

CITY OF SUMMERSET, SOUTH DAKOTA

Financial Statements

December 31, 2021



CASEY • PETERSON

RAPID CITY • GILLETTE

City of Summerset, South Dakota
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December 31, 2021

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Independent Auditor's Report on Internal Control over
Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

Honorable Mayor and City Commissioners
City of Summerset, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Summerset, South Dakota, as of and for the year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the City of Summerset, South Dakota's basic financial statements and have issued our report thereon dated April 21, 2022.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Summerset, South Dakota'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 of Summerset, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Summerset, South Dakota'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 entity'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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

RAPID CITY

909 ST. JOSEPH STREET, SUITE 101
RAPID CITY, SD 57701
605.348.1930

GILLETTE

612 S. DOUGLAS HWY
GILLETTE, WY 82716
307.682.4795

FAITH

127 MAIN ST. S.
FAITH, SD 57626
605.791.3142

Report on Compliance and Other Matters

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

City of Summerset, South Dakota's Response to Findings

The City of Summerset, South Dakota's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Management's Responses. The City of Summerset, South Dakota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Casey Peterson, LTD

Rapid City, South Dakota

April 21, 2022

**City of Summerset, South Dakota
Schedule of Findings and Management's Response
December 31, 2021**

No findings were noted in the current year.

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Independent Auditor's Report

Honorable Mayor and City Commissioners
City of Summerset, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Summerset, South Dakota (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Summerset, South Dakota as of December 31, 2021 and the respective changes in financial position-modified cash basis thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

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

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting described in Note 1, and for determining that the 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.

RAPID CITY

909 ST. JOSEPH STREET, SUITE 101
RAPID CITY, SD 57701
605.348.1930

GILLETTE

612 S. DOUGLAS HWY
GILLETTE, WY 82716
307.682.4795

FAITH

127 MAIN ST. S.
FAITH, SD 57626
605.791.3142

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Pension Contributions, the Notes to the Supplementary Information, and the Schedule of Municipal Officials, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), the Schedule of Pension Contributions, the Notes to the Supplementary Information, and the list of City Officials are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. We have applied certain limited procedures to the supplementary information 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2022 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Casey Peterson, LTD

Rapid City, South Dakota
April 21, 2022

BASIC FINANCIAL STATEMENTS

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City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2021

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 2,827,190	\$ 1,115,898	\$ 3,943,088
Restricted Assets:			
Cash and Cash Equivalents	<u>383,381</u>	<u>-</u>	<u>383,381</u>
TOTAL ASSETS	<u>\$ 3,210,571</u>	<u>\$ 1,115,898</u>	<u>\$ 4,326,469</u>
NET POSITION			
Restricted for:			
Debt Service	\$ 1,345,222	\$ -	\$ 1,345,222
Construction	237,839	-	237,839
Contractor Surety	30,000	-	30,000
Customer Deposits	-	40,187	40,187
Unrestricted	<u>1,597,510</u>	<u>1,075,711</u>	<u>2,673,221</u>
TOTAL NET POSITION	<u>\$ 3,210,571</u>	<u>\$ 1,115,898</u>	<u>\$ 4,326,469</u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Activities - Modified Cash Basis
For the Year Ended December 31, 2021

Functions/Programs	Disbursements	Program Receipts	
		Charges for Services	Capital Grants, Loans and Contributions
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	\$ 578,201	\$ 107,992	\$ 273,531
Public Safety	792,557	383	2,410
Public Works	497,122	185,481	-
Health and Welfare	66	-	-
Culture and Recreation	8,119	-	-
Conservation and Development	42,673	-	-
Debt Service*	812,836	-	-
Total Governmental Activities	2,731,574	293,856	275,941
Business-type Activities:			
Sewer	581,480	787,003	-
TOTAL PRIMARY GOVERNMENT	\$ 3,313,054	\$ 1,080,859	\$ 275,941

*The City of Summerset does not have interest and principal expenses directly related to the functions presented above. This amount includes indirect interest and principal expenses on general long-term debt.

