

CITY OF SUMMERSET, SOUTH DAKOTA

Independent Auditor's Reports,
Financial Statements, and
Supplementary Information

December 31, 2020

City of Summerset, South Dakota
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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, 2020 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 June 2, 2021.

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) to determine the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Management's Responses as items 2020-001 and 2020-002 that we consider to be material weaknesses.

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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 an instance of noncompliance or other matter that is required to be reported under *Governmental Auditing Standards*, and which is described in the accompanying Schedule of Findings and Management's Responses as item 2020-002.

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.

A handwritten signature in blue ink that reads "Casey Peterson, LTD." The signature is written in a cursive style.

Casey Peterson, Ltd.

Rapid City, South Dakota
June 2, 2021

City of Summerset, South Dakota
Schedule of Findings and Management's Responses
December 31, 2020

Material Weakness

Internal Controls Related to Drafting Financial Statements

2020-001 *Condition:* As the auditor, we were requested to draft the financial statements and the accompanying notes to the financial statements in accordance with the modified cash basis of accounting.

Criteria: Establishing internal controls over the preparation of the financial statements is the responsibility of management.

Cause: Due to the limited number of employees, the City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The City engages its auditor to draft the financial statements and assist in the conversion to the modified cash basis of accounting for financial statement presentation.

Auditor's Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the City's auditor drafting the financial statements because of cost or other considerations. If the City chooses not to accept this risk, training should be provided to those employees responsible for drafting the financial statements and related notes.

Management's Response: The City accepts the risk related to hiring the auditor to prepare the financial statements and notes to the financial statements. The City has brought in a private consultant to assist with refining the City's accounting procedures and practices and reviewing the financial statements prepared by the auditor.

Material Weakness and Noncompliance

Internal Controls Related to Compliance with State Laws

2020-002 *Condition:* As noted in the budgetary comparison schedules, the City overspent the approved amount appropriated for certain departments for the year ended December 31, 2020. In addition, the audit was not available on the website.

Criteria: The City's control structure should be designed to ensure compliance with South Dakota Codified Laws for municipal finances. The City violated provisions of SDCL 9-21-9, 9-21-10, 9-21-15, and 4-11-12.

Cause: There is a lack of oversight in the control processes and limited staff size during the year. The City did not exceed total appropriated expenditures. However, the City did exceed appropriated expenditures for several departments within the General Fund.

Effect: The City was not compliant with South Dakota Codified Law.

Auditor's Recommendation: We recommend that management review the budget monthly with the financial statements. In addition, we recommend that the audit reports be made available on the City's website.

Management's Response: The City has brought in a private consultant to assist us in refining our accounting procedures and practices. We are completing monthly reconciliations that are being reviewed by the consultant monthly to ensure accuracy.

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Independent Auditor's Report

To the Honorable Mayor and City Commissioners
City of Summerset, South Dakota

Report on the Financial Statements

We have audited the accompanying 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, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Opinions

In our opinion, the financial statements referred to above 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, 2020, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

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 modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Other Matters

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Summerset, South Dakota's basic financial statements. The Budgetary Comparison Schedule - Budgetary Basis - General Fund, the Schedule of City's Proportionate Share of the Net Pension Liability (Asset), Schedule of Pension Contributions, the Notes to the Supplementary Information, and the list of City Officials on pages 34 - 35, 36, 37, 38 - 39, and 40, respectively, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2021, on our consideration of the City of Summerset, South Dakota'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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Summerset, South Dakota's internal control over financial reporting and compliance.



Casey Peterson, Ltd.

