

CITY OF LEMMON
AUDITED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2022

CITY OF LEMMON
CITY OFFICIALS
DECEMBER 31, 2022

Mayor:

Matthew Barnes

Governing Board:

Pat Dalzell
Art Pederson
Gary Ericsson
Wayne Corcoran
Tim Pelkofer
Christine Becker

Financial Officer:

Chad Abel

Attorney:

Shane C. Penfield

CITY OF LEMMON

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
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance	3 - 4
Schedule of Prior Audit Findings	5 - 6
Schedule of Current Audit Findings and Questioned Costs	7 - 11
Corrective Action Plan (Unaudited)	12 - 13
Independent Auditors' Report	14 - 16
Basic Financial Statements:	
Government-Wide Financial Statements:	
As of December 31, 2022:	
Statement of Net Position	17
Year Ended December 31, 2022:	
Statement of Activities	18
Fund Financial Statements:	
Governmental Funds:	
As of December 31, 2022:	
Balance Sheet	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
Year Ended December 31, 2022:	
Statement of Revenues, Expenditures and Changes in Fund Balances	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	22
Proprietary Funds:	
As of December 31, 2022:	
Statement of Net Position	23
Year Ended December 31, 2022:	
Statement of Revenues, Expenses and Changes in Net Position	24
Statement of Cash Flows	25

CITY OF LEMMON

TABLE OF CONTENTS (Continued)

	<u>Page</u>
Required Supplementary Information:	
Schedule of the City's Proportionate Share of Net Pension Liability (Asset)	26
Schedule of the City's Pension Contributions	27
Notes to the Required Supplementary Information	28 - 29
Supplementary Information:	
As of December 31, 2022:	
Combining Balance Sheet - Nonmajor Governmental Funds	30
Year Ended December 31, 2022:	
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	31
Schedule of Expenditures of Federal Awards	32 - 33

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WITH OFFICES IN
MILLER, 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 Lemmon
Lemmon, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lemmon, South Dakota (City), as of and for the year ended December 31, 2022, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 30, 2023, which was adverse due to certain capital assets not being recorded and no proper inventory records being maintained by management. Our report includes a reference to other auditors who audited the financial statements of Lemmon Housing and Redevelopment Commission, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statement 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 were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs, as items 2022-001 through 2022-006, 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 and Questioned Costs as items 2022-004 through 2022-006.

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 and Questioned Costs. 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.

Kohlman Biersebach and Anderson LLP

October 30, 2023

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Lemmon
Lemmon, SD

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Lemmon, South Dakota (City's) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on the City's major federal program for the year ended December 31, 2022. The City's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

Basis for Opinion on the Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. 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, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood

that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for the major federal program are matters of public record and their distribution is not limited.

Kohlman Biersebach and Anderson LLP

October 30, 2023

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SCHEDULE OF PRIOR AUDIT FINDINGS

2021-001

Initial Fiscal Year Finding Occurred: It is not known how long this comment has been made.

Finding Summary: A material weakness was reported for lack of segregation of duties for cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures, and payroll, which could result in errors not being found in a timely manner.

Status: Ongoing. This finding has not been corrected and is restated as current audit finding 2022-001. The reason for recurrence is, due to cost considerations, the City has determined it is not practical to employ additional staff to adequately segregate duties. The City will implement compensating controls where practical.

2021-002

Initial Fiscal Year Finding Occurred: It is not known how long this comment has been made.

Finding Summary: 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.

Status: Ongoing. This finding has not been corrected and is restated as current auditing finding 2022-002. The reason for recurrence is, due to cost considerations, the City has determined it is not practical to employ additional staff to implement an internal control structure adequate to identify all material adjustments. The City will implement compensating controls where practical.

2021-003

Initial Fiscal Year Finding Occurred: It is not known how long this comment has been made.

Finding Summary: The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with the generally accepted accounting principles. As auditors, we were requested to draft the financial statements.

Status: Ongoing. This finding has not been corrected and is restated as current audit finding 2022-003. The reason for the recurrence is, due to cost considerations, the City accepts the risks associated with the auditors preparing the financial statements. The City will implement compensating controls where practical.

2021-004

Initial Fiscal Year Finding Occurred: It is not known how long this comment has been made.

Finding Summary: The City has an inventory listing that does not contain values for all inventory items; therefore, the City is not in compliance with SDCL 5-24-2.

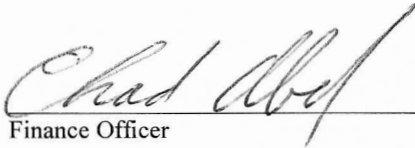
Status: Ongoing. This finding has not been corrected and is restated as current audit finding 2022-004. The reason for the recurrence is, due to cost considerations, the City has determined it is not practical to employ additional staff to maintain an inventory listing. The City will implement compensating controls where practical.

2021-005

Initial Fiscal Year Finding Occurred: It is not known how long this comment has been made.

Finding Summary: A material weakness was reported for lack of proper capital asset records to support the amounts reported for general capital assets, enterprise capital assets, and depreciation expense; therefore, the City is not in compliance with SDCL 5-24-4.

