



Financial Statements
December 31, 2022 and 2021
City of Big Stone City

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Independent Auditor's Report

The City Council
City of Big Stone City
Big Stone City, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Big Stone City (the City), as of December 31, 2022, and for the years in the two-year period then ended, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, business-type activities, and each major fund of the City of Big Stone City as of December 31, 2022, and the respective changes in modified cash basis financial position and, where applicable, modified cash basis cash flows thereof and for each of the years in the two-year period then ended in accordance with the basis of accounting described in Note 1.

Basis for Opinions

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

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and pension contributions, and the budgetary comparison schedule (collectively, the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 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 of Big Stone City's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
August 16, 2024

City of Big Stone City
Statement of Net Position – Modified Cash Basis
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 19,190	\$ 1,932,464	\$ 1,951,654
Investments	79,003	1,004,330	1,083,333
Total assets	<u>\$ 98,193</u>	<u>\$ 2,936,794</u>	<u>\$ 3,034,987</u>
Net Position			
Unrestricted	<u>\$ 98,193</u>	<u>\$ 2,936,794</u>	<u>\$ 3,034,987</u>
Total net position	<u>98,193</u>	<u>2,936,794</u>	<u>3,034,987</u>
	<u>\$ 98,193</u>	<u>\$ 2,936,794</u>	<u>\$ 3,034,987</u>

City of Big Stone City
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2022

Functions/Programs	2022						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 153,320	\$ 7,183	\$ -	\$ -	\$ (146,137)	\$ -	\$ (146,137)
Public safety	131,151	-	-	41,693	(89,458)	-	(89,458)
Public works	411,137	61,656	51,480	-	(298,001)	-	(298,001)
Health and welfare	23	-	-	-	(23)	-	(23)
Culture and recreation	77,308	-	-	9,845	(67,463)	-	(67,463)
Conservation and development	2,357	-	-	-	(2,357)	-	(2,357)
Total governmental activities	<u>775,296</u>	<u>68,839</u>	<u>51,480</u>	<u>51,538</u>	<u>(603,439)</u>	<u>-</u>	<u>(603,439)</u>
Business-type activities							
Liquor	511,708	575,824	-	-	-	64,116	64,116
Water	210,973	326,058	-	-	-	115,085	115,085
Electric	1,086,601	1,388,337	-	-	-	301,736	301,736
Sewer	117,935	91,758	-	-	-	(26,177)	(26,177)
Total business-type activities	<u>1,927,217</u>	<u>2,381,977</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>454,760</u>	<u>454,760</u>
Total primary government	<u>\$ 2,702,513</u>	<u>\$ 2,450,816</u>	<u>\$ 51,480</u>	<u>\$ 51,538</u>	<u>(603,439)</u>	<u>454,760</u>	<u>(148,679)</u>
General Revenues							
Taxes							
Property taxes					132,551	-	132,551
Sales taxes					419,364	-	419,364
State shared revenues					3,954	-	3,954
Unrestricted investment earnings					1,241	6,091	7,332
Miscellaneous revenue					42,313	9,012	51,325
Total general revenues					<u>599,423</u>	<u>15,103</u>	<u>614,526</u>
Change in Net Position					(4,016)	469,863	465,847
Net Position - Beginning					<u>102,209</u>	<u>2,466,931</u>	<u>2,569,140</u>
Net Position - Ending					<u>\$ 98,193</u>	<u>\$ 2,936,794</u>	<u>\$ 3,034,987</u>

See Notes to Financial Statements

City of Big Stone City
Statement of Activities – Modified Cash Basis
Year Ended December 31, 2021

Functions/Programs	2021						
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions and Loan Proceeds	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities							
General government	\$ 135,468	\$ 6,447	\$ -	\$ -	\$ (129,021)	\$ -	\$ (129,021)
Public safety	141,780	-	-	59,203	(82,577)	-	(82,577)
Public works	338,649	57,216	50,908	-	(230,525)	-	(230,525)
Health and welfare	692	-	-	-	(692)	-	(692)
Culture and recreation	38,704	-	-	2,574	(36,130)	-	(36,130)
Conservation and development	3,802	-	-	-	(3,802)	-	(3,802)
Total governmental activities	<u>659,095</u>	<u>63,663</u>	<u>50,908</u>	<u>61,777</u>	<u>(482,747)</u>	<u>-</u>	<u>(482,747)</u>
Business-type activities							
Liquor	485,889	587,282	-	-	-	101,393	101,393
Water	189,290	280,182	-	-	-	90,892	90,892
Electric	943,081	1,198,117	-	-	-	255,036	255,036
Sewer	61,499	87,372	-	-	-	25,873	25,873
Total business-type activities	<u>1,679,759</u>	<u>2,152,953</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>473,194</u>	<u>473,194</u>
Total primary government	<u>\$ 2,338,854</u>	<u>\$ 2,216,616</u>	<u>\$ 50,908</u>	<u>\$ 61,777</u>	<u>(482,747)</u>	<u>473,194</u>	<u>(9,553)</u>
General Revenues							
Taxes							
Property taxes					126,582	-	126,582
Sales taxes					340,267	-	340,267
State shared revenues					4,464	-	4,464
Unrestricted investment earnings					1,675	4,686	6,361
Miscellaneous revenue					8,569	-	8,569
Total general revenues					<u>481,557</u>	<u>4,686</u>	<u>486,243</u>
Change in Net Position					(1,190)	477,880	476,690
Net Position - Beginning					<u>103,399</u>	<u>1,989,051</u>	<u>2,092,450</u>
Net Position - Ending					<u>\$ 102,209</u>	<u>\$ 2,466,931</u>	<u>\$ 2,569,140</u>

