

**City of De Smet**

**Independent Auditor's Report  
and Financial Statements**

**For the Year Ended  
December 31, 2022**

**City of De Smet**  
Table of Contents

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	Page
<b>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 <i>Government Auditing Standards</i></b> -----	1-2
<b>Schedule of Prior and Current Audit Findings</b> -----	3-4
<b>Independent Auditor’s Report</b> -----	5-7
<b>Financial Statements</b>	
Statement of Net Position -----	8
Statement of Activities-----	9
Balance Sheet – Governmental Funds -----	10
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position -----	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds-----	12-13
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities -----	14
Statement of Net Position – Proprietary Funds -----	15
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds-----	13
Statement of Cash Flows – Proprietary Funds -----	17
Statement of Net Position – Fiduciary Funds-----	18
Statement of Changes in Net Position – Fiduciary Funds -----	19
<b>Notes to Financial Statements</b> -----	20-44
<b>Required Supplemental Information</b> -----	
Budgetary Comparison Schedule –General Fund- -----	46-47
Budgetary Comparison Schedule – Hospital Fund -----	48
Budgetary Comparison Schedule – Liquor, Lodging & Dining Fund-----	49
Budgetary Comparison Schedule – Library Fines Fund -----	50
Notes to the Required Supplemental Information-----	51
Schedule of the City’s Proportionate Share of the Net Pension Liability (Asset) (SDRS)-----	52
Schedule of the City’s Contributions (SDRS)-----	53
Notes to the Required Supplemental Information-----	54-55



**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***

To the City Council  
City of De Smet, South Dakota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Smet as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of De Smet’s basic financial statements and have issued our report thereon dated September 12, 2024. Our report includes a reference to other auditors who audited the financial statements of Housing and Redevelopment Commission of the City of De Smet as described in our report on the City of De Smet financial statements. This report does not include the results of the other auditors’ testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Report on Internal Control Over Financial Reporting**

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’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 preceding paragraph 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 identified certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as items 2022-001, and 2022-002 that we consider to be a material weaknesses.

### **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of De Smet's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Handwritten signature in blue ink that reads "CIO of LLC".

Huron, South Dakota  
September 12, 2024

**City of De Smet**  
Schedule of Prior and Current Audit Findings  
For the Year Ended December 31, 2022

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**Schedule of Prior Audit Findings**

Finding Number 2021-001

A material weakness in internal control was disclosed by our audit for lack of proper segregation of duties over revenues and expenditures. The finding has not been corrected and is being restated as a current audit finding 2022-001.

Finding Number 2021-002

A material weakness in internal control over Year-end Closing Procedures Including Preparation of the Financial Statements was disclosed by our audit. This finding has not been corrected and is being restated as a current audit finding 2022-002

**Schedule of Current Audit Findings**

Finding 2022-001

A material weakness in internal control was disclosed by our audit for lack of proper segregation of duties for revenues and expenditures.

Criteria: The internal control system of a City can help assist in increased reliability of reported financial data, compliance with laws and regulations, and decreased potential for the loss of public records.

Condition: The City has a limited number of office personnel and, accordingly, does not have adequate segregation of duties in the revenue, expenditure, and payroll functions.

Cause: The limited size of the City's staff and resources cause the inability to maintain proper segregation of duties.

Effect: As a result, there is increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Auditor's Recommendation: We recommend a high level of awareness be maintained by management to assist in preventing, detecting, or correcting matters that may arise due to this internal control weakness along with continuous monitoring in an effort to prevent, detect, or correct matters that may result.

View of Management: Management agrees with the finding.

**City of De Smet**  
Schedule of Prior and Current Audit Findings (Continued)  
For the Year Ended December 31, 2022

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Finding 2022-002

A material weakness in internal control over Year-end Closing Procedures Including Preparation of the Financial Statements was disclosed by our audit .

Criteria: The City requested the external auditors to assist in the preparation of the financial statements and related footnotes for the year ended December 31, 2022. As part of the financial statement preparation process, at times we propose material audit adjustments that are not identified as a result of the City's existing internal controls and, therefore, could result in a misstatement to the City's financial statements.

Condition: The City does not have adequate staff trained to prepare the financial statements and footnotes that are materially correct.

Cause: 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 generally accepted accounting principles.

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

Auditor's 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.

View of Management: Management agrees with the finding.



## Independent Auditor's Report

To the City Council  
City of De Smet, South Dakota

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of De Smet as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of De Smet as of December 31, 2022, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of Housing and Redevelopment Commission of the City of De Smet, which represent 100 percent, 100 percent, and 100 percent, respectively, of the assets, net position, and revenues of the component unit as of September 12, 2024. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the component unit, is based solely on the report of the other auditors.

#### Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of De Smet 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.

## **Responsibility of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of De Smet'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 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in financial statements.
- Obtain an understanding of City of De Smet's 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 City of De Smet's internal control over compliance. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of De Smet's ability to continue as a going concern for a reasonable period of time.



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

**Required Supplementary Information:**

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) (SDRS), and Schedule of the City's Contributions (SDRS) be presented to supplement the basic financial statements.

Such information is the responsibility of management, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplemental information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 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 of De Smet's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Huron, South Dakota  
September 12, 2024

