

**MUNICIPALITY OF ARMOUR
ARMOUR, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2021 TO DECEMBER 31, 2021
AND
FOR THE YEAR JANUARY 1, 2022 TO DECEMBER 31, 2022**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ARMOUR

MUNICIPAL OFFICIALS
DECEMBER 31, 2022

MAYOR:

Travis Sparks

GOVERNING BOARD:

Rodney Dally
Joel Meyer
Josh Spaans
Terry Weerheim
Darold Werkmeister
Tara Ziebart

FINANCE OFFICER:

Kari Bertram

ATTORNEY:

Fink Law Office

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board
Municipality of Armour
Armour, South Dakota

We have audited, 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, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund, of the Municipality of Armour, South Dakota (Municipality), as of December 31, 2022 and 2021, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated March 29, 2024.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings as item 2022-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 is required to be reported under *Government Auditing Standards*.

Municipality's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality's responses to the findings identified in our audit. The Municipality's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. The Municipality's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality'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.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
March 29, 2024

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Finding Number 2020-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2022-001.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Internal Control – Related Finding – Material Weakness:Finding Number 2022-001:Condition:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for the revenues. This is a continuing audit comment since 2000.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data. Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets through the separation of key accounting and physical control functions.

The AICPA states that, "Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable."

Cause of Condition:

The Finance Officer processes all revenue transactions from beginning to end. The finance officer also receives money, issues receipts, records receipts, posts receipts in the accounting records, prepares bank deposits, reconciles bank statements, and prepares financial statements. A lack of proper segregation of duties existed for the revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Potential Effect of Condition:

There is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Armour officials be cognizant of this lack of segregation of duties for revenues and attempt to develop policies and provide compensating internal controls whenever, and wherever, possible and practical. In addition, we recommend that all necessary accounting records be established and properly maintained to provide some compensation for lack of proper segregation of duties.

Client Response:

The Municipality of Armour Mayor, Travis Sparks, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Armour which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the municipal officials during the course of the audit and with the Finance Officer at the conclusion of the audit.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Armour
Armour, South Dakota

Report on the Audit of the Financial Statements***Opinions***

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Armour, South Dakota, (Municipality) as of December 31, 2022 and December 31, 2021, and for each year in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the table of contents.

In our opinion, the accompanying modified cash basis of accounting financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Municipality of Armour as of December 31, 2022, and December 31, 2021, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note 1.c. of the financial statements, which describes the basis of accounting, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation,

and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, 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 Municipality'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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality'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 Municipality's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net

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Pension Liability (Asset), the Schedule of the Municipal Contributions, and the Schedule of Long-Term Debt 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 Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), the Schedule of the Municipal Contributions, and the Schedule of Long-Term Debt are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

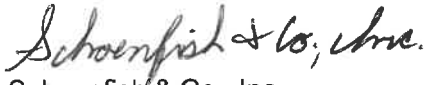
Other Information

Management is responsible for the other information included in the annual report. The other information comprises the List of Municipal Officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 29, 2024 on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Municipality's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Municipality's internal control over financial reporting and compliance.


Schoenfish & Co., Inc.
Certified Public Accountants
March 29, 2024

Schoenfish & Co., Inc.

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MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2022

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	839,056.82	448,800.12	1,287,856.94
Investments	239,749.69		239,749.69
TOTAL ASSETS	1,078,806.51	448,800.12	1,527,606.63
NET POSITION:			
Restricted for:			
Debt Service Purposes		91,440.00	91,440.00
Other Purposes	93,727.14		93,727.14
Unrestricted	985,079.37	357,360.12	1,342,439.49
TOTAL NET POSITION	1,078,806.51	448,800.12	1,527,606.63