See Notes to Financial Statements

City of Big Stone City
Balance Sheet – Modified Cash Basis – Governmental Fund
December 31, 2022

	<u>General Fund</u>
Assets	
Cash and cash equivalents	\$ 19,190
Investments	<u>79,003</u>
Total assets	<u>\$ 98,193</u>
Fund Balances	
Unassigned	<u>\$ 98,193</u>
Total fund balance	<u>98,193</u>
	<u>\$ 98,193</u>

City of Big Stone City
 Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –
 Governmental Fund
 Years Ended December 31, 2022 and 2021

	2022	2021
	General Fund	General Fund
Revenues		
310 Taxes		
311 General property taxes	\$ 132,412	\$ 126,059
313 General sales and use taxes	419,364	340,267
319 Penalties and interest on delinquent taxes	139	523
Total taxes	<u>551,915</u>	<u>466,849</u>
320 Licenses and permits	<u>4,953</u>	<u>5,137</u>
330 Intergovernmental revenue		
331 Federal grants	41,693	59,203
335 State shared revenue		
335.01 Bank franchise tax	1,067	1,148
335.02 Motor vehicle commercial prorate	11,060	7,635
335.03 Liquor tax reversion	2,887	3,316
335.04 Motor vehicle licenses (5%)	2,362	5,705
335.08 Local government highway and bridge fund	35,632	35,348
338 County shared revenue		
338.01 County road tax (25%)	2,426	2,220
Total intergovernmental revenue	<u>97,127</u>	<u>114,575</u>
340 Charges for goods and services		
341 General government	2,205	110
344 Sanitation	61,656	57,216
Total charges for goods and services	<u>63,861</u>	<u>57,326</u>
360 Miscellaneous revenue		
361 Investment earnings	1,241	1,675
362 Rentals	25	1,200
367 Contributions and donations from private sources	9,845	2,574
369 Other	20,875	8,569
Total miscellaneous revenue	<u>31,986</u>	<u>14,018</u>
Total revenues	<u>749,842</u>	<u>657,905</u>

City of Big Stone City
 Statements of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis –
 Governmental Fund
 Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
	General Fund	General Fund
Expenditures		
410 General government		
411 Legislative	20,553	17,652
412 Executive	2,729	2,414
413 Elections	1,509	1,042
414 Financial administration	109,495	95,684
419 Other	19,034	18,676
Total general government	<u>153,320</u>	<u>135,468</u>
420 Public safety		
421 Police	120,310	118,013
422 Fire	10,841	23,767
Total public safety	<u>131,151</u>	<u>141,780</u>
430 Public works		
431 Highways and streets	350,243	275,246
432 Sanitation	60,894	63,403
Total public works	<u>411,137</u>	<u>338,649</u>
440 Health and welfare		
441 Health	23	692
Total health and welfare	<u>23</u>	<u>692</u>
450 Culture and recreation		
451 Recreation	749	5,791
452 Parks	75,296	30,811
455 Libraries	1,263	2,102
Total culture and recreation	<u>77,308</u>	<u>38,704</u>
460 Conservation and development		
465 Economic development and assistance	2,357	3,802
Total conservation and development	<u>2,357</u>	<u>3,802</u>
Total expenditures	<u>775,296</u>	<u>659,095</u>
Other Financing Sources		
391.40 Insurance Proceeds	21,438	-
Total other financing sources	<u>21,438</u>	<u>-</u>
Net Change in Fund Balance	(4,016)	(1,190)
Fund Balance - Beginning	102,209	103,399
Fund Balance - Ending	<u>\$ 98,193</u>	<u>\$ 102,209</u>

City of Big Stone City
Balance Sheet – Modified Cash Basis – Proprietary Funds
December 31, 2022

	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Current Assets					
Cash and cash equivalents	\$ 414,195	\$ 456,465	\$ 1,061,804	\$ -	\$ 1,932,464
Due from other funds	-	-	8,744	-	8,744
Investments	159,783	170,915	531,005	142,627	1,004,330
Total current assets	<u>573,978</u>	<u>627,380</u>	<u>1,601,553</u>	<u>142,627</u>	<u>2,945,538</u>
Total assets	<u>\$ 573,978</u>	<u>\$ 627,380</u>	<u>\$ 1,601,553</u>	<u>\$ 142,627</u>	<u>\$ 2,945,538</u>
Current Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ 8,744	\$ 8,744
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,744</u>	<u>8,744</u>
Net Position					
Unrestricted net position	<u>573,978</u>	<u>627,380</u>	<u>1,601,553</u>	<u>133,883</u>	<u>2,936,794</u>
Total net position	<u>573,978</u>	<u>627,380</u>	<u>1,601,553</u>	<u>133,883</u>	<u>2,936,794</u>
	<u>\$ 573,978</u>	<u>\$ 627,380</u>	<u>\$ 1,601,553</u>	<u>\$ 142,627</u>	<u>\$ 2,945,538</u>

