

CITY OF HIGHMORE
AUDITED FINANCIAL STATEMENTS
TWO YEARS ENDED DECEMBER 31, 2022

CITY OF HIGHMORE
CITY OFFICIALS
DECEMBER 31, 2022

Mayor:

Vikki Day

Governing Board:

Barry Alger
Lee Straight
Matt Semmler
Mike Cowan
Rich Paynter
Josh Erfman

Finance Officer:

Tara Buchholz

Attorney:

Aaron Scheibe

CITY OF HIGHMORE

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1 - 2
Schedule of Prior Audit Findings	3
Schedule of Current Audit Findings	4 - 7
Independent Auditors' Report	8 - 11
Basic Financial Statements:	
Government-Wide Financial Statements:	
As of December 31, 2022:	
Statement of Net Position - Modified Cash Basis	12
Year Ended December 31, 2022:	
Statement of Activities - Modified Cash Basis	13
Year Ended December 31, 2021:	
Statement of Activities - Modified Cash Basis	14
Fund Financial Statements:	
Governmental Funds:	
As of December 31, 2022:	
Balance Sheet - Modified Cash Basis	15
Year Ended December 31, 2022:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis	16
Year Ended December 31, 2021:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis	17

CITY OF HIGHMORE

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Proprietary Funds:	
As of December 31, 2022:	
Statement of Net Position - Modified Cash Basis	18
Year Ended December 31, 2022:	
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	19
Year Ended December 31, 2021:	
Statement of Revenues, Expenses and Changes in Net Position - Modified Cash Basis	20
Fiduciary Funds:	
As of December 31, 2022:	
Statement of Net Position - Modified Cash Basis	21
Year Ended December 31, 2022:	
Statement of Changes in Net Position - Modified Cash Basis	22
Year Ended December 31, 2021:	
Statement of Changes in Net Position - Modified Cash Basis	23
Notes to the Modified Cash Basis Financial Statements	24 - 37
Supplementary Information:	
Year Ended December 31, 2022:	
Budgetary Comparison Schedule - Modified Cash Basis - General Fund	38
Year Ended December 31, 2021:	
Budgetary Comparison Schedule - Modified Cash Basis - General Fund	39
Notes to the Supplementary Information - Budgetary Comparison Schedules	40
Schedule of Changes in Long-Term Debt	41
Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)	42

CITY OF HIGHMORE

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Notes to the Supplementary Information - Pension Schedule	43 - 44
Combining Financial Statements:	
As of December 31, 2022:	
Combining Balance Sheet - Modified Cash Basis - Nonmajor Governmental Funds	45
Year Ended December 31, 2022:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Nonmajor Governmental Funds	46
Year Ended December 31, 2021:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Nonmajor Governmental Funds	47

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WITH AN OFFICE IN
MOBRIDGE, SOUTH DAKOTA

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

City Council
City of Highmore
Highmore, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota (City), as of December 31, 2022, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 13, 2023, which was adverse because there were no audited modified cash basis of accounting financial statements available for the component unit in 2021 or 2022, qualified for the Water Fund and the business-type activities because of the inability to verify the accuracy of the Water Fund revenue and unmodified for the governmental activities, General Fund, Sewer Fund, Solid Waste Fund and the aggregate remaining fund information.

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 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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not

been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings as items #2022-01, #2022-02, and #2022-03, that we consider to be material weaknesses.

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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Current Audit Findings as items #2022-04 and #2022-05.

City's Response to Findings

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

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.

Kotlman, Bierschbach & Anderson, LLP

September 13, 2023

CITY OF HIGHMORE
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2022

PRIOR AUDIT FINDINGS:

#2020-01

A material weakness was reported for a lack of segregation of duties for cash, revenues, payroll, and equity, which could result in errors not being found in a timely manner. This condition is restated as current audit finding #2022-01.

#2020-02

The City does not have an internal control system designed to provide for the preparation of the annual financial statements in accordance with the modified cash basis of accounting, being audited. As auditors, we were requested to draft the financial statements. This comment is restated as current audit finding #2022-02.

#2020-03

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements. This comment is restated as current audit finding #2022-03.

#2020-04

For the Water Fund billing, the water meter readings were not consistent from month to month. Also, the calculation of the water bills did not always calculate the usage based on the readings taken. This comment is restated as current audit finding #2022-04.

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

Finding #2022-01

Criteria

Internal control can help the City achieve its performance targets and prevent loss of resources. It can help ensure reliable financial reporting, and it can help ensure that the City complies with laws and regulations.

Condition Found

A material weakness was reported for a lack of segregation of duties for cash, revenues, payroll, and equity which could result in errors not being found in a timely manner. It is not known how long this comment has been made.

Cause

The City only has 1 employee in the finance department, so proper segregation of duties for all areas has not been achieved.

Effect

This comment is the result of the size of the entity which precludes staffing at a level sufficient to provide an ideal environment for internal controls.

Recommendation

We recommend the board take a more active role in their oversight of cash, revenues, payroll, and equity.

Views of Responsible Officials

Vikki Day is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Highmore which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Highmore has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for cash, revenues, payroll, and equity. The City of Highmore is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical by having Council Member Straight look over the budget and review the bank statements monthly. Council also reviews the bank statements periodically and the claims monthly, and looks over the finances along with the finance officer. This action is being used now and will continue to be followed. However, this lack of segregation of duties regarding cash, revenues, payroll, and equity continues to exist.