GENERAL RECEIPTS

Taxes:

- Property Taxes
- Sales Tax
- State Shared Receipts
- County Shared Receipts
- Unrestricted Investment Earnings
- Miscellaneous Receipts

Total General Receipts and Transfers

CHANGE IN NET POSITION

NET POSITION - BEGINNING

NET POSITION - ENDING

The accompanying notes are an integral part of this statement.

Net (Disbursements) Receipts and
Changes in Net Position

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (196,678)	\$ -	\$ (196,678)
(789,764)	-	(789,764)
(311,641)	-	(311,641)
(66)	-	(66)
(8,119)	-	(8,119)
(42,673)	-	(42,673)
<u>(812,836)</u>	<u>-</u>	<u>(812,836)</u>
(2,161,777)	-	(2,161,777)
<u>-</u>	<u>205,523</u>	<u>205,523</u>
<u>(2,161,777)</u>	<u>205,523</u>	<u>(1,956,254)</u>
1,249,916	-	1,249,916
1,001,964	-	1,001,964
51,172	-	51,172
18,974	-	18,974
1,525	-	1,525
<u>165,521</u>	<u>-</u>	<u>165,521</u>
<u>2,489,072</u>	<u>-</u>	<u>2,489,072</u>
327,295	205,523	532,818
<u>2,883,276</u>	<u>910,375</u>	<u>3,793,651</u>
<u>\$ 3,210,571</u>	<u>\$ 1,115,898</u>	<u>\$ 4,326,469</u>

The accompanying notes are an integral part of this statement.

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City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2021

	General Fund	Tax Increment District #1 - Debt Service Fund	Non-major Third Penny Fund	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 1,816,871	\$ 961,841	\$ 48,478	\$ 2,827,190
Restricted Cash and Cash Equivalents	-	383,381	-	383,381
TOTAL ASSETS	<u>\$ 1,816,871</u>	<u>\$ 1,345,222</u>	<u>\$ 48,478</u>	<u>\$ 3,210,571</u>
FUND BALANCES				
Restricted:				
For Debt Service	\$ -	\$ 1,345,222	\$ -	\$ 1,345,222
For Construction	237,839	-	-	237,839
For Contractor Surety	30,000	-	-	30,000
Committed:				
For Economic Development	-	-	48,478	48,478
Unassigned	1,549,032	-	-	1,549,032
TOTAL FUND BALANCES	<u>\$ 1,816,871</u>	<u>\$ 1,345,222</u>	<u>\$ 48,478</u>	<u>\$ 3,210,571</u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements and Changes in Fund Balances -
Modified Cash Basis - Governmental Funds
For the Year Ended December 31, 2021

	General Fund	Tax Increment District #1 - Debt Service Fund	Non-major Third Penny Fund	Total Governmental Funds
RECEIPTS				
Taxes:				
General Property Taxes	\$ 651,318	\$ 598,227	\$ -	\$ 1,249,545
General Sales and Use Taxes	940,191	-	-	940,191
Gross Receipts Taxes	5,132	-	56,641	61,773
Penalties and Interest on Delinquent Taxes	371	-	-	371
Licenses and Permits	107,992	-	-	107,992
Intergovernmental Receipts:				
State Grants	275,648	-	293	275,941
State Shared Receipts:				
Liquor Tax Reversion	21,344	-	-	21,344
Motor Vehicle Licenses	29,828	-	-	29,828
County Shared Receipts:				
County Road Tax	1,310	-	-	1,310
Other	17,664	-	-	17,664
Charges for Goods and Services:				
Solid Waste Collections	183,231	-	-	183,231
Fines and Forfeits:				
Court Fines and Costs	383	-	-	383
Miscellaneous Receipts:				
Street Light Fees	2,250	-	-	2,250
Investment Earnings	264	1,261	-	1,525
Other	165,521	-	-	165,521
Total Receipts	2,402,447	599,488	56,934	3,058,869

The accompanying notes are an integral part of this statement.