City of Big Stone City

Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2022

	2022				Totals
	Enterprise Funds				
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Operating Revenue					
380 Charges for goods and services	\$ 463,506	\$ 326,058	\$ 1,388,337	\$ 91,758	\$ 2,269,659
380.5 Lottery sales	112,318	-	-	-	112,318
Total operating revenue	<u>575,824</u>	<u>326,058</u>	<u>1,388,337</u>	<u>91,758</u>	<u>2,381,977</u>
Operating Expenses					
410 Personal services	164,135	53,658	116,773	71,394	405,960
420 Other current expense	49,755	30,789	268,806	46,541	395,891
426.2 Materials	297,818	123,668	530,245	-	951,731
430 Capital assets	-	2,858	170,777	-	173,635
Total operating expenses	<u>511,708</u>	<u>210,973</u>	<u>1,086,601</u>	<u>117,935</u>	<u>1,927,217</u>
Operating Income (Loss)	<u>64,116</u>	<u>115,085</u>	<u>301,736</u>	<u>(26,177)</u>	<u>454,760</u>
Nonoperating Revenue (Expense)					
361 Investment earnings	1,362	421	3,510	798	6,091
391.04 Compensation for loss	-	-	9,012	-	9,012
Total nonoperating revenue (expense)	<u>1,362</u>	<u>421</u>	<u>12,522</u>	<u>798</u>	<u>15,103</u>
Changes in Net Position	65,478	115,506	314,258	(25,379)	469,863
Net Position - Beginning	<u>508,500</u>	<u>511,874</u>	<u>1,287,295</u>	<u>159,262</u>	<u>2,466,931</u>
Net Position - Ending	<u><u>\$ 573,978</u></u>	<u><u>\$ 627,380</u></u>	<u><u>\$ 1,601,553</u></u>	<u><u>\$ 133,883</u></u>	<u><u>\$ 2,936,794</u></u>

City of Big Stone City
Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2021

	2021				Totals
	Enterprise Funds				
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Operating Revenue					
380 Charges for goods and services	\$ 500,696	\$ 280,182	\$ 1,198,117	\$ 87,372	\$ 2,066,367
380.5 Lottery sales	86,586	-	-	-	86,586
Total operating revenue	<u>587,282</u>	<u>280,182</u>	<u>1,198,117</u>	<u>87,372</u>	<u>2,152,953</u>
Operating Expenses					
410 Personal services	149,123	32,391	90,319	31,461	303,294
420 Other current expense	45,880	12,664	199,717	25,705	283,966
426.2 Materials	290,886	105,420	525,018	-	921,324
430 Capital assets	-	38,815	128,027	4,333	171,175
Total operating expenses	<u>485,889</u>	<u>189,290</u>	<u>943,081</u>	<u>61,499</u>	<u>1,679,759</u>
Operating Income	<u>101,393</u>	<u>90,892</u>	<u>255,036</u>	<u>25,873</u>	<u>473,194</u>
Nonoperating Revenue (Expense)					
361 Investment earnings	2,365	246	1,869	206	4,686
Total nonoperating revenue (expense)	<u>2,365</u>	<u>246</u>	<u>1,869</u>	<u>206</u>	<u>4,686</u>
Changes in Net Position	103,758	91,138	256,905	26,079	477,880
Net Position - Beginning	<u>404,742</u>	<u>420,736</u>	<u>1,030,390</u>	<u>133,183</u>	<u>1,989,051</u>
Net Position - Ending	<u>\$ 508,500</u>	<u>\$ 511,874</u>	<u>\$ 1,287,295</u>	<u>\$ 159,262</u>	<u>\$ 2,466,931</u>