**City of De Smet**  
Statement of Net Position  
December 31, 2022

	<u>Primary Government</u>		<u>Total</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>		
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,128,895	\$ 999,570	\$ 4,128,465	\$ 156,571
Accounts receivable, net	42,042	46,341	88,383	31,095
Inventories	60,219	8,644	68,863	--
Other assets	5,363	2,265	7,628	5,508
Restricted assets:				
Cash and cash equivalents	889,865	100,438	990,303	25,556
Deposits	11,718	40,055	51,773	--
Net pension asset	1,327	282	1,609	--
Capital assets:				
Land and construction in progress	267,189	34,527	301,716	27,517
Other capital assets, net of depreciation	<u>12,862,667</u>	<u>1,876,744</u>	<u>14,739,411</u>	<u>1,377,927</u>
Total Assets	<u>17,269,285</u>	<u>3,108,866</u>	<u>20,378,151</u>	<u>1,624,174</u>
<b>Deferred Outflows of Resources:</b>				
Pension related deferred outflows	<u>121,168</u>	<u>25,756</u>	<u>146,924</u>	<u>--</u>
<b>Liabilities:</b>				
Accounts payable	13,840	2,706	16,546	14,226
Other current liabilities	9,553	483	10,036	24,047
Unearned revenue	--	32,685	32,685	29,466
Noncurrent liabilities:				
Due within one year	--	15,572	15,572	57,571
Due in more than one year	<u>12,955</u>	<u>450,929</u>	<u>463,884</u>	<u>520,044</u>
Total Liabilities	<u>36,348</u>	<u>502,375</u>	<u>538,723</u>	<u>645,354</u>
<b>Deferred Inflows of Resources:</b>				
Pension related deferred inflows of resources	<u>77,279</u>	<u>16,427</u>	<u>93,706</u>	<u>--</u>
<b>Net Position:</b>				
Net Investment in capital assets	13,129,856	1,446,666	14,576,522	828,027
Restricted for:				
Debt service purposes	--	100,438	100,438	--
Depot museum	15,190	--	15,190	--
Facilities and promoting the city	228,986	--	228,986	--
Library purposes	8,735	--	8,735	--
Fire department	37,420	--	37,420	--
SDRS pension purposes	45,216	9,611	54,827	--
Unrestricted	<u>3,811,423</u>	<u>1,059,105</u>	<u>4,870,528</u>	<u>150,793</u>
Total Net Position	<u>\$ 17,276,826</u>	<u>\$ 2,615,820</u>	<u>\$ 19,892,646</u>	<u>\$ 978,820</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Activities  
For the Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 236,445	\$ 11,271	\$ 279,996	\$ --	\$ 54,822	\$ --	\$ 54,822	\$ --
Public safety	156,274	2,852	--	--	(153,422)	--	(153,422)	--
Public works	760,536	135,862	172,303	--	(452,371)	--	(452,371)	--
Health and welfare	172,741	--	--	--	(172,741)	--	(172,741)	--
Culture and recreation	470,138	32,236	3,510	--	(434,392)	--	(434,392)	--
Conservation and development	60,159	--	--	--	(60,159)	--	(60,159)	--
Interest on long-term debt	32,441	--	--	--	(32,441)	--	(32,441)	--
Total Governmental Activities	<u>1,888,734</u>	<u>182,221</u>	<u>455,809</u>	<u>--</u>	<u>(1,250,704)</u>	<u>--</u>	<u>(1,250,704)</u>	<u>--</u>
Business-type Activities:								
Water	254,776	334,062	--	--	--	79,286	79,286	--
Sewer	155,156	249,303	--	--	--	94,147	94,147	--
Total Business-type Activities	<u>409,932</u>	<u>583,365</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>173,433</u>	<u>173,433</u>	<u>--</u>
Total Primary Government	<u>\$ 2,298,666</u>	<u>\$ 765,586</u>	<u>\$ 455,809</u>	<u>\$ --</u>	<u>(1,250,704)</u>	<u>173,433</u>	<u>(1,077,271)</u>	<u>--</u>
Component Unit:								
Housing and Redevelopment Commission	<u>\$ 382,411</u>	<u>\$ 296,269</u>	<u>\$ 87,444</u>	<u>\$ 82,006</u>	--	--	--	83,308
General Revenues:								
Taxes:								
Property taxes					609,346	--	609,346	--
Sales taxes					690,892	--	690,892	--
State shared revenues					14,689	--	14,689	--
Unrestricted investment earnings					21,032	5,673	26,705	473
Miscellaneous revenues					33,022	--	33,022	--
Total General Revenues and Transfers					<u>1,368,981</u>	<u>5,673</u>	<u>1,374,654</u>	<u>473</u>
Change in Net Position					118,277	179,106	297,383	83,781
Net Position, Beginning of Year					<u>17,158,549</u>	<u>2,436,714</u>	<u>19,595,263</u>	<u>895,039</u>
Net Position, End of Year					<u>\$ 17,276,826</u>	<u>\$ 2,615,820</u>	<u>\$ 19,892,646</u>	<u>\$ 978,820</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Balance Sheet – Governmental Funds  
December 31, 2022

	<u>General Fund</u>	<u>Hospital Fund</u>	<u>Liquor, Lodging &amp; Dining Sales Tax Fund</u>	<u>Library Fines Fund</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Cash and cash equivalents	\$ 1,721,221	\$ 1,407,674	\$ --	\$ --	\$ 3,128,895
Taxes receivable-delinquent	23,828	--	--	--	23,828
Accounts Receivable	11,309	3,016	466	--	14,791
Due from other governments	3,423	--	--	--	3,423
Inventory of supplies	60,219	--	--	--	60,219
Prepaid expenses	5,363	--	--	--	5,363
Deposits	11,718	--	--	--	11,718
Restricted cash	842,860	--	38,270	8,735	889,865
<b>Total Assets</b>	<u>\$ 2,679,941</u>	<u>\$ 1,410,690</u>	<u>\$ 38,736</u>	<u>\$ 8,735</u>	<u>\$ 4,138,102</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>					
Liabilities:					
Accounts payable	\$ 13,340	\$ 500	\$ --	\$ --	\$ 13,840
Accrued taxes payable	809	--	--	--	809
Customer Deposits	8,744	--	--	--	8,744
<b>Total Liabilities</b>	<u>22,893</u>	<u>500</u>	<u>--</u>	<u>--</u>	<u>23,393</u>
Deferred inflows of resources:					
Unavailable revenue	23,828	--	--	--	23,828
<b>Total Deferred Inflows of Resources</b>	<u>23,828</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>23,828</u>
Fund Balances:					
Nonspendable - inventory	60,219	--	--	--	60,219
Nonspendable - prepaids	17,081	--	--	--	17,081
Restricted - depot museum	15,190	--	--	--	15,190
Restricted - facilities and promoting the city	190,250	--	38,736	--	228,986
Restricted - library purposes	--	--	--	8,735	8,735
Restricted - fire department	37,420	--	--	--	37,420
Committed - Capital Replacements	--	1,410,190	--	--	1,410,190
Unassigned	2,313,060	--	--	--	2,313,060
<b>Total Fund Balances</b>	<u>2,633,220</u>	<u>1,410,190</u>	<u>38,736</u>	<u>8,735</u>	<u>4,090,881</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 2,679,941</u>	<u>\$ 1,410,690</u>	<u>\$ 38,736</u>	<u>\$ 8,735</u>	<u>\$ 4,138,102</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of De Smet

### Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position December 31, 2022

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Total Fund Balances Government Funds	\$ 4,090,881
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not available financial resource and therefore is not reported in the funds.	1,327
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	13,129,856
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	121,168
Long-term liabilities, including promissory notes and compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(12,955)
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	23,828
Pension related deferred inflows are components of pension liability (asset)/OPEB liability and therefore are not reported in the funds.	<u>(77,279)</u>
Net Position Governmental Activities	<u>\$ 17,276,826</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds  
For the Year Ended December 31, 2022

