

CITY OF TEA

FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
DECEMBER 31, 2023

Prepared by the
Administration and Finance Departments

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CITY OF TEA, SOUTH DAKOTA

List of Principal Officials
December 31, 2023

Title	Name
Mayor	Casey Voelker
Council Member	Lynn DeYoung
Council Member	Joe Weis
Council Member	Aaron Otten
Council Member	Jim Erick
Council Member	Terry Woessner
Council Member	Ruby Zuraff
City Finance Officer	Dawn Murphy
City Attorney	Todd Meierhenry
City Administrator	Justin Weiland



INDEPENDENT AUDITORS' REPORT

To the City Council
 City of Tea, South Dakota

Report on the Audit of the Financial Statements

Unmodified and Disclaimer of Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information; and we were not engaged to audit the discretely presented component unit, of the City of Tea, South Dakota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City of Tea, South Dakota's basic financial statements as listed in the table of contents.

Summary of Opinions

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

Disclaimer of Opinion on the Discretely Presented Component Unit

We do not express an opinion on the financial statements of the discretely presented component unit of the City of Tea, South Dakota. Because of the significance of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

Unmodified Opinions on Governmental Activities, Business-type Activities, Each Major Fund, and Aggregate Remaining Fund Information

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Tea, South Dakota, as of December 31, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Housing & Redevelopment Component Unit (HRCU) have not been audited, and we were not engaged to audit the HRCU financial statements as part of our audit of the City of Tea, South Dakota's basic financial statements. HRCU financial activities are included in the City of Tea, South Dakota's basic financial statements as a discretely presented component unit and reflect assets of \$75,496, net position of \$75,496, and revenues of \$1,289 as of and for the year ended December 31, 2023.

Basis for Unmodified Opinions

We conducted our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing*

Standards, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Tea, South Dakota, 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 unmodified audit opinions.

Emphasis of a Matter

As described in Note 19 to the financial statements, in 2023, the City adopted new accounting guidance related to Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. 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 accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

Auditors' Responsibilities for the Audit of the Discretely Presented Component Unit

Our responsibility is to conduct an audit of the City of Tea, South Dakota's financial statements in accordance with generally accepted auditing standards and to issue an auditors' report. However, because of the matter described in the Basis for Disclaimer of Opinion on the Discretely Presented Component Unit section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit.

We are required to be independent of the City of Tea, South Dakota and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit.

Auditors' Responsibilities for the Audit of the Governmental Activities, the Business-type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform 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 of Tea, South Dakota'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 of Tea, South Dakota's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, schedule of the City's proportionate share of the net pension liability (asset), and schedule of the City's contributions to the South Dakota Retirement System on pages 40 through 45 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tea, South Dakota's basic financial statements. The combining and individual nonmajor fund financial statements, and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2024, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Williams & Company, P.C.
Certified Public Accountants
Le Mars, Iowa
December 9, 2024

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF NET POSITION
DECEMBER 31, 2023**

	Primary Government			Unaudited Component Unit
	Governmental Activities	Business-Type Activities	Total	Housing & Redevelopment
ASSETS				
Cash and Cash Equivalents	\$ 3,629,777	\$ 2,882,655	\$ 6,512,432	\$ 75,496
Receivables:				
Taxes	112,078	-	112,078	-
Accounts	6,652	247,883	254,535	-
Special Assessments	1,823,929	-	1,823,929	-
Notes Receivable	1,050,000	-	1,050,000	-
Due from Other Governmental Agencies	848,085	-	848,085	-
Prepaid Expenses	52,829	19,339	72,168	-
Restricted Assets:				
Cash and Cash Equivalents	1,718,885	1,016,822	2,735,707	-
Net Pension Asset	5,864	1,032	6,896	-
Land	2,289,963	285,768	2,575,731	-
Construction in Progress	2,145,596	19,354,773	21,500,369	-
Infrastructure, Property and Equipment, Net of Accumulated Depreciation/Amortization	36,726,369	20,518,180	57,244,549	-
Total Assets	50,410,027	44,326,452	94,736,479	75,496
DEFERRED OUTFLOWS OF RESOURCES				
Pension Related Deferred Outflows	458,256	80,664	538,920	-
LIABILITIES				
Accounts Payable	591,346	518,128	1,109,474	-
Accrued Wages	38,014	6,548	44,562	-
Accrued Interest Payable	49,194	118,800	167,994	-
Accrued Taxes	3,667	472	4,139	-
Revenue Collected in Advance	572,587	-	572,587	-
Payables from Restricted Assets:				
Customer Deposits	-	80,007	80,007	-
Noncurrent Liabilities:				
Due within one year:				
Lease Agreements	5,557	-	5,557	-
Revenue Bonds Payable	560,000	504,858	1,064,858	-
Due in more than one year:				
Lease Agreements	15,220	-	15,220	-
Revenue Bonds Payable	9,951,869	18,032,427	27,984,296	-
Total Liabilities	11,787,454	19,261,240	31,048,694	-
DEFERRED INFLOWS OF RESOURCES				
Pension Related Deferred Inflows	320,500	56,416	376,916	-
NET POSITION				
Net Investment in Capital Assets	30,412,422	21,180,848	51,593,270	-
Restricted for:				
Debt Service	3,550,574	898,022	4,448,596	-
Capital Improvements	899,197	-	899,197	-
SDRS Pension Purposes	5,864	1,032	6,896	-
Unrestricted	3,892,272	3,009,558	6,901,830	75,496
Total Net Position	\$ 38,760,329	\$ 25,089,460	\$ 63,849,789	\$ 75,496

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

Functions/Programs	Expenses	Program Revenues		Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 662,013	\$ 290,037	\$ -	\$ 5,710
Public Safety	1,552,281	77,317	38,703	-
Public Works	2,641,855	46,518	424,377	291,691
Culture and Recreation	624,876	295,949	3,950	-
Community Development	1,118,260	-	-	-
Debt Service	334,190	-	-	-
Total Governmental Activities	6,933,475	709,821	467,030	297,401
Business-Type Activities:				
Water	1,163,051	1,470,738	-	-
Sewer	926,185	1,903,474	-	-
Total Business-Type Activities	2,089,236	3,374,212	-	-
Component Units - Unaudited:				
Housing & Redevelopment	24,261	-	-	-
Total Component Unit	\$ 24,261	\$ -	\$ -	\$ -
General Revenues:				
Property Taxes				
Sales and Other Taxes				
Interest				
Miscellaneous				
Gain on Sale of Capital Assets				
Total General Revenues				
Change in Net Position				
Net Position - Beginning				
Net Position - Ending				