	General Fund	Tax Increment District #1 - Debt Service Fund	Non-major Third Penny Fund	Total Governmental Funds
DISBURSEMENTS				
General Government:				
Legislative	39,261	-	-	39,261
Executive	17,790	-	-	17,790
Elections	415	-	-	415
Financial Administration	303,345	-	-	303,345
Government Building and Engineering	206,994	-	-	206,994
Public Safety:				
Police	658,589	-	-	658,589
Fire Department	32,764	-	-	32,764
Protective Inspection	10,887	-	-	10,887
Public Works:				
Highways and Streets	227,187	-	-	227,187
Sanitation	87,560	-	-	87,560
Health and Welfare:				
Humane Society	66	-	-	66
Culture and Recreation	601	-	-	601
Parks and Recreation	7,518	-	-	7,518
Conservation and Development:				
Planning and Zoning	20,403	-	-	20,403
Economic Development	-	-	22,270	22,270
Debt Service	516,036	296,800	-	812,836
Capital Outlay	283,088	-	-	283,088
Total Disbursements	<u>2,412,504</u>	<u>296,800</u>	<u>22,270</u>	<u>2,731,574</u>
NET CHANGE IN FUND BALANCE	(10,057)	302,688	34,664	327,295
FUND BALANCE - BEGINNING	<u>1,826,928</u>	<u>1,042,534</u>	<u>13,814</u>	<u>2,883,276</u>
FUND BALANCE - ENDING	<u>\$ 1,816,871</u>	<u>\$ 1,345,222</u>	<u>\$ 48,478</u>	<u>\$ 3,210,571</u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Proprietary Funds
December 31, 2021

	<u>Sewer Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ <u>1,115,898</u>
TOTAL ASSETS	\$ <u><u>1,115,898</u></u>
NET POSITION	
Restricted for Customer Deposits	\$ 40,187
Unrestricted	<u>1,075,711</u>
TOTAL NET POSITION	\$ <u><u>1,115,898</u></u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Statement of Receipts, Disbursements, and Changes in Fund Net Position -
Modified Cash Basis - Proprietary Funds
For the Year Ended December 31, 2021

	<u>Sewer Fund</u>
OPERATING RECEIPTS	
Revenue Dedicated to Servicing Debt	<u>\$ 787,003</u>
OPERATING DISBURSEMENTS	
Personal Services	166,328
Other Current Operating Disbursements	<u>232,384</u>
Total Operating Disbursements	<u>398,712</u>
Total Operating Income	<u>388,291</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Debt Service	(99,903)
Capital Outlay	<u>(82,865)</u>
Total Nonoperating Disbursements	<u>(182,768)</u>
CHANGE IN NET POSITION	205,523
NET POSITION - BEGINNING	<u>910,375</u>
NET POSITION - ENDING	<u>\$ 1,115,898</u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on the 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. REPORTING ENTITY

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

B. BASIS OF PRESENTATION

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the City as a whole. These statements include all funds of the overall government except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The Statement of Activities presents a comparison between direct disbursements and program receipts for each segment of the business-type activities of the City and each function of the City's governmental activities. Direct disbursements are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program receipts include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions and loan proceeds that are restricted to meeting the operational or capital requirements of a particular program. Receipts that are not classified as program receipts, including all taxes, are presented as general receipts.

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

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the City are described below:

Governmental Funds:

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

Special Revenue Funds - Special Revenue Funds are used to account for and report the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

Third Penny Fund - To account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food, and admissions. The use of this tax is restricted by City Ordinance 34.21.020 and shall be levied for land acquisition, architectural fees, construction costs, payments for the civic center, auditorium, or athletic facility buildings including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City, its facilities, attractions, and activities per SDCL 10-52A-2. 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.

Tax Increment District #1 - Accounts for the accumulation of property tax receipts received on the tax increment district and the payment of long-term debt principal and interest as related to the tax increment district. This fund is a major fund.

Proprietary Funds:

Enterprise Funds - Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Fiduciary Funds:

Fiduciary funds are never considered to be major funds and are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). The City did not have fiduciary funds as of December 31, 2021.

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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City's basis of accounting is the modified cash basis, which is a basis of accounting other than GAAP. Under GAAP, 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.

Fund Financial Statements:

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

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, and business-type activities are presented using the 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 balance sheet reports only cash and cash equivalents (those investments with terms to maturity of 90 days 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.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements include the recording of investments arising from cash transactions. The City also presents negative cash balances rather than interfund loans.