	<u>General Fund</u>	<u>Hospital Fund</u>	<u>Liquor, Lodging &amp; Dining Sales Tax Fund</u>	<u>Library Fines Fund</u>	<u>Tax Incremental District No. 1 Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>Revenues</u></b>						
Taxes:						
General property taxes	\$ 572,174	\$ --	\$ --	\$ --	\$ 36,589	\$ 608,763
General sales and use taxes	650,674	--	40,218	--	--	690,892
Penalties and interest on taxes	583	--	--	--	--	583
Licenses and permits	1,625	--	--	--	--	1,625
Intergovernmental Revenue:						
Federal grants	105,845	--	--	--	--	105,845
State grants	2,338	--	--	--	--	2,338
State shared revenues:						
Bank franchise tax	7,289	--	--	--	--	7,289
Prorate license fees	2,610	--	--	--	--	2,610
Liquor tax reversion (25%)	7,400	--	--	--	--	7,400
Motor vehicle licenses	19,841	--	--	--	--	19,841
Local government highway and bridge	41,669	--	--	--	--	41,669
County shared revenues	5,660	--	--	--	--	5,660
Charges for Goods or Services:						
General government	11,271	--	--	--	--	11,271
Public safety	2,700	--	--	--	--	2,700
Sanitation	93,623	--	--	--	--	93,623
Culture and recreation	32,236	--	--	--	--	32,236
Other	2,867	--	--	--	--	2,867
Fines and Forfeits:						
Court fines	152	--	--	--	--	152
Miscellaneous Revenue:						
Interest earned	11,576	9,277	179	--	--	21,032
Rentals	159,136	115,200	--	--	--	274,336
Donations from private sources	300	--	--	3,210	--	3,510
Liquor operating agreement income	37,747	--	--	--	--	37,747
Other	33,022	--	--	--	--	33,022
Total Revenues	<u>\$ 1,802,338</u>	<u>\$ 124,477</u>	<u>\$ 40,397</u>	<u>\$ 3,210</u>	<u>\$ 36,589</u>	<u>\$ 2,007,011</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds  
For the Year Ended December 31, 2022 (Continued)

	<u>General Fund</u>	<u>Hospital Fund</u>	<u>Liquor, Lodging &amp; Dining Sales Tax Fund</u>	<u>Library Fines Fund</u>	<u>Tax Incremental District No. 1 Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b><u>Expenditures</u></b>						
General Government:						
Legislative	\$ 35,315	\$ --	\$ --	\$ --	\$ --	\$ 35,315
Financial administration	164,202	--	--	--	--	164,202
Other	36,243	--	--	--	--	36,243
Public Safety:						
Police	75,400	--	--	--	--	75,400
Fire	48,595	--	--	--	--	48,595
Public Works:						
Highways and streets	361,227	--	--	--	--	361,227
Sanitation	89,598	--	--	--	--	89,598
Airport	39,649	--	--	--	--	39,649
Health and Welfare:						
Health	5,732	--	--	--	--	5,732
Hospitals, Nursing & Rest Homes	2,907	4,811	--	--	--	7,718
Culture and Recreation:						
Recreation	71,748	--	--	--	--	71,748
Parks	31,194	--	--	--	--	31,194
Libraries	70,503	--	--	3,293	--	73,796
Auditorium	174,720	--	--	--	--	174,720
Museums	8,236	--	--	--	--	8,236
Conservation and Development:						
Economic development and assistance	24,780	--	35,379	--	--	60,159
Debt Service	--	--	--	--	36,589	36,589
Capital Outlay	103,175	--	--	--	--	103,175
Total Expenditures	<u>1,343,224</u>	<u>4,811</u>	<u>35,379</u>	<u>3,293</u>	<u>36,589</u>	<u>1,423,296</u>
Net Change in Fund Balances	459,114	119,666	5,018	(83)	--	583,715
<b>Fund Balance, Beginning of Year</b>	<u>2,174,106</u>	<u>1,290,524</u>	<u>33,718</u>	<u>8,818</u>	<u>--</u>	<u>3,507,166</u>
<b>Fund Balance, End of Year</b>	<u>\$ 2,633,220</u>	<u>\$ 1,410,190</u>	<u>\$ 38,736</u>	<u>\$ 8,735</u>	<u>\$ --</u>	<u>\$ 4,090,881</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
 Reconciliation Of The Statement Of Revenues, Expenditures, And Changes In Fund Balances  
 To The Statement Of Activities  
 For The Year Ended December 31, 2022

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Net Change in Fund Balances Total Government Funds	\$ 583,715
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements.	103,175
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	(580,259)
Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets.	4,148
The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in the the fund financial statements require the amounts to be "available".	2,675
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	(1,041)
Changes in the pension related deferred outflows/inflows are direct components of pension (asset) and are not reflected in the governmental funds.	5,864
Change in Net Position of Governmental Activities	\$ 118,277

The accompanying Notes to Financial Statements are an integral part of this statement.



**City of De Smet**  
Statement of Net Position – Proprietary Funds  
December 31, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Assets:</b>			
Current Assets:			
Cash and cash equivalents	\$ 557,184	\$ 442,386	\$ 999,570
Accounts receivable, net	24,939	21,402	46,341
Inventory of supplies	3,833	4,811	8,644
Prepaid expenses	827	1,438	2,265
Total Current Assets	<u>586,783</u>	<u>470,037</u>	<u>1,056,820</u>
Noncurrent Assets:			
Restricted cash and cash equivalents	100,438	--	100,438
Deposits	40,055	--	40,055
Net pension asset	147	135	282
Capital Assets:			
Land	18,777	15,750	34,527
Capital Assets, Net of Depreciation	<u>1,277,010</u>	<u>599,734</u>	<u>1,876,744</u>
Total Capital Assets	<u>1,295,787</u>	<u>615,484</u>	<u>1,911,271</u>
Total Noncurrent Assets	<u>1,436,427</u>	<u>615,619</u>	<u>2,052,046</u>
<b>Total Assets</b>	<u>2,023,210</u>	<u>1,085,656</u>	<u>3,108,866</u>
<b>Deferred Outflows of Resources:</b>			
Pension related deferred outflows	<u>13,427</u>	<u>12,329</u>	<u>25,756</u>
<b>Liabilities:</b>			
Current Liabilities:			
Accounts payable	906	1,800	\$ 2,706
Accrued interest payable	483	--	483
Unearned Revenue	32,685	--	32,685
Bonds payable - current:			
Revenue	<u>15,572</u>	<u>--</u>	<u>15,572</u>
Total Current Liabilities	<u>49,646</u>	<u>1,800</u>	<u>51,446</u>
Noncurrent Liabilities:			
Bonds payable:			
Revenue	449,033	--	449,033
Accrued leave payable	948	948	1,896
Total Noncurrent Liabilities	<u>449,981</u>	<u>948</u>	<u>450,929</u>
<b>Total Liabilities</b>	<u>499,627</u>	<u>2,748</u>	<u>502,375</u>
<b>Deferred Inflows of Resources:</b>			
Pension related deferred inflows	<u>8,564</u>	<u>7,863</u>	<u>16,427</u>
<b>Net Position</b>			
Net investment in capital assets	831,182	615,484	1,446,666
Restricted for			
Revenue bond debt service	100,438	--	100,438
SDRS pension purposes	5,010	4,601	9,611
Unrestricted net position	<u>591,816</u>	<u>467,289</u>	<u>1,059,105</u>
Total Net Position	<u>\$ 1,528,446</u>	<u>\$ 1,087,374</u>	<u>\$ 2,615,820</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