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2022

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	130,969.26	4,885.00	70,335.42		(55,748.84)		(55,748.84)
Public Safety	97,469.33				(97,469.33)		(97,469.33)
Public Works	533,902.70	6,705.00	41,031.37	409.96	(485,756.37)		(485,756.37)
Health and Welfare	5,604.03				(5,604.03)		(5,604.03)
Culture and Recreation	110,192.90	13,243.51			(96,949.39)		(96,949.39)
Conservation and Development	6,938.00				(6,938.00)		(6,938.00)
Debt Service	24,844.87				(24,844.87)		(24,844.87)
Total Governmental Activities	909,921.09	24,833.51	111,366.79	409.96	(773,310.83)		(773,310.83)
Business-type Activities:							
Water	253,890.76	238,632.49				(15,258.27)	(15,258.27)
Sewer	137,854.09	155,513.15	21,000.00			38,659.06	38,659.06
Total Business-Type Activities	391,744.85	394,145.64	21,000.00	0.00		23,400.79	23,400.79
Total Primary Government	1,301,665.94	418,979.15	132,366.79	409.96	(773,310.83)	23,400.79	(749,910.04)
General Revenues:							
Taxes:							
Property Taxes					277,813.62		277,813.62
Sales Taxes					310,240.96		310,240.96
State Shared Revenues					6,704.51		6,704.51
Grants and Contributions not Restricted to Specific Programs					160.00		160.00
Unrestricted Investment Earnings					3,771.91		3,771.91
Miscellaneous Revenue					15,997.39		15,997.39
Total General Revenues					614,688.39	0.00	614,688.39
Change in Net Position					(158,622.44)	23,400.79	(135,221.65)
Net Position - Beginning					1,237,428.95	425,399.33	1,662,828.28
NET POSITION - ENDING					1,078,806.51	448,800.12	1,527,606.63

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF ARMOUR
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2022**

	General Fund
ASSETS:	
Cash and Cash Equivalents	839,056.82
Investments	239,749.69
TOTAL ASSETS	1,078,806.51
 FUND BALANCES:	
Restricted for Library	93,727.14
Assigned for Next Year's Budget	15,766.85
Assigned for Capital Outlay	24,844.87
Unassigned	944,467.65
TOTAL FUND BALANCES	1,078,806.51

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2022

	General Fund
Revenues:	
Taxes:	
General Property Taxes	275,984.18
General Sales and Use Taxes	310,240.96
Penalties and Interest on Delinquent Taxes	1,829.44
Total Taxes	588,054.58
Licenses and Permits	4,885.00
Intergovernmental Revenue:	
Federal Grants	61,168.42
State Grants	9,167.00
State Shared Revenue:	
Bank Franchise Tax	1,813.46
Prorate License Fees	3,550.68
Liquor Tax Reversion	4,891.05
Motor Vehicle Licenses	17,423.02
Local Government Highway and Bridge Fund	17,839.96
County Shared Revenue:	
County Wheel Tax	2,217.71
Total Intergovernmental Revenue	118,071.30
Charges for Goods and Services:	
Highways and Streets	2,275.00
Sanitation	4,430.00
Culture and Recreation	13,243.51
Total Charges for Goods and Services	19,948.51
Miscellaneous Revenue:	
Investment Earnings	3,771.91
Special Assessments	409.96
Contributions and Donations from Private Sources	160.00
Other	15,997.39
Total Miscellaneous Revenue	20,339.26
Total Revenue	751,298.65

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2022

	General Fund
Expenditures:	
General Government:	
Legislative	9,641.68
Elections	41.14
Financial Administration	81,870.52
Other	39,415.92
Total General Government	130,969.26
Public Safety:	
Police	59,280.00
Fire	36,473.89
Protective Inspection	1,715.44
Total Public Safety	97,469.33
Public Works:	
Highways and Streets	525,684.10
Sanitation	8,218.60
Total Public Works	533,902.70
Health and Welfare:	
Health	5,604.03
Total Health and Welfare	5,604.03
Culture and Recreation:	
Parks	86,336.01
Libraries	23,856.89
Total Culture and Recreation	110,192.90
Conservation and Development:	
Economic Development and Assistance	6,938.00
Total Conservation and Development	6,938.00
Debt Service	24,844.87
Total Expenditures	909,921.09
Net Change in Fund Balance	(158,622.44)
Fund Balance - Beginning	1,237,428.95
FUND BALANCE - ENDING	1,078,806.51

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2022

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	214,785.12	234,015.00	448,800.12
Total Current Assets	214,785.12	234,015.00	448,800.12
TOTAL ASSETS	214,785.12	234,015.00	448,800.12
NET POSITION:			
Restricted for:			
Revenue Bond Debt Service	39,228.00	52,212.00	91,440.00
Unrestricted	175,557.12	181,803.00	357,360.12
TOTAL NET POSITION	214,785.12	234,015.00	448,800.12