Finding #2022-02

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with the modified cash basis of accounting.

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022
(Continued)

statements in accordance with the modified cash basis of accounting, being audited. As auditors, we were requested to draft the financial statements.

Cause

The City was not able to prepare the annual financial statements, so they requested assistance to ensure they were properly prepared.

Effect

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

Recommendation

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.

Views of Responsible Officials

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "This situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem. However, the council has implemented the following compensating controls to help offset the risk. Lee Straight is active in going over our bank statements, monthly spending and savings, and the Council signs off on all expenditures."

Finding #2022-03

Criteria

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

Condition Found

During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Cause

The City had some adjustments that needed to be made in order to get their accounting records in accordance with the modified cash basis of accounting.

Effect

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

Recommendation

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022
(Continued)

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.

Views of Responsible Officials

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "This situation is impossible to remedy without the hiring of new staff, which the City does not need and cannot afford. Therefore, the lack of controls will be a continual problem."

Compliance and Other Matters:

Finding #2022-04

Criteria

According to South Dakota Codified Law 9-14-17 and 9-14-18, the finance officer shall keep regular books of account for all financial transactions.

Condition Found

For the Water Fund billing, the water meter readings were not consistent from month to month. Also, the calculation of the water bills did not always calculate the usage based on the readings taken.

Cause

The water meters were not read from month to month resulting in inconsistent meter readings.

Effect

Due to inconsistent and improper water billings, the water sales were unable to be proven that they were properly stated.

Recommendation

We recommend that water meters be read on a monthly basis to help ensure that water billings are being prepared properly.

Views of Responsible Officials

Vikki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We have talked about this at City Council. We feel at this time because of the expense of radio meters and the shortage of man power to read the meters monthly, perhaps we should encourage residents to read their meters monthly and give the readings to the finance officer. Also looking into the future, the Council is going to look into possible funding or grants for radio meters to be read monthly."

Finding #2022-05

Criteria

CITY OF HIGHMORE
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022
(Continued)

SDCL 5-18A-14 requires cities to bid certain items that they purchase, including purchases of \$100,000 or more for public improvements and purchases of \$50,000 or more for materials, building supplies, or equipment with certain exceptions.

Condition Found

The City of Highmore did not follow proper bidding procedures in regards to a loader that had a total lease amount over \$50,000.

Cause

The City did not properly bid a loader lease.

Effect

The loader was not bid before it was leased. Therefore, the City was not in compliance with South Dakota Codified Law.

Recommendation

We recommend the City properly bid all items that are required to be bid before they are purchased or leased.

Views of Responsible Officials

Vicki Day is the contact person responsible for the corrective action plan for this comment. She stated, "We were unaware of the change regarding leases. We will bid the lease out in the future."

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WITH AN OFFICE IN
MOBRIDGE, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

City Council
City of Highmore
Highmore, South Dakota

Adverse, Qualified and Unmodified Opinions

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Highmore, South Dakota (City), as of December 31, 2022, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Qualified
Aggregate Discretely Presented Component Unit	Adverse
General Fund	Unmodified
Water Fund	Qualified
Sewer Fund	Unmodified
Solid Waste Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

Adverse Opinion on Aggregate Discretely Presented Component Unit

In our opinion, because of the significance of the matter discussed in the Basis for Adverse, Qualified and Unmodified Opinions section of our report, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Aggregate Discretely Presented Component Unit of the City of Highmore, as of December 31, 2022, or the changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1.c.

Qualified Opinions on Business-Type Activities and Water Fund

In our opinion, except for the matters described in the Basis for Adverse, 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 Water Fund of the City of Highmore as of December 31, 2022, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

Unmodified Opinions on the Governmental Activities, General Fund, Sewer Fund, Solid Waste Fund, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund other than the Water Fund, and the aggregate remaining fund information of the City of Highmore as of December 31, 2022, and the respective changes in financial position thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

Basis for Adverse, Qualified and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Highmore, 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 adverse, qualified, and unmodified audit opinions.

Matters Giving Rise to Adverse Opinion on Aggregate Discretely Presented Component Unit and Qualified Opinion on Business-Type Activities and Water Fund

The financial statements referred to above include only the primary government of the City of Highmore, South Dakota, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity. The financial statements of the Housing and Redevelopment Commission of Highmore, South Dakota (HRC) have not been audited, and we were not engaged to audit the HRC financial statements as part of our audit of the City's basic financial statements. HRC's financial activities are not included in the City's basic financial statements as a discretely presented component unit.

The City does not read water meters monthly and does not prepare bills on a monthly basis off of these readings. Therefore, we are unable to determine if the water bills are being prepared correctly and if water revenue that is reported is correct. This inability to determine if amounts are correct affects both the revenue amounts reported for the Water Fund and the Business-Type Activities.

Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditors' 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 auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee

that an audit conducted in accordance with generally accepted auditing standards 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, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules, the Schedule of Changes in Long-Term Debt, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) and the combining nonmajor fund financial statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2023, on our consideration of the City's internal control over financial reporting and 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.