## City of De Smet

### Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds For the Year Ended December 31, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Charges for goods and services	\$ 334,062	\$ 249,303	\$ 583,365
Total Operating Revenue	<u>334,062</u>	<u>249,303</u>	<u>583,365</u>
<b>Operating Expenses:</b>			
Personal services	55,422	73,135	128,557
Materials (cost of goods sold)	159,779	34,471	194,250
Other current expense	--	22,061	22,061
Depreciation	37,336	25,489	62,825
Total Operating Expenses	<u>252,537</u>	<u>155,156</u>	<u>407,693</u>
Operating Income (Loss)	<u>81,525</u>	<u>94,147</u>	<u>175,672</u>
<b>Nonoperating Revenue (Expense):</b>			
Interest earned	3,300	2,373	5,673
Interest expense	(2,239)	--	(2,239)
Total Nonoperating Revenue (Expense)	<u>1,061</u>	<u>2,373</u>	<u>3,434</u>
Change in Net Position	82,586	96,520	179,106
<b>Net Position , Beginning of Year</b>	<u>1,445,860</u>	<u>990,854</u>	<u>2,436,714</u>
<b>Net Position, End of Year</b>	<u>\$ 1,528,446</u>	<u>\$ 1,087,374</u>	<u>\$ 2,615,820</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Cash Flows – Proprietary Funds  
For the Year Ended December 31, 2022

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
<b>Cash Flows from Operating Activities:</b>			
Receipts from customers	\$ 328,928	\$ 244,638	\$ 573,566
Payments to employees for services	(55,397)	(73,834)	(129,231)
Payments to suppliers	(162,230)	(55,525)	(217,755)
<b>Net Cash Provided by Operating Activities</b>	<u>111,301</u>	<u>115,279</u>	<u>226,580</u>
<b>Cash Flows from Capital and Related Financing</b>			
Purchase of capital assets	(25,177)	(103,966)	(129,143)
Debt principal paid	14,832	--	14,832
Debt interest paid	(2,239)	--	(2,239)
<b>Net Cash Used by Capital and Related Financing Activities</b>	<u>(12,584)</u>	<u>(103,966)</u>	<u>(116,550)</u>
<b>Cash Flows from Investing Activities:</b>			
Cash received for interest	3,300	2,373	5,673
<b>Net Cash Provided by Investing Activities</b>	<u>3,300</u>	<u>2,373</u>	<u>5,673</u>
<b>Net Increase in Cash and Cash Equivalents</b>	102,017	13,686	115,703
<b>Cash and Cash Equivalents, Beginning of Year</b>	595,660	428,700	1,024,360
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 697,677</u>	<u>\$ 442,386</u>	<u>\$ 1,140,063</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows (Used) by Operating Activities:</b>			
Operating Income (Loss)	\$ 81,525	\$ 94,147	\$ 175,672
Adjustments to reconcile operating (loss) to net cash provided (used) by operating activities:			
Depreciation	37,336	25,489	62,825
Changes in Assets and Liabilities:			
Receivables	(5,134)	(4,665)	(9,799)
Inventories	(322)	--	(322)
Prepaid expenses	--	(375)	(375)
Net pension asset/liability	25	(699)	(674)
Accounts and other payables	(2,129)	1,382	(747)
<b>Cash Flows Provided (Used) by Operating Activities</b>	<u>\$ 111,301</u>	<u>\$ 115,279</u>	<u>\$ 226,580</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Net Position – Fiduciary Funds  
December 31, 2022

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	<b>Custodial Funds</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 1,850
Total Assets	<u>\$ 1,850</u>
<b>Liabilities:</b>	
Amounts held for others	\$ 1,850
Total Liabilities	<u>\$ 1,850</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Statement of Changes in Net Position – Fiduciary Funds  
December 31, 2022

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	<b>Custodial Funds</b>
<b>Additions:</b>	
Interest Income	\$ 5
<b>Deductions:</b>	
Other Deductions	5
Change in Net Position	--
<b>Net Position - Beginning</b>	--
<b>Net Position - Ending</b>	\$ --

The accompanying Notes to Financial Statements are an integral part of this statement.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies:**

a. Financial Reporting Entity:

The reporting entity of the City of De Smet (City) 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); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The Housing and Redevelopment Commission of the City of De Smet, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: De Smet Housing and Redevelopment Commission, 408 Calumet Avenue, De Smet, South Dakota 57231. The December 31, 2022 year-end statements are presented in these financial statements.

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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a. above.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program 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 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 enterprises 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 financial reporting entity are described below:

**Governmental Funds:**

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

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

Liquor, Lodging and Dining Gross Receipts Tax Fund – To account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used to the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

Hospital Fund – to account for the related financial activity primarily related to an operational agreement with a regional hospital. This is a major fund.

Library Fund – to account for the library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

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

Tax Increment District No. 1 Debt Service Fund – to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs associated with a tax incremental district. This is 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 fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered payable “solely” from the revenues of the activity.)
- b. Laws or regulation 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.



**1. Summary of Significant Accounting Policies: (Continued)**

**Fiduciary Funds:**

Fiduciary funds consist of the following sub-category and are never considered to be major funds.

Custodial Funds – Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds consist of special assessment projects and payroll-related withholdings.

c. Measurement Focus and Basis of Accounting:

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

**Measurement Focus:**

Government-Wide Financial Statements – In the government-wide Statement of Net Position and Statement of Activities, both governmental, business-type and component units activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements – In the fund financial statements, the “current financial resources” measurement focus, and the modified accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

**Basis of Accounting:**

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

Fund Financial Statements – All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City of De Smet is 30 days. The revenues which are accrued at December 31, 2022 are sales tax, real estate taxes, state shared revenues, and miscellaneous other revenues.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have not been met are reported as a deferred inflow of resources.