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2022

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	238,632.49	155,513.15	394,145.64
Total Operating Revenue	238,632.49	155,513.15	394,145.64
Operating Expenses:			
Personal Services	16,681.90	16,682.42	33,364.32
Other Current Expense	59,455.57	66,984.27	126,439.84
Materials	84,355.20		84,355.20
Total Operating Expenses	160,492.67	83,666.69	244,159.36
Operating Income (Loss)	78,139.82	71,846.46	149,986.28
Nonoperating Revenue (Expense):			
Operating Grants		21,000.00	21,000.00
Capital Assets	(54,170.09)	(1,975.40)	(56,145.49)
Debt Service (Principal)	(12,622.45)	(21,295.47)	(33,917.92)
Debt Service (Interest)	(26,605.55)	(30,916.53)	(57,522.08)
Total Nonoperating Revenue (Expense)	(93,398.09)	(33,187.40)	(126,585.49)
Change in Net Position	(15,258.27)	38,659.06	23,400.79
Net Position - Beginning	230,043.39	195,355.94	425,399.33
NET POSITION - ENDING	214,785.12	234,015.00	448,800.12

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2021

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS:			
Cash and Cash Equivalents	1,000,741.71	425,399.33	1,426,141.04
Investments	236,687.24		236,687.24
TOTAL ASSETS	1,237,428.95	425,399.33	1,662,828.28
NET POSITION:			
Restricted for:			
Debt Service Purposes		91,440.00	91,440.00
Library Purposes	91,475.05		91,475.05
Unrestricted	1,145,953.90	333,959.33	1,479,913.23
TOTAL NET POSITION	1,237,428.95	425,399.33	1,662,828.28

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government		Total
						Business-Type Activities		
Primary Government:								
Governmental Activities:								
General Government	116,829.23	7,669.00	107,498.24		(1,661.99)			(1,661.99)
Public Safety	97,532.49	56.88			(97,475.61)			(97,475.61)
Public Works	223,514.98	3,883.00	47,570.69	223.78	(171,837.51)			(171,837.51)
Health and Welfare	3,165.00				(3,165.00)			(3,165.00)
Culture and Recreation	112,426.04	12,849.36			(99,576.68)			(99,576.68)
Conservation and Development	6,660.40				(6,660.40)			(6,660.40)
Debt Service	24,844.87				(24,844.87)			(24,844.87)
Total Governmental Activities	584,973.01	24,458.24	155,068.93	223.78	(405,222.06)			(405,222.06)
Business-type Activities:								
Water	219,418.17	234,433.85	20,000.00			35,015.68		35,015.68
Sewer	115,236.97	136,809.86				21,572.89		21,572.89
Total Business-Type Activities	334,655.14	371,243.71	20,000.00	0.00		56,588.57		56,588.57
Total Primary Government	919,628.15	395,701.95	175,068.93	223.78	(405,222.06)	56,588.57		(348,633.49)
General Revenues:								
Taxes:								
Property Taxes					263,393.47			263,393.47
Sales Taxes					315,256.86			315,256.86
State Shared Revenues					6,872.33			6,872.33
Grants and Contributions not Restricted to Specific Programs					1,100.00			1,100.00
Unrestricted Investment Earnings					3,349.38			3,349.38
Miscellaneous Revenue					6,657.06			6,657.06
Total General Revenues					596,629.10	0.00		596,629.10
Change in Net Position					191,407.04	56,588.57		247,995.61
Net Position - Beginning					1,046,021.91	368,810.76		1,414,832.67
NET POSITION - ENDING					1,237,428.95	425,399.33		1,662,828.28

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF ARMOUR
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2021**

	General Fund
ASSETS:	
Cash and Cash Equivalents	1,000,741.71
Investments	236,687.24
TOTAL ASSETS	1,237,428.95
 FUND BALANCES:	
Restricted for Library	91,475.05
Assigned for Next Year's Budget	516,319.15
Assigned for Park Trees	3,000.00
Assigned for Capital Outlay	24,844.87
Unassigned	601,789.88
TOTAL FUND BALANCES	1,237,428.95