**Net (Expense) Revenue
and Changes in Net Position**

Governmental Activities	Business-Type Activities	Total	Unaudited Component Unit Housing & Redevelopment
\$ (366,266)	\$ -	\$ (366,266)	\$ -
(1,436,261)		(1,436,261)	-
(1,879,269)		(1,879,269)	-
(324,977)		(324,977)	-
(1,118,260)		(1,118,260)	-
(334,190)		(334,190)	-
<u>(5,459,223)</u>		<u>(5,459,223)</u>	-
	307,687	307,687	-
	977,289	977,289	-
	<u>1,284,976</u>	<u>1,284,976</u>	-
-	-	-	(24,261)
-	-	-	<u>(24,261)</u>
3,620,397	-	3,620,397	-
4,149,772	-	4,149,772	-
117,892	33,661	151,553	1
353,039	206,499	559,538	1,288
14,987	-	14,987	-
<u>8,256,087</u>	<u>240,160</u>	<u>8,496,247</u>	<u>1,289</u>
2,796,864	1,525,136	4,322,000	(22,972)
<u>35,963,465</u>	<u>23,564,324</u>	<u>59,527,789</u>	<u>98,468</u>
<u>\$ 38,760,329</u>	<u>\$ 25,089,460</u>	<u>\$ 63,849,789</u>	<u>\$ 75,496</u>

**CITY OF TEA, SOUTH DAKOTA
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2023**

	General	Hagedorn Infrastructure Project	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 2,779,534	\$ 91,498	\$ 758,745	\$ 3,629,777
Receivables (Net where applicable, of allowance for uncollectibles):				
Taxes	47,530	-	64,548	112,078
Accounts	6,652	-	-	6,652
Special Assessments	614,568	-	1,209,361	1,823,929
Notes Receivable	1,050,000	-	-	1,050,000
Due from Other Funds	3,010,000	-	-	3,010,000
Due from Other Governmental Agencies	555,871	-	292,214	848,085
Restricted Assets:				
Cash and Cash Equivalents	1,376,741	-	342,144	1,718,885
Total Assets	<u>9,440,896</u>	<u>91,498</u>	<u>2,667,012</u>	<u>12,199,406</u>
LIABILITIES				
Accounts Payable	454,742	3,730	132,874	591,346
Accrued Wages	38,014	-	-	38,014
Accrued Taxes	3,667	-	-	3,667
Revenue Collected in Advance	572,587	-	-	572,587
Due to Other Funds	-	2,800,000	210,000	3,010,000
Total Liabilities	<u>1,069,010</u>	<u>2,803,730</u>	<u>342,874</u>	<u>4,215,614</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	35,610	-	26,242	61,852
Unavailable revenue - special assessments	614,568	-	1,187,318	1,801,886
Unavailable revenue - other	1,050,000	-	-	1,050,000
Total Deferred Inflows of Resources	<u>1,700,178</u>	<u>-</u>	<u>1,213,560</u>	<u>2,913,738</u>
FUND BALANCES				
Restricted:				
Debt Service	1,376,741	-	436,127	1,812,868
Capital Improvement	-	-	872,955	872,955
Assigned:				
Capital Projects	-	-	10,715	10,715
Unassigned	5,294,967	(2,712,232)	(209,219)	2,373,516
Total Fund Balances (Deficits)	<u>6,671,708</u>	<u>(2,712,232)</u>	<u>1,110,578</u>	<u>5,070,054</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	<u>\$ 9,440,896</u>	<u>\$ 91,498</u>	<u>\$ 2,667,012</u>	<u>\$ 12,199,406</u>

**CITY OF TEA, SOUTH DAKOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2023**

Amounts reported for Governmental Activities in the Statement of Net Position are different because:

Total Fund Balance - Governmental Funds (page 8)	\$ 5,070,054
Infrastructure, property, and equipment used in governmental activities are not financial resources and, therefore, are not reported in the funds	41,161,928
Unavailable revenues that do not provide current financial resources for governmental activities	2,913,738
Accrued expenses from the balance sheet that do not require current financial resources for governmental activities	(49,194)
Prepaid expenses are reported in the governmental activities but are not reported in the funds as they do not provide current economic resources	52,829
Pension related deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, are not due and payable in the current year and, therefore are not reported in the governmental funds	137,756
Long-term liabilities, including bonds payable and lease agreements, are not due and payable in the current period and therefore are not reported in the funds	(10,532,646)
The net pension asset does not provide resources in the current period and therefore is not reported in the funds	5,864
Total Net Position - Governmental Activities (page 5)	\$ 38,760,329

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	General	Hagedorn Infrastructure Project	Other Governmental Funds	Total Governmental Funds
Revenue:				
Property Taxes	\$ 3,122,241	\$ -	\$ 474,281	\$ 3,596,522
Sales and Other Taxes	3,984,182	-	165,590	4,149,772
Special Assessments	-	-	584,515	584,515
Licenses and Permits	275,237	-	-	275,237
Intergovernmental	547,143	-	18,665	565,808
Charges for Services	330,024	-	-	330,024
Fines and Forfeits	1,832	-	-	1,832
Interest on Investments	111,447	-	6,445	117,892
Contributions	9,660	-	-	9,660
Miscellaneous	353,039	-	-	353,039
Total Revenue	8,734,805	-	1,249,496	9,984,301
Current Expenditures:				
General Government	625,588	-	-	625,588
Public Safety	1,825,753	-	-	1,825,753
Public Works	1,240,390	-	946,877	2,187,267
Culture and Recreation	2,307,060	-	-	2,307,060
Community Development	612,920	-	505,340	1,118,260
Capital Outlay:	-	-	-	-
Public Works	-	1,147,177	-	1,147,177
Debt Service	743,838	-	173,020	916,858
Total Expenditures	7,355,549	1,147,177	1,625,237	10,127,963
Excess (Deficiency) of Revenues Over Expenditures	1,379,256	(1,147,177)	(375,741)	(143,662)
Other Financing Sources (Uses):				
Proceeds from Sale of Fixed Assets	14,987	-	-	14,987
Transfers In	221,068	-	318,778	539,846
Transfers Out	(318,778)	-	(221,068)	(539,846)
Total Other Financing Sources (Uses)	(82,723)	-	97,710	14,987
Net Change in Fund Balances	1,296,533	(1,147,177)	(278,031)	(128,675)
Fund Balances (Deficits) - Beginning of Year	5,375,175	(1,565,055)	1,388,609	5,198,729
Fund Balances (Deficits) - End of Year	\$ 6,671,708	\$ (2,712,232)	\$ 1,110,578	\$ 5,070,054