Status: Ongoing. This finding has not been corrected and is restated as current audit finding 2022-005. The reason for the recurrence is, due to cost considerations, the City has determined it is not practical to obtain an appraisal of City capital assets. The City will implement compensating controls where practical.


Finance Officer


Mayor

CITY OF LEMMON
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022

SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

Financial Statements:

- a. An unmodified opinion was issued on the discretely presented component unit. An adverse opinion was issued on the financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information opinion units.
- b. Material weaknesses were disclosed by our audit of the financial statements. They are described as findings 2022-001 through 2022-006.
- c. Our audit did disclose one instance of noncompliance which was material to the financial statements. This is described as finding 2022-006.

Federal Awards:

- d. An unmodified opinion was issued on compliance with the requirements applicable to the major program.
- e. Our audit did not disclose any audit findings that are required to be reported in accordance with 2 CFR 200.516(a).
- f. The federal award tested as a major program was:
 - a. Airport Improvement Program #20.106
- g. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- h. City of Lemmon did not qualify for a low-risk auditee.

CURRENT FEDERAL AUDIT FINDINGS:

There are no written current federal compliance audit findings to report.

CURRENT AUDIT FINDINGS:

Internal Control-Related Findings - Material Weaknesses:

2022-001

Criteria

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

Condition Found

A material weakness was reported for lack of segregation of duties for cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures and payroll.

Cause

The City has a limited number of employees who prepare all records for cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures and payroll.

Effect

This is undesirable from an internal control viewpoint and could result in a loss of control over accounting transactions and errors not being found in a timely manner.

Recommendation

We recommend the City Council take a more active role in their oversight of cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures and payroll.

CITY OF LEMMON
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022
(Continued)

Identification as a Repeat Finding

Yes, this is a restatement of 2021-001.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

2022-002

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 generally accepted accounting principles.

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 does not have adequate controls in place to prevent or detect and correct misstatements.

Effect

This condition may affect the City's ability to record, process, summarize, and report financial statement 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.

Identification as a Repeat Finding

Yes, this is a restatement of 2021-002.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

2022-003

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with generally accepted accounting principles (GAAP).

CITY OF LEMMON
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022
(Continued)

Condition Found

The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with the generally accepted accounting principles. As auditors, we were requested to draft the financial statements.

Cause

The City does not have sufficient staff to ensure the preparation of the financial statements in accordance with generally accepted accounting principles (GAAP).

Effect

This condition may affect the City's ability to record, process, summarize, and report financial statement 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.

Identification as a Repeat Finding

Yes, this is a restatement of 2021-003.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

2022-004

Criteria

The City is responsible for maintaining accurate records for amounts reported as inventories for governmental activities, business-type activities, and each major fund. The City is not in compliance with South Dakota Codified Law (SDCL) 5-24-2, which states inventories shall show the actual cost for each item, or the estimated cost at the time of acquisition, if the actual cost cannot be ascertained. In the case of gifts, the estimated fair market value at the time of acquisition shall be used. The officer or employee shall retain one copy of the inventory in the officer's or employee's office. The others shall be filed as provided.

Condition Found

The City has an inventory listing that does not contain values for all inventory items; therefore, the City is not in compliance with SDCL 5-24-2.

Cause

Inventory records are not complete.

Effect

This limits accurate valuation of inventory, and amounts cannot be determined.

CITY OF LEMMON
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022
(Continued)

Recommendation

We recommend the City prepare an inventory listing using the actual cost or the estimated cost at the time of acquisition.

Identification as a Repeat Finding

Yes, this is a restatement of 2021-004.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

2022-005

Criteria

The City is responsible for maintaining proper general capital assets, and depreciation records. The City is not in compliance with SDCL 5-24-4. South Dakota Codified Law (SDCL) 5-24-4 states purchased property must be noted in an inventory report. When any personal property is purchased by the state or any county, municipality, township, or school district, to be utilized in pursuance of the duties of the office for which supplied, a note shall at once be made of its purchase and receipt in the inventory report for that year.

Condition Found

A material weakness was reported for lack of proper capital asset records to support the amounts reported for general capital assets, enterprise capital assets, and depreciation expense; therefore, the City is not in compliance with SDCL 5-24-4.

Cause

Capital assets were not recorded properly.

Effect

This has resulted in diminished controls over capital assets and can result in misleading information being presented to the users of the financial statements.

Recommendation

We recommend general capital assets, enterprise capital assets, and depreciation records be established and maintained.

Identification as a Repeat Finding

Yes, this is a restatement of 2021-005.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

CITY OF LEMMON
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2022
(Continued)

2022-006

Criteria

South Dakota Codified Law (SDCL) 9-21-9 states that neither the governing body nor any department or officer of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such department in the annual appropriation ordinance for such year, except as otherwise specially provided.

Condition Found

The budget for the airport function of the Airport Capital Project Fund was materially overspent by \$62,723.03.

Cause

The City did not sufficiently budget for the above stated function or provide the necessary supplemental budgets.

Effect

The City is not in compliance with SDCL 9-21-9.

Recommendation

We recommend the City and the Financial Officer monitor compliance more closely.

Identification as a Repeat Finding

No, this is not a restatement.

Views of Responsible Officials

See the City's corrective action plan on pages 12 - 13.