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	General Fund
Revenues:	
Taxes:	
General Property Taxes	262,787.30
General Sales and Use Taxes	315,256.86
Penalties and Interest on Delinquent Taxes	606.17
Total Taxes	578,650.33
Licenses and Permits	5,195.00
Intergovernmental Revenue:	
Federal Grants	100,191.24
State Grants	7,307.00
State Shared Revenue:	
Bank Franchise Tax	1,752.36
Prorate License Fees	3,394.53
Liquor Tax Reversion	5,119.97
Motor Vehicle Licenses	17,265.62
Local Government Highway and Bridge Fund	17,698.14
County Shared Revenue:	
County Road Tax	1,596.00
County Road and Bridge Tax	5,431.46
County Wheel Tax	2,184.94
Total Intergovernmental Revenue	161,941.26
Charges for Goods and Services:	
General Government	2,474.00
Sanitation	3,883.00
Culture and Recreation	12,849.36
Total Charges for Goods and Services	19,206.36
Fines and Forfeits:	
Court Fines and Costs	56.88
Total Fines and Forfeits	56.88
Miscellaneous Revenue:	
Investment Earnings	3,349.38
Special Assessments	223.78
Contributions and Donations from Private Sources	1,100.00
Other	6,657.06
Total Miscellaneous Revenue	11,330.22
Total Revenue	776,380.05

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2021

	General Fund
Expenditures:	
General Government:	
Legislative	10,129.95
Elections	29.25
Financial Administration	89,384.67
Other	17,285.36
Total General Government	116,829.23
Public Safety:	
Police	59,280.00
Fire	32,676.23
Protective Inspection	5,576.26
Total Public Safety	97,532.49
Public Works:	
Highways and Streets	212,199.02
Sanitation	11,315.96
Total Public Works	223,514.98
Health and Welfare:	
Health	3,165.00
Total Health and Welfare	3,165.00
Culture and Recreation:	
Parks	82,413.01
Libraries	30,013.03
Total Culture and Recreation	112,426.04
Conservation and Development:	
Economic Development and Assistance	6,660.40
Total Conservation and Development	6,660.40
Debt Service	24,844.87
Total Expenditures	584,973.01
Net Change in Fund Balance	191,407.04
Fund Balance - Beginning	1,046,021.91
FUND BALANCE - ENDING	1,237,428.95

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2021

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	230,043.39	195,355.94	425,399.33
Total Current Assets	230,043.39	195,355.94	425,399.33
TOTAL ASSETS	230,043.39	195,355.94	425,399.33
NET POSITION:			
Restricted for:			
Revenue Bond Debt Service	39,228.00	52,212.00	91,440.00
Unrestricted	190,815.39	143,143.94	333,959.33
TOTAL NET POSITION	230,043.39	195,355.94	425,399.33

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF ARMOUR
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED
PROPRIETARY FUNDS
For the Year Ended December 31, 2021

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	234,433.85	136,809.86	371,243.71
Total Operating Revenue	234,433.85	136,809.86	371,243.71
Operating Expenses:			
Personal Services	26,760.92	26,761.62	53,522.54
Other Current Expense	46,546.61	16,708.71	63,255.32
Materials	84,627.50		84,627.50
Total Operating Expenses	157,935.03	43,470.33	201,405.36
Operating Income (Loss)	76,498.82	93,339.53	169,838.35
Nonoperating Revenue (Expense):			
Operating Grants	20,000.00	0.00	20,000.00
Capital Assets	(22,255.14)	(19,554.64)	(41,809.78)
Debt Service (Principal)	(12,060.78)	(20,615.40)	(32,676.18)
Debt Service (Interest)	(27,167.22)	(31,596.60)	(58,763.82)
Total Nonoperating Revenue (Expense)	(41,483.14)	(71,766.64)	(113,249.78)
Change in Net Position	35,015.68	21,572.89	56,588.57
Net Position - Beginning	195,027.71	173,783.05	368,810.76
NET POSITION - ENDING	230,043.39	195,355.94	425,399.33

The notes to the financial statements are an integral part of this statement.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Municipality of Armour (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, 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.

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 and discretely presented component units. 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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or 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, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

The funds of the Municipality financial reporting entity are described below:

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

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

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

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

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

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.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. Long-Term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category. Under the modified cash basis of accounting, all long-term liabilities arising from cash transactions to be repaid from governmental and business-type resources are not reported as liabilities in the respective columns on the government-wide financial statements.

Long-term liabilities arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term liabilities of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

f. Revenue Received in Advance:

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

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality'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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's 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, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

i. Cash and Cash Equivalents:

The Municipality 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.

j. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in two components.

