,585</u>	<u>7,335,756</u>	<u>1,474,171</u>
Expenditures:				
General Government:				
Legislative	136,900	84,900	38,163	46,737
Executive	135,950	150,950	154,612	(3,662)
Elections	950	950	22	928
Financial Administration	212,900	307,900	267,421	40,479
Other	101,800	186,800	224,617	(37,817)
Total General Government	<u>588,500</u>	<u>731,500</u>	<u>684,835</u>	<u>46,665</u>
Public Safety:				
Police Department	2,732,200	3,112,200	2,906,681	205,519
Fire Department	91,300	91,300	91,256	44
Total Public Safety	<u>2,823,500</u>	<u>3,203,500</u>	<u>2,997,937</u>	<u>205,563</u>
Public Works:				
Highways and Streets	453,750	878,750	1,018,148	(139,398)
Sanitation	1,000	1,000	-	1,000
Total Public Works	<u>454,750</u>	<u>879,750</u>	<u>1,018,148</u>	<u>(138,398)</u>

(continued)

CITY OF TEA, SOUTH DAKOTA
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
General Fund
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
Culture and Recreation:				
Recreation	2,007,000	2,007,000	349,356	1,657,644
Libraries	26,900	28,900	31,731	(2,831)
Total Culture and Recreation	<u>2,033,900</u>	<u>2,035,900</u>	<u>381,087</u>	<u>1,654,813</u>
Community Development:				
Economic Development and Assistance	423,750	423,750	383,501	40,249
Total Community and Development	<u>423,750</u>	<u>423,750</u>	<u>383,501</u>	<u>40,249</u>
Health and Welfare				
Health	10,000	10,000	4,653	5,347
Total Health and Welfare	<u>10,000</u>	<u>10,000</u>	<u>4,653</u>	<u>5,347</u>
Debt Service	<u>836,000</u>	<u>836,000</u>	<u>727,186</u>	<u>108,814</u>
Total Expenditures	<u>7,170,400</u>	<u>8,120,400</u>	<u>6,197,347</u>	<u>1,923,053</u>
Excess of Revenues over Expenditures	<u>(1,308,815)</u>	<u>(2,258,815)</u>	<u>1,138,409</u>	<u>3,397,224</u>
Other Financing Sources (Uses):				
Transfers In	-	-	99,033	99,033
Transfers Out	(290,000)	(290,000)	(1,900,000)	(1,610,000)
Total Other Financing Sources (Uses)	<u>(290,000)</u>	<u>(290,000)</u>	<u>(1,800,967)</u>	<u>(1,510,967)</u>
Excess (Deficiency) of Revenues over Expenditures and Other Uses	<u>(1,598,815)</u>	<u>(2,548,815)</u>	<u>(662,558)</u>	<u>1,886,257</u>
Fund Balance - Beginning of Year	<u>6,037,733</u>	<u>6,037,733</u>	<u>6,037,733</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 4,438,918</u>	<u>\$ 3,488,918</u>	<u>\$ 5,375,175</u>	<u>\$ 1,886,257</u>

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund with a Legal Required Budget

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget of the general fund, the special revenue funds, and the capital projects fund 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 5.0% of the total municipal budget and may be transferred by the 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. The procedure used by the City is to adopt a supplemental appropriation ordinance during the following year by the Council to provide additional funds for certain purchase commitments outstanding at year-end. Any transfers of budgeted amounts between departments of the General fund, transfers between other funds, and any revision that alter the total expenditure of any department or fund must be approved by the City Council. This is the legal level of control.
6. Formal budgetary integration is employed as a management control device during the year for the General, special revenue, capital project, and debt service funds.
7. Budgets for the General, capital projects, special revenue, and debt service funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

Encumbrances carry over from one year to the next unless canceled by the City. These encumbrances are charged against the new year's budget until a supplemental appropriation ordinance is adopted as described in number 5 above.

8. GAAP/Budgetary Accounting Basis Differences – The financial statements prepared in conformity with U.S. GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they are related.