City of Big Stone City
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2022

	2022				
	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 575,824	\$ 326,058	\$ 1,388,337	\$ 91,758	\$ 2,381,977
Payments to suppliers	(347,573)	(154,457)	(799,051)	(46,541)	(1,347,622)
Payments to employees	(164,135)	(53,658)	(116,773)	(71,394)	(405,960)
Net Cash from (used for) Operating Activities	<u>64,116</u>	<u>117,943</u>	<u>472,513</u>	<u>(26,177)</u>	<u>628,395</u>
Cash Flows from (used for) Noncapital Financing Activities					
Receipts from others	-	-	9,012	-	9,012
Advances from (to) other funds	-	-	(8,744)	8,744	-
Net Cash from Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>268</u>	<u>8,744</u>	<u>9,012</u>
Cash Flows used for Capital and Related Financing Activities					
Purchase of capital assets	-	(2,858)	(170,777)	-	(173,635)
Net Cash used for Capital and Related Financing Activities	<u>-</u>	<u>(2,858)</u>	<u>(170,777)</u>	<u>-</u>	<u>(173,635)</u>
Cash Flows from Investing Activities					
Interest earnings	1,021	55	2,376	493	3,945
Net Cash from Investing Activities	<u>1,021</u>	<u>55</u>	<u>2,376</u>	<u>493</u>	<u>3,945</u>
Net Change in Cash and Cash Equivalents	65,137	115,140	304,380	(16,940)	467,717
Cash and Cash Equivalents - Beginning	349,058	341,325	757,424	16,940	1,464,747
Cash and Cash Equivalents - Ending	<u>\$ 414,195</u>	<u>\$ 456,465</u>	<u>\$ 1,061,804</u>	<u>\$ -</u>	<u>\$ 1,932,464</u>
Cash and Cash Equivalents consist of:					
Cash and cash equivalents	<u>\$ 414,195</u>	<u>\$ 456,465</u>	<u>\$ 1,061,804</u>	<u>\$ -</u>	<u>\$ 1,932,464</u>
	<u>\$ 414,195</u>	<u>\$ 456,465</u>	<u>\$ 1,061,804</u>	<u>\$ -</u>	<u>\$ 1,932,464</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities					
Operating income (loss)	\$ 64,116	\$ 115,085	\$ 301,736	\$ (26,177)	\$ 454,760
Adjustment to reconcile operating income (loss) to net cash from (used for) operating activities:					
Purchase of capital assets	-	2,858	170,777	-	173,635
Net Cash from (used for) Operating Activities	<u>\$ 64,116</u>	<u>\$ 117,943</u>	<u>\$ 472,513</u>	<u>\$ (26,177)</u>	<u>\$ 628,395</u>

City of Big Stone City
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds
Year Ended December 31, 2021

	2021				
	Enterprise Funds				Totals
	Liquor Fund	Water Fund	Electric Fund	Sewer Fund	
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 587,282	\$ 280,182	\$ 1,198,117	\$ 87,372	\$ 2,152,953
Payments to suppliers	(336,766)	(118,084)	(724,735)	(25,705)	(1,205,290)
Payments to employees	(149,123)	(32,391)	(90,319)	(31,461)	(303,294)
Net Cash from Operating Activities	<u>101,393</u>	<u>129,707</u>	<u>383,063</u>	<u>30,206</u>	<u>644,369</u>
Cash Flows from (used for) Noncapital Financing Activities					
Advances from (to) other funds	-	-	8,933	(8,933)	-
Net Cash from (used for) Noncapital Financing Activities	<u>-</u>	<u>-</u>	<u>8,933</u>	<u>(8,933)</u>	<u>-</u>
Net Cash used for Capital and Related Financing Activities					
Purchase of capital assets	-	(38,815)	(128,027)	(4,333)	(171,175)
Net Cash used for Capital and Related Financing Activities	<u>-</u>	<u>(38,815)</u>	<u>(128,027)</u>	<u>(4,333)</u>	<u>(171,175)</u>
Cash Flows from Investing Activities					
Interest earnings	2,114	-	1,101	-	3,215
Net Cash from Investing Activities	<u>2,114</u>	<u>-</u>	<u>1,101</u>	<u>-</u>	<u>3,215</u>
Net Change in Cash and Cash Equivalents	103,507	90,892	265,070	16,940	476,409
Cash and Cash Equivalents - Beginning	245,551	250,433	492,354	-	988,338
Cash and Cash Equivalents - Ending	<u>\$ 349,058</u>	<u>\$ 341,325</u>	<u>\$ 757,424</u>	<u>\$ 16,940</u>	<u>\$ 1,464,747</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	<u>\$ 349,058</u>	<u>\$ 341,325</u>	<u>\$ 757,424</u>	<u>\$ 16,940</u>	<u>\$ 1,464,747</u>
	<u>\$ 349,058</u>	<u>\$ 341,325</u>	<u>\$ 757,424</u>	<u>\$ 16,940</u>	<u>\$ 1,464,747</u>
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 101,393	\$ 90,892	\$ 255,036	\$ 25,873	\$ 473,194
Adjustment to reconcile operating income to net cash from operating activities:					
Purchase of capital assets	-	38,815	128,027	4,333	171,175
Net Cash from Operating Activities	<u>\$ 101,393</u>	<u>\$ 129,707</u>	<u>\$ 383,063</u>	<u>\$ 30,206</u>	<u>\$ 644,369</u>

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C., the 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) as established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

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

The reporting entity is comprised of the primary government, the City of Big Stone City.

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. Based upon the application of these criteria, the City does not have any component units.

B. Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statements of activities display information about the City as a whole. They include all funds of the City. 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.

The statements of activities present a comparison between direct expenses and program revenues for each segment of the business-type activities of the City of Big Stone City and for each function of the City'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 City 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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

The funds of the City are described below:

Governmental Funds

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

Proprietary Funds

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

- **Liquor Fund** – Financed primarily by sales, this fund accounts for the operation of the municipal liquor store. This is a major fund.
- **Water Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (South Dakota Codified Laws (SDCL) 9-47-1) This is a major fund.
- **Electric Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal electrical system and related facilities. (SDCL 9-39-1 and 9-39-26) 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses including capital assets specific to the systems that deliver the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

In the government-wide statement of net position and statements 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 applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report, in the statement of net position or balance sheet, cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include restricted cash and cash equivalents, investments in certificates of deposit (those with maturities more than 90 days (three months) from the date of acquisition) acquired with cash accounts at cost, and inter-fund advances and borrowing arising from the use of a pooled cash account.

