

CITY OF GARRETSON

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2023**

CITY OF GARRETSON

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	3-4
<i>Government-wide Financial Statements:</i>	
Statement of Net Position – Cash Basis.....	5
Statement of Activities – Cash Basis	6
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Fund – Cash Basis	7
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds – Cash Basis	8-9
Statement of Net Position – Proprietary Funds – Cash Basis	10
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Cash Basis	11
Notes to Financial Statements	12-22
<i>Other Reports:</i>	
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>	24-25
Schedule of Findings	26-28
<i>Management Response:</i>	
Summary Schedule of Prior Year Audit Findings	30-32
Corrective Action Plan	33-34



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INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Garretson
Garretson, South Dakota

Report on the Financial Statements

Qualified and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Garretson (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Qualified Opinions on the Business-Type Activities and Proprietary Funds

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified and Unmodified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the proprietary funds of the City, as of December 31, 2023, 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.

Unmodified Opinions on Governmental Activities and Governmental Funds

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the governmental funds of the City, as of December 31, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified and Unmodified 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 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified and unmodified audit opinions.

Matter Giving Rise to Qualified Opinions on the Business-Type Activities and Proprietary Funds

Due to an inadequacy of accounting records, the City was unable to provide accurate monthly utility billing registers. We were unable to obtain sufficient appropriate audit evidence regarding utility revenue in the water, sewer, and natural gas funds.

Emphasis of Matter Regarding Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and there 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 a fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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 procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Report on Other Legal and Regulatory Requirements

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



KETEL THORSTENSON, LLP
Certified Public Accountants

CITY OF GARRETSON

**STATEMENT OF NET POSITION - CASH BASIS
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash	\$ 2,846,061	\$ 683,321	\$ 3,529,382
TOTAL ASSETS	\$ 2,846,061	\$ 683,321	\$ 3,529,382
Net Position			
Unrestricted	\$ 2,846,061	\$ 683,321	\$ 3,529,382
TOTAL NET POSITION	\$ 2,846,061	\$ 683,321	\$ 3,529,382

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

STATEMENT OF ACTIVITIES - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

Functions/Programs	Program ---Revenues---				Net (Expense) Revenue and -----Changes in Net Position-----		
	Expenses	Charges for Services	Capital	Operating	Governmental Activities	Primary Government	Total
			Grants and Contributions	Grants and Contributions		Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 557,173	\$ 45,239	\$ 2,243	\$ -	\$ (509,691)	\$ -	\$ (509,691)
Public Safety	155,451	214	-	-	(155,237)	-	(155,237)
Public Works	861,960	6,043	-	498,956	(356,961)	-	(356,961)
Health and Welfare	77,923	-	-	-	(77,923)	-	(77,923)
Culture and Recreation	282,012	105,138	-	-	(176,874)	-	(176,874)
Conservation and Development	34,377	-	-	-	(34,377)	-	(34,377)
Long-Term Debt	12,050	-	-	-	(12,050)	-	(12,050)
Total Governmental Activities	1,980,946	156,634	2,243	498,956	(1,323,113)	-	(1,323,113)
Business-Type Activities:							
Water	702,629	316,821	-	-	-	(385,808)	(385,808)
Sewer	252,689	299,415	-	-	-	46,726	46,726
Natural Gas	623,073	761,562	-	-	-	138,489	138,489
Total Business-Type Activities	1,578,391	1,377,798	-	-	-	(200,593)	(200,593)
Total Primary Government	\$ 3,559,337	\$ 1,534,432	\$ 2,243	\$ 498,956	(1,323,113)	(200,593)	(1,523,706)
General Revenues:							
Taxes:							
Property Taxes					443,418	-	443,418
Sales Taxes					673,008	-	673,008
State Shared Revenues					64,729	-	64,729
Unrestricted Investment Earnings					5,722	190	5,912
Miscellaneous Revenue					27,527	20,783	48,310
Transfers					769,651	(769,651)	-
Total General Revenues					1,984,055	(748,678)	1,235,377
Change in Net Position					660,942	(949,271)	(288,329)
Net Position, December 31, 2022, as Previously Stated					2,205,659	1,743,288	3,948,947
Correction of an Error					(20,540)	(110,696)	(131,236)
Net Position - December 31, 2022, as Restated					2,185,119	1,632,592	3,817,711
Net Position - December 31, 2023					\$ 2,846,061	\$ 683,321	\$ 3,529,382