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. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a customer transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City applied accounting principles generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. CASH AND CASH EQUIVALENTS

The City pools its cash resources for deposit purposes. The proprietary funds have access to their cash resources on demand.

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and short-term investments with a term to maturity at the date of acquisition of three months or less. Certificates of deposit whose term to maturity at the date of acquisition exceeds three months are carried at cost and included in cash and cash equivalents.

E. RESTRICTED CASH DEPOSITS

The City maintains restricted cash deposits for utility customer account deposits and debt service reserves required by loan agreements in relation to the tax increment financing.

F. CAPITAL ASSETS

Government-wide Financial Statements

Under the modified cash basis of accounting, the City's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner in the government-wide financial statements.

G. LONG-TERM LIABILITIES

Long-term liabilities include, but are not limited to, a mortgage loan and financing notes.

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 its cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is 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 and interest are reported as Debt Service.

H. REVENUE RECEIVED IN ADVANCE

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. PROGRAM RECEIPTS

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

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

J. PROPRIETARY FUNDS RECEIPTS AND DISBURSEMENTS CLASSIFICATION

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

K. EQUITY CLASSIFICATIONS

Government-Wide Financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

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 does not meet the definition of Restricted Net Position.

It is the City's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance, which is distinguished between the following classifications:

Nonspendable - Includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted - Includes amounts that are constrained for specific purposes that are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed - Includes amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Commissioners and do not lapse at year-end.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Assigned - Includes amounts that are constrained by the City management and are intended to be used for specific purposes but are neither restricted nor committed. The City Commissioners have given management the authority to create assignments of fund equity.

Unassigned - Includes positive amounts 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 amounts first when both restricted and unrestricted fund balance is available unless there are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

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

The City has established a fund balance reserve policy for the General Fund. The total amount set aside is \$500,000. The policy provides for a budget stabilization reserve of 15 - 20% of annual operating expenditures; an emergency reserve for unforeseen disasters or accidents of 15 - 20% of annual operating expenditures, and a working capital reserve of 5 - 10% of annual operating expenditures. These reserves have not been designated for specific purposes and, as such, are presented in unassigned fund balance in the General Fund.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits

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

Investments

In general, 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 deposited in a safekeeping account with any banker or trust company designated by the political subdivision as its fiscal agent. As of December 31, 2021, the City did not hold any investments as defined by the Governmental Accounting Standards Board.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Custodial Credit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2021, the City's deposits were adequately secured by FDIC Insurance and collateralized with pledged securities.

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

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

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

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

NOTE 3 - PROPERTY TAXES

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

NOTE 4 - COMMITMENTS

The following is a summary of changes in long-term debt commitments for the year ended December 31:

	Beginning Balance 12/31/2020	Additions	Payments	Ending Balance 12/31/2021	Due in One Year
Tax Increment Financing Note	\$ 1,830,788	\$ -	\$ (216,835)	\$ 1,613,953	\$ 224,771
Mortgage	61,858	-	(61,858)	-	-
State Revolving Fund Loan	190,333	-	(11,618)	178,715	11,970
Clean Water State Revolving Fund Loan	1,702,338	-	(40,525)	1,661,813	41,547
Vehicle Loans	442,171	-	(442,171)	-	-
	<u>\$ 4,227,488</u>	<u>\$ -</u>	<u>\$ (773,007)</u>	<u>\$ 3,454,481</u>	<u>\$ 278,288</u>

The Tax Increment Financing Note requires semi-annual \$148,400 payments including interest at 4.5%. Interest paid for the year ended December 31, 2021 was \$79,694. The final payment is due June 2028. The fund balance of the Tax Increment District #1 Fund is restricted to the purpose of paying this debt. In addition, the City has pledged customer surcharges of the Sewer Fund for the purpose of repaying this debt.

The City had a mortgage for the purchase of the City Office. This loan was paid off during 2021. Interest paid for the year ended December 31, 2021 was \$1,995. This debt is paid by the General Fund.