**CITY OF TEA, SOUTH DAKOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2023**

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

Net change in fund balances - total governmental funds (page 10) \$ (128,675)

Governmental funds report capital outlays, including infrastructure, as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation/amortization expense. This is the amount by which capital outlays exceeded depreciation/amortization expense in the current year:

Expenditures for Capital Assets	\$ 3,960,262	
Depreciation/Amortization Expense	<u>(1,363,166)</u>	2,597,096

Revenues reported in the funds that are not available to provide current financial resources 23,875

Accrued interest expense that does not require current financial resources 3,395

Governmental funds report special assessments as revenue when it becomes available, but the statement of activities includes special assessments as revenue when levied (292,824)

Pension expenses reported in the Statement of Activities do not require the use of current financial resources (838)

Prepaid insurance is not reported in the governmental funds as it is not available to provide current financial resources 10,106

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds without affecting the net position. The Statement of Activities does not reflect the payment of principal on long-term debt. The principal paid on long-term debt during the current year was: 584,729

Change in net position of governmental activities (page 7) \$ 2,796,864

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2023**

	Water	Sewer	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 108,769	\$ 2,773,886	\$ 2,882,655
Receivables (Net where applicable, of allowance for uncollectibles):			
Accounts	104,916	142,967	247,883
Prepaid Insurance	15,907	3,432	19,339
Total Current Assets	<u>229,592</u>	<u>2,920,285</u>	<u>3,149,877</u>
Noncurrent Assets:			
Restricted Assets:			
Restricted Cash	540,269	476,553	1,016,822
Net Pension Asset	516	516	1,032
Land	266,140	19,628	285,768
Construction in Progress	-	19,354,773	19,354,773
Infrastructure, Property and Equipment, Net of Accumulated Depreciation/Amortization	<u>11,176,747</u>	<u>9,341,433</u>	<u>20,518,180</u>
Total Noncurrent Assets	<u>11,983,672</u>	<u>29,192,903</u>	<u>41,176,575</u>
Total Assets	<u>12,213,264</u>	<u>32,113,188</u>	<u>44,326,452</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	<u>40,332</u>	<u>40,332</u>	<u>80,664</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	44,150	473,978	518,128
Accrued Wages	3,274	3,274	6,548
Accrued Interest Payable	12,285	106,515	118,800
Accrued Taxes	236	236	472
Customer Deposits	80,007	-	80,007
Revenue Bonds Payable - Current	<u>252,553</u>	<u>252,305</u>	<u>504,858</u>
Total Current Liabilities	<u>392,505</u>	<u>836,308</u>	<u>1,228,813</u>
Noncurrent Liabilities:			
Revenue Bonds Payable	<u>3,954,325</u>	<u>14,078,102</u>	<u>18,032,427</u>
Total Noncurrent Liabilities	<u>3,954,325</u>	<u>14,078,102</u>	<u>18,032,427</u>
Total Liabilities	<u>4,346,830</u>	<u>14,914,410</u>	<u>19,261,240</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows	<u>28,208</u>	<u>28,208</u>	<u>56,416</u>
NET POSITION			
Net Investment in Capital Assets	7,236,009	13,944,839	21,180,848
Restricted for:			
Debt Service	527,984	370,038	898,022
SDRS Pension Purposes	516	516	1,032
Unrestricted	<u>114,049</u>	<u>2,895,509</u>	<u>3,009,558</u>
Total Net Position	<u>\$ 7,878,558</u>	<u>\$ 17,210,902</u>	<u>\$ 25,089,460</u>

CITY OF TEA, SOUTH DAKOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Business-Type		
	Water	Sewer	Totals
Operating Revenues:			
Charges for Services	\$ 1,470,738	\$ 1,903,474	\$ 3,374,212
Operating Expenses:			
Personal Services	211,519	190,344	401,863
Professional Services	220	11,148	11,368
Repairs and Maintenance	1,657	47,604	49,261
Supplies and Materials	493,384	54,081	547,465
Utilities	11,389	56,620	68,009
Billing and Administration	33,001	18,829	51,830
Depreciation and Amortization	289,405	330,977	620,382
Total Operating Expenses	1,040,575	709,603	1,750,178
Operating Income	430,163	1,193,871	1,624,034
Nonoperating Income (Expense):			
Interest Income	10,312	23,349	33,661
Rental Income	79,979	-	79,979
Miscellaneous, net	13,466	113,054	126,520
Interest Expense	(122,476)	(216,582)	(339,058)
Total Nonoperating Income (Expense)	(18,719)	(80,179)	(98,898)
Change in Net Position	411,444	1,113,692	1,525,136
Net Position - Beginning	7,467,114	16,097,210	23,564,324
Net Position - Ending	\$ 7,878,558	\$ 17,210,902	\$ 25,089,460