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

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

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts 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.

There are no investments classified in the financial statements.

e. Capital Assets:

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

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

**Government-Wide Financial Statements:**

Capital assets are recorded at historical cost or estimated cost where actual historical cost could not be determined. Donated capital assets are valued at their estimated acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

The total December 31, 2022 balance of governmental activities capital assets includes approximately 34% for which the costs were determined by estimates of the original costs. The total December 31, 2022 balance of business-type capital assets includes approximately 37% for which costs were determined by estimates of the original costs. These estimated original costs were established by appraisals or deflated current replacement cost.

Infrastructure Assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004 were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost and classified as "Improvements Other than Buildings".

For governmental activities and business-type/proprietary fund Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP.

Depreciation/Amortization of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation/Amortization, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation/amortization is reported on the government-wide Statement of Net Position and on the proprietary fund's Statement of Net Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	<b>Capitalization Threshold</b>	<b>Depreciation Method</b>	<b>Estimated Useful Life</b>
Land	All	-- *	--
Buildings	\$ 25,000	straight-line	25-100 years
Improvements other than buildings	\$ 25,000	straight-line	5-50 years
Machinery and equipment	\$ 4,000	straight-line	5-60 years
Utility improvements	\$ 10,000	straight-line	5-20 years

\*Land is an inexhaustible capital asset and is not depreciated.

**Fund Financial Statements:**

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

f. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term liabilities primarily consist of revenue bonds, promissory notes, compensated absences..

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide financial statements.

g. Leases:

The City is a lessor for an operating lease to use the Hospital and Clinic buildings to Avera Queen of Peace for a monthly payment. The agreements can be cancelled by either party upon 180-day notice. No lease payments receivable or deferred inflow of resources has been accrued.

h. Program Revenues:

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

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

i. 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

j. Deferred Inflows and Deferred Outflows of Resources:

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

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

k. Cash and Cash Equivalents:

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

l. Equity Classifications:

**Government-Wide Financial Statements:**

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – 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.
3. Unrestricted Net Position – All other net positions 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. Fiduciary fund equity is reported as Net Position – Restricted.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

m. Application of Net Position:

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

n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

1. Nonspendable – Includes fund balance amounts that cannot be spent either because they are not in spendable form or because of legal or contractual constraints.
2. 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.
3. Committed – included 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. The governing board has committed fund balances for hospital and event center purposes.
4. Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the Finance Officer.
5. Unassigned – Includes positive fund balances within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of inventory and prepaid expenses.

The Committed Fund Balance is for capital replacements.

The City 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 Government would first use assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging & Dining Sales Tax Fund	Sales Tax
Hospital Fund	Lease Proceeds
Library Fines Fund	Contributions & Donations from Private Sources

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**1. Summary of Significant Accounting Policies: (Continued)**

o. Pensions:

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

**2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk:**

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.

**Investments:**

In general, SDLC 4-5-6 permits City funds to be invested only in:

- a. Securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or
- b. Repurchase agreements fully collateralized by securities described in a. above; or in shares of an open-end, no load fund administered by an investment company whose investments are in securities described in a. above and repurchase agreements described in b. above.

Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**2. Deposits and Investments, Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk: (Continued)**

**Fair Value Measurement:**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

**Credit Risk:**

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

As of December 31, 2022, the City had no investments.

**Interest-Rate Risk:**

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

**Concentration of Credit Risk:**

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

**Assignment of Investment Income:**

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality’s policy is to credit all income from investments to the fund making the investment, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

**3. Restricted Cash and Investments:**

Assets restricted to use for a specific purpose through segregation of balances are as follows:

<u>Amount</u>	<u>Purpose</u>
\$ 828,520	For facilities and promoting the City
\$ 8,735	Donor restricted for purposes for library
\$ 37,420	Donor restricted purposes for fire department
\$ 100,438	Debt service for water and sewer
\$ 15,190	Donor restricted purposes for depot museum



**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**4. Receivables and Payables:**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

**5. Restricted Net Position:**

Restricted Net Position for the year ended December 31, 2022 was as follows:

Restricted for:	
Debt service purposes	\$ 100,438
Depot museum	15,190
Facilities and promoting the city	228,986
Library purposes	8,735
Fire department	37,420
SDRS pension purposes	54,827
Total Restricted Net Position	<u>\$ 445,596</u>

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

**6. Inventory:**

Inventory in the General Fund and special revenue funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost. Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

**Government-Wide Financial Statements:**

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

**Fund Financial Statements:**

In the fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

**7. 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 the following 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.

**8. Changes in Capital Assets:**

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

	<u>Balance</u> <u>1/01/22</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/22</u>
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 214,947	\$ --	\$ --	\$ 214,947
Construction in progress	832,772	49,956	830,486	52,242
Total, not being depreciated	<u>1,047,719</u>	<u>49,956</u>	<u>830,486</u>	<u>267,189</u>
Capital assets, being depreciated:				
Buildings	11,761,892	--	--	11,761,892
Improvements other than Buildings	4,149,505	830,486	--	4,979,991
Machinery and equipment	2,422,342	53,219	--	2,475,561
Total, being depreciated	<u>18,333,739</u>	<u>883,705</u>	<u>--</u>	<u>19,217,444</u>
Less accumulated depreciation for:				
Buildings	2,300,708	236,141	--	2,536,849
Improvements other than Buildings	2,087,590	256,109	--	2,343,699
Machinery and equipment	1,386,220	88,009	--	1,474,229
Total accumulated depreciation	<u>5,774,518</u>	<u>580,259</u>	<u>--</u>	<u>6,354,777</u>
Governmental Activity				
Capital Assets, Net	<u>\$ 13,606,940</u>	<u>\$ 353,402</u>	<u>\$ 830,486</u>	<u>\$ 13,129,856</u>

Depreciation expense was charged to functions as follows:

General government	\$ 8,183
Public safety	32,279
Public works	270,062
Health and welfare	159,291
Culture and recreation	<u>110,444</u>
Total Depreciation Expense	
Governmental Activities	<u>\$ 580,259</u>