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021**

NOTE 4 - COMMITMENTS (CONTINUED)

The City has an outstanding State Revolving Fund Loan for the installation of reed beds at the Wastewater Treatment Plant. The loan matures in March 2033 and requires quarterly payments of \$4,300, including interest at 3%. Interest paid for the year ended December 31, 2021 was \$5,580. This debt is paid by the Sewer Fund.

The City has an outstanding Clean Water State Revolving Fund Loan for improvements to the Wastewater Treatment Plant. The loan matures in November 2049 and requires quarterly payments of \$20,676, including interest at 2.5% beginning February 2020. Interest paid for the year ended December 31, 2021 was \$42,181. This debt is paid by the Sewer Fund.

The City financed the purchase of a patrol vehicle. This loan was paid off during 2021. Interest paid for the year ended December 31, 2021 was \$2,088. This debt was paid by the General Fund.

The City financed the purchase of a bobcat. This loan was paid off during 2021. Interest paid for the year ended December 31, 2021 was \$134. This debt was paid by the General Fund.

The City financed the purchase of a Freightliner truck. This loan was paid off during 2021. Interest paid for the year ended December 31, 2021 was \$4,733. This debt was paid by the General Fund.

During 2020, the City financed the purchase of a garbage truck. This loan was paid off during 2021. Interest paid for the year ended December 31, 2021 was \$3,058. This debt was paid by the General Fund.

The City was in compliance with debt covenants for the year ending December 31, 2021. The debt covenants consist of a bond reserve of \$367,050 and asset management reserve of \$16,331, recorded in the Statement of Net Position - Modified Cash Basis. Deposits are maintained in a savings account.

Pledged Revenues

The City has pledged customer surcharges of the Sewer Fund for the retirement of its tax increment financing note as previously mentioned. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the year ended December 31:

Current Year Principal and Interest	\$ <u>296,800</u>
Pledged Revenue:	
Tax Increment Receipts	\$ 598,227
Sewer Fund Receipts	<u>787,003</u>
Total Pledged Revenue	<u>\$ 1,385,230</u>

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021**

NOTE 4 - COMMITMENTS (CONTINUED)

The annual requirements to amortize all debt outstanding as of December 31, 2021 are as follows:

	Tax Increment Financing Note		State Revolving Fund		Clean Water State Revolving Fund		Totals	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
	2022	\$ 72,030	\$ 224,771	\$ 5,228	\$ 11,970	\$ 41,158	\$ 41,547	\$ 118,416
2023	61,801	234,999	4,864	12,334	40,109	42,596	106,774	289,929
2024	51,107	245,693	4,490	12,708	39,034	43,671	94,631	302,072
2025	39,927	256,873	4,105	13,093	37,932	44,773	81,964	314,739
2026	28,237	268,563	3,707	13,491	36,803	45,902	68,747	327,956
2027-2031	19,268	383,054	12,144	73,846	166,042	247,483	197,454	704,383
2032-2036	-	-	1,722	41,273	133,199	280,326	134,921	321,599
2037-2041	-	-	-	-	95,997	317,527	95,997	317,527
2042-2046	-	-	-	-	53,859	359,666	53,859	359,666
2047-2051	-	-	-	-	9,793	238,322	9,793	238,322
	<u>\$ 272,370</u>	<u>\$ 1,613,953</u>	<u>\$ 36,260</u>	<u>\$ 178,715</u>	<u>\$ 653,926</u>	<u>\$ 1,661,813</u>	<u>\$ 962,556</u>	<u>\$ 3,454,481</u>

NOTE 5 - TAX ABATEMENTS

The City has an active Tax Increment Financing (TIF) district in which the City has a loan agreement with Rural Development to provide for the cost of upgrades to its sewer facility. Under the agreement, property tax increments received by the City are remitted as loan payments to Rural Development. The district was approved by resolution by the City Council as allowed by South Dakota Codified Law Section 11-9. When the loan is paid or the TIF is dissolved in accordance with state statutes, all property tax revenue will be distributed to the appropriate taxing entities. Increments totaling \$598,227 were received by the City and payments of \$296,800 were made to Rural Development during 2021.

NOTE 6 - PENSION PLAN

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer hybrid defined benefit 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 is 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 three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 6 - PENSION PLAN (CONTINUED)

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - 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.