Rapid City, South Dakota

June 2, 2021

BASIC FINANCIAL STATEMENTS

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City of Summerset, South Dakota
Statement of Net Position - Modified Cash Basis
December 31, 2020

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and Cash Equivalents	\$ 2,400,672	\$ 870,588	\$ 3,271,260
Restricted Assets:			
Cash and Cash Equivalents	<u>482,604</u>	<u>39,787</u>	<u>522,391</u>
TOTAL ASSETS	<u>\$ 2,883,276</u>	<u>\$ 910,375</u>	<u>\$ 3,793,651</u>
NET POSITION			
Restricted for:			
Debt Service	\$ 1,042,534	\$ -	\$ 1,042,534
Contractor Surety	100,000	-	100,000
Customer Deposits	-	39,787	39,787
Unrestricted	<u>1,740,742</u>	<u>870,588</u>	<u>2,611,330</u>
TOTAL NET POSITION	<u>\$ 2,883,276</u>	<u>\$ 910,375</u>	<u>\$ 3,793,651</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, 2020

Functions/Programs	Disbursements	Program Receipts		Net (Disbursements) Receipts and Changes in Net Position		
		Charges for Services	Capital Grants, Loans and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
PRIMARY GOVERNMENT						
Governmental Activities:						
General Government	\$ 369,660	\$ 91,096	\$ -	\$ (278,564)	\$ -	\$ (278,564)
Public Safety	562,294	-	365,203	(197,091)	-	(197,091)
Public Works	1,089,177	180,049	294,339	(614,789)	-	(614,789)
Culture and Recreation	18,450	-	1,548	(16,902)	-	(16,902)
Conservation and Development	43,286	-	-	(43,286)	-	(43,286)
Debt Service*	430,634	-	-	(430,634)	-	(430,634)
Total Governmental Activities	2,513,501	271,145	661,090	(1,581,266)	-	(1,581,266)
Business-type Activities:						
Sewer	868,323	766,022	-	-	(102,301)	(102,301)
Total Primary Government	\$ 3,381,824	\$ 1,037,167	\$ 661,090	(1,581,266)	(102,301)	(1,683,567)
GENERAL RECEIPTS						
Taxes:						
Property Taxes				1,133,779	-	1,133,779
Sales Tax				847,075	-	847,075
State Shared Receipts				49,426	-	49,426
County Shared Receipts				7,184	-	7,184
Unrestricted Investment Earnings				862	-	862
Miscellaneous Receipts				185,584	-	185,584
Transfers				37,500	(37,500)	-
Total General Receipts and Transfers				2,261,410	(37,500)	2,223,910
CHANGE IN NET POSITION				680,144	(139,801)	540,343
NET POSITION - BEGINNING				2,203,132	1,050,176	3,253,308
NET POSITION - ENDING				\$ 2,883,276	\$ 910,375	\$ 3,793,651

*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.

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Balance Sheet - Modified Cash Basis - Governmental Funds
December 31, 2020

	<u>General Fund</u>	<u>Tax Increment District #1 - Debt Service Fund</u>	<u>Non-major Third Penny Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	\$ 1,726,928	\$ 659,930	\$ 13,814	\$ 2,400,672
Restricted Cash and Cash Equivalents	<u>100,000</u>	<u>382,604</u>	<u>-</u>	<u>482,604</u>
TOTAL ASSETS	<u>\$ 1,826,928</u>	<u>\$ 1,042,534</u>	<u>\$ 13,814</u>	<u>\$ 2,883,276</u>
FUND BALANCES				
Restricted:				
For Debt Service	\$ -	\$ 1,042,534	\$ -	\$ 1,042,534
For Contractor Surety	100,000	-	-	100,000
Committed:				
For Economic Development	-	-	13,814	13,814
Unassigned	<u>1,726,928</u>	<u>-</u>	<u>-</u>	<u>1,726,928</u>
TOTAL FUND BALANCES	<u>\$ 1,826,928</u>	<u>\$ 1,042,534</u>	<u>\$ 13,814</u>	<u>\$ 2,883,276</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, 2020

	General Fund	Tax Increment District #1 - Debt Service Fund	Non-major Third Penny Fund	Total Governmental Funds
RECEIPTS				
Taxes:				
General Property Taxes	\$ 638,151	\$ 495,203	\$ -	\$ 1,133,354
General Sales and Use Taxes	824,747	-	-	824,747
Gross Receipts Taxes	1,714	-	20,614	22,328
Penalties and Interest on Delinquent Taxes	425	-	-	425
Licenses and Permits	90,596	-	-	90,596
Intergovernmental Receipts:				
State Grants	365,203	-	-	365,203
State Shared Receipts:				
Liquor Tax Reversion	20,018	-	-	20,018
Motor Vehicle Licenses	29,408	-	-	29,408
County Shared Receipts:				
County Road Tax	1,310	-	-	1,310
Other	5,874	-	-	5,874
Other Intergovernmental Revenue	500	-	-	500
Charges for Goods and Services:				
Solid Waste Collections	177,499	-	-	177,499
Miscellaneous Receipts:				
Street Light Fees	2,550	-	-	2,550
Contributions	1,548	-	-	1,548
Investment Earnings	70	792	-	862
Other	185,534	-	-	185,534
TOTAL RECEIPTS	<u>2,345,147</u>	<u>495,995</u>	<u>20,614</u>	<u>2,861,756</u>