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

**BALANCE SHEET
GOVERNMENTAL FUND - CASH BASIS
DECEMBER 31, 2023**

	General Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Totals Governmental Funds
Assets			
101 Cash and Cash Equivalents	\$ 2,837,126	\$ 8,935	\$ 2,846,061
Total Assets	\$ 2,837,126	\$ 8,935	\$ 2,846,061
Fund Balance			
267 Unassigned	\$ 2,837,126	\$ 8,935	\$ 2,846,061
Total Fund Balance	\$ 2,837,126	\$ 8,935	\$ 2,846,061

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

		General Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Total Governmental Funds
Revenue:				
	<i>Taxes:</i>			
311	General Property Taxes	\$ 442,704	\$ -	\$ 442,704
313	General Sales and Use Taxes	648,891	24,117	673,008
319	Penalties and Interest on Delinquent Taxes	714	-	714
320	Licenses and Permits	7,793	-	7,793
	<i>Intergovernmental Revenue:</i>			
331	Federal Grant	2,243	-	2,243
334	State Grant	498,956	-	498,956
	<i>State Shared Revenue:</i>			
335.01	Bank Franchise Tax	17,715	-	17,715
335.02	Prorate License Fees	1,360	-	1,360
335.03	Liquor Tax Reversion	14,641	-	14,641
335.04	Motor Vehicle Licenses (5%)	13,115	-	13,115
335.08	Local Government Highway and Bridge Fund	17,898	-	17,898
	<i>Charges for Goods and Services:</i>			
344	Sanitation	6,043	-	6,043
346	Culture and Recreation	105,138	-	105,138
350	Fines and Forfeitures	214	-	214
	<i>Miscellaneous Revenue:</i>			
361	Earnings on Deposits and Investments	5,722	-	5,722
362	Rentals	4,335	-	4,335
363	Special Assessments	37,446	-	37,446
367	Contributions and Donations from Private Sources	15,434	-	15,434
369	Other	7,758	-	7,758
Total Revenue		1,848,120	24,117	1,872,237

CITY OF GARRETSON

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

	General Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Total Governmental Funds
Expenditures:			
<i>General Government:</i>			
411 Legislative	4,575	-	4,575
412 Executive	20,533	-	20,533
414 Financial Administration	141,480	-	141,480
419 Other	390,585	-	390,585
<i>Public Safety:</i>			
421 Police	89,328	-	89,328
422 Fire	40,234	-	40,234
423 Protective Inspection	25,889	-	25,889
<i>Public Works:</i>			
431 Highway and Streets	859,050	-	859,050
432 Sanitation	2,910	-	2,910
<i>Health and Welfare:</i>			
441 Health	77,923	-	77,923
<i>Culture and Recreation:</i>			
451 Recreation	66,740	-	66,740
452 Parks	203,164	-	203,164
455 Library	12,108	-	12,108
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	-	34,377	34,377
470 Debt Service	12,050	-	12,050
Total Expenditures	1,946,569	34,377	1,980,946
Other Financing Sources (Uses)			
391.01 Transfers In	2,441,017	-	2,441,017
511 Transfers Out	(937,077)	(734,289)	(1,671,366)
391.04 Compensation for Loss/Damage to Capital Assets	-	-	-
Total Other Financing Sources (Uses)	1,503,940	(734,289)	769,651
Net Change in Fund Balance	1,405,491	(744,549)	660,942
Fund Balance - December 31, 2022, as Previously Stated	2,205,659	-	2,205,659
Correction of an Error	(774,024)	753,484	(20,540)
Fund Balance - December 31, 2022, as Restated	1,431,635	753,484	2,185,119
Fund Balance, December 31, 2023	\$ 2,837,126	\$ 8,935	\$ 2,846,061

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS - CASH BASIS
DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Natural Gas Fund	Totals
Assets				
101 Cash	\$ 100,000	\$ 113,199	\$ 470,122	\$ 683,321
TOTAL ASSETS	\$ 100,000	\$ 113,199	\$ 470,122	\$ 683,321
Net Position				
253.9 Unrestricted Net Position (Deficit)	\$ 100,000	\$ 113,199	\$ 470,122	\$ 683,321
TOTAL NET POSITION	\$ 100,000	\$ 113,199	\$ 470,122	\$ 683,321