Kohlman, Bierschbach & Anderson, LLP

September 13, 2023

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2022

	PRIMARY GOVERNMENT		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$4,138,619	\$(212,315)	\$3,926,304
Investments	218,792	--	218,792
Restricted Assets:			
Cash and cash equivalents	<u>131,294</u>	<u>--</u>	<u>131,294</u>
TOTAL ASSETS	<u>\$4,488,705</u>	<u>\$(212,315)</u>	<u>\$4,276,390</u>
NET POSITION:			
Restricted for:			
Debt service purposes	\$ 217,066	\$ --	\$ 217,066
24/7 Sobriety Fund	2,254	--	2,254
Liquor, Lodging and Dining Gross Receipts Tax Fund	101,793	--	101,793
Federal grants	131,294	--	131,294
Unrestricted (Deficit)	<u>4,036,298</u>	<u>(212,315)</u>	<u>3,823,983</u>
TOTAL NET POSITION	<u>\$4,488,705</u>	<u>\$(212,315)</u>	<u>\$4,276,390</u>

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

CITY OF HIGHMORE
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total
				Governmental Activities	Business- Type Activities	
Primary Government:						
Governmental Activities:						
General government	\$ 98,115	\$ 47,758	\$ --	\$ (50,357)		\$ (50,357)
Public safety	30,596	--	--	(30,596)		(30,596)
Public works	958,744	--	59,743	(899,001)		(899,001)
Health and welfare	2,489	--	--	(2,489)		(2,489)
Culture and recreation	155,032	7,740	--	(147,292)		(147,292)
*Interest on long-term debt	<u>36,541</u>	<u>--</u>	<u>--</u>	<u>(36,541)</u>		<u>(36,541)</u>
Total Governmental Activities	<u>1,281,517</u>	<u>55,498</u>	<u>59,743</u>	<u>(1,166,276)</u>		<u>(1,166,276)</u>
Business-Type Activities:						
Water	175,527	195,298	--		\$ 19,771	19,771
Sewer	72,609	108,285	--		35,676	35,676
Solid Waste	<u>20,347</u>	<u>2,239</u>	<u>--</u>		<u>(18,108)</u>	<u>(18,108)</u>
Total Business-Type Activities	<u>268,483</u>	<u>305,822</u>	<u>--</u>		<u>37,339</u>	<u>37,339</u>
Total Primary Government	<u>\$1,550,000</u>	<u>\$361,320</u>	<u>\$59,743</u>	<u>(1,166,276)</u>	<u>37,339</u>	<u>(1,128,937)</u>
* The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.						
			General Revenues:			
			Taxes:			
			Property taxes	608,715	--	608,715
			Sales taxes	485,112	--	485,112
			State shared revenues	11,840	--	11,840
			Grants and contributions not restricted to specific programs	68,380	--	68,380
			Unrestricted investment earnings	5,590	--	5,590
			Miscellaneous revenue	<u>42,086</u>	<u>--</u>	<u>42,086</u>
			Total General Revenues	<u>1,221,723</u>	<u>--</u>	<u>1,221,723</u>
			Change in Net Position	55,447	37,339	92,786
			Net Position - Beginning	<u>4,433,258</u>	<u>(249,654)</u>	<u>4,183,604</u>
			Net Position - Ending	<u>\$ 4,488,705</u>	<u>\$(212,315)</u>	<u>\$ 4,276,390</u>

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

CITY OF HIGHMORE
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
YEAR ENDED DECEMBER 31, 2021

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Primary Government:						
Governmental Activities:						
General government	\$ 107,013	\$ 49,653	\$ --	\$ (57,360)		\$ (57,360)
Public safety	30,750	--	--	(30,750)		(30,750)
Public works	479,221	--	61,487	(417,734)		(417,734)
Health and welfare	7,312	--	1,924	(5,388)		(5,388)
Culture and recreation	172,937	5,985	--	(166,952)		(166,952)
*Interest on long-term debt	<u>33,814</u>	<u>--</u>	<u>--</u>	<u>(33,814)</u>		<u>(33,814)</u>
Total Governmental Activities	<u>831,047</u>	<u>55,638</u>	<u>63,411</u>	<u>(711,998)</u>		<u>(711,998)</u>
Business-Type Activities:						
Water	166,658	197,152	--		\$ (30,494)	(30,494)
Sewer	62,433	106,145	--		43,712	43,712
Solid Waste	<u>21,549</u>	<u>1,930</u>	<u>--</u>		<u>(19,619)</u>	<u>(19,619)</u>
Total Business-Type Activities	<u>250,640</u>	<u>305,227</u>	<u>--</u>		<u>54,587</u>	<u>54,587</u>
Total Primary Government	<u>\$1,081,687</u>	<u>\$360,865</u>	<u>\$63,411</u>	<u>(711,998)</u>	<u>54,587</u>	<u>(657,411)</u>
General Revenues:						
Taxes:						
				587,405	--	587,405
				428,583	--	428,583
				10,770	--	10,770
					--	
				67,914		67,914
				15,336	--	15,336
				<u>2,577</u>	<u>--</u>	<u>2,577</u>
				<u>1,112,585</u>	<u>--</u>	<u>1,112,585</u>
				400,587	54,587	455,174
				<u>4,032,671</u>	<u>(304,241)</u>	<u>3,728,430</u>
				<u>\$4,433,258</u>	<u>\$(249,654)</u>	<u>\$4,183,604</u>