1. Restricted net position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net position – All other net assets/net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

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

k. Application of Net Position:

It is the Municipality's policy to first use restricted net assets/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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

I. 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 Municipality 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 or contractual constraints.
- 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. Fund Balance may be assigned by the Finance Officer.
- 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 Municipality uses restricted/committed 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 Municipality would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality 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 Municipality'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 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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2022 and 2021, the Municipality did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the Municipality will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

Interest Rate Risk – The Municipality 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.

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 Municipality's policy is to credit all income from deposits and investments to the fund making the investment.

3. PROPERTY TAXES

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable property in the Municipality.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

4. RESTRICTED NET POSITION

Restricted net position for the two years ended December 31, 2021 and 2022 was as follows:

Major Purposes:	<u>12/31/2021</u>	<u>12/31/2022</u>
Library Purposes	91,475.05	93,727.14
Debt Services Purposes:		
Water Fund	39,228.00	39,228.00
Sewer Fund	<u>52,212.00</u>	<u>52,212.00</u>
Total Restricted Net Position	<u>182,915.05</u>	<u>185,167.14</u>

These balances are restricted due to federal grant and statutory requirements.

5. PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions 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.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund 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 benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2022, 2021, and 2020, were \$4,794.63, \$6,454.68, and \$6,090.91, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

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

Proportionate share of net position restricted for pension benefits	\$ 550,265.81
Less proportionate share of total pension liability	<u>\$ 550,634.20</u>
Proportionate share of net pension liability (asset)	<u>\$ (368.39)</u>

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The net pension liability (asset) was measured as of June 30, 2022 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the Municipality's proportion was 0.00389800%, which is an increase (decrease) of (0.0006470%) from its proportion measured as of June 30, 2021.

At June 30, 2021, SDRS is 105.53% funded and accordingly has net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2021 and reported by the Municipality as of December 31, 2021 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 630,226.53
Less proportionate share of total pension liability	<u>\$ 665,033.45</u>
Proportionate share of net pension liability (asset)	<u>\$ (34,806.92)</u>

The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the Municipality's proportion was 0.00454500%, which is an increase (decrease) of (0.0000773%) from its proportion measured as of June 30, 2020.

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 percent
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%

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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:

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.

The total pension liability (asset) in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates 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:

Table with 3 columns: Asset Class, Target Allocation, Long-Term Expected Real Rate of Return. Rows include Global Equity, Fixed Income, Real Estate, Cash, and Total.

Best estimates of real rates for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Table with 3 columns: Asset Class, Target Allocation, Long-Term Expected Real Rate of Return. Rows include Global Equity, Fixed Income, Real Estate, Cash, and Total.

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50 percent. 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 change in the discount rate:

The following presents the Municipality's proportionate share of net pension liability (asset) at December 31, 2022, calculated using the discount rate of 6.50%, as well as what the Municipality'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:

Table with 4 columns: Description, 1% Decrease, Current Discount Rate, 1% Increase. Row: County's/Municipality's proportionate share Of the net pension liability (asset).

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

The following presents the Municipality's proportionate share of net pension liability (asset) at December 31, 2021, calculated using the discount rate of 6.50%, as well as what the Municipality'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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
County's/Municipality's proportionate share Of the net pension liability (asset)	\$ 56,361.07	\$ (34,806.92)	\$ (108,814.10)

6. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2022, the Municipality was not involved in any significant litigation.

7. RISK MANAGEMENT

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

Employee Health Insurance:

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

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

Unemployment Benefits:

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

8. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through March 29, 2024, the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	272,911.98	272,911.98	275,984.18	3,072.20
General Sales and Use Taxes	260,000.00	260,000.00	310,240.96	50,240.96
Amusement Taxes	70.00	70.00	0.00	(70.00)
Penalties & Interest on Delinquent Taxes	500.00	500.00	1,829.44	1,329.44
Total Taxes	533,481.98	533,481.98	588,054.58	54,572.60
Licenses and Permits	4,000.00	4,000.00	4,885.00	885.00
Intergovernmental Revenue:				
Federal Grants	0.00	61,168.42	61,168.42	0.00
State Grants	0.00	9,167.00	9,167.00	0.00
State Shared Revenue:				
Bank Franchise Tax	1,500.00	1,500.00	1,813.46	313.46
Motor Vehicle Commercial Prorate	2,000.00	2,000.00	3,550.68	1,550.68
Liquor Tax Reversion	4,500.00	4,500.00	4,891.05	391.05
Motor Vehicle Licenses	16,000.00	16,000.00	17,423.02	1,423.02
Local Government Highway and Bridge Fund	16,000.00	16,000.00	17,839.96	1,839.96
County Shared Revenue:				
County Highway and Bridge Reserve Tax	4,700.00	4,700.00	0.00	(4,700.00)
County Wheel Tax	2,100.00	2,100.00	2,217.71	117.71
Total Intergovernmental Revenue	46,800.00	117,135.42	118,071.30	935.88
Charges for Goods and Services:				
Highways and Streets	2,000.00	2,000.00	2,275.00	275.00
Sanitation	3,000.00	3,000.00	4,430.00	1,430.00
Culture and Recreation	11,300.00	11,300.00	13,243.51	1,943.51
Total Charges for Goods & Services	16,300.00	16,300.00	19,948.51	3,648.51
Miscellaneous Revenue:				
Investment Earnings	3,000.00	3,000.00	3,771.91	771.91
Special Assessments	2,354.87	2,354.87	409.96	(1,944.91)
Contributions and Donations from Private Sources	0.00	0.00	160.00	160.00
Other	5,500.00	5,500.00	15,997.39	10,497.39
Total Miscellaneous Revenue	10,854.87	10,854.87	20,339.26	9,484.39
Total Revenue	611,436.85	681,772.27	751,298.65	69,526.38

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	12,792.00	12,792.00	9,641.68	3,150.32
Contingency	25,000.00	25,000.00		
Amount Transferred		(24,497.89)		502.11
Elections	850.00	850.00	41.14	808.86
Financial Administration	88,515.00	88,822.84	81,870.52	6,952.32
Other	19,800.00	41,382.56	39,415.92	1,966.64
Total General Government	146,957.00	144,349.51	130,969.26	13,380.25
Public Safety:				
Police	59,280.00	59,280.00	59,280.00	0.00
Fire	35,000.00	36,473.89	36,473.89	0.00
Protective Inspection	7,300.00	7,300.00	1,715.44	5,584.56
Total Public Safety	101,580.00	103,053.89	97,469.33	5,584.56
Public Works:				
Highways and Streets	715,718.00	715,718.00	525,684.10	190,033.90
Sanitation	7,085.00	8,218.60	8,218.60	0.00
Total Public Works	722,803.00	723,936.60	533,902.70	190,033.90
Health and Welfare:				
Health	4,125.00	6,892.00	5,604.03	1,287.97
Total Health and Welfare	4,125.00	6,892.00	5,604.03	1,287.97
Culture and Recreation:				
Parks	89,185.00	90,585.00	86,336.01	4,248.99
Libraries	28,606.00	28,606.00	23,856.89	4,749.11
Total Culture and Recreation	117,791.00	119,191.00	110,192.90	8,998.10
Conservation and Development:				
Economic Development and Assistance	2,500.00	7,500.00	6,938.00	562.00
Total Conservation and Development	2,500.00	7,500.00	6,938.00	562.00
Debt Service	32,000.00	32,000.00	24,844.87	7,155.13
Total Expenditures	1,127,756.00	1,136,923.00	909,921.09	227,001.91
Net Change in Fund Balances	(516,319.15)	(455,150.73)	(158,622.44)	296,528.29
Fund Balance - Beginning	1,237,428.95	1,237,428.95	1,237,428.95	0.00
FUND BALANCE - ENDING	721,109.80	782,278.22	1,078,806.51	296,528.29