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS - CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Natural Gas Fund	Totals
Operating Revenue:				
380 Charges for Goods and Services	\$ 316,821	\$ 299,415	\$ 761,562	\$ 1,377,798
Operating Expenses:				
480 Personal Services	67,251	73,626	79,252	220,129
480.5 Other Current Expense	419,953	48,236	144,968	613,157
426.2 Materials (Cost of Goods Sold)	104,953	-	398,853	503,806
Total Operating Expenses	592,157	121,862	623,073	1,337,092
Operating Income (Loss)	(275,336)	177,553	138,489	40,706
Nonoperating Revenue (Expense):				
361 Investment Earnings	-	190	-	190
470 Debt Service	(110,472)	(130,827)	-	(241,299)
369 Other	-	(128)	20,911	20,783
Total Nonoperating Expense	(110,472)	(130,765)	20,911	(220,326)
Income (Loss) before Transfers	(385,808)	46,788	159,400	(179,620)
391.01 Transfers In	286,118	63,100	-	349,218
511 Transfers Out	(811,656)	(296,420)	(10,793)	(1,118,869)
Total Transfers	(525,538)	(233,320)	(10,793)	(769,651)
Change in Net Position	(911,346)	(186,532)	148,607	(949,271)
Net Position - December 31, 2022, as Previously Stated	71,037	306,877	1,365,374	1,743,288
Correction of an Error	940,309	(7,146)	(1,043,859)	(110,696)
Net Position - December 31, 2022, as Restated	1,011,346	299,731	321,515	1,632,592
NET POSITION - DECEMBER 31, 2023	\$ 100,000	\$ 113,199	\$ 470,122	\$ 683,321

The accompanying notes are an integral part of this statement.

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

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

Reporting Entity

The reporting entity of the City of Garretson (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Basis of Presentation

Government-wide Financial Statements:

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

The Statement of Activities – Cash Basis 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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

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 Fund – 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. The City has the following special revenue fund:

Liquor, Lodging and Dining Sales 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 for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the promotion of advertising of the City. (SDCL 10-52-8) 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.

1. 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 as payable "solely" from the revenues of the activity).
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Proprietary Funds include:

Sewer Fund – A fund established by SDCL 9-48-2. Financed primarily by user charges; this fund accounts for the construction and operation of the City's sanitary sewer system and related facilities. This fund is a major fund.

Water Fund – A fund established by SDCL 9-47-1. This fund accounts for the construction and operation of the municipal waterworks system and related facilities. This fund is a major fund.

Natural Gas Fund – A fund established by SDCL 9-39-1 and 9-39-26. This fund accounts for the construction and operation of a natural gas system. This fund is a major fund.

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

All financial statements are presented using the cash basis of accounting. The cash basis of accounting involves the measurement of cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed, and assets and liabilities are recognized to the extent that cash has been received or disbursed.

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

If the City applied GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and fund financial statements for proprietary fund types would use the accrual basis of accounting.

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.

As discussed above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a cash basis of accounting. The City has not elected to modify its cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate, so any capital assets owned by the City and the related depreciation/amortization are not reported on the financial statements of the City.

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Long-Term Liabilities

Long-term liabilities include revenue bonds and notes payable.

As discussed above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the cash basis of accounting. The City has not elected to modify its cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the City. The City reports the principal and interest payments on long-term debt as Debt Service expenditures.

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.

Proprietary Funds Revenue and Expense Classification

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Position – Cash Basis, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

Cash and Cash Equivalents

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

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.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net position and is displayed in two components, as follows:

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

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

The City classifies governmental fund balance as follows:

1. Nonspendable – Includes fund balance amounts that cannot be spent either because it is 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 – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Council and does not lapse at year-end.
4. Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.
5. Unassigned – Includes positive and negative fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

The City uses restricted amounts first when both restricted and unrestricted net position or fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar-for-dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The City does not have a formal minimum fund balance policy.

Emerging Standards

In December 2023, the Governmental Accounting Standards Board (GASB) issued Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The statement is effective for the City's year ending December 31, 2025. The City is evaluating the impact this statement will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through December 3, 2025, the date which the financial statements were available to be issued.

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(2) Deposits and Investments

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

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA”, or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

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

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.

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.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

The bank balances at December 31, 2023 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	3,278,923
Total Deposits	\$ 3,528,923

Concentration of Credit Risk:

The City has no investment policy that limits the amount that may be invested in any one issuer.