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	34,888	-	-	34,888
Executive	15,165	-	-	15,165
Elections	1,507	-	-	1,507
Financial Administration	219,365	-	-	219,365
Government Building and Engineering	67,293	-	-	67,293
Public Safety:				
Police	420,556	-	-	420,556
Fire Department	30,257	-	-	30,257
Protective Inspection	16,633	-	-	16,633
Public Works:				
Highways and Streets	173,408	-	-	173,408
Sanitation	176,250	-	-	176,250
Culture and Recreation:				
Culture-Recreation	419	-	-	419
Parks and Recreation	18,031	-	-	18,031
Conservation and Development:				
Planning and Zoning	4,820	-	-	4,820
Economic Development	-	-	38,466	38,466
Debt Service	133,834	296,800	-	430,634
Capital Outlay	865,809	-	-	865,809
TOTAL DISBURSEMENTS	<u>2,178,235</u>	<u>296,800</u>	<u>38,466</u>	<u>2,513,501</u>
OTHER FINANCING SOURCES				
Proceeds from Long-term Debt	294,389	-	-	294,389
Net Transfers	-	37,500	-	37,500
Total Other Financing Sources	<u>294,389</u>	<u>37,500</u>	<u>-</u>	<u>331,889</u>
NET CHANGE IN FUND BALANCE	461,301	236,695	(17,852)	680,144
FUND BALANCE - BEGINNING	<u>1,365,627</u>	<u>805,839</u>	<u>31,666</u>	<u>2,203,132</u>
FUND BALANCE - ENDING	<u>\$ 1,826,928</u>	<u>\$ 1,042,534</u>	<u>\$ 13,814</u>	<u>\$ 2,883,276</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, 2020

	<u>Sewer Fund</u>
ASSETS	
Cash and Cash Equivalents	\$ 870,588
Restricted Cash and Cash Equivalents - For Customer Deposits	<u>39,787</u>
TOTAL ASSETS	<u>\$ 910,375</u>
NET POSITION	
Restricted for Customer Deposits	\$ 39,787
Unrestricted	<u>870,588</u>
TOTAL NET POSITION	<u>\$ 910,375</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, 2020

	<u>Sewer Fund</u>
OPERATING RECEIPTS	
Revenue Dedicated to Servicing Debt	\$ <u>766,022</u>
OPERATING DISBURSEMENTS	
Personal Services	117,647
Other Current Disbursements	<u>386,403</u>
Total Operating Disbursements	<u>504,050</u>
Total Operating Income	<u>261,972</u>
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Debt Service	(99,903)
Capital Outlay	<u>(264,370)</u>
Total Nonoperating Disbursements	<u>(364,273)</u>
TRANSFERS	
Transfers Out	<u>(37,500)</u>
CHANGE IN NET POSITION	(139,801)
NET POSITION - BEGINNING	<u>1,050,176</u>
NET POSITION - ENDING	<u>\$ 910,375</u>

The accompanying notes are an integral part of this statement.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

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) as described within this note. 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, 2020

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, 2020.