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
South Dakota Retirement System
Last 9 Fiscal Years*

	2014	2015	2016	2017	2018
Municipality's proportion of the net pension liability (asset)	0.0395925%	0.0383046%	0.0370589%	-0.0393732%	-0.0439486%
Municipality's proportionate share of net pension liability (asset)	\$ (285,248)	\$ (162,461)	\$ 125,181	\$ (3,573)	\$ (1,025)
Municipality's covered payroll	\$ 640,197	\$ 612,533	\$ 617,389	\$ 703,311	\$ 799,389
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	44.56%	26.52%	20.28%	0.51%	0.13%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%	100.1%	100.0%
	2019	2020	2021	2022	
Municipality's proportion of the net pension liability (asset)	-0.0459198%	-0.0530210%	-0.0538330%	-0.0546860%	
Municipality's proportionate share of net pension liability (asset)	\$ (4,866)	\$ (2,303)	\$ (412,269)	\$ (5,169)	
Municipality's covered payroll	\$ 853,753	\$ 1,011,681	\$ 1,069,155	\$ 1,148,766	
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.57%	0.23%	38.56%	0.45%	
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.1%	100.0%	105.5%	100.1%	

Notes to the Schedule:

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset), which is June 30.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF THE CITY'S CONTRIBUTIONS
South Dakota Retirement System
Last 8 Years*

	2015	2016	2017	2018
Contractually required contribution	\$ 40,891	\$ 45,884	\$ 49,956	\$ 56,843
Contributions in relation to the contractually required contribution	40,891	45,884	49,956	56,843
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Municipality's covered payroll	\$ 598,571	\$ 672,541	\$ 737,117	\$ 830,642
Contributions as a percentage of covered payroll	6.83%	6.82%	6.78%	6.84%
	2019	2020	2021	2022
Contractually required contribution	\$ 63,866	\$ 72,476	\$ 73,520	\$ 89,068
Contributions in relation to the contractually required contribution	63,866	72,476	73,520	89,068
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Municipality's covered payroll	\$ 931,844	\$ 1,058,553	\$ 1,085,360	\$ 1,294,216
Contributions as a percentage of covered payroll	6.85%	6.85%	6.77%	6.88%

Notes to the Schedule:

* Due to an auditor change, the information is not available for fiscal years 2013 - 2014

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
for the Year Ended December 31, 2022
Schedule of the Proportionate Share of the Net pension Liability (Asset) and
Schedule of Pension Contributions

Changes from Prior Valuation:

The June 30, 2022 actuarial valuation reflects numerous changes in 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 legislation session, no significant SDRS benefit changes were made but 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%.

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

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
for the Year Ended December 31, 2022
Schedule of the Proportionate Share of the Net pension Liability (Asset) and
Schedule of Pension Contributions

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 the valuation after recommendation by Cavanaugh Macdonald Consulting as part of their review 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 accrual basis.

SUPPLEMENTARY INFORMATION

**CITY OF TEA, SOUTH DAKOTA
COMBINING BALANCE SHEET
Governmental Nonmajor Funds
December 31, 2022**

Special Revenue

	Tax 3rd Penny	Storm Drainage II	TIF #1	TIF #2	Street Maintenance Assessment
ASSETS					
Cash and Cash Equivalents	\$ 293,510	\$ 65,231	\$ 156,710	\$ -	\$ -
Receivables (Net where applicable, of allowance for uncollectibles):					
Taxes	-	-	-	-	-
Special Assessments	-	1,915	-	-	13,755
Due from Other Governmental Agencies	9,356	139,981	-	-	-
Restricted Assets:					
Cash and Cash Equivalents	-	-	-	-	-
Total Assets	302,866	207,127	156,710	-	13,755
LIABILITIES					
Accounts Payable	1	270	-	-	-
Due to Other Funds	-	-	-	18,500	265,418
Total Liabilities	1	270	-	18,500	265,418
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	1,616	-	-	11,130
Unavailable revenue - special assessments	-	-	-	-	-
Total Deferred Inflows of Resources	-	1,616	-	-	11,130
FUND BALANCES					
Restricted:					
Debt Service	-	-	-	-	-
Capital Improvement	302,865	205,241	156,710	-	-
Assigned:					
Capital Projects	-	-	-	-	-
Unassigned	-	-	-	(18,500)	(262,793)
Total Fund Balances (Deficits)	302,865	205,241	156,710	(18,500)	(262,793)
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	\$ 302,866	\$ 207,127	\$ 156,710	\$ -	\$ 13,755