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, 2021, 2020, and 2019 were \$46,036, \$31,459, and \$29,693 respectively, and were equal to the required contributions each year.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 6 - PENSION PLAN (CONTINUED)

Pension Liabilities (Assets)

At June 30, 2021, SDRS was 105.53% funded and accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of the measurement period ending June 30, 2021 and reported by the City as of December 31, 2021 are as follows:

Proportionate Share of Pension Liability	\$	3,834,883
Less: Proportionate Share of Net Pension Restricted for Pension Benefits		4,046,681
Proportionate Share of Net Pension Liability (Asset)	\$	(211,798)

At December 31, 2021, the City had a liability (asset) of \$(211,798) for its proportionate share of the net pension liability (asset). This asset is not reflected in the financial statements. The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was 0.02765600%, which is an increase of 0.0041697% from its proportion measured as of June 30, 2020.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%	
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service	
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%.	
Future COLAs	2.25%	

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white-collar rates for females, and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 6 - PENSION PLAN (CONTINUED)

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, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	58%	4.3%
Fixed Income	30%	1.6%
Real Estate	10%	4.6%
Cash	2%	0.9%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that 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 liability (asset).

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

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

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 342,953	\$ (211,798)	\$ (662,126)

Pension Plan Fiduciary Net Position

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

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 7 - RISK ASSESSMENT

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

Unemployment Benefits

The City has coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by State law and managed by the State of South Dakota. During the year ended December 31, 2021, no claims were paid for unemployment benefits. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Health Insurance

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

Liability Insurance

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

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions, which was previously allowed. The prior policy provided the departing Member with such a partial refund because the departing Member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing Member pursuant to the revised IGC.

The City carries a \$0 deductible for the governmental general liability coverage, a \$2,000 deductible for the law enforcement liability coverage, a \$50,000 deductible for the cyber liability coverage, and a \$500 deductible for the municipal property and officials' liability coverage.

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

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2021

NOTE 7 - RISK ASSESSMENT (CONTINUED)

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to 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 an additional \$2,000,000 per individual 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 during the past three years.

NOTE 8 - RESTRICTED NET POSITION

Net position of \$1,345,222 is restricted by debt covenants for debt service, \$30,000 is restricted by the funding source to repay contractor sureties, \$237,839 is restricted by funding source for construction, and \$40,187 is restricted by funding source for customer deposits for the year ended December 31, 2021.

NOTE 9 - SUBSEQUENT EVENTS

The City has considered subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

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SUPPLEMENTARY INFORMATION

City of Summerset, South Dakota
Budgetary Comparison Schedule - Budgetary Basis - General Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
RECEIPTS				
Taxes:				
General Property Taxes	\$ 648,566	\$ 648,566	\$ 651,318	\$ 2,752
General Sales and Use Taxes	575,000	575,000	940,191	365,191
Amusement Taxes	3,000	3,000	5,132	2,132
Penalties and Interest on Delinquent Taxes	500	500	371	(129)
Licenses and Permits	46,850	46,850	107,992	61,142
Intergovernmental Revenue:				
State Grants	9,240	9,240	275,648	266,408
State Shared Revenue:				
Liquor Tax Reversion	12,000	12,000	21,344	9,344
Motor Vehicle Licenses (5%)	20,000	20,000	29,828	9,828
County Shared Revenue:				
County Road Tax	1,310	1,310	1,310	-
Other	23,151	23,151	17,664	(5,487)
Charges for Goods and Services:				
Solid Waste Collections	180,000	180,000	183,231	3,231
Fines and Forfeits:				
Court Fines and Costs	-	-	383	383
Miscellaneous Revenue:				
Street Light Fees	2,250	2,250	2,250	-
Maintenance Assessments	500	500	-	(500)
Investment Earnings	-	-	264	264
Other	125,549	125,549	165,521	39,972
 Total Receipts	 <u>1,647,916</u>	 <u>1,647,916</u>	 <u>2,402,447</u>	 <u>754,531</u>

See the independent auditor's report and accompanying
notes to the supplementary information.