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy is to credit all income from investments to the fund making the investment.

(3) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

CITY OF GARRETSON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(4) Long-Term Debt

A summary of the changes in long-term debt for the year ending December 31, 2023, is as follows:

	Balance 12/31/2022	Additions	Repayments	Balance 12/31/2023	Due Within One Year
Primary Government:					
Governmental Activities:					
Dam Replacement	\$ 101,252	\$ -	\$ 8,679	\$ 92,573	\$ 27,905
Total Governmental Activities	101,252	-	8,679	92,573	27,905
Business-Type Activities:					
SRF Loan - Clean Water #2	241,004	-	26,825	214,179	27,707
SRF Loan - Clean Water #3	1,079,021	-	28,367	1,050,654	29,083
SRF Loan - Clean Water #4	878,005	-	22,941	855,064	23,432
SRF Loan - Drinking Water #1	570,133	-	39,956	530,177	41,373
SRF Loan - Drinking Water #2	598,890	-	15,546	583,344	15,938
SRF Loan - Drinking Water #3	444,647	-	11,350	433,297	11,593
Total Business-Type Activities	3,811,700	-	144,985	3,666,715	149,126
Total Primary Government	\$ 3,912,952	\$ -	\$ 153,664	\$ 3,759,288	\$ 177,031

Long-term debt at December 31, 2023, is comprised of the following:

Notes Payable

Note payable due in semi-annual installments of \$12,688, including interest at 6.55 percent through May 2027. Financed through the General Fund. \$ 92,573

Revenue Bonds

Series 2002 Drinking Water SRF #1, matures July 2034, interest at 3.50 percent, due in quarterly installments of \$14,848. Financed through the Water Fund. 214,179

Series 2018 Drinking Water SRF #2, matures February 2050, interest at 2.50 percent, due in quarterly installments of \$7,548. Financed through the Water Fund. 1,050,654

Series 2020 Drinking Water SRF #3, matures August 2051, interest at 2.13 percent, due in quarterly installments of \$5,177. Financed through the Water Fund. 855,064

Series 2008 Clean Water SRF #2, matures October 2030, interest at 3.25 percent, due in quarterly installments of \$8,583. Financed through the Sewer Fund. 530,177

Series 2018 Clean Water SRF #3, matures November 2049, interest at 2.50 percent, due in quarterly installments of \$13,769. Financed through the Sewer Fund. 583,344

Series 2011 Clean Water SRF #4, matures February 2051, interest at 2.13 percent, due in quarterly installments of \$10,354. Financed through the Sewer Fund. 433,297

Total Long-Term Debt **\$ 3,759,288**

CITY OF GARRETSON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(4) Long-Term Debt

The annual requirements to amortize long-term debt outstanding at December 31, 2023, are as follows:

	Revenue Bonds		Notes Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2024	\$ 92,172	\$ 149,126	\$ 5,241	\$ 27,905	\$ 97,413	\$ 177,031
2025	87,907	153,392	3,965	20,164	91,872	173,556
2026	83,516	157,783	2,604	21,526	86,120	179,309
2027	78,993	162,306	1,151	22,978	80,144	185,284
2028	74,336	166,963	-	-	74,336	166,963
2029-2033	301,541	801,955	-	-	301,541	801,955
2034-2038	208,943	573,478	-	-	208,943	573,478
2039-2043	142,605	595,273	-	-	142,605	595,273
2044-2048	68,863	669,015	-	-	68,863	669,015
2049-2052	5,754	237,424	-	-	5,754	237,424
Total	\$ 1,144,630	\$ 3,666,715	\$ 12,961	\$ 92,573	\$ 1,157,591	\$ 3,759,288

Business-type Activities

The City has pledged future revenues of the Water and Sewer Funds for the retirement of debt issues associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged.

Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$ 110,472	\$ 130,827
Pledged Revenue	316,821	299,415

The City is required to comply with various debt covenants on SRF Drinking Water and Clean Water debt. At December 31, 2023, the City was not in compliance with the debt coverage ratio requirement for the SRF Drinking Water debt, and a formal waiver has not been obtained. The applicable state agency is aware of the deficiency and has no intention to call the debt due before its original maturity date. As such, balances are reported based on original agreements.