COMPLIANCE AND OTHER MATTERS:

2022-004

This finding has already been stated under the section entitled "Internal Control-Related Findings - Material Weaknesses." See that section for more details on this finding.

2022-005

This finding has already been stated under the section entitled "Internal Control-Related Findings - Material Weaknesses." See that section for more details on this finding.

2022-006

This finding has already been stated under the section entitled "Internal Control-Related Findings - Material Weaknesses." See that section for more details on this finding.

Closing Conference

The contents of this report were discussed with Chad Abel, Finance Officer; Matthew Barnes, Mayor, Wayne Corcoran, Councilman and Pat Dalzel (via phone), Councilman on June 14, 2023.

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CORRECTIVE ACTION PLAN (UNAUDITED)

City of Lemmon submits the following corrective action plan for the year ended December 31, 2022:

Current Audit Findings:

2022-001

Condition: A material weakness was reported for lack of segregation of duties for cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures and payroll.

Responsible official: Pat Dalzell

Planned corrective actions: The City of Lemmon has determined that it is not cost beneficial to employ additional personnel to be able to adequately segregate duties for cash and investments, revenues, grants and receivables, inventories, capital assets, equity, debt, expenditures and payroll and accepts the risks involved. The Council is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical. Some of the compensating controls that have been implemented including dual signature of checks and board members reviewing vouchers.

Anticipated completion date: This is ongoing.

2022-002

Condition: 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.

Responsible official: Pat Dalzell

Planned corrective actions: The City of Lemmon accepts the risks associated with this deficiency. The Council is aware of the problem and will attempt to provide compensating controls wherever and whenever possible and practical.

Anticipated completion date: This is ongoing.

2022-003

Condition: The City does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with generally accepted accounting principles. As auditors, we are requested to draft the financial statements.

Responsible official: Pat Dalzell

Planned corrective actions: Both management and the City Council are aware of this condition and are confident that the information is accurate and are willing to accept this risk.

Anticipated completion date: This is ongoing.

2022-004

Condition: The City of Lemmon has an inventory listing that does not contain values for all inventory items; therefore, the City is not in compliance with SDCL 5-24-2.

Responsible official: Pat Dalzell

Planned corrective actions: The City will review the costs versus the benefits of completing an inventory.

Anticipated completion date: This is ongoing.

2022-005

Condition: A material weakness was reported for lack of proper capital asset records to support the amounts reported for general capital assets, enterprise capital assets, and depreciation expense; therefore, the City is not in compliance with SDCL 5-24-4.

Responsible official: Pat Dalzell

Planned corrective actions: The City will review the costs versus the benefits of completing a capital asset listing.

Anticipated completion date: This is ongoing.

2022-006

Condition: The budget for the airport function of the Airport Capital Project Fund was materially overspent by \$62,723.03.

Responsible official: Pat Dalzell and Chad Abel

Planned corrective actions: The City Council will monitor compliance more closely. The Finance Officer will monitor more closely the budget process and will make adjustments to the supplemental appropriations budget prior to the year end.

Anticipated completion date: December 2023


Chad Abel, Finance Officer


Matthew Barnes, Mayor

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MILLER, SOUTH DAKOTA

INDEPENDENT AUDITORS' REPORT

City Council
City of Lemmon
Lemmon, South Dakota

Adverse and Unmodified Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Lemmon, South Dakota (City), as of December 31, 2022, and for the year then ended, which collectively comprise the City's basic financial statements as listed in the table of contents.

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Adverse
Business-Type Activities	Adverse
Aggregate Discretely Presented Component Units	Unmodified
General Fund	Adverse
Airport Capital Project Fund	Adverse
Water Fund	Adverse
Sewer Fund	Adverse
Aggregate Remaining Fund Information	Adverse

Basis for Adverse Opinions on Governmental Activities, the Business-Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

Management has not recorded certain capital assets in the governmental and business-type activities and, accordingly, has not recorded depreciation expense on those assets. Accounting principles generally accepted in the United States of America require that those capital assets be capitalized and depreciated, which would increase the assets, net position, and expenses of the governmental activities and business-type activities. The amount by which this departure would affect the assets, net position, and expenses of the governmental and business-type activities has not been determined.

The City has not prepared notes to the financial statements. As a result, numerous disclosures required by U.S. generally accepted accounting principles are not made a part of these financial statements. The amount by which this departure would affect these financial statements is not reasonably determinable.

Management has not maintained proper inventory records in the governmental activities, business-type activities, and each major fund. Accounting principles generally accepted in the United States of America require that inventory be properly recorded, which would affect assets, net assets, and expenses of the governmental activities, business-type activities and each major fund. The amount by which this departure would affect the assets, net assets and expenses of the governmental activities, business-type activities and each major fund is not reasonably determinable.

Adverse Opinion

In our opinion, because of the significance of the matters discussed in the "Basis for Adverse Opinions on Governmental Activities, the Business-Type Activities, Each Major Fund and the Aggregate Remaining Fund Information" paragraphs, the financial statements referred to previously do not present fairly the financial position of the City as of December 31, 2022, or the changes in financial position or, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Pension Schedules on pages 27 through 30 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 by us and other auditors. In our opinion, based on our audit and the report of the other auditors, the combining nonmajor fund financial statements and Schedule of Expenditures of Federal Awards are not 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 October 30, 2023, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 City's internal control over financial reporting and compliance.