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

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 SDCL 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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.

- The City does have interfund receivables and payables which required elimination as of December 31, 2022.

F. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

G. Long-Term Liabilities

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

Long-term debts 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. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

H. Program Revenues

In the government-wide statements of activities, reported 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.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statements of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statements 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.

J. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The Liquor, Water, Electric, and Sewer 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.

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of three components: net investment in capital assets, restricted net position and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

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 positions that do not meet the definition of "restricted."

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.

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints:

- **Nonspendable Fund Balance** – Amounts that are not in spendable form or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- **Assigned Fund Balance** – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Note 2 - Deposits and Investments

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022 and 2021, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2022, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,628,705
	\$ 3,128,705

The City's carrying amount of deposits at December 31, 2022, is as follows:

Cash and cash equivalents	\$ 1,951,654
Investments	1,083,333
	\$ 3,034,987

Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or, otherwise, directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of SDCL 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

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. As of December 31, 2022, all of the City’s investments consist of certificates of deposit which have maturities of less than one year.

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

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.

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

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

Note 4 - Retirement Plan

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 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://www.sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Benefits Provided

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

Members 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 public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members 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% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5% of compensation funded by part of the employer contribution. The 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 than or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The City’s share of contributions made to the SDRS for the years ended December 31, 2022, 2021, and 2020, were \$20,141, \$16,477, and \$12,523, respectively, equal to the required contributions each year.

Pension Liability (Asset)

At June 30, 2022 and 2021, SDRS is 100.10% and 105.52%, respectively, 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 2021, and reported by the City of Big Stone City as of December 31, 2022 and 2021, are as follows:

	2022	2021
Proportionate share of net position restricted for pension benefits	\$ 1,924,801	\$ 1,371,245
Less proportionate share of total pension liability	1,926,090	1,446,978
Proportionate share of net pension liability (asset)	\$ (1,289)	\$ (75,733)

At December 31, 2022 and 2021, the City disclosed a liability (asset) of (\$1,289) and (\$75,733), respectively, for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022 and 2021, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.013635%, which is an increase of 0.0037460% from its proportion measured as of June 30, 2021. At June 30, 2021, the City's proportion was 0.009889%, which is an increase of 0.0001140% from its proportion measured as of June 30, 2020. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified accrual basis of accounting.

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	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:

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 weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

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

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

The following presents the City's proportionate share of net pension liability (asset) as of June 30, 2022, calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 267,564	\$ (1,289)	\$ (221,013)

Pension Plan Fiduciary Net Position

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

Note 5 - Significant Contingencies - Litigation

At December 31, 2022, the City was not involved in any litigation that would be material to the financial statements.

Note 6 - Related Party Transactions

The City does business on a regular basis with a company owned by a City Council member. Purchases from this company totaled \$415 and \$460 for the years ending December 31, 2022 and 2021, respectively.

Note 7 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2022 and 2021, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members.

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

Liability Insurance

The City has liability insurance through Continental Western Group. The City pays an annual premium to Continental Western Group which provides coverage for general liability, official's liability, automobile liability, law enforcement liability, and liquor liability. 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.

Workers' Compensation

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

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

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.

During the years ended December 31, 2022 and 2021, no claims for unemployment benefits were paid. At December 31, 2022 and 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 8 - Interfund Transactions

As of December 31, 2022, the Sewer Fund has borrowed \$8,744 from the Electric Fund to cover operations. The borrowing will be paid back with excess investments or excess revenue in 2023.

Note 9 - Subsequent Events

Subsequent to year-end, the City made various large purchases for equipment or improvements as follows: 1) vehicles and equipment for approximately \$138,000, 2) sidewalk repairs for approximately \$27,000, and 3) in the process of purchasing and installing water meters for approximately \$85,000.

In 2024, the City lost a major customer for utility and electrical purchases. The gross impact to revenue across all enterprise funds was expected to be \$700,000 annually and the impact to expenses is unknown at this time.



Supplementary Information
December 31, 2022 and 2021
City of Big Stone City

City of Big Stone City
Schedule of Net Pension Liability (Asset) and Schedule of Pension Contributions
Year Ended December 31, 2022

Schedule of Net Pension Liability (Asset)

Pension Plan	Fiscal Year Ending	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2014	0.0155%	\$ (111,691)	\$ 256,362	-43.6%	107.30%
SDRS	6/30/2015	0.0141%	(59,637)	268,531	-22.2%	104.10%
SDRS	6/30/2016	0.0149%	50,479	263,614	19.1%	96.89%
SDRS	6/30/2017	0.0153%	(1,386)	282,020	-0.49%	100.10%
SDRS	6/30/2018	0.0153%	(357)	289,398	-0.12%	100.02%
SDRS	6/30/2019	0.0146%	(1,542)	292,965	-0.53%	100.09%
SDRS	6/30/2020	0.0098%	(425)	214,525	-0.20%	100.04%
SDRS	6/30/2021	0.0099%	(75,733)	224,423	-33.75%	105.52%
SDRS	6/30/2022	0.0136%	(1,289)	316,567	-0.41%	100.10%