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, 2020

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, 2020

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, 2020

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, 2020

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, 2020, the City did not hold any investments as defined by Governmental Accounting Standards Board.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

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, 2020, 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 <u>12/31/2019</u>	Additions	Payments	Ending Balance <u>12/31/2020</u>	Due in One Year
Tax Increment Financing Note	\$ 2,038,186	\$ -	\$ (207,398)	\$ 1,830,788	\$ 214,987
Mortgage	112,670	-	(50,812)	61,858	57,260
State Revolving Fund Loan	201,609	-	(11,276)	190,333	11,618
Clean Water State Revolving Fund Loan	1,741,865	-	(39,527)	1,702,338	40,525
Vehicle Loans	<u>215,616</u>	<u>294,289</u>	<u>(67,734)</u>	<u>442,171</u>	<u>355,201</u>
	<u>\$ 4,309,946</u>	<u>\$ 294,289</u>	<u>\$ (376,747)</u>	<u>\$ 4,227,488</u>	<u>\$ 679,591</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, 2020 was \$89,402. 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.

The City has an outstanding mortgage for the purchase of the City Office. The loan matures in January 2022 and requires monthly payments of \$4,912, including interest of 3.8%. Interest paid for the year ended December 31, 2020 was \$8,298. This debt is paid by the General Fund.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

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, 2020 was \$5,922. 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, 2020 was \$43,178. This debt is paid by the Sewer Fund.

The City financed the purchase of a patrol vehicle. This loan was paid off during 2020. Interest paid for the year ended December 31, 2020 was \$293. This debt was paid by the General Fund.

The City financed the purchase of a patrol vehicle. The loan matures in October 2023 and requires monthly payments of \$1,479 including interest of 6.75%. Interest paid for the year ended December 31, 2020 was \$3,605. This debt is paid by the General Fund.

The City financed the purchase of a bobcat. The loan matures in October 2023 and requires monthly payments of \$1,079 including interest of 5.51%. Interest paid for the year ended December 31, 2020 was \$1,943. This debt is paid by the General Fund.

The City financed the purchase of a Freightliner truck. The loan matures in January 2023 and requires monthly payments of \$3,068 including interest of 4.65%. Interest paid for the year ended December 31, 2020 was \$4,216. This debt is paid by the General Fund.

During 2020, the City financed the purchase of a Garbage truck. The loan was paid off subsequent to year-end. The loan required interest of 4.65%. Interest paid for the year ended December 31, 2020 was \$2,041. This debt is paid by the General Fund.

The City was in compliance with debt covenants for the year ending December 31, 2020. The debt covenants consist of a bond reserve of \$382,604, 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 loan 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	\$ 495,203
Sewer Fund Receipts	<u>766,022</u>
Total Pledged Revenue	<u>\$ 1,261,225</u>

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

NOTE 4 - COMMITMENTS (CONTINUED)

The annual requirements to amortize all debt outstanding as of December 31, 2020 are as follows:

	Tax Increment Financing Note		Mortgage		State Revolving Fund	
	Interest	Principal	Interest	Principal	Interest	Principal
2021	\$ 81,813	\$ 214,987	\$ 1,392	\$ 57,260	\$ 5,580	\$ 11,618
2022	72,030	224,771	16	4,598	5,228	11,970
2023	61,801	234,999	-	-	4,864	12,334
2024	51,107	245,693	-	-	4,490	12,708
2025	39,927	256,873	-	-	4,105	13,093
2026-2030	47,505	653,465	-	-	14,319	71,672
2031-2035	-	-	-	-	3,255	56,938
2036-2040	-	-	-	-	-	-
2041-2045	-	-	-	-	-	-
2046-2050	-	-	-	-	-	-
	<u>\$ 354,183</u>	<u>\$ 1,830,788</u>	<u>\$ 1,408</u>	<u>\$ 61,858</u>	<u>\$ 41,841</u>	<u>\$ 190,333</u>

	Clean Water State Revolving Fund		Vehicle Loans		Totals	
	Interest	Principal	Interest	Principal	Interest	Principal
2021	\$ 42,181	\$ 40,525	\$ 9,056	\$ 355,201	\$ 140,022	\$ 679,591
2022	41,158	41,547	3,278	64,244	121,710	347,130
2023	40,109	42,596	533	22,726	107,307	312,655
2024	39,034	43,671	-	-	94,631	302,072
2025	37,932	44,773	-	-	81,964	314,739
2026-2030	172,133	241,392	-	-	233,957	966,529
2031-2035	140,099	273,426	-	-	143,354	330,364
2036-2040	103,813	309,712	-	-	103,813	309,712
2041-2045	62,712	350,813	-	-	62,712	350,813
2046-2050	16,935	313,883	-	-	16,935	313,883
	<u>\$ 696,106</u>	<u>\$ 1,702,338</u>	<u>\$ 12,867</u>	<u>\$ 442,171</u>	<u>\$ 1,106,405</u>	<u>\$ 4,227,488</u>

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

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 \$495,203 were received by the City and payments of \$296,800 were made to Rural Development during 2020.