Kohlman Biersebach and Anderson LLP

October 30, 2023

CITY OF LEMMON
STATEMENT OF NET POSITION
DECEMBER 31, 2022

	Primary Government			9/30/2022 Component Units
	Governmental Activities	Business- Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 1,624,760	\$ 2,214,730	\$ 3,839,490	\$ 635,967
Investments	630,046	-	630,046	-
Accounts receivable, net	646,121	50,918	697,039	20,903
Due from other government	-	346,610	346,610	-
Inventories	4,293	-	-	-
Other assets	8,547	-	8,547	12,648
Restricted assets:				
Cash and cash equivalents	69,915	-	69,915	25,056
Net pension asset	930	237	1,167	360
Capital assets:				
Other capital assets, net of depreciation	<u>2,921,900</u>	<u>3,943,485</u>	<u>6,865,385</u>	<u>1,792,911</u>
TOTAL ASSETS	<u>5,906,512</u>	<u>6,555,980</u>	<u>12,458,199</u>	<u>2,487,845</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Pension related deferred outflows	<u>82,231</u>	<u>24,096</u>	<u>106,327</u>	<u>32,569</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>82,231</u>	<u>24,096</u>	<u>106,327</u>	<u>32,569</u>
LIABILITIES:				
Accounts payable	327,414	41,818	369,232	7,601
Other current liabilities	1,202	1,570,339	1,571,541	37,235
Internal balances	(18,513)	18,513	-	-
Noncurrent liabilities:				
Due within one year	143,875	4,825	148,700	32,028
Due in more than one year	<u>268,135</u>	<u>-</u>	<u>268,135</u>	<u>649,792</u>
TOTAL LIABILITIES	<u>722,113</u>	<u>1,635,495</u>	<u>2,357,608</u>	<u>726,656</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension related deferred inflows	<u>51,444</u>	<u>17,239</u>	<u>68,683</u>	<u>21,525</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>51,444</u>	<u>17,239</u>	<u>68,683</u>	<u>21,525</u>
NET POSITION:				
Net investment in capital assets	2,522,295	2,391,324	4,913,619	1,131,271
Restricted for:				
SDRS pension purposes	31,717	7,094	38,811	18,397
Other purposes	518,071	-	518,071	-
Unrestricted	<u>2,143,103</u>	<u>2,528,924</u>	<u>4,672,027</u>	<u>622,565</u>
TOTAL NET POSITION	<u>\$ 5,215,186</u>	<u>\$ 4,927,342</u>	<u>\$ 10,142,528</u>	<u>\$ 1,772,233</u>

CITY OF LEMMON
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			9/30/2022 Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General government	\$ 196,617	\$ 30,699	\$ -	\$ -	\$ (165,918)	-	\$ (165,918)	
Public safety	617,244	32,246	-	-	(584,998)	-	(584,998)	
Public works	1,259,085	236,791	119,549	771,848	(130,897)	-	(130,897)	
Health and welfare	6,979	-	-	-	(6,979)	-	(6,979)	
Culture and recreation	411,114	25,587	-	-	(385,527)	-	(385,527)	
Conservation and development	140,277	-	-	-	(140,277)	-	(140,277)	
Miscellaneous	-	64,817	-	-	64,817	-	64,817	
*Interest on long-term debt	<u>17,835</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,835)</u>	<u>-</u>	<u>(17,835)</u>	
Total Governmental Activities	<u>2,649,151</u>	<u>390,140</u>	<u>119,549</u>	<u>771,848</u>	<u>(1,367,614)</u>		<u>(1,367,614)</u>	
Business-Type Activities:								
Water	456,932	549,672	-	-		\$ 92,740	92,740	
Sewer	<u>497,451</u>	<u>143,704</u>	<u>346,610</u>	<u>-</u>		<u>(7,137)</u>	<u>(7,137)</u>	
Total Business-Type Activities	<u>954,383</u>	<u>693,376</u>	<u>346,610</u>	<u>-</u>		<u>85,603</u>	<u>85,603</u>	
Total Primary Government	<u>\$ 3,603,534</u>	<u>\$ 1,083,516</u>	<u>\$ 466,159</u>	<u>\$ 771,848</u>	<u>(1,367,614)</u>	<u>85,603</u>	<u>(1,282,011)</u>	
Component Unit:								
Housing and Redevelopment								
Commission	<u>\$ 563,847</u>	<u>\$ 345,413</u>	<u>\$ 194,457</u>	<u>\$ 499,541</u>				<u>\$ 475,564</u>
General Revenues:								
Taxes:								
					737,310		737,310	
					861,906		861,906	
					25,022		25,022	
					2,327		2,327	
					13,018		13,018	57
					71,722		71,722	238,603
Transfers					<u>(407,225)</u>	<u>407,225</u>	<u>-</u>	<u>-</u>
Total General Revenues and Transfers					<u>1,304,080</u>	<u>407,225</u>	<u>1,711,305</u>	<u>238,660</u>
Change in Net Position					<u>(63,534)</u>	<u>492,828</u>	<u>429,294</u>	<u>714,224</u>
Net Position - Beginning					5,278,720	4,434,514	9,713,234	1,057,909
ADJUSTMENTS:								
Customer deposit understated in prior period					<u>-</u>	<u>-</u>	<u>-</u>	<u>100</u>
ADJUSTED NET POSITION - BEGINNING					<u>5,278,720</u>	<u>4,434,514</u>	<u>9,713,234</u>	<u>1,058,009</u>
NET POSITION - ENDING					<u>\$ 5,215,186</u>	<u>\$ 4,927,342</u>	<u>\$ 10,142,528</u>	<u>\$ 1,772,233</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.