*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

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

CITY OF HIGHMORE
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and cash equivalents	\$4,034,572	\$104,047	\$4,138,619
Investments	1,726	217,066	218,792
Restricted cash and cash equivalents	<u>131,294</u>	<u>--</u>	<u>131,294</u>
TOTAL ASSETS	<u>\$4,167,592</u>	<u>\$321,113</u>	<u>\$4,488,705</u>
FUND BALANCES:			
Restricted	\$ 131,294	\$321,113	\$ 452,407
Assigned	27,855	--	27,855
Unassigned	<u>4,008,443</u>	<u>--</u>	<u>4,008,443</u>
TOTAL FUND BALANCES	<u>\$4,167,592</u>	<u>\$321,113</u>	<u>\$4,488,705</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:			
Taxes:			
General property taxes	\$ 524,013	\$ 83,116	\$ 607,129
General sales and use taxes	476,078	9,034	485,112
Penalties and interest on delinquent taxes	1,369	217	1,586
Licenses and Permits	5,950	--	5,950
Intergovernmental Revenue:			
Federal grants	66,380	--	66,380
State shared revenue:			
Bank franchise tax	7,061	--	7,061
Prorate license fees	6,162	--	6,162
Liquor tax reversion (25%)	4,779	--	4,779
Motor vehicle licenses	22,516	--	22,516
Local government highway and bridge fund	30,670	--	30,670
County shared revenue:			
County road tax (25%)	395	--	395
Charges for Goods and Services:			
General government	235	--	235
Culture and recreation	7,740	--	7,740
Miscellaneous Revenue:			
Investment earnings	5,590	--	5,590
Rentals	41,573	--	41,573
Contributions and donations from private sources	2,000	--	2,000
TOTAL REVENUES	<u>1,202,511</u>	<u>92,367</u>	<u>1,294,878</u>
EXPENDITURES:			
General Government:			
Legislative	30,691	1,248	31,939
Elections	19	--	19
Financial administration	66,157	--	66,157
Public Safety:			
Police	596	--	596
Fire	30,000	--	30,000
Public Works:			
Highways and streets	868,734	--	868,734
Airport	33,074	--	33,074
Transit	5,000	--	5,000
Health and Welfare:			
Health	2,489	--	2,489
Culture and Recreation:			
Recreation	25,649	--	25,649
Parks	25,152	--	25,152

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Auditorium	104,231	--	104,231
Debt Service	<u>26,017</u>	<u>62,460</u>	<u>88,477</u>
TOTAL EXPENDITURES	<u>1,217,809</u>	<u>63,708</u>	<u>1,281,517</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(15,298)</u>	<u>28,659</u>	<u>13,361</u>
OTHER FINANCING SOURCES:			
Long-term debt issued	<u>42,086</u>	--	<u>42,086</u>
TOTAL OTHER FINANCING SOURCES	<u>42,086</u>	--	<u>42,086</u>
NET CHANGE IN FUND BALANCES	26,788	28,659	55,447
FUND BALANCE - BEGINNING	<u>4,140,804</u>	<u>292,454</u>	<u>4,433,258</u>
FUND BALANCE - ENDING	<u>\$4,167,592</u>	<u>\$321,113</u>	<u>\$4,488,705</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Taxes:			
General property taxes	\$ 505,750	\$ 80,219	\$ 585,969
General sales and use taxes	419,596	8,987	428,583
Penalties and interest on delinquent taxes	1,240	196	1,436
Licenses and Permits	4,500	--	4,500
Intergovernmental Revenue:			
Federal grants	64,914	--	64,914
State grants	1,924	--	1,924
State shared revenue:			
Bank franchise tax	5,161	--	5,161
Prorate license fees	5,719	--	5,719
Liquor tax reversion (25%)	5,609	--	5,609
Motor vehicle licenses	22,975	--	22,975
Local government highway and bridge fund	30,426	--	30,426
County shared revenue:			
County road tax (25%)	2,367	--	2,367
Charges for Goods and Services:			
General government	85	--	85
Culture and recreation	5,985	--	5,985
Miscellaneous Revenue:			
Investment earnings	15,336	--	15,336
Rentals	45,068	--	45,068
Contributions and donations from private sources	3,000	--	3,000
Other	<u>2,577</u>	<u>--</u>	<u>2,577</u>
TOTAL REVENUES	<u>1,142,232</u>	<u>89,402</u>	<u>1,231,634</u>
EXPENDITURES:			
General Government:			
Legislative	28,903	--	28,903
Elections	2,143	--	2,143
Financial administration	75,967	--	75,967
Public Safety:			
Police	500	--	500
Fire	30,250	--	30,250
Public Works:			
Highways and streets	441,187	--	441,187
Airport	4,388	--	4,388
Transit	5,000	--	5,000
Health and Welfare:			
Health	7,312	--	7,312

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Culture and Recreation:			
Recreation	20,093	--	20,093
Parks	23,423	--	23,423
Auditorium	124,283	5,138	129,421
Debt Service	<u>--</u>	<u>62,460</u>	<u>62,460</u>
TOTAL EXPENDITURES	<u>763,449</u>	<u>67,598</u>	<u>831,047</u>
NET CHANGE IN FUND BALANCES	378,783	21,804	400,587
FUND BALANCE - BEGINNING	<u>3,762,021</u>	<u>270,650</u>	<u>4,032,671</u>
FUND BALANCE - ENDING	<u>\$4,140,804</u>	<u>\$292,454</u>	<u>\$4,433,258</u>