(5) Interfund Transfers

The City transferred unrestricted balances in the General Fund to other funds to cover budgetary deficits.

Fund	Transfers	Transfers
	In	Out
General Fund	\$ 2,441,017	\$ (937,077)
Liquor, Lodging & Dining Sales Tax Fund	-	(734,289)
Water Fund	286,118	(811,656)
Sewer Fund	63,100	(296,420)
Natural Gas Fund	-	(10,793)
Total Transfers	\$ 2,790,235	\$ (2,790,235)

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(6) Retirement Plan – South Dakota Retirement System

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by 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/> 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 different classes of employees, Class A general members, Class B public safety and judicial members, and 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 Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25 percent.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5 percent and no greater than 3.5 percent.
- 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 percent 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 COLA.

CITY OF GARRETSON

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(6) Retirement Plan – South Dakota Retirement System

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 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2023, 2022, and 2021 were \$19,203, \$18,424, and \$19,510, respectively, equal to the required contributions each year.

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2023, SDRS is 100.1 percent funded and accordingly has a net pension asset. The City's share of the net pension asset at June 30, 2023 was .010572 percent. Based on the cash basis reporting, the City does not record this pension activity.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2023 the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

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

Worker's Compensation:

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

CITY OF GARRETSON

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(7) Risk Management

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

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2023, no claims for unemployment benefits were paid. At December 31, 2023, no claims had been filed for unemployment benefits, and none are anticipated in the next year.

(8) Restatements of and Adjustments to Beginning Balances

During the year ended December 31, 2022, the City lacked adequate supporting documentation for many account balances. Additional documentation was obtained to support cash account balances as of December 31, 2022. The allocation between funds was established by a motion of the City Council. As a result, the City restated the net position and fund balances of the funds indicated below to appropriately reflect the December 31, 2022, balances as follows:

Fund	Previously Reported Beginning Fund Balance	Adjustment	Restated Beginning Fund Balance
General Fund	\$ 2,205,659	\$ (774,024)	\$ 1,431,635
Liquor, Lodging, and Dining			
Gross Receipts Tax Fund	-	753,484	753,484
Water Fund	71,037	940,309	1,011,346
Sewer Fund	306,877	(7,146)	299,731
Natural Gas Fund	1,365,374	(1,043,859)	321,515
Totals	\$ 3,948,947	\$ (131,236)	\$ 3,817,711

OTHER REPORTS



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

City Council
City of Garretson
Garretson, 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 cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Garretson (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 3, 2025. Our report was modified for a lack of adequate supporting documentation of utility revenues.

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.

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 were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as #2023-001 through #2023-006 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency presented in the Schedule of Findings as #2023-007 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as #2023-006.

City's Response to Findings

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

December 3, 2025

CITY OF GARRETSON

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Material Weaknesses

#2023-001 FINDING: Financial Statement Preparation

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the financial statements, in both form and content, based on information provided by management during the audit.

Criteria and Effect: Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: Yes, finding #2022-001.

Recommendation: Management and governance should review the financial statements for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

Views of Responsible Officials: See City's Corrective Action Plan.

#2023-002 FINDING: Audit Adjustments

Condition and Cause: During the audit engagement, we proposed material audit adjustments. Adjustments included rolling forward net position, reversing balances to cash basis, adjusting cash balances to reconciled amounts, adjusting retirement and insurance expenses, and various reclassification entries. Additionally, entries were posted to adjust balances for cash basis accounting. These adjustments were not identified with the City's existing internal controls.

Criteria and Effect: The City's internal controls should include reconciliation and review of account balances. The adjustments were material to the financial statements.

Repeat Finding from Prior Year: Yes, finding #2022-002.

Recommendation: We recommend account reconciliation and review processes be developed to include cash balances, revenue reasonableness, and expenditure comparability and classification consistency.

Views of Responsible Officials: See City's Corrective Action Plan.

CITY OF GARRETSON

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Material Weaknesses

#2023-003 FINDING: Lack of Internal Controls

Condition and Cause: An overall lack of proper segregation of duties exists for cash receipts and disbursements. The City does not have formal review processes over the bank reconciliations, journal entries, revenue transactions or payroll.

Criteria and Effect: The City is responsible for implementing internal controls to ensure accurate financial reporting, compliance with laws, and protection of public funds. Implementing adequate review processes and assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets reduces the opportunity for misappropriation of assets, unauthorized spending, financial reporting errors and non-compliance with internal policies and external laws and regulations.