CITY OF LEMMON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	General Fund	Airport Capital Project Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash and cash equivalents	\$ 1,379,047	\$ 42,831	\$ 202,883	\$ 1,624,761
Investments	481,268	-	148,777	630,045
Taxes receivable - delinquent	50,806	-	-	50,806
Accounts receivable, net	4,406	-	-	4,406
Unbilled accounts receivable	12,941	-	-	12,941
Due from other funds	71,508	-	-	71,508
Due from state governments	76,316	497,644	4,008	577,968
Inventory of supplies	4,293	-	-	4,293
Prepaid expenses	8,547	-	-	8,547
Restricted cash and cash equivalents	45,107	-	24,808	69,915
TOTAL ASSETS	\$ 2,134,239	\$ 540,475	\$ 380,476	\$ 3,055,190
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
LIABILITIES:				
Accounts payable	\$ -	\$ 327,414	\$ -	\$ 327,414
Due to general funds	-	52,995	-	52,995
Accrued taxes payable	1,202	-	-	1,202
TOTAL LIABILITIES	1,202	380,409	-	381,611
DEFERRED INFLOWS OF RESOURCES:				
Unavailable revenue-property taxes	38,603	-	-	38,603
TOTAL DEFERRED INFLOWS OF RESOURCES	38,603	-	-	38,603
FUND BALANCES:				
Nonspendable:				
Prepaid purposes	8,547	-	-	8,547
Inventory purposes	4,293	-	-	4,293
Perpetual care for cemetery purposes	-	-	64,206	64,206
Restricted:				
Bamble Petrified Park purposes	43,238	-	109,100	152,338
Facilities and promoting the City	-	160,066	207,170	367,236
Library improvements	1,869	-	-	1,869
Assigned:				
Fire department	98,061	-	-	98,061
General parks	18,000	-	-	18,000
Police department	16,000	-	-	16,000
Street department	37,879	-	-	37,879
Swimming pool	30,000	-	-	30,000
Subsequent year's budget	41,532	-	-	41,532
Unassigned	1,795,015	-	-	1,795,015
TOTAL FUND BALANCES	2,094,434	160,066	380,476	2,634,976
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 2,134,239	\$ 540,475	\$ 380,476	\$ 3,055,190

CITY OF LEMMON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2022

Total Fund Balances - Governmental Funds		\$ 2,634,976
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		930
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		2,921,900
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		82,231
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.		
Accrued leave	\$ 12,405	
Other long-term debt	<u>399,605</u>	(412,010)
Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent, and noncurrent) are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	\$ <u>38,603</u>	38,603
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		<u>(51,444)</u>
Net Position - Governmental Activities		<u>\$ 5,215,186</u>

CITY OF LEMMON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2022

	General Fund	Airport Capital Project Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
General property taxes	\$ 687,221	\$ -	\$ 43,827	\$ 731,048
General sales and use taxes	812,449	-	49,457	861,906
Tax deed revenue	530	-	-	530
Penalties and interest on delinquent taxes	3,456	-	-	3,456
License and Permits	23,463	-	-	23,463
Intergovernmental Revenue:				
Federal grants	224,041	547,807	-	771,848
State shared revenue:				
Bank franchise tax	9,100	-	-	9,100
Prorate license fees	14,826	-	-	14,826
Liquor tax reversion (25%)	8,128	-	-	8,128
Motor vehicle licenses	23,773	-	-	23,773
Local government highway and bridge fund	66,480	-	-	66,480
State payments in lieu of taxes	7,794	-	-	7,794
County shared revenue:				
Other	1,237	-	-	1,237
Charges for Goods and Services:				
General government	7,236	-	-	7,236
Public safety	32,127	-	-	32,127
Highways and streets	3,940	-	-	3,940
Sanitation	227,735	-	-	227,735
Culture and recreation	25,587	-	-	25,587
Cemetery	-	-	5,116	5,116
Fines and Forfeits:				
Court fines and costs	119	-	-	119
Miscellaneous Revenue:				
Investment earnings	11,946	-	1,072	13,018
Rentals	13,233	-	-	13,233
Contributions and donations from private sources	1,142	-	1,185	2,327
Liquor operating agreement income	64,817	-	-	64,817
Other	<u>722</u>	<u>-</u>	<u>-</u>	<u>722</u>
TOTAL REVENUES	<u>2,271,102</u>	<u>547,807</u>	<u>100,657</u>	<u>2,919,566</u>
EXPENDITURES:				
General Government:				
Executive	59,189	-	-	59,189
Elections	2,112	-	-	2,112
Financial administration	105,322	-	-	105,322
Other	29,932	-	-	29,932
Public Safety:				
Police	237,000	-	-	237,000
Fire	380,244	-	-	380,244