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.

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.

**City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020**

NOTE 6 - PENSION PLAN (CONTINUED)

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, 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, 2020, 2019, and 2018 were \$31,459 \$29,693, and \$25,584 respectively, and were equal to the required contributions each year.

Pension Liabilities (Assets)

At June 30, 2020, SDRS was 100.04% funded and accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the City as of the measurement period ending June 30, 2020 and reported by the City as of December 31, 2020 are as follows:

Proportionate Share of Pension Liability	\$ 2,887,170
Less: Proportionate Share of Net Pension Restricted for Pension Benefits	<u>2,888,190</u>
Proportionate Share of Net Pension Liability (Asset)	<u>\$ (1,020)</u>

At December 31, 2020, the City had a liability (asset) of \$(1,020) 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, 2020 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, 2020, the City's proportion was 0.02348630%, which is an increase of 0.0019872% from its proportion measured as of June 30, 2019.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

NOTE 6 - PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2020 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
Future COLAs	1.41%

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, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global Equity	58%	5.1%
Fixed Income	30%	1.5%
Real Estate	10%	6.2%
Cash	2%	1.0%
Total	<u>100.0%</u>	

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

NOTE 6 - PENSION PLAN (CONTINUED)

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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's Proportionate Share of the Net Pension Liability (Asset)	\$ 395,695	\$ (1,020)	\$ (325,525)

Pension Plan Fiduciary Net Position

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

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, 2020, 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, 2020, no claims were paid for unemployment benefits. At December 31, 2020, 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.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

NOTE 7 - RISK ASSESSMENT (CONTINUED)

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, law enforcement liability, and various other coverages.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and the number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

<u>Years</u>	<u>Percentage</u>
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing member over a five-year term.

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$32,015, which was an increase (decrease) of \$2,999, from the previous year. The amount available for refund to the City is not reflected in the financial statements due to the modified cash basis method of reporting.

The City carries a \$0 deductible for the Governmental General Liability and Governmental Automobile Liability coverage and a \$500 deductible for the Municipal Property Damage 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, 2020**

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 \$1,042,534 is restricted by debt covenants for debt service, \$100,000 is restricted by the funding source to repay contractor sureties, and \$39,787 is restricted by funding source for customer deposits for the year ended December 31, 2020.

NOTE 9 - INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2020 were as follows:

	<u>Transfer In</u>	<u>Transfer Out</u>
Tax Increment District #1 - Debt Service Fund	\$ 37,500	\$ -
Sewer Fund	-	37,500
	\$ 37,500	\$ 37,500

All transfers were made to make debt payments.

NOTE 10 - VIOLATIONS OF FINANCE-RELATED LEGAL PROVISIONS

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following tables represent overdrafts of expenditures compared to appropriations for the year ended December 31, 2020:

	<u>Appropriations</u>	<u>Total Spent</u>	<u>Overdraft of Expenditures</u>
General Fund:			
General Government: Executive	\$ 14,995	\$ 15,165	\$ (170)
General Government: Elections	\$ 800	\$ 1,507	\$ (707)
General Government: Financial Administration	\$ 219,503	\$ 236,889	\$ (17,386)

The City Commission will revise budgets as activities change during the year.

City of Summerset, South Dakota
Notes to the Financial Statements
December 31, 2020

NOTE 11 - UNCERTAINTIES, CONTINGENCIES, AND RISKS

On March 11, 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. Future potential impacts may include disruptions to City activities, restrictions on the employees' ability to work, or other pandemic-related issues. In addition, the City was eligible to receive \$601,362 in Coronavirus Relief Fund grant funds as a result of the pandemic. The City spent \$257,956 of these funds during the year ended December 31, 2020.