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Business-Type		
	Water	Sewer	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from Customers	\$ 1,557,705	\$ 2,040,707	\$ 3,598,412
Cash Received from Interfund Services Provided	35,793	5,731	41,524
Cash Paid to Suppliers for Goods and Services	(628,801)	(205,894)	(834,695)
Cash Paid to Employees for Services	(208,884)	(187,709)	(396,593)
Other Nonoperating Revenues	93,445	113,054	206,499
Net Cash Provided by Operating Activities	<u>849,258</u>	<u>1,765,889</u>	<u>2,615,147</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING			
Acquisition and Construction of Capital Assets	-	(5,148,922)	(5,148,922)
Proceeds from Bond Issuance	-	6,527,885	6,527,885
Principal Paid on Notes, Bonds, and Leases	(232,914)	(262,658)	(495,572)
Interest Paid on Notes, Bonds, and Leases	(190,852)	(144,176)	(335,028)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(423,766)</u>	<u>972,129</u>	<u>548,363</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Due to Other Funds	(714,852)	(389,593)	(1,104,445)
Due From Other Funds	-	450,000	450,000
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(714,852)</u>	<u>60,407</u>	<u>(654,445)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest and Dividends on Investments	10,312	23,349	33,661
Net Cash Provided by Investing Activities	<u>10,312</u>	<u>23,349</u>	<u>33,661</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(279,048)	2,821,774	2,542,726
Cash and Cash Equivalents at Beginning of Year	<u>928,086</u>	<u>428,665</u>	<u>1,356,751</u>
Cash and Cash Equivalents at End of Year	<u>\$ 649,038</u>	<u>\$ 3,250,439</u>	<u>\$ 3,899,477</u>

(continued)

**CITY OF TEA, SOUTH DAKOTA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Business-Type		
	Water	Sewer	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating Income	\$ 430,163	\$ 1,193,871	\$ 1,624,034
Adjustments to Reconcile Net Operating Income to Net Cash Provided by Operating Activities:			
Depreciation/Amortization	289,405	330,977	620,382
Other Nonoperating Income	93,445	113,054	206,499
(Increase) Decrease in Assets and Deferred Outflows of Resources:			
Accounts Receivable	(2,491)	(7,883)	(10,374)
Due From Other Governmental Agencies	118,766	150,847	269,613
Net Pension Asset	(88)	(88)	(176)
Pension Related Deferred Outflows	(1,019)	(1,019)	(2,038)
Increase (Decrease) in Liabilities and Deferred Inflows of Resources:			-
Accounts Payable	(89,150)	(17,612)	(106,762)
Customer Deposits	6,485	-	6,485
Accrued Wages	890	890	1,780
Accrued Taxes	65	65	130
Pension Related Deferred Inflows	2,787	2,787	5,574
Total Adjustments	419,095	572,018	991,113
Net Cash Provided by Operating Activities	<u>\$ 849,258</u>	<u>\$ 1,765,889</u>	<u>\$ 2,615,147</u>

Reconciliation of Cash and Cash Equivalents to the Statement of Net Position

Cash and Cash Equivalents	\$ 108,769	\$ 2,773,886	\$ 2,882,655
Restricted Cash and Cash Equivalents	540,269	476,553	1,016,822
	<u>\$ 649,038</u>	<u>\$ 3,250,439</u>	<u>\$ 3,899,477</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tea was incorporated in 1906 under the provisions of South Dakota Codified Law, as amended. The City operates under the Council-Manager form of government. The funds included in this report are controlled by or dependent upon the municipality's governing board.

The City's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

A. Reporting Entity

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Housing and Redevelopment Commission of the City of Tea, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the City of Tea Housing and Redevelopment Commission, PO Box 128, Tea, South Dakota 57064.

The City participates in a joint venture with 20 other entities. See Note 11 for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit but are discussed in these notes because of the nature of their relationship with the City.

B. Basis of Presentation

Government-Wide Financial Statements:

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

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program of function and, therefore, are clearly identifiable to a particular function.

Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, deferred outflows or resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. GASB No. 34 sets forth minimum criteria for the determination of major funds. The City can electively add funds, as major funds, which have specific community focus. The non-major funds are combined into a single column in the fund financial statements.

Governmental Fund Types – The focus of the governmental funds' measurement (in the fund statements) is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental fund types of the City:

General Fund – The General Fund is the general operating fund of the municipality. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt Service Fund – The debt service funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs not being financed by proprietary funds.

Capital Projects Funds – The capital project funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

Proprietary Fund Types – The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows. Operating revenues and expenses are distinguished from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of enterprise funds are charges to customers for services. Operating expenses consist of cost of sales and services, administrative expenses, and depreciation on capital assets. The United States Generally Accepted Accounting Principles used are those applicable to similar businesses in the private sector.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Enterprise Funds – Enterprise funds are used to account for those operations (a) that are financed and operated in a manner similar to private business or enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) 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.

The City reports the following major governmental funds:

General Fund –The General Fund is always considered to be a major fund—see the description above

Capital Project Funds:

Hagedorn Infrastructure Capital Project Fund – This fund is used to account for the use of financial resources to be used for the construction of the Hagedorn Industrial Park improvement project.

The City reports the following major enterprise funds:

Water Fund – This fund is financed primarily by user charges and accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1).

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

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.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary fund types.

Basis of Accounting:

Government-Wide Financial Statements:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In the government-wide Statement of Net Position and Statement of Activities, governmental, and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Tea, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2023, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

E. Deposits

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

F. Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2023 are recorded as prepaid items in the government-wide financial statements and in the proprietary funds financial statements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Short-Term Interfund Receivables/Payables

During the course of its operations, the City has numerous transactions between funds to finance operations provide services, construct assets, and service debt. To the extent that certain transactions between funds have not been paid or received as of December 31, 2023, balances of short-term interfund amounts payable or receivable have been recorded as “due to other funds” and “due from other funds.”

H. Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

I. Interfund Eliminations and Reclassifications

In the process of aggregating data for the government-wide financial statements, amounts reported as interfund activity and balances in the fund financial statements are eliminated or reclassified, as follows:

In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables are eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities which are presented as “internal balances” when applicable.

J. Capital Assets

Capital assets, which includes property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Position and in the proprietary fund Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value. Acquisition value is the price that would have been paid to acquire a capital asset with equivalent service potential. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Machinery, equipment, and buildings with initial individual costs of \$500 and \$25,000, respectively, or more are considered capital assets. Infrastructure has been capitalized using historical or estimated historical of \$50,000 or more beginning in 1980 required by GASB 34. Depreciation expense is calculated using the straight-line method over the following useful lives:

Improvements other than Buildings	20-100 Years
Buildings	15-50 Years
Machinery and Equipment	4-20 Years

K. Leases

City as Lessee: The City is the lessee for noncancellable leases of copy machines. The City has recognized a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgments related to leases include how the City determines the discount rate it uses to discount the expected lease payments to present value, lease term and lease payments.