	General Fund	Airport Capital Project Fund	Other Governmental Funds	Total Governmental Funds
Public Works:				
Highways and streets	393,495	-	-	393,495
Sanitation	256,365	-	-	256,365
Airport	32,167	562,723	-	594,890
Cemeteries	-	-	15,556	15,556
Health and Welfare:				
Health	2,979	-	-	2,979
Home health	1,000	-	-	1,000
Mental health centers	3,000	-	-	3,000
Culture and Recreation:				
Recreation	118,085	-	-	118,085
Parks	206,089	-	2,152	208,241
Libraries	85,842	-	-	85,842
Conservation and Development:				
Economic development and assistance	82,550	-	20,376	102,926
Economic opportunity	37,351	-	-	37,351
Debt Service	<u>129,717</u>	<u>-</u>	<u>38,657</u>	<u>168,374</u>
TOTAL EXPENDITURES	<u>2,162,439</u>	<u>562,723</u>	<u>76,741</u>	<u>2,801,903</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>108,663</u>	<u>(14,916)</u>	<u>23,916</u>	<u>117,663</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	227,977	4,856	232,833
Sale of municipal property	71,000	-	-	71,000
Transfers out	<u>(640,058)</u>	<u>-</u>	<u>-</u>	<u>(640,058)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(569,058)</u>	<u>227,977</u>	<u>4,856</u>	<u>(336,225)</u>
NET CHANGE IN FUND BALANCES	(460,395)	213,061	28,772	(218,562)
FUND BALANCE - BEGINNING	<u>2,554,829</u>	<u>(52,995)</u>	<u>351,704</u>	<u>2,853,538</u>
FUND BALANCE - ENDING	<u>\$ 2,094,434</u>	<u>\$ 160,066</u>	<u>\$ 380,476</u>	<u>\$ 2,634,976</u>

CITY OF LEMMON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2022

Net Change in Fund Balances - Total Governmental Funds \$ (218,562)

Amounts reported for governmental activities in the Statement of Activities are different because:

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net position.

Other long-term debt	\$ <u>150,539</u>	150,539
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Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave debits.

Vacation leave	\$ <u>1,745</u>	(1,745)
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The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	2,276
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.	4,110
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Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(152)</u>
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Change in Net Position of Governmental Activities	<u><u>\$ (63,534)</u></u>
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CITY OF LEMMON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022

	Business-Type Activities Enterprise Funds		Total
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 1,132,092	\$ 1,082,639	\$ 2,214,731
Accounts receivable, net	44,935	5,983	50,918
Due from other government	<u>-</u>	<u>346,610</u>	<u>346,610</u>
Total Current Assets	<u>1,177,027</u>	<u>1,435,232</u>	<u>2,612,259</u>
Noncurrent Assets:			
Net pension asset	203	34	237
Capital Assets:			
Improvements other than buildings	4,570,299	-	4,570,299
Furnishings and equipment	14,350	77,072	91,422
Less: accumulated depreciation	<u>(693,332)</u>	<u>(24,904)</u>	<u>(718,236)</u>
Total Noncurrent Assets	<u>3,891,520</u>	<u>52,202</u>	<u>3,943,722</u>
TOTAL ASSETS	<u>5,068,547</u>	<u>1,487,434</u>	<u>6,555,981</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Pension related deferred outflows	<u>20,378</u>	<u>3,718</u>	<u>24,096</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>20,378</u>	<u>3,718</u>	<u>24,096</u>
LIABILITIES:			
Current Liabilities:			
Accounts payable	-	41,818	41,818
Notes payable	1,519,408	-	1,519,408
Due to other funds	-	18,513	18,513
Customer deposits	<u>50,932</u>	<u>-</u>	<u>50,932</u>
Total Current Liabilities	<u>1,570,340</u>	<u>60,331</u>	<u>1,630,671</u>
Noncurrent Liabilities:			
Accrued leave payable	<u>4,069</u>	<u>756</u>	<u>4,825</u>
Total Noncurrent Liabilities	<u>4,069</u>	<u>756</u>	<u>4,825</u>
TOTAL LIABILITIES	<u>1,574,409</u>	<u>61,087</u>	<u>1,635,496</u>
DEFERRED INFLOWS OF RESOURCES:			
Pension related deferred inflows	<u>14,159</u>	<u>3,080</u>	<u>17,239</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>14,159</u>	<u>3,080</u>	<u>17,239</u>
NET POSITION:			
Net investment in capital assets	2,339,156	52,168	2,391,324
Restricted for SDRS pension purposes	6,422	672	7,094
Unrestricted	<u>1,154,779</u>	<u>1,374,145</u>	<u>2,528,924</u>
TOTAL NET POSITION	<u>\$ 3,500,357</u>	<u>\$ 1,426,985</u>	<u>\$ 4,927,342</u>