Debt Service			Capital Project		
271st St. SA Bonds Debt Service	Aquatic Complex	Highway 111 Special Assessment Debt Service Fund	2003 N Half Brian/N. Main Assessments	272nd Extension Project	Total Governmental Nonmajor Funds
\$ 94,340	\$ 1,920	\$ 51,234	\$ -	\$ 184,029	\$ 846,974
-	231	-	-	-	231
1,073,205	-	175,098	-	-	1,263,973
-	-	-	-	-	149,337
86,081	91,500	256,063	-	-	433,644
1,253,626	93,651	482,395	-	184,029	2,694,159
-	-	-	-	-	271
-	45,670	-	778	-	330,366
-	45,670	-	778	-	330,637
-	227	-	-	-	12,973
1,073,206	-	175,098	-	-	1,248,304
1,073,206	227	175,098	-	-	1,261,277
180,420	47,754	307,297	-	-	535,471
-	-	-	-	-	664,816
-	-	-	-	184,029	184,029
-	-	-	(778)	-	(282,071)
180,420	47,754	307,297	(778)	184,029	1,102,245
\$ 1,253,626	\$ 93,651	\$ 482,395	\$ -	\$ 184,029	\$ 2,694,159

**CITY OF TEA, SOUTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
Governmental Nonmajor Funds
For the Year Ended December 31, 2022**

Special Revenue

	Tax 3rd Penny	Storm Drainage II	TIF #1	TIF #2	Street Maintenance Assessment
Revenue:					
Property Taxes	\$ -	\$ -	\$ 136,146	\$ -	\$ -
Sales and Other Taxes	139,512	-	-	-	-
Special Assessments	-	49,354	-	-	297,203
Intergovernmental	-	139,981	-	-	-
Interest on Investments	1,798	647	1,782	-	532
Total Revenue	<u>141,310</u>	<u>189,982</u>	<u>137,928</u>	<u>-</u>	<u>297,735</u>
Current Expenditures:					
Public Works	-	261,544	-	-	582,967
Capital Outlay:					
Public Works	-	-	-	-	-
Debt Service	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>261,544</u>	<u>-</u>	<u>-</u>	<u>582,967</u>
Excess (Deficiency) of Revenues over Expenditures	<u>141,310</u>	<u>(71,562)</u>	<u>137,928</u>	<u>-</u>	<u>(285,232)</u>
Other Financing (Uses):					
Transfers Out	(8,904)	-	-	-	-
Total Other Financing (Uses)	<u>(8,904)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	132,406	(71,562)	137,928	-	(285,232)
Fund Balances (Deficits) - Beginning of Year	<u>170,459</u>	<u>276,803</u>	<u>18,782</u>	<u>(18,500)</u>	<u>22,439</u>
Fund Balances (Deficits) - End of Year	<u>\$ 302,865</u>	<u>\$ 205,241</u>	<u>\$ 156,710</u>	<u>\$ (18,500)</u>	<u>\$ (262,793)</u>

Debt Service			Capital Project		
271st St. SA Bonds Debt Service	Aquatic Complex	Highway 111 Special Assessment Debt Service Fund	2003 N Half Brian/N. Main Assessments	272nd Extension Project	Total Governmental Nonmajor Funds
\$ -	\$ 539	\$ -	\$ -	\$ -	\$ 136,685
-	-	-	-	-	139,512
101,804	-	42,009	-	-	490,370
-	-	-	-	-	139,981
1,552	463	2,905	-	-	9,679
103,356	1,002	44,914	-	-	916,227
-	-	-	-	-	844,511
-	-	-	-	6,262	6,262
70,973	-	106,435	-	-	177,408
70,973	-	106,435	-	6,262	1,028,181
32,383	1,002	(61,521)	-	(6,262)	(111,954)
-	-	-	(90,129)	-	(99,033)
-	-	-	(90,129)	-	(99,033)
32,383	1,002	(61,521)	(90,129)	(6,262)	(210,987)
148,037	46,752	368,818	89,351	190,291	1,313,232
\$ 180,420	\$ 47,754	\$ 307,297	\$ (778)	\$ 184,029	\$ 1,102,245