Repeat Finding from Prior Year: Yes, finding #2022-003.

Recommendations: We recommend bank reconciliations, journal entries, revenue transactions, and payroll postings be reviewed by another individual with the appropriate skills and knowledge of the District's financial operations.

Views of Responsible Officials: See City's Corrective Action Plan.

#2023-004 FINDING: Bank Reconciliations

Condition and Cause: The year-end bank statement balance was not properly reconciled to the general ledger. The City does not have an internal control process to reconcile bank statements to the general ledger. In addition, bank reconciliations are not properly reviewed.

Criteria and Effect: A key internal control for any organization is timely completed bank reconciliations. Bank statements are an external record of cash transactions that should be reconciled to the internal records of the City each month. Proper internal control includes the completed bank reconciliations being reviewed in a timely manner by someone outside of the detail accounting processes. The lack of proper bank reconciliation processes may allow for misappropriation of public funds and inaccurate financial reporting.

Repeat Finding from Prior Year: Yes, finding #2022-004.

Recommendations: A bank reconciliation should be prepared monthly, and any reconciling differences should be properly adjusted. The completed bank reconciliations should be reviewed by a member of the city council or the mayor along with the bank statement. Significant or unusual reconciling items should be investigated by the reviewer.

Views of Responsible Officials: See City's Corrective Action Plan.

CITY OF GARRETSON

SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2023

Material Weaknesses

#2023-005 FINDING: Missing Documentation

Condition and Cause: The City lacked proper documentation and City Council approval for several items tested, including employee pay rates and swimming pool registers. Additionally, water, sewer, and natural gas revenue billing registers could not be relied upon, increasing the risk of misstated revenues. The absence of supporting documentation, formal approvals, and accurate billing registers represents a deficiency in internal control over financial reporting.

Criteria and Effect: Governmental standards and internal control policies require all financial transactions to be supported by proper documentation to ensure accountability and compliance. When documentation is missing, it becomes difficult to verify the legitimacy of expenditures and revenues, increasing the risk of errors, fraud, or unauthorized spending. This can lead to audit findings, questioned costs, and potential financial or legal consequences.

Repeat Finding from Prior Year: Yes, revised prior year finding #2022-006.

Recommendation: Implement and enforce a formal documentation policy requiring all accounting transactions to be supported by complete, verifiable records prior to processing.

Views of Responsible Officials: See City's Corrective Action Plan.

#2023-006 FINDING: Debt Covenants

Condition and Cause: At December 31, 2023, the City was not in compliance with the debt coverage ratio requirement for its SRF Drinking Water debt, and a formal waiver has not been obtained.

Criteria and Effect: The City is responsible for implementing internal controls to monitor and ensure compliance with debt covenants.

Repeat Finding from Prior Year: Yes, revised prior year finding #2022-007.

Recommendations: The City should monitor debt covenants to ensure compliance.

Views of Responsible Officials: See City's Corrective Action Plan.

Significant Deficiency

#2023-007 FINDING: Allocation of Payroll Expenses

Condition and Cause: The City does not have a consistent process in place to track and allocate payroll expenses to the appropriate departments or funds based on the actual work performed by employees whose wages are split among multiple funds. This results in payroll expenses being distributed based on estimates rather than actual work performed.

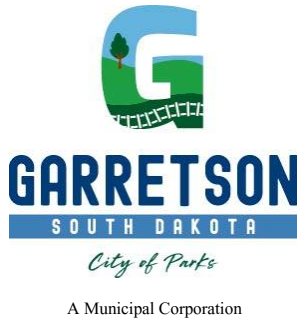
Criteria and Effect: Payroll expenses should be allocated based on actual time and effort spent on related activities. Without accurate time-tracking and allocation of payroll expenses, there is an increased risk of mischarging funds.

Repeat Finding from Prior Year: No.

Recommendations: The City should track the departments or funds worked in each day by employees whose wages are allocated across multiple funds.

Views of Responsible Officials: See City's Corrective Action Plan.

MANAGEMENT RESPONSE



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CITY OF GARRETSON

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2023

The City respectfully submits the following summary schedule of prior audit findings from December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2022 Schedule of Findings.

#2022-001 FINDING: Financial Statement Preparation

Status: It is more cost effective for the City to hire a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2023, see Corrective Action Plan.