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

**8. Changes in Capital Assets: (Continued)**

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

	<u>Balance 1/01/22</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2022</u>
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 18,850	\$ --	\$ --	\$ 18,850
Construction in progress	--	15,677	--	15,677
Total, not being depreciated	<u>18,850</u>	<u>15,677</u>	<u>--</u>	<u>34,527</u>
Capital assets, being depreciated:				
Buildings	78,255	--	--	78,255
Improvements other than Buildings	2,678,311	113,466	--	2,791,777
Machinery and equipment	256,196	--	--	256,196
Total, being depreciated	<u>3,012,762</u>	<u>113,466</u>	<u>--</u>	<u>3,126,228</u>
Less accumulated depreciation for:				
Buildings	78,255	1,204	--	79,459
Improvements other than Buildings	947,530	40,768	--	988,298
Machinery and equipment	160,874	20,853	--	181,727
Total accumulated depreciation	<u>1,186,659</u>	<u>62,825</u>	<u>--</u>	<u>1,249,484</u>
Business-Type Activities				
Capital Assets, Net	<u>\$ 1,844,953</u>	<u>\$ 66,318</u>	<u>\$ --</u>	<u>\$ 1,911,271</u>

Depreciation expense was charged to functions as follows:

Water	\$ 37,336
Sewer	<u>25,489</u>
Total Depreciation Expense	
Business-Type Activities	<u>\$ 62,825</u>

Construction work in progress at December 31, 2022 is composed of the following:

<u>Project Name</u>	<u>Project Authorization</u>	<u>Expended thru 12/31/2022</u>	<u>Committed</u>	<u>Required Future</u>
Airport	\$ 403,354	\$ 52,242	\$ --	\$ 351,112
Water fund - Pump for Well 8	\$ 50,000	\$ 15,677	\$ --	\$ 34,323

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**9. Changes in Component Unit Capital Assets:**

A summary of changes in component unit fixed assets for the year ended December 31, 2022 is composed of the following:

	<u>Balance 1/01/22</u>	<u>Adjustment</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2022</u>
<b>De Smet Housing and Revelopment Commission</b>					
Capital assets, not being depreciated:					
Land	\$ 19,678	\$ --	\$ --	\$ --	\$ 19,678
Construction in progress	31,859	--	--	(24,020)	7,839
Total, not being depreciated	<u>51,537</u>	<u>--</u>	<u>--</u>	<u>(24,020)</u>	<u>27,517</u>
Capital assets, being depreciated:					
Buildings & Improvements	3,721,192	(17,347)	134,961	24,020	3,862,826
Machinery and equipment	51,281	--	8,291	--	59,572
Other capital assets	--	17,347	--	--	17,347
Total, being depreciated	<u>3,772,473</u>	<u>--</u>	<u>143,252</u>	<u>24,020</u>	<u>3,939,745</u>
Less accumulated depreciation for:					
Buildings & Improvements	2,408,138	(1,735)	108,416	--	2,514,819
Machinery and equipment	39,840	--	4,268	--	44,108
Other capital assets	--	1,735	1,156	--	2,891
Total accumulated depreciation	<u>2,447,978</u>	<u>--</u>	<u>113,840</u>	<u>--</u>	<u>2,561,818</u>
Component Unit Activities					
Capital Assets, Net	<u>\$ 1,376,032</u>	<u>\$ --</u>	<u>\$ 29,412</u>	<u>\$ --</u>	<u>\$ 1,405,444</u>

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

**10. Long-Term Liabilities:**

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Primary Government					
Governmental Activities:					
Promissory Note Series 2008 (TID #1)	\$ 4,148	\$ --	\$ (4,148)	\$ --	\$ --
Total Debt	4,148	--	(4,148)	--	--
Accrued Compensated Absences	11,914	1,041	--	12,955	--
Total Governmental Activities	<u>\$ 16,062</u>	<u>\$ 1,041</u>	<u>\$ (4,148)</u>	<u>\$ 12,955</u>	<u>\$ --</u>
Business-type Activities:					
Revenue Bonds	\$ 449,774	\$ 23,258	\$ (8,427)	\$ 464,605	\$ 15,572
Total Debt	449,774	23,258	(8,427)	464,605	15,572
Accrued Compensated Absences	1,896	--	--	1,896	--
Total Business Type Activities	<u>\$ 451,670</u>	<u>\$ 23,258</u>	<u>\$ (8,427)</u>	<u>\$ 466,501</u>	<u>\$ 15,572</u>
Component Unit Activities					
Revenue Bonds	\$ 622,954	\$ --	\$ (47,175)	\$ 575,779	\$ 55,736
Total Debt	622,954	--	(47,175)	575,779	55,736
Accrued Compensated Absences	1,285	1,836	(1,285)	1,836	1,835
Total Component Unit Activities	<u>\$ 624,239</u>	<u>\$ 1,836</u>	<u>\$ (48,460)</u>	<u>\$ 577,615</u>	<u>\$ 57,571</u>

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**10. Long-Term Liabilities: (Continued)**

Debt payable at December 31, 2022 is comprised of the following:

Revenue Borrower Bonds, Series 2009	A long-term bond with quarterly payments of \$2,666 with an interest rate of 2.25% with the last payment scheduled to be made October 2032. Payable from the Debt Service Fund.	\$ 94,157
Revenue Borrower Bonds, Series 2023	A long-term bond with quarterly payments of \$4,043 with an interest rate of 1.875% with the last payment scheduled to be made January 2053. Payable from the Debt Service Fund.	370,448
Compensated Absences	The liability for compensated absences represents leave benefits earned as of December 31, 2022. The compensated absences in the Governmental Activities are currently paid from the General Fund. The compensated absences in the Business-Type Activities are currently paid from the Water Fund and Sewer Fund.	<u>14,851</u>
Grand Total		<u>\$ 479,456</u>

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**10. Long-Term Liabilities: (Continued)**

Component Unit Debt payable at December 31, 2022 is comprised of the following:

Essential Function Housing Development Revenue Bond, Series 1999-01	Original issue of \$277,500; maturing in 2026 with an interest rate of 4% at December 31, 2013 and adjusted on July 26, 2004 and every 5 years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond. Paid by Calumet Town Homes Fund.	\$ 59,404
Essential Function Housing Development Revenue Bond, Series 1999-02	Original issue of \$277,500; maturing in 2025 with an interest rate of 4% at December 31, 2013 and adjusted on July 1, 2005 and every 5 years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond. Paid by Calumet Town Homes Fund.	40,750
Essential Function Housing Development Revenue Bond, Series 2001	Original issue of \$277,500; maturing in 2032 with an interest rate of 4% at December 31, 2013 and adjusted on July 1, 2007 and every 5 years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond. Paid by Calumet Town Homes Fund.	136,325
Essential Function Housing Development Revenue Bond, Series 2016	Original issue of \$385,000; maturing in 2047 with an interest rate of 3% callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond. Paid by Calumet Town Homes Fund.	339,300
Compensated Absences	Payments for compensated absences are made form the Prairie Park Fund.	<u>1,836</u>
Grand Total		<u>\$ 577,615</u>