Schedule of Pension Contributions

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2014	\$ 16,106	\$ 16,106	\$ -	\$ 268,433	6.0%
SDRS	12/31/2015	15,507	15,507	-	258,450	6.0%
SDRS	12/31/2016	18,064	18,064	-	283,579	6.4%
SDRS	12/31/2017	18,903	18,903	-	275,770	6.9%
SDRS	12/31/2018	19,039	19,039	-	299,009	6.4%
SDRS	12/31/2019	15,512	15,512	-	248,598	6.2%
SDRS	12/31/2020	12,523	12,523	-	208,712	6.0%
SDRS	12/31/2021	16,477	16,477	-	274,613	6.0%
SDRS	12/31/2022	20,141	20,141	-	335,676	6.0%

*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 129,023	\$ 129,023	\$ 132,412	\$ 3,389
313 General sales and use taxes	370,000	370,000	419,364	49,364
315 Amusement taxes	100	100	-	(100)
319 Penalties and interest on delinquent taxes	3,050	3,050	139	(2,911)
Total taxes	<u>502,173</u>	<u>502,173</u>	<u>551,915</u>	<u>49,742</u>
320 Licenses and permits	<u>6,160</u>	<u>6,160</u>	<u>4,953</u>	<u>(1,207)</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	41,693	41,693
335 State shared revenue:				
335.01 Bank franchise tax	1,250	1,250	1,067	(183)
335.02 Motor vehicle commercial prorata	2,000	2,000	11,060	9,060
335.03 Liquor tax reversion	2,700	2,700	2,887	187
335.04 Motor vehicle licenses (5%)	2,500	2,500	2,362	(138)
335.08 Local government highway and bridge fund	57,000	57,000	35,632	(21,368)
338 County shared revenue				
338.01 County road tax (25%)	<u>1,200</u>	<u>1,200</u>	<u>2,426</u>	<u>1,226</u>
Total intergovernmental revenue	<u>66,650</u>	<u>66,650</u>	<u>97,127</u>	<u>30,477</u>
340 Charges for goods and services				
341 General government	25	25	2,205	2,180
343 Highways and streets	450	450	-	(450)
344 Sanitation	57,500	57,500	61,656	4,156
346 Culture and recreation	<u>2,000</u>	<u>2,000</u>	<u>-</u>	<u>(2,000)</u>
Total charges for goods and services	<u>59,975</u>	<u>59,975</u>	<u>63,861</u>	<u>3,886</u>
360 Miscellaneous revenue				
361 Investment earnings	1,500	1,500	1,241	(259)
362 Rentals	-	-	25	25
367 Contributions and donations from private sources	-	-	9,845	9,845
368 Contributions	1,000	1,000	-	(1,000)
369 Other	<u>8,500</u>	<u>8,500</u>	<u>20,875</u>	<u>12,375</u>
Total miscellaneous revenue	<u>11,000</u>	<u>11,000</u>	<u>31,986</u>	<u>20,986</u>
Total revenues	<u>645,958</u>	<u>645,958</u>	<u>749,842</u>	<u>103,884</u>

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	18,385	18,385	20,553	(2,168)
412 Executive	2,700	2,700	2,729	(29)
413 Elections	1,600	1,600	1,509	91
414 Financial administration	126,580	126,580	109,495	17,085
419 Other	20,045	20,045	19,034	1,011
Total general government	<u>169,310</u>	<u>169,310</u>	<u>153,320</u>	<u>15,990</u>
420 Public safety				
421 Police	121,050	121,050	120,310	740
422 Fire	24,450	24,450	10,841	13,609
Total public safety	<u>145,500</u>	<u>145,500</u>	<u>131,151</u>	<u>14,349</u>
430 Public works				
431 Highways and streets	368,985	368,985	350,243	18,742
432 Sanitation	61,600	61,600	60,894	706
Total public works	<u>430,585</u>	<u>430,585</u>	<u>411,137</u>	<u>19,448</u>
440 Health and welfare				
441 Health	5,015	5,015	23	4,992
446 Ambulance	500	500	-	500
Total health and welfare	<u>5,515</u>	<u>5,515</u>	<u>23</u>	<u>5,492</u>
450 Culture and recreation				
451 Recreation	15,930	15,930	749	15,181
452 Parks	88,710	88,710	75,296	13,414
455 Libraries	2,415	2,415	1,263	1,152
Total culture and recreation	<u>107,055</u>	<u>107,055</u>	<u>77,308</u>	<u>29,747</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	12,870	12,870	2,357	10,513
Total conservation and development	<u>12,870</u>	<u>12,870</u>	<u>2,357</u>	<u>10,513</u>
Total expenditures	<u>870,835</u>	<u>870,835</u>	<u>775,296</u>	<u>95,539</u>
Other Financing Sources				
391.4 Compensation for Loss	-	-	21,438	21,438
Total other financing sources	<u>-</u>	<u>-</u>	<u>21,438</u>	<u>21,438</u>
Excess of Revenue over (under) Expenditures	(224,877)	(224,877)	(4,016)	220,861
Fund Balance - Beginning	102,209	102,209	102,209	-
Fund Balance - Ending	<u>\$ (122,668)</u>	<u>\$ (122,668)</u>	<u>\$ 98,193</u>	<u>\$ 220,861</u>