#2022-002 FINDING: Audit Adjustments

Status: The City made efforts to record all year-end entries, but adjustments and reclassifications were required to correctly reflect the accuracy and completeness of account balances and transactions.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City is attempting to be more accurate and complete when preparing the financial information and obtaining sufficient expertise to do so. The finding is revised and repeated in 2023. See the Corrective Action Plan.

#2022-003 FINDING: Lack of Internal Controls

Status: An overall lack of proper segregation of duties existed for cash receipts and disbursements. The City does not have formal review processes over the bank reconciliations, journal entries, revenue transactions, or payroll.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The recurrence is attributable to an overall lack of proper segregation of duties for cash receipts and disbursements. In addition, the City does not have formal review processes in place over bank reconciliations, journal entries, revenue transactions, or payroll, which increases the risk of errors and irregularities going undetected. The finding is repeated in the Schedule of Findings. See the Corrective Action Plan.



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CITY OF GARRETSON

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2023

#2022-004 FINDING: Bank Reconciliations

Status: The year-end bank statement balance was not properly reconciled to the general ledger. The City does not have an internal control process to reconcile bank statements to the general ledger. In addition, bank reconciliations are not properly reviewed.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The recurrence is due to the lack of a formal review process over bank reconciliations. Without proper oversight, errors or irregularities in cash balances may not be identified or corrected in a timely manner. The finding is repeated in the Schedule of Findings. See the Corrective Action Plan.



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CITY OF GARRETSON

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2023

#2022-005 FINDING: Budgetary Journal Entries

Status: The City's cash, equity and expenditure account balances are misstated due to the City posting year-end journal entries to adjust expenditure balances to match budgeted balances.

Initial Year Report: Originally issued in 2022.

Corrective Action Plan: The City will implement a formal review and approval process for all budgetary journal entries. Entries will be prepared with proper supporting documentation and reviewed by management or Council prior to posting. Documentation of approval will be retained to ensure transparency and accountability. The finding is not repeated in the Schedule of Findings.

#2022-006 FINDING: Missing Documentation

Status: The City lacked proper documentation and city council approval for several items tested, including invoices, pay rates, journal entries, utility rates and utility usage reports.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City is attempting to be more accurate and complete in retaining financial information. The finding is revised and repeated in the Schedule of Findings. See the Corrective Action Plan.

#2022-007 FINDING: Debt Covenants

Status: At December 31, 2022, the City was not in compliance with the debt coverage ratio requirement for its SRF Drinking Water and Clean Water debts, and a formal waiver has not been obtained.

Initial Year Report: Originally issued in 2022.

Reasons for Recurrence and Corrective Action Plan: The recurrence is due to the City's lack of formal monitoring and review procedures to ensure compliance with debt covenant requirements. As a result, the City was not in compliance with the required debt coverage ratio, increasing the risk of covenant violations going undetected. The finding is repeated in the Schedule of Findings. See the Corrective Action Plan.



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CITY OF GARRETSON

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2023

The City respectfully submits the following corrective action plan from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2023-001 Finding: Financial Statement Preparation

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: Management of the City has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the City. Management and the City Council has been given adequate opportunity to ask questions regarding the financials statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

Anticipated Completion Date: Ongoing

#2023-002 Finding: Audit Adjustments

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make every effort to continually review for potential changes in accounting so that the appropriate entries can be made throughout the year.

Anticipated Completion Date: Ongoing

#2023-003 Finding: Lack of Internal Controls

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make every effort to more accurately present and ensure that all necessary accounting records be established and properly maintained.

Anticipated Completion Date: Ongoing

#2023-004 Finding: Bank Reconciliations

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make every effort to begin the process for reconciling general ledger activity to bank statement balances.

Anticipated Completion Date: Ongoing



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CITY OF GARRETSON

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2023

#2023-005 Finding: Missing Documentation

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make an effort to ensure all necessary accounting records be established and properly maintained and approved.

Anticipated Completion Date: Ongoing

#2023-006 Finding: Debt Covenants

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make an effort to monitor and ensure compliance with debt covenants.

Anticipated Completion Date: Ongoing

#2023-007 Finding: Payroll Allocation

Responsible Official: Paetyn Dreckman, Finance Officer

Corrective Action Plan: The City will make an effort to accurately track and allocate wages between funds.

Anticipated Completion Date: Ongoing



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