CITY OF LEMMON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022

	Business-Type Activities Enterprise Funds		Total
	Water Fund	Sewer Fund	
OPERATING REVENUE:			
Charges for goods and services	\$ <u>549,672</u>	\$ <u>143,704</u>	\$ <u>693,376</u>
TOTAL OPERATING REVENUE	<u>549,672</u>	<u>143,704</u>	<u>693,376</u>
OPERATING EXPENSES:			
Personal services	72,764	9,861	82,625
Other current expense	26,779	487,590	514,369
Materials (cost of goods sold)	<u>315,034</u>	<u>-</u>	<u>315,034</u>
TOTAL OPERATING EXPENSES	<u>414,577</u>	<u>497,451</u>	<u>912,028</u>
OPERATING INCOME (LOSS)	<u>135,095</u>	<u>(353,747)</u>	<u>(218,652)</u>
NONOPERATING REVENUE (EXPENSE):			
Operating grants	-	346,610	346,610
Interest expense	<u>(42,355)</u>	<u>-</u>	<u>(42,355)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(42,355)</u>	<u>346,610</u>	<u>304,255</u>
INCOME (LOSS) BEFORE TRANSFERS	92,740	(7,137)	85,603
TRANSFERS IN	<u>-</u>	<u>407,225</u>	<u>407,225</u>
CHANGE IN NET POSITION	92,740	400,088	492,828
NET POSITION - BEGINNING	<u>3,407,617</u>	<u>1,026,897</u>	<u>4,434,514</u>
NET POSITION - ENDING	<u>\$ <u>3,500,357</u></u>	<u>\$ <u>1,426,985</u></u>	<u>\$ <u>4,927,342</u></u>

CITY OF LEMMON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2022

	Business-Type Activities Enterprise Funds		Total
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash receipts from customers	\$ 549,672	\$ 143,704	\$ 693,376
Cash payments to employees for services	(73,655)	(10,253)	(83,908)
Cash payments to suppliers of goods and services	<u>(341,117)</u>	<u>(427,259)</u>	<u>(768,376)</u>
Net cash provided (used) by operating activities	<u>134,900</u>	<u>(293,808)</u>	<u>(158,908)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	<u>-</u>	<u>407,225</u>	<u>407,225</u>
Net cash provided by noncapital financing activities	<u>-</u>	<u>407,225</u>	<u>407,225</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Interest paid on capital debt	(42,355)	-	(42,355)
Other receipts (payments)	<u>(32,751)</u>	<u>-</u>	<u>(32,751)</u>
Net cash used by capital and related financing activities	<u>(75,106)</u>	<u>-</u>	<u>(75,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	<u>-</u>	<u>-</u>	<u>-</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	59,794	113,417	173,211
BALANCES - BEGINNING	<u>1,072,298</u>	<u>969,222</u>	<u>2,041,520</u>
BALANCES - ENDING	<u>\$ 1,132,092</u>	<u>\$ 1,082,639</u>	<u>\$ 2,214,731</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ 135,095	\$ (353,747)	\$ (218,652)
ADJUSTMENTS TO RECONCILE OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Decrease in payables	-	41,818	-
Decrease in due to other funds	-	18,513	-
Decrease in net pension asset	17,807	3,315	21,122
Decrease in pension related deferred outflows	2,936	147	3,083
Increase in customer deposits	696	-	696
Decrease in accrued leave payable	(123)	(299)	(422)
Decrease in pension related deferred inflows	<u>(21,511)</u>	<u>(3,555)</u>	<u>(25,066)</u>
Net cash provided (used) by operating activities	<u>\$ 134,900</u>	<u>\$ (293,808)</u>	<u>\$ (158,908)</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LEMMON
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
LAST 8 YEARS*

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's proportion of the net pension liability (asset)	0.0123450 %	0.0128810 %	0.0118955 %	0.0105683 %	0.0114002 %	0.0112544 %	0.0114535 %	0.0116046 %
City's proportionate share of the net pension liability (asset)	\$ (1,167)	\$ (98,646)	\$ (517)	\$ (1,120)	\$ (266)	\$ (1,021)	\$ 38,689	\$ (49,218)
City's covered payroll	\$ 294,788	\$ 289,624	\$ 261,071	\$ 224,704	\$ 236,999	\$ 228,669	\$ 217,789	\$ 211,871
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.40 %	34.06 %	0.20 %	0.50 %	0.11 %	0.44 %	17.76 %	23.23 %
Plan fiduciary net position as a percentage of the total pension liability (asset)	100 %	106 %	100 %	100 %	100 %	100 %	97 %	104 %

* The amounts presented for each fiscal year were determined as of the measurement 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 LEMMON
SCHEDULE OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE CITY'S PENSION CONTRIBUTIONS
LAST 10 YEARS

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually required contribution	\$ 17,347	\$ 17,913	\$ 16,734	\$ 14,436	\$ 13,782	\$ 13,959	\$ 13,279	\$ 12,884	\$ 12,510	\$ 14,876
Contributions in relation to the contractually required contribution	<u>17,347</u>	<u>17,913</u>	<u>16,734</u>	<u>14,436</u>	<u>13,782</u>	<u>13,959</u>	<u>13,279</u>	<u>12,884</u>	<u>12,510</u>	<u>14,876</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
City's covered payroll	\$ 289,110	\$ 298,542	\$ 278,895	\$ 240,560	\$ 229,702	\$ 232,642	\$ 221,321	\$ 214,733	\$ 208,506	\$ 241,815
Contributions as a percentage of covered payroll	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.00 %	6.15 %