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 108,865	\$ 108,865	\$ 126,059	\$ 17,194
313 General sales and use taxes	265,000	265,000	340,267	75,267
315 Amusement taxes	100	100	-	(100)
319 Penalties and interest on delinquent taxes	200	200	523	323
Total taxes	<u>374,165</u>	<u>374,165</u>	<u>466,849</u>	<u>92,684</u>
320 Licenses and permits	<u>4,960</u>	<u>4,960</u>	<u>5,137</u>	<u>177</u>
330 Intergovernmental revenue				
331 Federal grants	-	-	59,203	59,203
335 State shared revenue				
335.01 Bank franchise tax	1,250	1,250	1,148	(102)
335.02 Motor vehicle commercial prorata	2,000	2,000	7,635	5,635
335.03 Liquor tax reversion	2,700	2,700	3,316	616
335.04 Motor vehicle licenses (5%)	2,500	2,500	5,705	3,205
335.08 Local government highway and bridge fund	25,000	25,000	35,348	10,348
338 County shared revenue				
338.01 County road tax (25%)	500	500	2,220	1,720
Total intergovernmental revenue	<u>33,950</u>	<u>33,950</u>	<u>114,575</u>	<u>80,625</u>
340 Charges for goods and services				
341 General government	25	25	110	85
343 Highways and streets	450	450	-	(450)
344 Sanitation	45,500	45,500	57,216	11,716
346 Culture and recreation	2,500	2,500	-	(2,500)
Total charges for goods and services	<u>48,475</u>	<u>48,475</u>	<u>57,326</u>	<u>8,851</u>
360 Miscellaneous revenue				
361 Investment earnings	1,500	1,500	1,675	175
362 Rentals	-	-	1,200	1,200
367 Contributions and donations from private sources	-	-	2,574	2,574
368 Contributions	1,000	1,000	-	(1,000)
369 Other	8,500	8,500	8,569	69
Total miscellaneous revenue	<u>11,000</u>	<u>11,000</u>	<u>14,018</u>	<u>3,018</u>
Total revenues	<u>472,550</u>	<u>472,550</u>	<u>657,905</u>	<u>185,355</u>

City of Big Stone City
 Budgetary Comparison Schedule – General Fund
 Year Ended December 31, 2021

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	18,295	18,295	17,652	643
412 Executive	2,700	2,700	2,414	286
413 Elections	1,800	1,800	1,042	758
414 Financial administration	125,250	125,250	95,684	29,566
419 Other	20,385	20,385	18,676	1,709
Total general government	<u>168,430</u>	<u>168,430</u>	<u>135,468</u>	<u>32,962</u>
420 Public safety				
421 Police	129,185	129,185	118,013	11,172
422 Fire	24,250	24,250	23,767	483
Total public safety	<u>153,435</u>	<u>153,435</u>	<u>141,780</u>	<u>11,655</u>
430 Public works				
431 Highways and streets	330,270	330,270	275,246	55,024
432 Sanitation	66,890	66,890	63,403	3,487
Total public works	<u>397,160</u>	<u>397,160</u>	<u>338,649</u>	<u>58,511</u>
440 Health and welfare				
441 Health	5,015	5,015	692	4,323
446 Ambulance	500	500	-	500
Total health and welfare	<u>5,515</u>	<u>5,515</u>	<u>692</u>	<u>4,823</u>
450 Culture and recreation				
451 Recreation	16,630	16,630	5,791	10,839
452 Parks	45,355	45,355	30,811	14,544
455 Libraries	2,415	2,415	2,102	313
Total culture and recreation	<u>64,400</u>	<u>64,400</u>	<u>38,704</u>	<u>25,696</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	12,870	12,870	3,802	9,068
Total conservation and development	<u>12,870</u>	<u>12,870</u>	<u>3,802</u>	<u>9,068</u>
Total expenditures	<u>801,810</u>	<u>801,810</u>	<u>659,095</u>	<u>142,715</u>
Excess of Revenue over (under) Expenditures	(329,260)	(329,260)	(1,190)	328,070
Fund Balance - Beginning	103,399	103,399	103,399	-
Fund Balance - Ending	<u>\$ (225,861)</u>	<u>\$ (225,861)</u>	<u>\$ 102,209</u>	<u>\$ 328,070</u>

Note 1 - Budgets and Budgetary Accounting

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

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

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, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2022 and 2021.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Schedule of Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions

Changes from Prior Valuation

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

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

Benefit Provision Changes

During the 2022 legislative session, no significant SDRS benefit changes were made and gaming enforcement agents became Class B public safety members.

Actuarial Assumption Changes

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

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

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 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.



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*

The City Council
City of Big Stone City
Big Stone City, 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 financial statements of the governmental activities, the business-type activities, and each major fund of the City of Big Stone City (the City) as of and for the years ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 16, 2024. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as 2022-001, 2022-002, 2022-003, 2021-001, 2021-002, and 2021-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as 2022-004, 2022-005, 2022-006, 2021-004, 2021-005, and 2021-006 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings as 2022-005 and 2021-005.