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Tax 3rd Penny			TIF #1		
	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
Revenue:						
Taxes:						
General Sales & Use	\$ 85,000	\$ 139,512	\$ 54,512	\$ -	\$ -	\$ -
Property Tax	-	-	-	-	136,146	136,146
Intergovernmental	-	-	-	-	-	-
Charges for goods & services	50,000	-	(50,000)	-	-	-
Special Assessments	-	-	-	-	-	-
Miscellaneous	1,000	-	(1,000)	-	-	-
Interest on Investments	-	1,798	1,798	-	1,782	1,782
Total Revenue	<u>136,000</u>	<u>141,310</u>	<u>5,310</u>	<u>-</u>	<u>137,928</u>	<u>137,928</u>
Current Expenditures:						
Public works	-	-	-	-	-	-
Culture and Recreation	169,800	-	169,800	-	-	-
Total Expenditures	<u>169,800</u>	<u>-</u>	<u>169,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(33,800)</u>	<u>141,310</u>	<u>175,110</u>	<u>-</u>	<u>137,928</u>	<u>137,928</u>
Other Financing Sources (Uses):						
Transfers In	-	-	-	-	-	-
Transfers Out	-	(8,904)	(8,904)	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(8,904)</u>	<u>(8,904)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ (33,800)</u>	<u>132,406</u>	<u>\$ 166,206</u>	<u>\$ -</u>	<u>137,928</u>	<u>\$ 137,928</u>
Fund Balances (Deficits) - Beginning of Year		<u>170,459</u>			<u>18,782</u>	
Fund Balances (Deficits) - End of Year		<u>\$ 302,865</u>			<u>\$ 156,710</u>	

TIF #2			Storm Drainage II			Street Maintenance Assessment		
Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-	-
-	-	-	372,640	139,981	(232,659)	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	49,354	49,354	-	297,203	297,203
-	-	-	50,000	-	(50,000)	210,000	-	(210,000)
-	-	-	-	647	647	-	532	532
-	-	-	<u>422,640</u>	<u>189,982</u>	<u>(232,658)</u>	<u>210,000</u>	<u>297,735</u>	<u>87,735</u>
-	-	-	478,000	261,544	216,456	600,000	582,967	17,033
-	-	-	-	-	-	-	-	-
-	-	-	<u>478,000</u>	<u>261,544</u>	<u>216,456</u>	<u>600,000</u>	<u>582,967</u>	<u>17,033</u>
-	-	-	(55,360)	(71,562)	(16,202)	(390,000)	(285,232)	104,768
-	-	-	-	-	-	290,000	-	(290,000)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	<u>290,000</u>	-	<u>(290,000)</u>
<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ (55,360)</u>	<u>(71,562)</u>	<u>\$ (16,202)</u>	<u>\$ (100,000)</u>	<u>(285,232)</u>	<u>\$ (185,232)</u>
	<u>(18,500)</u>			<u>276,803</u>			<u>22,439</u>	
	<u>\$ (18,500)</u>			<u>\$ 205,241</u>			<u>\$ (262,793)</u>	

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Gateway BLVD Capital Project		
	Final Budgeted	Actual	Variance Favorable (Unfavorable)
Revenue:			
Intergovernmental	\$ 539,000	\$ 668,274	\$ 129,274
Total Revenue	539,000	668,274	129,274
Current Expenditures:			
Capital Outlay:			
Public Works	2,557,000	2,752,429	(195,429)
Total expenditures	2,557,000	2,752,429	(195,429)
(Deficiency) of Revenues over Expenditures	(2,018,000)	(2,084,155)	324,703
Other Financing Sources:			
Transfers In	-	1,900,000	1,900,000
Total Other Financing Sources	-	1,900,000	1,900,000
Net Change in Fund Balances	\$ (2,018,000)	(184,155)	\$ 2,224,703
Fund Balances (Deficits) - Beginning of Year		470,519	
Fund Balances (Deficits) - End of Year		\$ 286,364	

272nd Extension Project

Final Budgeted	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
205,000	6,262	198,738
205,000	6,262	198,738
(205,000)	(6,262)	198,738
-	-	-
-	-	-
<u>\$ (205,000)</u>	<u>(6,262)</u>	<u>\$ 198,738</u>
	<u>190,291</u>	
	<u>\$ 184,029</u>	

Hagedorn Infrastructure Project

Final Budgeted	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
3,500,000	1,410,017	2,089,983
3,500,000	1,410,017	2,089,983
(3,500,000)	(1,410,017)	2,089,983
3,500,000	-	(3,500,000)
3,500,000	-	(3,500,000)
<u>\$ -</u>	<u>(1,410,017)</u>	<u>\$ (1,410,017)</u>
	<u>(155,038)</u>	
	<u>\$ (1,565,055)</u>	