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

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2022

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$(25,711)	\$6,467	\$(193,071)	\$(212,315)
TOTAL ASSETS	\$(25,711)	\$6,467	\$(193,071)	\$(212,315)
NET POSITION:				
Unrestricted (Deficit)	\$(25,711)	\$6,467	\$(193,071)	\$(212,315)
TOTAL NET POSITION	\$(25,711)	\$6,467	\$(193,071)	\$(212,315)

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUE:				
Surcharge as security for debt	\$ 17,569	\$ --	\$ --	\$ 17,569
Charges for goods and services	<u>177,729</u>	<u>108,285</u>	<u>2,239</u>	<u>288,253</u>
TOTAL OPERATING REVENUE	<u>195,298</u>	<u>108,285</u>	<u>2,239</u>	<u>305,822</u>
OPERATING EXPENSES:				
Personal services	43,093	43,424	10,560	97,077
Other current expense	14,025	29,185	9,787	52,997
Materials	<u>118,409</u>	<u>--</u>	<u>--</u>	<u>118,409</u>
TOTAL OPERATING EXPENSES	<u>175,527</u>	<u>72,609</u>	<u>20,347</u>	<u>268,483</u>
OPERATING INCOME (LOSS)	<u>19,771</u>	<u>35,676</u>	<u>(18,108)</u>	<u>37,339</u>
CHANGE IN NET POSITION	19,771	35,676	(18,108)	37,339
NET POSITION - BEGINNING	<u>(45,482)</u>	<u>(29,209)</u>	<u>(174,963)</u>	<u>(249,654)</u>
NET POSITION - ENDING	<u>\$ (25,711)</u>	<u>\$ 6,467</u>	<u>\$ (193,071)</u>	<u>\$ (212,315)</u>

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

CITY OF HIGHMORE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
MODIFIED CASH BASIS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds			Totals
	Water Fund	Sewer Fund	Solid Waste Fund	
OPERATING REVENUE:				
Surcharge as security for debt	\$ 17,398	\$ --	\$ --	\$ 17,398
Charges for goods and services	<u>179,754</u>	<u>106,145</u>	<u>1,930</u>	<u>287,829</u>
TOTAL OPERATING REVENUE	<u>197,152</u>	<u>106,145</u>	<u>1,930</u>	<u>305,227</u>
OPERATING EXPENSES:				
Personal services	40,577	41,694	10,144	92,415
Other current expense	13,281	20,739	11,405	45,425
Materials	<u>112,800</u>	<u>--</u>	<u>--</u>	<u>112,800</u>
TOTAL OPERATING EXPENSES	<u>166,658</u>	<u>62,433</u>	<u>21,549</u>	<u>250,640</u>
OPERATING INCOME (LOSS)	<u>30,494</u>	<u>43,712</u>	<u>(19,619)</u>	<u>54,587</u>
CHANGE IN NET POSITION	30,494	43,712	(19,619)	54,587
NET POSITION - BEGINNING	<u>(75,976)</u>	<u>(72,921)</u>	<u>(155,344)</u>	<u>(304,241)</u>
NET POSITION - ENDING	<u>\$(45,482)</u>	<u>\$(29,209)</u>	<u>\$(174,963)</u>	<u>\$(249,654)</u>

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

CITY OF HIGHMORE
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
DECEMBER 31, 2022

	<u>Custodial Funds</u>
ASSETS:	
Cash and cash equivalents	\$1,766
TOTAL ASSETS	\$1,766
NET POSITION:	
Restricted for:	
Community Tree Project	\$1,766
TOTAL NET POSITION	\$1,766

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

CITY OF HIGHMORE
STATEMENT OF CHANGES IN NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2022

	<u>Custodial Funds</u>
ADDITIONS:	
Contributions and donations	\$ 1
Investment earnings:	
Interest and dividends	<u>1</u>
TOTAL ADDITIONS	<u>2</u>
CHANGE IN NET POSITION	2
NET POSITION - BEGINNING	<u>1,764</u>
NET POSITION - ENDING	<u>\$1,766</u>

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

CITY OF HIGHMORE
STATEMENT OF CHANGES IN NET POSITION - MODIFIED CASH BASIS
FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2021

	<u>Custodial Funds</u>
ADDITIONS:	
Contributions and donations	\$ <u>500</u>
TOTAL ADDITIONS	<u>500</u>
DEDUCTIONS:	
Other deductions	<u>264</u>
TOTAL DEDUCTIONS	<u>264</u>
CHANGE IN NET POSITION	236
NET POSITION - BEGINNING	<u>1,528</u>
NET POSITION - ENDING	<u>\$1,764</u>

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. **Financial Reporting Entity:**

The reporting entity of the City of Highmore (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.

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 Highmore, 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 low-income housing units, 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: Highmore Housing and Redevelopment Commission, PO Box 398, Highmore, SD 57345.

b. **Basis of Presentation:**

Government-Wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. 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 HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (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 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.

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 for 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 not a major fund.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

24/7 Sobriety Fund - To account for charges made to citizens who are tested for sobriety which shall be used for administering the program. This is not 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.

Sewer General Obligation Bond Debt Service Fund - To account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. This is not 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 as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

Solid Waste Fund - To account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and is never considered to be a major fund:

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. The City maintains a custodial fund to account for money in a tree improvement club.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

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 modified 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, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

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

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

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

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

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

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

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

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.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their 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.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, general obligation bonds and lease liabilities.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their 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 does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities, the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

The City has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. 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 two 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.

h. Proprietary Funds Revenue and Expense Classifications:

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

i. Equity Classifications:

Government-Wide Financial Statements:

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

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

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 restricted net position.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

j. Application of Net Position:

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

k. Fund Balance Classification Policies and Procedures:

In accordance with Governmental 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 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 highest level of decision making authority 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 nor committed. Fund Balance may be assigned by the City Council.
5. Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The City uses restricted/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 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.