The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the non-cancellable period of the lease. Lease payments and a purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred inflows and deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

M. Pensions

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City and net pension liability (asset) are recognized on an accrual basis of accounting.

N. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist of general obligation bonds, revenue bonds, lease agreements, and special assessment bonds.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources) while

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

O. Amortization of Bond Discounts and Premiums

For governmental fund types, bond premiums and discounts, are recognized during the current period. Bond proceeds are reported as other financing sources gross of the applicable premium or discount. For proprietary fund types, bond premiums and discounts, are deferred and amortized over the life of the bonds based on interest expense which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

P. Equity Classifications

Government-Wide Statements:

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

1. Net Investment in Capital Assets – This component consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – This component consists of net position with constraints placed on their use either by (a) external groups such as creditors, granters, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets” are considered unrestricted.

Fund Financial Statements:

Governmental fund equity is classified fund balance and may distinguish between “Restricted,” “Assigned,” and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

Q. Application of Net Position

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

R. Fund Balance Classification Policies and Procedures

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal contractual constraints

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered, restricted, or committed (may be assigned by the City Council)
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

S. Program Revenues

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

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

T. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund Statement of Revenues, Expenses, and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

NOTE 2 – CASH AND CASH EQUIVALENTS

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

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4- 6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 2 – CASH AND CASH EQUIVALENTS (CONTINUED)

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.

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.

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

Concentration of Investment – The City places no limit on the amount that may be invested in any one issuer.

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

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

<u>Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	\$ 260,020	Bond covenants
General Fund	174,602	Economic development
General Fund	942,119	Capital improvements
Nonmajor Governmental	342,144	Bond covenants
Water Fund	337,193	Bond covenants
Water Fund	80,007	Utility customer deposits
Water Fund	123,069	Economic development
Sewer Fund	353,484	Bond covenants
Sewer Fund	123,069	Economic development
	<u>\$ 2,735,707</u>	

NOTE 3 – PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the city taxes and remits them to the City. City property tax revenues are recognized to the extent that they are used to finance each year's appropriations.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City:

General Fund	\$27
Bond Redemption Funds	As Required by Bond Agreement
Judgement Fund (Upon Judgement Being Made)	\$10

State statute allows the tax rates to be raised by special election of the voters.

NOTE 4 – RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 4 – RECEIVABLES AND PAYABLES (CONTINUED)

At December 31, 2023, amounts Due from Other Governments were as follows:

Due from the State of South Dakota for local option sales tax	\$ 341,161
Due from the State of South Dakota for Build Grant funding	282,288
Due from the State of South Dakota for other	12,213
Due from the City of Sioux Falls for capital project cost sharing	212,423
Total	\$ 848,085

The City expects all receivables to be collected within one year aside from a note receivable with Lincoln County created by a July 1, 2021 agreement whereby the County agreed to transfer a segment of Highway 106 to the City along with \$1,500,000 to assist with improvements and maintenance. The note bears no interest and is scheduled to be paid over the next 7 years as follows:

Year	Principal
2024	\$ 150,000
2025	150,000
2026	150,000
2027	150,000
2028	150,000
2029 - 2030	300,000
	\$ 1,050,000

NOTE 5 – ESTIMATED UNCOLLECTIBLE RECEIVABLES

An allowance for uncollectible utility accounts receivable is provided based upon analysis of historical trends. The allowance for uncollectible receivables at December 31, 2023 consisted of the following:

Fund	Utility Accounts Receivable
Water Fund	\$ 8,730
Sewer Fund	6,744
Total	\$ 15,474

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 – CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2023 is as follows:

Primary Government	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023
Governmental Activities:				
Capital Assets, not being depreciated/amortized				
Land	\$ 2,289,963	\$ -	\$ -	\$ 2,289,963
Construction in Progress	4,517,845	3,715,167	6,087,416	2,145,596
Total Capital Assets, not being depreciated/amortized	<u>6,807,808</u>	<u>3,715,167</u>	<u>6,087,416</u>	<u>4,435,559</u>
Capital Assets, being depreciated/amortized:				
Lease Agreements	29,078	-	-	29,078
Buildings	4,221,598	3,034,848	-	7,256,446
Improvements, other than Buildings	34,164,759	3,052,568	-	37,217,327
Machinery and Equipment	2,351,001	245,095	-	2,596,096
Total Capital Assets, being depreciated/amortized	<u>40,766,436</u>	<u>6,332,511</u>	<u>-</u>	<u>47,098,947</u>
Less Accumulated Depreciation/Amortization for:				
Lease Agreements	2,945	5,631	-	8,576
Buildings	1,501,315	141,866	-	1,643,181
Improvements, other than Buildings	5,712,014	1,066,160	-	6,778,174
Machinery and Equipment	1,793,138	149,509	-	1,942,647
Total Accumulated Depreciation/Amortization	<u>9,009,412</u>	<u>1,363,166</u>	<u>-</u>	<u>10,372,578</u>
Total Capital Assets being depreciated/amortized, net	<u>31,757,024</u>	<u>4,969,345</u>	<u>-</u>	<u>36,726,369</u>
Governmental Activities Capital Assets, net	<u>\$ 38,564,832</u>	<u>\$ 8,684,512</u>	<u>\$ 6,087,416</u>	<u>\$ 41,161,928</u>

Construction in progress at December 31, 2023 for the governmental activities consisted of costs associated various street and infrastructure additions and improvements.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

	Balance January 1, 2023	Additions	Deletions	Balance December 31, 2023
Business-Type Activities:				
Capital Assets, not being depreciated/amortized				
Land	\$ 285,768	\$ -	\$ -	\$ 285,768
Construction in Progress	16,394,584	4,909,898	1,949,709	19,354,773
Total Capital Assets, not being depreciated/amortized	<u>16,680,352</u>	<u>4,909,898</u>	<u>1,949,709</u>	<u>19,640,541</u>
Capital Assets, being depreciated/amortized:				
Buildings	963,378	-	-	963,378
Improvements, other than Buildings	20,616,092	1,949,709	-	22,565,801
Intangible Asset	2,927,110	-	-	2,927,110
Machinery and Equipment	247,398	-	-	247,398
Total Capital Assets, being depreciated/amortized	<u>24,753,978</u>	<u>1,949,709</u>	<u>-</u>	<u>26,703,687</u>
Less Accumulated Depreciation/Amortization for:				
Buildings	80,912	19,783	-	100,695
Improvements, other than Buildings	4,478,941	527,031	-	5,005,972
Intangible Asset	833,694	58,542	-	892,236
Machinery and Equipment	171,578	15,026	-	186,604
Total Accumulated Depreciation/Amortization	<u>5,565,125</u>	<u>620,382</u>	<u>-</u>	<u>6,185,507</u>
Total Capital Assets being depreciated/amortized, net	<u>19,188,853</u>	<u>1,329,327</u>	<u>-</u>	<u>20,518,180</u>
Business-Type Activities Capital Assets, net	<u>\$ 35,869,205</u>	<u>\$ 6,239,225</u>	<u>\$ 1,949,709</u>	<u>\$ 40,158,721</u>