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	265,863.93	265,863.93	262,787.30	(3,076.63)
General Sales and Use Taxes	255,000.00	255,000.00	315,256.86	60,256.86
Amusement Taxes	70.00	70.00	0.00	(70.00)
Penalties & Interest on Delinquent Taxes	500.00	500.00	606.17	106.17
Total Taxes	521,433.93	521,433.93	578,650.33	57,216.40
Licenses and Permits	4,000.00	4,000.00	5,195.00	1,195.00
Intergovernmental Revenue:				
Federal Grants	0.00	100,191.24	100,191.24	0.00
State Grants	0.00	8,307.00	7,307.00	(1,000.00)
State Shared Revenue:				
Bank Franchise Tax	1,000.00	1,000.00	1,752.36	752.36
Motor Vehicle Commercial Prorate	2,000.00	2,000.00	3,394.53	1,394.53
Liquor Tax Reversion	4,000.00	4,000.00	5,119.97	1,119.97
Motor Vehicle Licenses	16,000.00	16,000.00	17,265.62	1,265.62
Local Government Highway and Bridge Fund	16,000.00	16,000.00	17,698.14	1,698.14
County Shared Revenue:				
County Road Tax	0.00	0.00	1,596.00	1,596.00
County Road and Bridge Tax	4,700.00	4,700.00	5,431.46	731.46
County Wheel Tax	2,100.00	2,100.00	2,184.94	84.94
Total Intergovernmental Revenue	45,800.00	154,298.24	161,941.26	7,643.02
Charges for Goods and Services:				
General Government	2,000.00	2,000.00	2,474.00	474.00
Sanitation	2,000.00	2,000.00	3,883.00	1,883.00
Culture and Recreation	7,750.00	7,750.00	12,849.36	5,099.36
Total Charges for Goods & Services	11,750.00	11,750.00	19,206.36	7,456.36
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	56.88	56.88
Total Fines and Forfeits	0.00	0.00	56.88	56.88
Miscellaneous Revenue:				
Investment Earnings	3,000.00	3,000.00	3,349.38	349.38
Special Assessments	2,354.87	2,354.87	223.78	(2,131.09)
Contributions and Donations from Private Sources	0.00	100.00	1,100.00	1,000.00
Other	5,500.00	5,500.00	6,657.06	1,157.06
Total Miscellaneous Revenue	10,854.87	10,954.87	11,330.22	375.35
Total Revenue	593,838.80	702,437.04	776,380.05	73,943.01

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF ARMOUR
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures:				
General Government:				
Legislative	12,792.00	12,792.00	10,129.95	2,662.05
Contingency	25,000.00	25,000.00		
Amount Transferred		(14,792.99)		10,207.01
Elections	850.00	850.00	29.25	820.75
Financial Administration	84,005.00	92,292.00	89,384.67	2,907.33
Other	17,750.00	17,750.00	17,285.36	464.64
Total General Government	<u>140,397.00</u>	<u>133,891.01</u>	<u>116,829.23</u>	<u>17,061.78</u>
Public Safety:				
Police	59,280.00	59,280.00	59,280.00	0.00
Fire	32,800.00	32,800.00	32,676.23	123.77
Protective Inspection	7,300.00	7,300.00	5,576.26	1,723.74
Total Public Safety	<u>99,380.00</u>	<u>99,380.00</u>	<u>97,532.49</u>	<u>1,847.51</u>
Public Works:				
Highways and Streets	213,814.00	213,814.00	212,199.02	1,614.98
Sanitation	6,085.00	11,315.96	11,315.96	0.00
Total Public Works	<u>219,899.00</u>	<u>225,129.96</u>	<u>223,514.98</u>	<u>1,614.98</u>
Health and Welfare:				
Health	4,125.00	6,432.00	3,165.00	3,267.00
Total Health and Welfare	<u>4,125.00</u>	<u>6,432.00</u>	<u>3,165.00</u>	<u>3,267.00</u>
Culture and Recreation:				
Parks	88,974.00	88,974.00	82,413.01	6,560.99
Libraries	27,638.00	30,013.03	30,013.03	0.00
Total Culture and Recreation	<u>116,612.00</u>	<u>118,987.03</u>	<u>112,426.04</u>	<u>6,560.99</u>
Conservation and Development:				
Economic Development and Assistance	2,500.00	7,500.00	6,660.40	839.60
Total Conservation and Development	<u>2,500.00</u>	<u>7,500.00</u>	<u>6,660.40</u>	<u>839.60</u>
Debt Service	<u>32,000.00</u>	<u>32,000.00</u>	<u>24,844.87</u>	<u>7,155.13</u>
Total Expenditures	<u>614,913.00</u>	<u>623,320.00</u>	<u>584,973.01</u>	<u>38,346.99</u>
Net Change in Fund Balances	<u>(21,074.20)</u>	<u>79,117.04</u>	<u>191,407.04</u>	<u>112,290.00</u>
Fund Balance - Beginning	1,046,021.91	1,046,021.91	1,046,021.91	0.00
FUND BALANCE - ENDING	<u>1,024,947.71</u>	<u>1,125,138.95</u>	<u>1,237,428.95</u>	<u>112,290.00</u>

NOTES TO THE SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed 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 Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund.