A schedule of fund balances is provided as follows:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 1 - (Continued)

CITY OF HIGHMORE
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2022

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:			
Restricted for:			
Debt Service Requirements	\$ --	\$217,066	\$ 217,066
Other Purposes:			
Liquor, Lodging and Dining Gross Receipts Tax	--	101,793	101,793
24/7 Sobriety	--	2,254	2,254
Federal Grants	131,294	--	131,294
Assigned to:			
Applied to next year's budget	27,855	--	27,855
Unassigned	<u>4,008,443</u>	<u>--</u>	<u>4,008,443</u>
 Total Fund Balances	 <u>\$4,167,592</u>	 <u>\$321,113</u>	 <u>\$ 4,488,705</u>

NOTE 2 - IMPLEMENTATION OF NEW ACCOUNTING STANDARD

In 2022, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. This statement improves accounting and financial reporting for leases; enhances the comparability of financial statements between governments; and also enhances the relevance, reliability, and consistency of information about the leasing activities of governments. The City prepared and presented the financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; therefore, the implementation of this standard did not affect beginning net position or beginning fund balances.

NOTE 3 - DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The City follows the practice of aggregating the cash assets of all the funds except for Custodial 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 authorized to do business in South Dakota.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 3 - (Continued)

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.

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

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

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. All of the City's investments are in certificates of deposit.

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.

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the General Fund. USGAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities

NOTE 4 - RESTRICTED CASH AND INVESTMENTS

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

<u>Amount:</u>	<u>Purpose:</u>
\$131,294	For use on expenditures in accordance with federal grant requirements.

NOTE 5 - PROPERTY TAXES

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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 5 - (Continued)

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

NOTE 6 - RESTRICTED NET POSITION

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

Other Purposes:

Liquor, Lodging and Dining Gross Receipts Tax Purposes	\$101,793
24/7 Sobriety Purposes	2,254
Debt Service Purposes - Sewer General Obligation Bond Fund	217,066
Federal Grants	<u>131,294</u>
 Total Restricted Net Position	 <u>\$452,407</u>

These balances are restricted by the terms of bond agreements, grant requirements, and statutory requirements.

NOTE 7 - 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.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 - (Continued)

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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 were \$11,934, \$11,111, and \$10,724, respectively, equal to the required contributions each year.

Pension Assets and Pension Expense:

At June 30, 2022, SDRS is 100.10% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of 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 total pension liability	\$ 1,137,517
Less proportionate share of net position restricted for pension benefits	(1,138,279)
Proportionate share of net pension asset	\$ <u>(762)</u>

The net pension asset was measured as of June 30, 2022, and the total pension liability 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

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 - (Continued)

contributions of all participating entities. At June 30, 2022, the City's proportion was .008058%, which is an increase of .000076% from its proportion measured as of June 30, 2021.

Actuarial Assumptions:

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 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service.
Discount Rate	6.5% net of plan investment expense. This is composed of an average inflation rate of 2.5% and real returns of 4.00%.
Future COLAs	2.10%

Mortality Rates:

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man).

Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by 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:

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 7 - (Continued)

<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	<u>2.0%</u>	<u>0.4%</u>
Total	<u>100%</u>	<u>2.70 %</u>

Discount Rate:

The discount rate used to measure the total pension liability was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 liability (asset)	\$158,125	\$(762)	\$(130,614)

Pension Plan Fiduciary Net Position:

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

NOTE 8 - SIGNIFICANT CONTINGENCIES - LITIGATION

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

NOTE 9 - SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through September 13, 2023, the date on which the financial statements were available to be issued. Management has determined there are none.

CITY OF HIGHMORE
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

NOTE 10 - 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 period ended December 31, 2022, the City managed its risks as follows:

Employee Health Insurance:

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

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's 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 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 provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits:

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

SUPPLEMENTARY INFORMATION

CITY OF HIGHMORE
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
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>		
REVENUES:				
Taxes:				
General property taxes	\$ 523,000	\$ 523,000	\$ 524,013	\$ 1,013
General sales and use taxes	403,000	403,000	476,078	73,078
Penalties and interest on delinquent taxes	1,100	1,100	1,369	269
Licenses and Permits	3,000	3,000	5,950	2,950
Intergovernmental Revenue:				
Federal grants	--	--	66,380	66,380
State grants	400	400	--	(400)
State shared revenue:				
Bank franchise tax	6,000	6,000	7,061	1,061
Prorate license fees	3,600	3,600	6,162	2,562
Liquor tax reversion (25%)	3,900	3,900	4,779	879
Motor vehicles licenses	16,500	16,500	22,516	6,016
Local government highway and bridge fund	26,500	26,500	30,670	4,170
County shared revenue:				
County road tax (25%)	--	--	395	395
Charges for Goods and Services:				
General Government	200	200	235	35
Culture and recreation	--	--	7,740	7,740
Miscellaneous Revenue:				
Investment earnings	14,000	14,000	5,590	(8,410)
Rentals	49,100	49,100	41,573	(7,527)
Contributions and donations from private sources	1,500	1,500	2,000	500
Other	<u>500</u>	<u>500</u>	<u>--</u>	<u>(500)</u>
TOTAL REVENUES	<u>1,052,300</u>	<u>1,052,300</u>	<u>1,202,511</u>	<u>150,211</u>
EXPENDITURES:				
General Government:				
Legislative	32,000	32,000	30,691	1,309
Contingency	50,000	50,000		
Amount transferred		(34,975)		15,025
Elections	950	950	19	931
Financial administration	82,130	93,830	66,157	27,673
Public Safety:				
Police	20,000	20,000	596	19,404
Fire	45,000	45,000	30,000	15,000
Public Works:				
Highways and streets	519,595	895,020	868,734	26,286