Construction in progress at December 31, 2023, for the business-type activities consisted of costs associated various infrastructure additions and improvements.

Depreciation/amortization expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public Safety	\$ 49,917
Public Works	86,917
Culture and Recreation	324,955
General Government	<u>901,377</u>
Total depreciation/amortization expense - Governmental Activities	<u>\$ 1,363,166</u>
Business-Type Activities:	
Water	\$ 330,977
Sewer	<u>289,405</u>
Total depreciation/amortization expense - Business-Type Activities	<u>\$ 620,382</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 6 – CAPITAL ASSETS (CONTINUED)

Reconciliation of Net Investment in Capital Assets:

	Governmental Activities	Business-type Activities
Land	\$ 2,289,963	\$ 285,768
Construction in Progress	2,145,596	19,354,773
Capital Assets (net of accumulated depreciation/amortization)	36,726,369	20,518,180
Less: Lease Agreements	20,777	-
Revenue Bonds	10,511,869	18,537,285
Accounts Payable	216,860	440,588
Net Investment in Capital Assets	<u>\$ 30,412,422</u>	<u>\$ 21,180,848</u>

NOTE 7 – LONG-TERM DEBT

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Lease Agreements	\$ 26,224	\$ -	\$ 5,447	\$ 20,777	\$ 5,557
Bonds Payable:					
Sales Tax Revenue	9,290,000	-	445,000	8,845,000	450,000
Bond Premium	461,151	-	19,282	441,869	-
Special Assessments	1,340,000	-	115,000	1,225,000	110,000
Governmental Activity Long-Term Liabilities	<u>\$ 11,117,375</u>	<u>\$ -</u>	<u>\$ 584,729</u>	<u>\$ 10,532,646</u>	<u>\$ 565,557</u>
Business-Type Activities:					
Bonds Payable:					
State Revolving Funds (Direct Borrowing)	\$ 11,595,872	\$ 6,527,885	\$ 450,328	\$ 17,673,429	\$ 457,766
USDA Bonds (Direct Borrowing)	909,100	-	45,244	863,856	47,092
Business-type Activity Long-Term Liabilities	<u>\$ 12,504,972</u>	<u>\$ 6,527,885</u>	<u>\$ 495,572</u>	<u>\$ 18,537,285</u>	<u>\$ 504,858</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Bonds Payable

A summary of the City's December 31, 2023 bonded indebtedness is as follows:

	Date of Issue	Interest Rates	Final Due Date	Fund Paid	Annual Payments	Amount Originally Issued	Outstanding December 31, 2023
Revenue Bonds:							
2019 Sales Tax	2019	2.00-3.60%	2038	General	\$55,000-\$125,000	\$ 1,825,000	\$ 1,300,000
2019 Sales Tax	2019	1.85-3.375%	2039	General	60,000-130,000	1,985,000	1,680,000
2013 Sales Tax	2013	1.00-4.20%	2025	General	15,000-90,000	905,000	175,000
2021 Sales Tax	2021	3.00-4.00%	2046	Capital Project	160,000-335,000	6,010,000	5,690,000
2019 Special Assessment	2019	2.15-4.00%	2038	Debt Service	35,000-105,000	880,000	645,000
2010 Special Assessment	2010	1.00-5.25%	2030	Debt Service	100,000-195,000	1,585,000	580,000
Revenue Bonds (Direct Borrowing):							
2003 Clean Water State Revolving Loan	2003	3.50%	2024	Sewer	34,553	495,490	17,054
2007 Clean Water State Revolving Loan	2007	3.25%	2029	Sewer	53,681	858,000	258,131
2007 Drinking Water State Revolving Loan	2007	3.25%	2028	Water	154,372	2,263,723	610,478
2010 Clean Water State Revolving Loan	2010	3.00%	2031	Sewer	56,339	845,000	365,861
2020 Clean Water State Revolving Loan	2020	2.21%	2052	Sewer	46,856	4,147,615	4,298,496
2021 Drinking Water State Revolving Loan	2021	2.13%	2051	Water	8,920	790,000	751,504
2021 Drinking Water State Revolving Loan	2021	2.13%	2053	Water	21,943	2,017,415	1,981,037
2021 Clean Water State Revolving Loan	2021	2.13%	2052	Sewer	15,830	1,402,000	1,342,381
2007 USDA Drinking Water Revenue Bond	2007	4.375%	2038	Water	62,892	1,175,000	669,329
1993 USDA Drinking Water Revenue Bond	1993	5.625%	2033	Water	11,052	173,000	77,987
1997 USDA Drinking Water Revenue Bond	1997	5.375%	2037	Water	12,384	200,000	116,540
2022 Clean Water State Revolving Loan	2022	2.13%	2054	Sewer	\$17,184	8,048,487	8,048,487
Total Revenue Bonds						<u>\$ 35,605,730</u>	<u>\$ 28,607,285</u>

The state revolving loans, the USDA revenue bonds, and note to Sioux Falls are direct borrowings. All contracts state that in an event of default, all or a portion of the outstanding balance may become immediately due.