City of Big Stone City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings. The City'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 result 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota
August 16, 2024

2022-001 and 2021-001 Preparation of Financial Statements, Footnotes and Audit Adjustments

Material Weakness

Condition: The City of Big Stone City (the City) requested the external auditors to prepare the financial statements and related notes for the years ended December 31, 2022 and 2021. As a part of the financial statement preparation process, we proposed audit adjustments that were not identified as a result of the City's existing internal controls and, therefore, could result in a material misstatement of the City's financial statements if not recorded.

Criteria: The City's internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes which could cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The need for proposed audit adjustments indicates that the City's interim financial information might not be materially correct, which may affect management decisions made during the course of the year.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

2022-002 and 2021-002 Lack of Segregation of Duties

Material Weakness

Condition: The City of Big Stone City has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Cause: The City has an insufficient number of staff to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function. In so doing, they should review financial data monthly including reports of monthly financial statements, budget-to-actual reports, monthly cash balances, monthly gross profit margins at the liquor store, and monthly bank statements or cancelled checks.

Views of Responsible Officials: Management agrees with the finding.

2022-003 and 2021-003 Lack of Account Reconciliations and Improper Coding of Transactions

Material Weakness

Criteria: The City's internal control structure should provide for timely reconciliation of accounts in accordance with the modified cash basis of accounting.

Condition: The City did not provide timely reconciliations for cash and equity accounts resulting in material audit adjustments; additionally several transactions were miscoded to revenue and expense accounts that resulted in audit adjustments for proper coding of transactions.

Cause: The City has had significant turnover in recent years.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

2022-004 and 2021-004 Controls over the City-Owned Bar and Liquor Store

Significant Deficiency

Criteria: A good system of internal controls requires performance of periodic reconciliations of physical assets to reported amounts.

Condition: The controls over the Liquor Fund are not adequate to track inventory.

Cause: The City has not completed an inventory since the start date of the new bar manager.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Inventory of the liquor store should be completed at least annually. The City should consider using the Point of Sale system to track inventory amounts.

Views of Responsible Officials: Management agrees with the finding.

Finding 2022-005 and 2021-005 – Violations of SDCL

Significant Deficiency and Non-Compliance

Criteria: The City's control structure should be such to ensure compliance with South Dakota Codified Law (SDCL) for municipal finances. The following SDCL sections provide the criteria in areas in which we noted absence of controls to ensure compliance with these applicable SDCL's:

- SDCL 9-22-21 provides the criteria for the publication of the annual report in the official newspaper, provided to the City Council; and filed with Department of Legislative Audit.
- SDCL 9-22-2 provides for the requirements of the budget and the needing for appropriate sums of money necessary to meet all lawful expenses.
- SDCL 9-12-6 provides the criteria to designate an official newspaper of the City.
- SDCL 9-22-6 provides the criteria to designate official depositories of the City.

Condition:

- Regarding SDCL 9-22-21, in 2021, the City did not publish the annual report in the official newspaper, and, in 2022, the annual report was not provided to the city council for the first meeting in May and was not filed with the Department of Legislative Audit by the end of May.
- Regarding SDCL 9-22-2, in 2021 and 2022, the City adopted a budget that was not a balanced budget with expenditures exceeding revenues and did not have excess funds available in the general fund to balance the budget.
- Regarding SDCL 9-12-6, in 2021 and 2022, the City did not designate an official newspaper, in which official proceedings of the City are to be published.
- Regarding SDCL 9-22-6, in 2021 and 2022, the City did not designate an official depository in which funds shall be deposited.

Cause: A lack of oversight in the control processes, limited staff size, and general unfamiliarity with the applicable SDCL's relating to the above findings could result in the City not being materially compliant with those applicable SDCL's.

Effect: These conditions affect the City's ability to be compliant with SDCL's applicable to municipalities. With the City not having a balanced budget, along with overspending the revenue received in the General Fund, the deficit in the General Fund has continued to grow.

Recommendation: We recommend the City officials review the SDCL's applicable to municipalities to become familiar with the statutory requirements and implement necessary controls and processes to ensure the compliance with those such laws. We also recommend that City approve a balanced budget each year.

Views of Responsible Officials: Management agrees with the finding.

2022-006 and 2021-006 Lack of Supporting Documentation

Significant Deficiency

Criteria: The City's internal control structure should provide for documentation to be maintained for all payments made and bank statements supporting cash activity.

Condition: The City was not able to provide backup for one invoice requested related to an October 2022 check issued and was not able to provide a bank statement for the December 2021 savings account. The missing items did not impact the auditor's opinion.

Cause: The City had significant turnover in 2021 and items were misplaced.

Effect: This condition may affect the City's ability to provide proper documentation that payments were valid for expenses of the City or that bank statements activity was properly recorded.

Recommendation: We recommend the City develop a retention policy for documents to ensure documents are maintained for the required length of time and will be available as requested for review by auditors or other outside agencies.

Views of Responsible Officials: Management agrees with the finding.