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Airport	10,975	33,175	33,074	101
Transit	5,000	5,000	5,000	--
Health and Welfare:				
Health	2,500	2,500	2,489	11
Culture and Recreation:				
Recreation	57,785	57,785	25,649	32,136
Parks	27,000	27,000	25,152	1,848
Auditorium	214,510	214,510	104,231	110,279
Debt Service	<u>25,400</u>	<u>26,050</u>	<u>26,017</u>	<u>33</u>
TOTAL EXPENDITURES	<u>1,092,845</u>	<u>1,467,845</u>	<u>1,217,809</u>	<u>250,036</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(40,545)</u>	<u>(415,545)</u>	<u>(15,298)</u>	<u>400,247</u>
OTHER FINANCING SOURCES:				
General long-term debt issued	<u>--</u>	<u>--</u>	<u>42,086</u>	<u>42,086</u>
TOTAL OTHER FINANCING SOURCES	<u>--</u>	<u>--</u>	<u>42,086</u>	<u>42,086</u>
NET CHANGE IN FUND BALANCES	(40,545)	(415,545)	26,788	442,333
FUND BALANCE - BEGINNING	<u>4,140,804</u>	<u>4,140,804</u>	<u>4,140,804</u>	<u>--</u>
FUND BALANCE - ENDING	<u>\$4,100,259</u>	<u>\$3,725,259</u>	<u>\$4,167,592</u>	<u>\$442,333</u>

CITY OF HIGHMORE
BUDGETARY COMPARISON SCHEDULE - MODIFIED CASH BASIS
GENERAL FUND
YEAR ENDED DECEMBER 31, 2021

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Taxes:				
General property taxes	\$ 507,000	\$ 507,000	\$ 505,750	\$ (1,250)
General sales and use taxes	389,400	389,400	419,596	30,196
Penalties and interest on delinquent taxes	1,100	1,100	1,240	140
Licenses and Permits	3,050	3,050	4,500	1,450
Intergovernmental Revenue:				
Federal grants	--	--	64,914	64,914
State grants	1,500	1,500	1,924	424
State shared revenue:				
Bank franchise tax	6,000	6,000	5,161	(839)
Prorate license fees	3,600	3,600	5,719	2,119
Liquor tax reversion (25%)	3,700	3,700	5,609	1,909
Motor vehicles licenses	16,500	16,500	22,975	6,475
Local government highway and bridge fund	26,500	26,500	30,426	3,926
County shared revenue:				
County road tax (25%)	--	--	2,367	2,367
Charges for Goods and Services:				
General government	200	200	85	(115)
Culture and recreation	10,300	10,300	5,985	(4,315)
Miscellaneous Revenue:				
Investment earnings	13,000	13,000	15,336	2,336
Rentals	48,900	48,900	45,068	(3,832)
Contributions and donations from private sources	1,000	1,000	3,000	2,000
Other	500	500	2,577	2,077
TOTAL REVENUES	<u>1,032,250</u>	<u>1,032,250</u>	<u>1,142,232</u>	<u>109,982</u>
EXPENDITURES:				
General Government:				
Legislative	30,930	30,930	28,903	2,027
Contingency	50,000	50,000		
Amount transferred		(19,471)		30,529
Elections	1,025	1,025	2,143	(1,118)
Financial administration	86,255	92,005	75,967	16,038
Public Safety:				
Police	27,000	27,000	500	26,500
Fire	45,000	45,000	30,250	14,750
Public Works:				
Highways and streets	518,570	1,100,170	441,187	658,983

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Airport	13,000	13,000	4,388	8,612
Transit	5,000	5,000	5,000	--
Health and Welfare:				
Health	2,500	2,500	7,312	(4,812)
Culture and Recreation:				
Recreation	88,190	88,190	20,093	68,097
Parks	4,100	16,671	23,423	(6,752)
Auditorium	156,180	156,180	124,283	31,897
Debt Service	<u>25,000</u>	<u>25,000</u>	<u>--</u>	<u>25,000</u>
TOTAL EXPENDITURES	<u>1,052,750</u>	<u>1,633,200</u>	<u>763,449</u>	<u>869,751</u>
NET CHANGE IN FUND BALANCES	(20,500)	(600,950)	378,783	979,733
FUND BALANCE - BEGINNING	<u>3,762,021</u>	<u>3,762,021</u>	<u>3,762,021</u>	<u>--</u>
FUND BALANCE - ENDING	<u>\$3,741,521</u>	<u>\$3,161,071</u>	<u>\$4,140,804</u>	<u>\$979,733</u>

CITY OF HIGHMORE
NOTES TO THE SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND
DECEMBER 31, 2022 AND 2021

NOTE 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 percent 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.