The Municipality did not encumber any amounts at December 31, 2022 or 2021.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

Last Eight Years *

	<u>Municipality's proportion of the net pension liability/asset</u>	<u>Municipality's proportionate share of net pension liability (asset)</u>	<u>Municipality's covered-employee payroll</u>	<u>Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability (asset)</u>
2022	0.0038980%	(368)	93,078	0.40%	100.10%
2021	0.0045450%	(34,807)	103,146	33.75%	105.52%
2020	0.0046223%	(201)	101,446	0.20%	100.04%
2019	0.0036118%	(383)	76,793	0.50%	100.09%
2018	0.0033872%	(79)	70,419	0.11%	100.02%
2017	0.0024174%	(219)	49,175	0.45%	100.10%
2016	0.0026516%	8,957	50,421	17.76%	96.89%
2015	0.0040222%	(17,059)	73,440	23.23%	104.10%

* The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30. Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PENSION CONTRIBUTIONS

South Dakota Retirement System

Last Eight Years *

	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Municipality's covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2022	4,795	4,795	\$ -	79,911	6.00%
2021	6,455	6,455	\$ -	107,578	6.00%
2020	6,091	6,091	\$ -	101,515	6.00%
2019	5,305	5,305	\$ -	88,418	6.00%
2018	4,515	4,515	\$ -	75,257	6.00%
2017	3,389	3,389	\$ -	56,475	6.00%
2016	2,959	2,959	\$ -	49,388	5.99%
2015	3,239	3,239	\$ -	53,983	6.00%

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

**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 no changes in actuarial methods from the June 30, 2021 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

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

Actuarial Assumption Changes

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

This changes to economic assumptions including 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 of 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 spouse 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%

**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.
(Continued)

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

Actuarial Method Changes

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

SUPPLEMENTARY INFORMATION
(Continued)

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

Annual Requirements to Maturity for Long-Term Debt
December 31, 2022

Year Ending December 31,	Note Payable - Butler Machinery Co.		Water Utility Revenue Bonds - Series 2004		Water Utility Revenue Bonds - Series 2008	
	Principal	Interest	Principal	Interest	Principal	Interest
2023	24,051.19	793.68	3,407.40	4,992.60	9,805.05	21,022.95
2024			3,559.50	4,840.50	10,268.25	20,559.75
2025			3,718.40	4,681.60	10,753.36	20,074.64
2026			3,884.37	4,515.63	11,261.39	19,566.61
2027			4,057.77	4,342.23	11,793.41	19,034.59
2028-2032			23,172.97	18,827.03	67,869.91	86,270.09
2033-2037			28,827.77	13,172.23	85,489.89	68,650.11
2038-2042			35,862.48	6,137.52	107,684.30	46,455.70
2043-2047			9,210.20	589.80	135,640.67	18,499.33
2048-2052					8,476.08	1,799.92
Totals	<u>24,051.19</u>	<u>793.68</u>	<u>115,700.86</u>	<u>62,099.14</u>	<u>459,042.31</u>	<u>321,933.69</u>

Year Ending December 31,	Sewer Project Revenue Bonds - Series 2009		TOTALS	
	Principal	Interest	Principal	Interest
2023	22,002.41	30,209.59	59,266.05	57,018.82
2024	22,728.24	29,483.76	36,555.99	54,884.01
2025	23,478.00	28,734.00	37,949.76	53,490.24
2026	24,252.51	27,959.49	39,398.27	52,041.73
2027	25,052.57	27,159.43	40,903.75	50,536.25
2028-2032	138,218.45	122,841.55	229,261.33	227,938.67
2033-2037	162,571.13	98,488.87	276,888.79	180,311.21
2038-2042	191,214.56	69,845.44	334,761.34	122,438.66
2043-2047	224,904.61	36,155.39	369,755.48	55,244.52
2048-2052	105,294.05	3,480.95	113,770.13	5,280.87
Totals	<u>939,716.53</u>	<u>474,358.47</u>	<u>1,538,510.89</u>	<u>859,184.98</u>