CITY OF LEMMON
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AND
SCHEDULE OF PENSION CONTRIBUTIONS

Changes from Prior Valuation

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

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

Benefit Provision Changes

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

Actuarial Assumption Changes

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

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

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

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

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

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

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

CITY OF LEMMON
NOTES THE THE REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET) AND
SCHEDULE OF PENSION CONTRIBUTIONS
(Continued)

Actuarial Method Changes

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

SUPPLEMENTARY INFORMATION

CITY OF LEMMON
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	Bamble Park Fund	Cemetery Fund	3B Fund	TIF Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS:					
Cash and cash equivalents	\$ 24,428	\$ 101	\$ 178,354	\$ -	\$ 202,883
Investments	84,672	64,105	-	-	148,777
Due from state governments	-	-	4,008	-	4,008
Restricted cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,808</u>	<u>24,808</u>
Total Assets	<u>\$ 109,100</u>	<u>\$ 64,206</u>	<u>\$ 182,362</u>	<u>\$ 24,808</u>	<u>\$ 380,476</u>
FUND BALANCES:					
Nonspendable:					
Perpetual care for cemetery purposes	\$ -	\$ 64,206	\$ -	\$ -	\$ 64,206
Restricted:					
Bamble Petrified Park purposes	109,100	-	-	-	109,100
Facilities and promoting the City	<u>-</u>	<u>-</u>	<u>182,362</u>	<u>24,808</u>	<u>207,170</u>
TOTAL FUND BALANCES	<u>\$ 109,100</u>	<u>\$ 64,206</u>	<u>\$ 182,362</u>	<u>\$ 24,808</u>	<u>\$ 380,476</u>

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

	Bamble Park Fund	Cemetery Fund	3B Fund	TIF Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:					
Taxes:					
General property taxes	\$ -	\$ -	\$ -	\$ 43,827	\$ 43,827
General sales and use taxes	-	-	49,457	-	49,457
Charges for Goods and Services:					
Cemetery	-	5,116	-	-	5,116
Miscellaneous Revenue:					
Investment earnings	-	1,028	-	44	1,072
Contributions and donations from private sources	-	1,185	-	-	1,185
TOTAL REVENUES	<u>-</u>	<u>7,329</u>	<u>49,457</u>	<u>43,871</u>	<u>100,657</u>
EXPENDITURES:					
Public Works:					
Cemeteries	-	15,556	-	-	15,556
Culture and Recreation:					
Parks	2,152	-	-	-	2,152
Conservation and Development:					
Economic development and assistance	-	-	20,376	-	20,376
Debt Service	-	-	-	38,657	38,657
TOTAL EXPENDITURES	<u>2,152</u>	<u>15,556</u>	<u>20,376</u>	<u>38,657</u>	<u>76,741</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(2,152)</u>	<u>(8,227)</u>	<u>29,081</u>	<u>5,214</u>	<u>23,916</u>
OTHER FINANCING SOURCES:					
Transfers in	-	4,856	-	-	4,856
TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>4,856</u>	<u>-</u>	<u>-</u>	<u>4,856</u>
NET CHANGE IN FUND BALANCES	(2,152)	(3,371)	29,081	5,214	28,772
FUND BALANCE - BEGINNING	<u>111,252</u>	<u>67,577</u>	<u>153,281</u>	<u>19,594</u>	<u>351,704</u>
FUND BALANCE - ENDING	<u>\$ 109,100</u>	<u>\$ 64,206</u>	<u>\$ 182,362</u>	<u>\$ 24,808</u>	<u>\$ 380,476</u>

CITY OF LEMMON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Pass-Through Entity Identifying Number	Federal CFDA Number	Total Federal Expenditures 2022
U.S. Department of Agriculture - Direct Programs: Water and Waste Disposal System for Rural Communities		10.760	\$ <u>418,176</u>
Total U.S. Department of Agriculture			<u>418,176</u>
U.S. Department of Transportation - Direct Programs: Airport Improvement Program (COVID) (Note 3)	Unknown	20.106	41,389
Airport Improvement Program (Note 3)	Unknown	20.106	<u>506,418</u>
Total U.S. Department of Transportation			<u>547,807</u>
U.S. Department of Treasury - Direct Programs: Coronavirus State and Local Fiscal Recovery Funds		21.027	<u>212,313</u>
Total U.S. Department of Treasury			<u>212,313</u>
National Endowment for the Arts - Pass-Through Programs: S.D. Arts Council:			
Promotions of the Arts	Unknown	45.025	1,727
Grants to States	Unknown	45.310	<u>10,000</u>
Total National Endowment for the Arts			<u>11,727</u>
U.S. General Services Administration - Pass-Through Programs: S.D. Federal Property Agency:			
Donation of Federal Surplus Personal Property (Note 4)	Unknown	39.003	<u>455</u>
Total General Services Administration			<u>455</u>
GRAND TOTAL			\$ <u><u>1,190,478</u></u>

CITY OF LEMMON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2022
(Continued)

NOTE 1 - Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position or cash flows of the City.

NOTE 2 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The City has not elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

NOTE 4 - Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City.