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
DISBURSEMENTS				
General Government:				
Legislative	125,492	102,272	39,261	63,011
Executive	14,845	17,845	17,790	55
Elections	800	800	415	385
Financial Administration	200,435	305,435	303,345	2,090
Building and Engineering	79,005	218,005	217,390	615
Public Safety:				
Police	638,310	793,310	796,654	(3,344)
Fire Department	31,257	32,857	32,764	93
Protective Inspection	15,500	15,500	10,887	4,613
Public Works:				
Highways and Streets	491,898	491,898	365,918	125,980
Sanitation	99,844	250,844	238,292	12,552
Health and Welfare:				
Humane Society	250	250	66	184
Culture and Recreation	-	620	601	19
Parks and Recreation	11,900	11,900	7,518	4,382
Conservation and Development:				
Planning and Zoning	14,889	20,889	20,403	486
Debt Service	158,950	368,950	361,200	7,750
Total Disbursements	<u>1,883,375</u>	<u>2,631,375</u>	<u>2,412,504</u>	<u>218,871</u>
CHANGE IN CASH BASIS				
FUND BALANCE	(235,459)	(983,459)	(10,057)	973,402
FUND BALANCE - BEGINNING	<u>1,826,928</u>	<u>1,826,928</u>	<u>1,826,928</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,591,469</u>	<u>\$ 843,469</u>	<u>\$ 1,816,871</u>	<u>\$ 973,402</u>

See the independent auditor's report and accompanying notes to the supplementary information.

**City of Summerset, South Dakota
Schedule of the City's Proportionate Share
Net Pension Liability (Asset)
For the Years Ended December 31**

Year*	City's Proportion of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset)	City's Covered Payroll	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
2021	0.0276560%	\$ (211,798)	\$ 542,011	39.08%	105.52%
2020	0.0234863%	(1,020)	437,960	0.23%	100.04%
2019	0.0214991%	(2,278)	405,145	0.56%	100.09%
2018	0.0191046%	(446)	438,085	0.10%	100.02%
2017	0.0179915%	(1,633)	314,202	0.52%	100.10%
2016	0.0182256%	61,564	304,559	20.21%	96.89%
2015	0.0189862%	(80,526)	297,645	27.05%	104.10%

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

See the independent auditor's report and accompanying
notes to the supplementary information.

**City of Summerset, South Dakota
Schedule of Pension Contributions
For the Years Ended December 31**

Year*	Contractually- required Contribution	Contributions in Relation to the Contractually- required Contribution	Contribution Deficiency (Excess)	City's Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 46,036	\$ 46,036	\$ -	\$ 657,413	7.0%
2020	31,459	31,459	-	456,431	6.9%
2019	29,693	29,693	-	432,602	6.9%
2018	25,584	25,584	-	377,689	6.8%
2017	22,004	22,004	-	318,481	6.9%
2016	21,429	21,429	-	309,923	6.9%
2015	20,478	20,478	-	299,196	6.8%

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

See the independent auditor's report and accompanying
notes to the supplementary information.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Year Ended December 31, 2021

NOTE 1 - BASIS OF PRESENTATION

The Budgetary Comparison Schedules have been prepared on the modified cash basis of accounting and present capital outlay and debt service expenditures within each department rather than as separate functions similar to the Statement of Receipts, Disbursements, and Changes in Fund Balances - Modified Cash Basis.

NOTE 2 - BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. At the regular City Council meeting in September each year, the governing board introduces the annual appropriations ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding, and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council. The City did not encumber any amounts at December 31, 2021.

NOTE 3 - PENSION CONTRIBUTIONS

Changes from Prior Valuation

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

See independent auditor's report.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Year Ended December 31, 2021

NOTE 3 - PENSION CONTRIBUTIONS (CONTINUED)

Actuarial Assumption Changes

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%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

Actuarial assumptions are reviewed in-depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

Actuarial Method Changes

No changes in actuarial methods were made since the prior valuation.

See independent auditor's report.

**City of Summerset, South Dakota
City Officials
December 31, 2021**

MAYOR

Melanie Torno

COMMISSIONERS

David Butler
Clyde Hirsch
Mike Kitzmiller
Kathlene Thurman

CITY ADMINISTRATOR

Lisa Schieffer

See independent auditor's report.