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

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

CITY OF HIGHMORE
SCHEDULE OF CHANGES IN LONG-TERM DEBT
TWO YEARS ENDED DECEMBER 31, 2022

<u>Indebtedness</u>	<u>Long-Term Debt January 1, 2021</u>	<u>Prior Period Adjustment</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Long-Term Debt December 31, 2022</u>
GOVERNMENTAL LONG-TERM DEBT:					
General Obligation Bonds	\$689,320	\$ --	\$ --	\$58,758	\$630,562
Lease Liabilities	<u> --</u>	<u>17,730</u>	<u>42,086</u>	<u>21,824</u>	<u>37,992</u>
Total	<u>\$689,320</u>	<u>\$17,730</u>	<u>\$42,086</u>	<u>\$80,582</u>	<u>\$668,554</u>

NOTE 1 - LONG-TERM DEBT

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

General Obligation Bonds:

Series 1997 Storm Sewer General Obligation Bond, due in monthly installments of \$5,205, including 5.0% interest, maturing August 5, 2037. This debt is serviced by the Sewer General Obligation Bond Fund. \$630,562

Lease Liabilities:

Lease-Purchase Agreement for a wheel loader, due in monthly installments of \$2,456, including 5.45% interest, with the final monthly payment on November 9, 2024. There is an option to purchase at the end of the lease, but the City currently does not plan to exercise this option. The debt is serviced by the General Fund. \$ 37,992

CITY OF HIGHMORE
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

SOUTH DAKOTA RETIREMENT SYSTEM

	Last 6 Years*					
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
City's proportion of the net pension liability (asset)	0.0080580%	0.0079820%	0.0082187%	0.0083962%	0.0083441%	0.0080979%
City's proportionate share of the net pension liability (asset)	\$ (762)	\$ (61,128)	\$ (357)	\$ (890)	\$ (195)	\$ (735)
City's covered payroll	\$ 192,411	\$ 181,142	\$ 180,374	\$ 178,519	\$ 173,462	\$ 164,528
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	(0.40%)	(33.75%)	(0.20%)	(0.50%)	(0.11%)	(0.45%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	105.50%	100.04%	100.09%	100.02%	100.10%

*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.

CITY OF HIGHMORE
NOTES TO THE SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)

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

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

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021 Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

CITY OF HIGHMORE
NOTES TO THE SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)
(Continued)

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation and any recommended 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.

CITY OF HIGHMORE
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Other Governmental Funds
ASSETS:				
Cash and cash equivalents	\$101,793	\$2,254	\$ --	\$104,047
Investments	<u> --</u>	<u> --</u>	<u>217,066</u>	<u>217,066</u>
TOTAL ASSETS	<u>\$101,793</u>	<u>\$2,254</u>	<u>\$217,066</u>	<u>\$321,113</u>
FUND BALANCES:				
Restricted	\$101,793	\$2,254	\$217,066	\$321,113
TOTAL FUND BALANCES	<u>\$101,793</u>	<u>\$2,254</u>	<u>\$217,066</u>	<u>\$321,113</u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Other Governmental Funds
REVENUES:				
Taxes:				
General property taxes	\$ --	\$ --	\$ 83,116	\$ 83,116
General sales and use taxes	9,034	--	--	9,034
Penalties and interest on delinquent taxes	<u>--</u>	<u>--</u>	<u>217</u>	<u>217</u>
TOTAL REVENUES	<u>9,034</u>	<u>--</u>	<u>83,333</u>	<u>92,367</u>
EXPENDITURES:				
General Government:				
Legislative	1,248	--	--	1,248
Debt service	<u>--</u>	<u>--</u>	<u>62,460</u>	<u>62,460</u>
TOTAL EXPENDITURES	<u>1,248</u>	<u>--</u>	<u>62,460</u>	<u>63,708</u>
NET CHANGE IN FUND BALANCES	7,786	--	20,873	28,659
FUND BALANCE - BEGINNING	<u>94,007</u>	<u>2,254</u>	<u>196,193</u>	<u>292,454</u>
FUND BALANCE - ENDING	<u>\$101,793</u>	<u>\$2,254</u>	<u>\$217,066</u>	<u>\$321,113</u>

CITY OF HIGHMORE
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2021

	Liquor, Lodging and Dining Gross Receipts Tax Fund	24/7 Sobriety Fund	Sewer General Obligation Bond (Debt Service) Fund	Total Other Governmental Funds
REVENUES:				
Taxes:				
General property taxes	\$ --	\$ --	\$ 80,219	\$ 80,219
General sales and use taxes	8,987	--	--	8,987
Penalties and interest on delinquent taxes	--	--	196	196
TOTAL REVENUES	<u>8,987</u>	<u>--</u>	<u>80,415</u>	<u>89,402</u>
EXPENDITURES:				
Culture and recreation:				
Auditorium	5,138	--	--	5,138
Debt Service	--	--	62,460	62,460
TOTAL EXPENDITURES	<u>5,138</u>	<u>--</u>	<u>62,460</u>	<u>67,598</u>
NET CHANGE IN FUND BALANCES	3,849	--	17,955	21,804
FUND BALANCE - BEGINNING	<u>90,158</u>	<u>2,254</u>	<u>178,238</u>	<u>270,650</u>
FUND BALANCE - ENDING	<u>\$94,007</u>	<u>\$2,254</u>	<u>\$196,193</u>	<u>\$292,454</u>