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**10. Long-Term Liabilities: (Continued)**

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

<u>Years Ending December 31,</u>	<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 15,574	\$ 7,224	\$ 15,574	\$ 7,224
2024	18,236	8,601	18,236	8,601
2025	18,617	8,223	18,617	8,223
2026	19,001	7,836	19,001	7,836
2027	19,395	7,443	19,395	7,443
2028-2032	101,795	31,011	101,795	31,011
2033-2037	57,904	22,963	57,904	22,963
2038-2042	63,581	17,284	63,581	17,284
2043-2047	69,815	11,052	69,815	11,052
2048-2052	76,671	4,206	76,671	4,206
2052-2053	4,016	19	4,016	19
Totals	<u>\$ 464,605</u>	<u>\$ 125,862</u>	<u>\$ 464,605</u>	<u>\$ 125,862</u>

The annual requirements to amortize all component unit debt outstanding as of December 31, 2022 except for compensated absences are as follows:

<u>Years Ending December 31,</u>	<u>Essential Function Housing Development Revenue Bonds</u>	
	<u>Principal</u>	<u>Interest</u>
2023	\$ 55,736	\$ 19,638
2024	57,871	17,504
2025	46,253	15,284
2026	32,455	13,534
2027	25,134	12,340
2028-2032	127,012	47,532
2033-2037	67,207	30,785
2038-2042	77,911	20,081
2043-2047	86,200	7,671
Totals	<u>\$ 575,779</u>	<u>\$ 184,369</u>



## 11. Pension Plan:

### Plan Information:

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

### Benefits Provided:

SDRS has four 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 retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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:

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**11. Pension Plan: (Continued)**

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

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

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

**Contributions:**

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

2022	\$	24,358
2021		24,714
2020		23,430

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

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

Proportionate share of pension liability	\$ 2,403,496
Less proportionate share of net pension restricted for pension benefits	<u>2,405,105</u>
Proportionate share of net pension (asset)	<u><u>\$ (1,609)</u></u>

At December 31, 2022, the City reported an asset of \$(1,609) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.01702600%, which is a decrease of -0.0005530% from its proportion measured as of June 30, 2021.

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**11. Pension Plan: (Continued)**

For the year ended December 31, 2022, the City recognized a reduction of pension expense of (\$6,537). At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference between expected and actual experience	\$ 30,630	\$ 104
Changes in assumption	102,267	89,623
Net Difference between projected and actual earnings on pension plan investments	--	3,856
Changes in proportion and difference between City contributions and proportionate share of contributions	1,358	123
City contributions subsequent to the measurement date	12,669	--
	<b>\$ 146,924</b>	<b>\$ 93,706</b>

\$12,669 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

<b>Year Ended December 31:</b>	
2023	\$ 11,255
2024	22,560
2025	(25,240)
2026	31,974
	<b>\$ 40,549</b>

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

Inflation	2.50%
Salary Increases	Graded by years of services, 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%

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**11. Pension Plan: (Continued)**

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

**Actuarial Assumptions:**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	58.0%	3.7%
Fixed income	30.0%	1.1%
Real estate	10.0%	2.6%
Cash	2.0%	0.4%
Total	<u>100%</u>	

**City of De Smet**  
Notes to Financial Statements  
December 31, 2022

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**11. Pension Plan: (Continued)**

**Discount Rate:**

The discount rate used to measure the total pension 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 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 (asset).

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

The following presents the City's proportionate share of net pension (asset) calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension (asset)	\$ 334,107	\$ (1,609)	\$ (275,978)

**Pension Plan Fiduciary Net Position:**

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

**12. Risk Management:**

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

**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. Under the US Health Care Law it is no longer allowed for insurance companies to set a dollar limit on essential health benefits for either annual or lifetime coverage.

## **12. Risk Management: (Continued)**

### **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.

### **Liability Insurance:**

The City 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.

### **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.

## **13. Implementation of New Accounting Standard:**

As of December 31, 2022, the City implemented GASB Statement No. 87, Leases, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. The City does not have leases to report.

## **Required Supplemental Information**

**City of De Smet**  
 Budgetary Comparison Schedule – General Fund  
 For the Year Ended December 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
<b>Revenues</b>				
Taxes:				
General property taxes	\$ 539,000	\$ 539,000	\$ 572,174	\$ 33,174
General sales and use taxes	535,000	535,000	650,674	115,674
Penalties and interest on taxes	--	--	583	583
Licenses and permits	1,300	1,300	1,625	325
Intergovernmental Revenue:				
Federal grants	201,000	201,000	105,845	(95,155)
State grants	--	--	2,338	2,338
State shared revenues:				
Bank franchise tax	4,500	4,500	7,289	2,789
Prorate license fees	4,000	4,000	2,610	(1,390)
Liquor tax reversion (25%)	6,500	6,500	7,400	900
Motor vehicle licenses	20,000	20,000	19,841	(159)
Local government highway and bridge fund	38,000	38,000	41,669	3,669
County shared revenues	5,600	5,600	5,660	60
Charges for Goods or Services:				
General government	1,000	1,000	11,271	10,271
Public safety	2,700	2,700	2,700	--
Sanitation	93,525	93,525	93,623	98
Culture and recreation	17,250	17,250	32,236	14,986
Other	--	--	2,867	2,867
Fines and Forfeits:				
Court fines	200	200	152	(48)
Miscellaneous Revenue:				
Interest earned	1,500	1,500	11,576	10,076
Rentals	115,800	115,800	159,136	43,336
Donations from private sources	--	--	300	300
Liquor operating agreement income	30,000	30,000	37,747	7,747
Other	8,400	8,400	33,022	24,622
Total Revenues	<u>\$ 1,625,275</u>	<u>\$ 1,625,275</u>	<u>\$ 1,802,338</u>	<u>\$ 177,063</u>

The accompanying Notes to Required Supplementary Information are an integral part of this statement.