Annual debt service requirements to maturity for all debt outstanding as of December 31, 2023 are as follows:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 7 – LONG-TERM DEBT (CONTINUED)

Year Ending December 31,	Governmental Activities			Business-Type Activities		
	Revenue Bonds			Revenue Bonds - Direct Borrowing		
	Principal	Interest	Total	Principal	Interest	Total
2024	\$ 560,000	\$ 328,349	\$ 888,349	\$ 504,858	\$ 252,196	\$ 757,054
2025	580,000	309,489	889,489	501,996	579,100	1,081,096
2026	490,000	289,772	779,772	677,492	393,476	1,070,968
2027	505,000	272,889	777,889	740,271	374,003	1,114,274
2028	520,000	254,939	774,939	643,590	354,902	998,492
2029 - 2033	2,405,000	1,006,236	3,411,236	2,826,750	1,556,439	4,383,189
2034 - 2038	2,440,000	636,571	3,076,571	2,918,852	1,210,285	4,129,137
2039 - 2043	1,585,000	285,788	1,870,788	2,929,762	887,999	3,817,761
2044 - 2048	985,000	59,550	1,044,550	3,257,272	560,491	3,817,763
2049 - 2053	-	-	-	3,166,867	201,445	3,368,312
2054	-	-	-	369,575	4,922	374,497
	<u>\$ 10,070,000</u>	<u>\$ 3,443,583</u>	<u>\$ 13,513,583</u>	<u>\$ 18,537,285</u>	<u>\$ 6,375,258</u>	<u>\$ 24,912,543</u>

Lease Agreements

On December 22, 2021, the City signed a five-year lease as lessee for the use of a copy machine; however, payments did not initiate until May 2022 when the copier was delivered. The agreement requires monthly payments of \$324 at a rate of 2.00%. As of December 31, 2023, the City reported a lease liability of \$13,413. During the fiscal year, the City paid principal of \$3,575 and interest of \$307.

On December 22, 2021, the City signed a five-year lease as lessee for the use of a copy machine; however, payments did not initiate until October 2022 when the copier was delivered. The agreement requires monthly payments of \$170 at a rate of 2.00%. As of December 31, 2023, the City reported a lease liability of \$7,364. During the fiscal year, the City paid principal of \$1,872 and interest of \$168.

The remaining obligations associated with these leases is as follows:

Year Ending December 31,	Governmental Activities		
	Principal	Interest	Total
2024	\$ 5,557	\$ 365	\$ 5,922
2025	5,669	253	5,922
2026	5,784	138	5,922
2027	3,767	28	3,795
	<u>\$ 20,777</u>	<u>\$ 784</u>	<u>\$ 21,561</u>

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 8 – RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2023 was as follows:

Major Purposes:			
Debt Service - External Creditors	\$	4,448,596	
Capital Improvements - Enabling Legislation		899,197	
Total Major Purposes		\$	5,347,793
Other Purposes:			
SDRS Pension	\$	6,896	
Total Other Purposes			6,896
Total Restricted Net Position	\$		5,354,689

NOTE 9 – INTERFUND TRANSFERS

The following is a summary of transfers between funds for the year ended December 31, 2023:

Transfer Out	Transfer In		
	General	Nonmajor Governmental	Total
General	\$ -	\$ 318,778	\$ 318,778
Nonmajor Governmental	221,068	-	221,068
Total Transfer In	\$ 221,068	\$ 318,778	\$ 539,846

Transfers are used to:

- 1) Move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.
- 2) To use unrestricted revenues collected in the general fund to finance various programs account for in other funds in accordance with budgetary authorizations.

NOTE 10 – RISK MANAGEMENT

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

Employee Health Insurance

The City purchases health insurance for its employees from a commercial insurance carrier. Settled results 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

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 10 – RISK MANAGEMENT (CONTINUED)

reduction information and to obtain lower costs for that coverage. The Municipality's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under 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 torts, thefts, errors and omissions, automobile, and general 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 \$500 deductible for the official's liability; \$2,000 deductible for law enforcement liability coverage; zero deductible for general liability; \$250 deductible for buildings, contents, miscellaneous property and EDP hardware; automobile liability with \$100 deductible for comprehensive and \$250 deductible for auto collision.

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

Worker's Compensation

The City joined the South Dakota Municipal League Workers Compensation 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 the behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and 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. 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 never exceeded the liability coverage.

Unemployment Benefits

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

NOTE 11 – PENSION PLAN

Plan Information

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 – PENSION PLAN (CONTINUED)

contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

Legislation enacted in 2017 established the current 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.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 – PENSION PLAN (CONTINUED)

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 fiscal years ended December 31, 2023, 2022 and 2021, equal to required contributions each year, were as follows:

Year	Amount
2023	\$ 120,190
2022	\$ 89,068
2021	\$ 73,520

Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2023, SDRS is 100.1% 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, 2023 and reported by the City as of December 31, 2023 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 10,238,689
Less: proportionate share Net Pension restricted for pension benefits	<u>\$ 10,245,585</u>
Proportionate share of net pension liability (asset)	<u>\$ (6,896)</u>

At December 31, 2023, the City reported an asset of \$6,896 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2023 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2023, the City's proportion was 0.07065700%, which is an increase of 0.0159710% from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the City recognized a reduction in pension expense of \$7,286. At December 31, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 – PENSION PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 195,483	\$ -
Changes in assumption	235,780	344,657
Net differences between projected and actual earnings on pension plan investments	45,914	-
Changes in proportions and differences between City contributions and proportionate share of contributions	18	32,259
City contributions subsequent to the measurement date	61,725	-
Total	\$ 538,920	\$ 376,916

\$61,725 reported as a deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ending December 31,	
2024	\$ 83,699
2025	(114,424)
2026	124,229
2027	6,775
Total	\$ 100,279

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	1.91%

Mortality Rates

- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
 - Teachers, Certified Regents, and Judicial: PubT-2010
 - Other Class A Members: PubG-2010
 - Public Safety Members: PubS-2010
- Retired Members:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 – PENSION PLAN (CONTINUED)

- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages
- Beneficiaries:
 - PubG-2010 contingent survivor mortality table
- Disabled Members:
 - Public Safety: PubS-2010 disabled member mortality table
 - Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2022.

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 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, 2023 (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
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
Total	<u>100.0%</u>	

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 from 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 1-percentage point lower (5.50%) or 1-percentage

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 11 – PENSION PLAN (CONTINUED)

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)	\$ 1,413,528	\$ (6,896)	\$ (1,168,533)

Pension Plan Fiduciary Net Position

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

NOTE 12 – JOINTLY GOVERNED ORGANIZATION

The City is a member of the Lewis and Clark Regional Water System Inc. (The "System"). The System, in conjunction with the following municipalities and water systems, provide drinking water to consumers.