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	271st St. SA Bonds Debt Service			Aquatic Complex		
	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
Revenue:						
Taxes:						
Property Tax	\$ -	\$ -	\$ -	\$ -	\$ 539	\$ 539
Special Assessments	71,880	101,804	29,924	-	-	-
Interest on Investments	-	1,552	1,552	-	463	463
Total Revenue	<u>71,880</u>	<u>103,356</u>	<u>31,476</u>	<u>-</u>	<u>1,002</u>	<u>1,002</u>
Current Expenditures:						
Debt Service	71,880	70,973	907	-	-	-
Total Expenditures	<u>71,880</u>	<u>70,973</u>	<u>907</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues over Expenditures	-	32,383	30,569	-	1,002	1,002
Other Financing (Uses):						
Transfers Out	-	-	-	-	-	-
Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	<u>\$ -</u>	<u>32,383</u>	<u>\$ 30,569</u>	<u>\$ -</u>	<u>1,002</u>	<u>\$ 1,002</u>
Fund Balances - Beginning of Year		148,037			46,752	
Fund Balances (Deficits) - End of Year		<u>\$ 180,420</u>			<u>\$ 47,754</u>	

Highway 111 Special Assessment Debt Service

Fund			Variance Positive (Negative)
Final Budgeted	Actual		
\$ -	\$ -	\$ -	
38,000	42,009	4,009	
-	2,905	2,905	
<u>38,000</u>	<u>44,914</u>	<u>6,914</u>	
109,525	106,435	3,090	
<u>109,525</u>	<u>106,435</u>	<u>3,090</u>	
(71,525)	(61,521)	3,824	
-	-	-	
-	-	-	
<u>\$ (71,525)</u>	<u>(61,521)</u>	<u>\$ 3,824</u>	
	368,818		
	<u>\$ 307,297</u>		

2003 N Half Brian/N. Main Assessments

Final Budgeted	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -
-	-	-
-	-	-
<u>-</u>	<u>-</u>	<u>-</u>
-	-	-
-	-	-
-	-	-
-	(90,129)	(90,129)
-	(90,129)	(90,129)
<u>\$ -</u>	<u>(90,129)</u>	<u>\$ (90,129)</u>
	89,351	
	<u>\$ (778)</u>	

City of Tea
Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Assistance Listing Number	Agency or Pass-Through Number	Amount
United States Department of Transportation			
Direct Federal Funding:			
Build Transportation Discretionary Grant	20.933	N/A	\$ 680,183
United States Department of Treasury			
Direct Federal Funding:			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	1,090,682
Indirect Federal Funding:			
South Dakota Department of Agriculture and Natural Resources, COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	SLFRP5319	<u>4,958,491</u>
Total United States Department of Treasury			<u>6,049,173</u>
United States Department of Homeland Security			
Indirect Federal Funding:			
South Dakota Department of Public Safety, Office of Homeland Security, Hazard Mitigation Grant Program	97.039	DR-4469-HMGP	139,981
Homeland Security Grant Program	97.067	2021-SS-00006-S01	<u>14,055</u>
Total United States Department of Homeland Security			<u>154,036</u>
Total Expenditures of Federal Awards			<u>\$ 6,883,392</u>

City of Tea
Notes to Expenditures of Federal Awards
For the Year Ended December 31, 2022

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City of Tea under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with 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). Because the Schedule presents only a selected portion of the operations of the City of Tea, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City of Tea has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance

Note 3: Federal Loan Program

The City of Tea had the following loan balances outstanding from the South Dakota Clean Water State Revolving Fund, Assistance Listing #66.458 and the South Dakota Drinking Water State Revolving Fund, Assistance Listing #66.468 for the year ended December 31, 2022.

	Total Amount of Loan Outstanding	Federal Portion of Loan Outstanding
Clean Water Series 2020 (2.21%)	\$ 4,404,677	\$ 1,187,167
Clean Water Series 2021 (2.13%)	1,376,719	-
Drinking Water Series 2021 (2.13%)	770,956	-
Drinking Water Series 2021 (2.13%)	2,017,415	-
	\$ 8,569,767	\$ 1,187,167

INDEPENDENT AUDITORS' 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

To the City Council
City of Tea, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Tea, South Dakota, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise City of Tea, South Dakota's basic financial statements and have issued our report thereon dated January 16, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tea, South Dakota'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 City of Tea, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tea, South Dakota'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 a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2022-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tea, South Dakota'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 *Government Auditing Standards*.