**City of De Smet**  
 Budgetary Comparison Schedule – General Fund  
 For the Year Ended December 31, 2022 (Continued)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures</b>				
General Government:				
Legislative	\$ 96,925	\$ 96,925	\$ 35,315	\$ 61,610
Financial administration	167,500	177,400	164,202	13,198
Other	60,590	68,143	36,243	31,900
Public Safety:				
Police	75,400	75,400	75,400	--
Fire	54,150	89,853	73,104	16,749
Public Works:				
Highways and streets	305,336	390,155	384,546	5,609
Sanitation	100,827	108,827	89,598	19,229
Airport	222,214	222,214	89,605	132,609
Health and Welfare:				
Health	11,740	11,740	5,732	6,008
Hospitals, Nursing Homes, and Rest Homes	7,500	7,500	2,907	4,593
Culture and Recreation:				
Recreation	87,525	87,525	71,748	15,777
Parks	64,480	64,480	31,194	33,286
Libraries	85,395	85,395	75,894	9,501
Auditorium	188,124	188,124	174,720	13,404
Museums	13,630	13,630	8,236	5,394
Conservation and Development:				
Economic development and assistance	21,100	27,795	24,780	3,015
Debt Service	--	--	--	--
Total Expenditures	<u>1,562,436</u>	<u>1,715,106</u>	<u>1,343,224</u>	<u>371,882</u>
Net Change in Fund Balances	62,839	(89,831)	459,114	548,945
<b>Fund Balance, Beginning of Year</b>	<u>2,174,106</u>	<u>2,174,106</u>	<u>2,174,106</u>	<u>--</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 2,236,945</u></u>	<u><u>\$ 2,084,275</u></u>	<u><u>\$ 2,633,220</u></u>	<u><u>\$ 548,945</u></u>

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

**City of De Smet**  
 Budgetary Comparison Schedule – Hospital Fund  
 For the Year Ended December 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Miscellaneous Revenue:				
Interest earned	\$ 500	\$ 500	\$ 9,277	\$ 8,777
Rentals	115,200	115,200	115,200	--
Total Revenues	<u>115,700</u>	<u>115,700</u>	<u>124,477</u>	<u>8,777</u>
<b><u>Expenditures</u></b>				
Health and Welfare:				
Hospitals, Nursing Homes, and Rest Homes	\$ 10,000	\$ 10,000	\$ 4,811	\$ 5,189
Total Expenditures	<u>10,000</u>	<u>10,000</u>	<u>4,811</u>	<u>5,189</u>
Net Change in Fund Balances	105,700	105,700	119,666	13,966
<b>Fund Balance, Beginning of Year</b>	<u>1,290,524</u>	<u>1,290,524</u>	<u>1,290,524</u>	<u>--</u>
<b>Fund Balance, End of Year</b>	<u>\$ 1,396,224</u>	<u>\$ 1,396,224</u>	<u>\$ 1,410,190</u>	<u>\$ 13,966</u>

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

**City of De Smet**  
 Budgetary Comparison Schedule – Liquor, Lodging, & Dining Fund  
 For the Year Ended December 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Taxes:				
General sales and use taxes	\$ 29,000	\$ 29,000	\$ 40,218	\$ 11,218
Miscellaneous Revenue:				
Interest earned	--	--	179	179
Total Revenues	<u>29,000</u>	<u>29,000</u>	<u>40,397</u>	<u>11,397</u>
<b><u>Expenditures</u></b>				
Conservation and Development:				
Economic development and assistance	\$ 35,500	\$ 35,500	\$ 35,379	\$ 121
Total Expenditures	<u>35,500</u>	<u>35,500</u>	<u>35,379</u>	<u>121</u>
Net Change in Fund Balances	(6,500)	(6,500)	5,018	11,518
<b>Fund Balance, Beginning of Year</b>	<u>33,718</u>	<u>33,718</u>	<u>33,718</u>	<u>--</u>
<b>Fund Balance, End of Year</b>	<u>\$ 27,218</u>	<u>\$ 27,218</u>	<u>\$ 38,736</u>	<u>\$ 11,518</u>

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

**City of De Smet**  
 Budgetary Comparison Schedule –Library Fines Fund  
 For the Year Ended December 31, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b><u>Revenues</u></b>				
Miscellaneous Revenue:				
Donations from private sources	\$ 5,000	\$ 5,000	\$ 3,210	\$ (1,790)
Fines & Forfeitures	200	200	--	(200)
Total Revenues	<u>5,200</u>	<u>5,200</u>	<u>3,210</u>	<u>(1,990)</u>
<b><u>Expenditures</u></b>				
Culture and Recreation:				
Libraries	\$ 6,000	\$ 6,000	\$ 3,293	\$ 2,707
Total Expenditures	<u>6,000</u>	<u>6,000</u>	<u>3,293</u>	<u>2,707</u>
Net Change in Fund Balances	(800)	(800)	(83)	717
<b>Fund Balance, Beginning of Year</b>	<u>8,818</u>	<u>8,818</u>	<u>8,818</u>	<u>--</u>
<b>Fund Balance, End of Year</b>	<u><u>\$ 8,018</u></u>	<u><u>\$ 8,018</u></u>	<u><u>\$ 8,735</u></u>	<u><u>\$ 717</u></u>

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

**City of De Smet**  
Notes to the Required Supplementary Information  
December 31, 2022

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**1. Budgets and Budgetary Accounting:**

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

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% of the total city budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (USGAAP).
8. GAAP/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with USGAAP applied within the context of the modified accrual basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

**City of De Smet**  
Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) (SDRS)  
December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0170260%	0.0175790%	0.0176510%	0.0174580%	0.0185100%	0.0182680%	0.0196140%	0.01738600%
City's proportionate share of net pension liability (asset)	\$ (1,609)	\$ (134,625)	\$ (767)	\$ (1,850)	\$ (432)	\$ (1,658)	\$ 66,254	\$ (73,739)
City's covered-employee payroll	\$ 406,552	\$ 398,926	\$ 387,413	\$ 374,955	\$ 384,795	\$ 371,171	\$ 370,711	\$ 317,423
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.40%	33.75%	0.20%	0.49%	0.11%	0.45%	17.87%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	105.52%	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

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

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

**City of De Smet**  
Schedule of the City's Contributions (SDRS)  
Year Ended December 31, 2022

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 24,358	\$ 24,714	\$ 23,430	\$ 22,320	\$ 23,259	\$ 22,380	\$ 22,680	\$ 20,238
Contributions in relation to the contractually required contribution	<u>24,358</u>	<u>24,714</u>	<u>23,430</u>	<u>22,320</u>	<u>23,259</u>	<u>22,380</u>	<u>22,680</u>	<u>20,238</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 405,965	\$ 411,907	\$ 390,492	\$ 372,528	\$ 390,911	\$ 373,001	\$ 377,997	\$ 337,293
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

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

The accompanying Notes to Required Supplementary Information are an integral part of this statement.

## City of De Smet

### Notes to Required Supplementary Information

#### Schedule of Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions

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#### **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%.



## City of De Smet

### Notes to Required Supplementary Information

#### Schedule of Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions (Continued)

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As of June 30, 2022, the FVFR assuming future COLA is 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 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.