NOTE 12 - 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, 2020

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
RECEIPTS				
Taxes:				
General Property Taxes	\$ 634,484	\$ 634,484	\$ 638,151	\$ 3,667
General Sales and Use Taxes	600,000	600,000	824,747	224,747
Amusement Taxes	4,000	4,000	1,714	(2,286)
Penalties and Interest on				
Delinquent Taxes	500	500	425	(75)
Licenses and Permits	66,350	66,350	90,596	24,246
Intergovernmental Revenue:				
State Grants	731,360	806,360	365,203	(441,157)
State Shared Revenue:				
Liquor Tax Reversion	12,000	12,000	20,018	8,018
Motor Vehicle Licenses (5%)	20,000	20,000	29,408	9,408
County Shared Revenue:				
County Road Tax	1,310	1,310	1,310	-
Other	4,000	4,000	5,874	1,874
Other Intergovernmental Revenue	-	-	500	500
Charges for Goods and Services:				
Solid Waste Collections	181,162	181,162	177,499	(3,663)
Miscellaneous Revenue:				
Street Light Fees	2,250	2,250	2,550	300
Contributions	-	-	1,548	1,548
Maintenance Assessments	500	500	-	(500)
Investment Earnings	-	-	70	70
Other	13,780	13,780	185,534	171,754
TOTAL RECEIPTS	<u>2,271,696</u>	<u>2,346,696</u>	<u>2,345,147</u>	<u>(1,549)</u>

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

	Budgeted Amounts		Budgetary Basis - Actual Amounts	Positive (Negative) Variance
	Original	Final		
DISBURSEMENTS				
General Government:				
Legislative	91,036	91,036	34,888	56,148
Executive	14,995	14,995	15,165	(170)
Elections	800	800	1,507	(707)
Financial Administration	219,503	219,503	236,889	(17,386)
Building and Engineering	93,710	93,710	81,211	12,499
Public Safety:				
Police	480,757	555,757	515,404	40,353
Fire Department	3,000	32,000	30,257	1,743
Protective Inspection	40,500	40,500	16,633	23,867
Public Works:				
Highways and Streets	1,106,042	1,106,042	386,838	719,204
Sanitation	190,806	890,806	702,339	188,467
Health and Welfare:				
Humane Society	250	250	-	250
Culture and Recreation:				
Parks and Recreation	27,000	27,000	18,450	8,550
Conservation and Development:				
Planning and Zoning	19,389	19,389	4,820	14,569
Debt Service	133,910	133,910	133,834	76
TOTAL DISBURSEMENTS	<u>2,421,698</u>	<u>3,225,698</u>	<u>2,178,235</u>	<u>1,047,463</u>
OTHER FINANCING SOURCES				
Proceeds from Long-term Debt	-	-	294,389	294,389
CHANGE IN CASH BASIS				
FUND BALANCE	(150,002)	(879,002)	461,301	1,340,303
FUND BALANCE - BEGINNING	<u>1,365,627</u>	<u>1,365,627</u>	<u>1,365,627</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 1,215,625</u>	<u>\$ 486,625</u>	<u>\$ 1,826,928</u>	<u>\$ 1,340,303</u>

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

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

<u>Year*</u>	<u>City's Proportion of the Net Pension Liability (Asset)</u>	<u>City's Proportionate Share of Net Pension Liability (Asset)</u>	<u>City's Covered Payroll</u>	<u>City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)</u>
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 required 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
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 required supplementary information.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Year Ended December 31, 2020

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, 2020.

NOTE 3 - PENSION CONTRIBUTIONS

Changes from Prior Valuation

The June 30, 2020 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2019 Actuarial Valuation. One change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, unreduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

See independent auditor's report.

City of Summerset, South Dakota
Notes to the Supplementary Information
For the Year Ended December 31, 2020

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 0.5% 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 an FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% 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, 2020**

MAYOR

Brice Lutz

COMMISSIONERS

David Butler

Clyde Hirsch

Mike Kitzmiller

Stephanie McCoy

CITY ADMINISTRATOR

Lonnie Harmon

See independent auditor's report.