City of Tea, South Dakota's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City of Tea, South Dakota's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. City of Tea, South Dakota's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company P.C.
Certified Public Accountants
Le Mars, Iowa
January 16, 2024



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the City Council
City of Tea, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited City of Tea, South Dakota's 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 City of Tea, South Dakota's major federal programs for the year ended December 31, 2022. City of Tea, South Dakota's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

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

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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; 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 Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of City of Tea, South Dakota 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 City of Tea, South Dakota'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 City of Tea, South Dakota's federal programs.

Auditors' 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 City of Tea, South Dakota'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 generally accepted auditing standards, *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 City of Tea, South Dakota's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *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 City of Tea, South Dakota'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 City of Tea, South Dakota'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 City of Tea, South Dakota'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 Auditors' 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. As required by South Dakota Codified Law 4-11-11, this report on compliance for each major federal program are matters of public record and their distribution is not limited.

Williams & Company, P.C.
Certified Public Accountants
Le Mars, Iowa
January 16, 2024

CITY OF TEA, SOUTH DAKOTA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

Part I: Summary of the Independent Auditors' Results

- (a) A modified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies or material weaknesses in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with the Uniform Guidance.
- (g) The major program was as follows:
 - 21.027 – COVID-19 Coronavirus State and Local Fiscal Recovery Funds
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- (i) The City of Tea did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements Reported in Accordance with Government Auditing Standards

Instances of Non-Compliance:

No matters were noted

Material Weakness:

2022-001 Financial Reporting

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the fund financial statements in order for the financial statements to conform with U.S. generally accepted accounting principles. Management is responsible for the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Effect – The financial statements provided by management are not presented entirely in accordance with U.S. generally accepted accounting principles.

Cause – With a limited number of personnel and current staff workload, the time constraints do not provide management absolute assurance all year end U.S. GAAP adjusting journal entries will be posted.

Recommendation – The City should implement procedures to ensure all required adjustments are properly made to the City's financial statements.

Response – We will double check the financial statements in the future and all supporting schedules to verify that all adjustments are made properly.

CITY OF TEA, SOUTH DAKOTA
Schedule of Findings and Questioned Costs
For the Year Ended December 31, 2022

Part III: Findings Related to Federal Awards – Related to all Federal Programs

Instances of Non-Compliance:

No matters were noted

Material Weaknesses:

No matters were noted



**CITY OF TEA, SOUTH DAKOTA
Schedule of Prior Year Findings
For the Year Ended December 31, 2022**

FINANCIAL STATEMENT AUDIT:

Instances of Non-Compliance:

No matters were noted

Material Weakness:

2021-001 Financial Reporting

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the fund financial statements in order for the financial statements to conform with U.S. generally accepted accounting principles. Management is responsible for the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Effect – The financial statements provided by management are not presented entirely in accordance with U.S. generally accepted accounting principles.

Cause – With a limited number of personnel and current staff workload, the time constraints do not provide management absolute assurance all year end U.S. GAAP adjusting journal entries will be posted.

Recommendation – The City should implement procedures to ensure all required adjustments are properly made to the City’s financial statements.

Current Status – We will double check the financial statements in the future and all supporting schedules to verify that all adjustments are made properly.

FEDERAL AWARD PROGRAMS AUDIT:

Instances of Non-Compliance:

No matters were noted

Material Weakness:

No matters were noted



**Schedule of Findings and Questioned Costs
Corrective Action Plan
December 31, 2022**

The City of Tea, South Dakota, respectfully submits the following corrective action plan for the year ended December 31, 2022.

The audit was performed by Williams & Company, P.C., P.O. Box 1010, Le Mars, Iowa, for the fiscal year ended December 31, 2022.

The finding from the December 31, 2022 Schedule of Findings and Questioned Costs is discussed below. The finding is numbered consistently with the number assigned in the schedule.

MATERIAL WEAKNESS:

2022-001 Financial Reporting

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the fund financial statements in order for the financial statements to conform with U.S. generally accepted accounting principles. Management is responsible for the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Effect – The financial statements provided by management are not presented entirely in accordance with U.S. generally accepted accounting principles.

Cause – With a limited number of personnel and current staff workload, the time constraints do not provide management absolute assurance all year end U.S. GAAP adjusting journal entries will be posted.

Recommendation – The City should implement procedures to ensure all required adjustments are properly made to the City's financial statements.

Response – We will double check the financial statements in the future and all supporting schedules to verify that all adjustments are made properly.

If the involved agencies have any questions regarding this plan, please call Dawn Murphy at 605-498-5193.

Sincerely yours,

CITY OF TEA, SOUTH DAKOTA

Dawn Murphy
Finance Officer