South Dakota		Minnesota	Iowa
Beresford	Minnehaha CWC	Lincoln-Pipestone RWS	Hull
Centerville	Parker	Luverne	Rock Rapids
Harrisburg	Sioux Falls	Rock County RWS	Sheldon
Lennox	South Lincoln RWS	Worthington	Sibley
Lincoln County RWS	Tea		Sioux Center
Madison			

The System will collect, treat, and distribute drinking water to the entities involved upon completion. The System's board of directors is comprised of 20 members, one from each participating entity. Under the articles of incorporation, no member has a residual equity interest.

The City entered into an amended agreement with the System to provide 1.1 million gallons of drinking water per day to ensure that future water supply needs of the City can be met. In all, it is estimated that the City of Tea's share of the \$529.3 million (July 2007 dollars) System project is currently \$2.8 million, in July 2007 dollars. The City's investment to date of \$2.9 million is recorded in the Water Enterprise Fund as an intangible asset. The City's prepayment was financed by the issuance of Drinking Water Revenue Bonds, Series 2007. Any remaining cost share above the prepayment amount will be made as part of a true-up upon completion of the project. The actual commitment costs may be higher due to cost indexing, construction over-runs and decreases in federal funding. The City is capitalizing an intangible asset to recognize the upfront payment to the System for the future option to purchase water. Such asset will be amortized over the estimated lifespan upon the receipt of benefits from the System.

NOTE 13 – PLEDGED REVENUES

The City has pledged future water and sewer customers' revenues, net of specified operating expenses, to repay \$4,206,878 in water system revenue bonds and \$14,330,407 in sewer system revenue bonds. Proceeds from the bonds provided financing for the construction of water and sewer system infrastructure.

The water bonds are payable solely from water customer net revenues and are payable through 2053. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$5,488,575. During the current year, the City paid principal of \$232,914 and interest of \$190,852. Meanwhile, total customer net revenues were \$430,163.

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 13 – PLEDGED REVENUES (CONTINUED)

The sewer bonds are payable solely from sewer customer and net revenues and are payable through 2054. Annual principal and interest payments on the bonds are expected to require less than 90% of net revenues. The total principal and interest remaining to be paid on the bonds is \$19,423,968. During the current year, the City paid principal of \$262,658 and interest of \$144,176. Meanwhile, total customer net revenues were \$1,193,871.

NOTE 14 – INTERFUND RECEIVABLES AND PAYABLES

The purpose of the City's interfund balances is to help finance the short-term cash flow shortages of various funds. Short-term interfund receivable and payable balances as of December 31, 2023 were as follows:

Fund Due To	Fund Due From	Amount
General Fund	Hagedorn Infrastructure Fund	\$ 2,800,000
General Fund	Nonmajor Governmental Fund	210,000
		\$ 3,010,000

NOTE 15 – DEFICIT FUND EQUITY

The City has four funds with deficit equity balance at December 31, 2023. The City intends to finance this deficit fund equity with transfers from the General Fund. The individual fund deficits were as follows:

Hagedorn Infrastructure Project	\$	2,712,232
Storm Drainage II	\$	209,219

NOTE 16 – CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling \$19,528,182 for street construction, a law enforcement center, and other various improvements. As of December 31, 2023, costs of \$18,638,068 had been incurred against the contracts. The balance of \$890,114 remaining at December 31, 2023 will be paid as work on the projects progresses.

NOTE 17 – VIOLATIONS OF FINANCE-RELATED LEGAL REQUIREMENTS

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents disbursements exceeding the amounts budgeted for the current fiscal year:

**CITY OF TEA, SOUTH DAKOTA
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

NOTE 17 – VIOLATIONS OF FINANCE-RELATED LEGAL REQUIREMENTS (CONTINUED)

General Fund		
Public Works		
Highways and Streets	\$	29,590
Culture and Recreation		
Recreation	\$	16,329
Libraries	\$	2,431
Debt Service	\$	718
Hagedorn Infrastructure Project		
Capital Outlay		
Public Works	\$	1,147,177
TIF #1		
Community Development	\$	505,340
Storm Drainage II		
Public Works	\$	433,201

NOTE 18 – REVENUE COLLECTED IN ADVANCE

In November 2007, the City signed an escrow agreement with a local developer whereby the developer agreed to prepay their contribution to the project before work began. The project has not yet been initiated, so these funds remain in an interest-bearing escrow account. The agreement requires that any interest be used on future construction work, so as interest is collected, the City defers recognizing revenue until work begins on the project. Interest deferred in 2023 totaled \$17,441, bringing the balance of the escrow account to \$572,587 as of December 31, 2023.

NOTE 19 – ACCOUNTING CHANGE

During 2023, the City adopted the provisions of GASB Statement No. 96, Subscription-Based Information Technology Arrangements. New requirements require the reporting of certain right-to-use subscription-based IT arrangements and liabilities which were previously not reported. Management did not indicate having any agreements that met the definition of this standard as of December 31, 2023, and no significant agreements were detected during audit procedures.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TEA, SOUTH DAKOTA
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts			Actual Amounts	Variance Positive (Negative)
	Original	Amendment	Final		
Revenues:					
Property Taxes	\$ 3,220,200	\$ -	\$ 3,220,200	\$ 3,122,241	\$ (97,959)
Sales and Other Taxes	3,402,200	-	3,402,200	3,984,182	581,982
Licenses and Permits	158,600	-	158,600	275,237	116,637
Intergovernmental	474,600	-	474,600	547,143	72,543
Charges for Services	134,000	-	134,000	330,024	196,024
Fines and Forfeits	600	-	600	1,832	1,232
Interest on Investments	2,000	-	2,000	111,447	109,447
Contributions	5,000	-	5,000	9,660	4,660
Miscellaneous	25,400	-	25,400	353,039	327,639
Total Revenues	7,422,600	-	7,422,600	8,734,805	1,312,205
Expenditures:					
General Government:					
Legislative	260,800	-	260,800	41,458	219,342
Executive	181,100	-	181,100	161,833	19,267
Elections	1,000	-	1,000	794	206
Financial Administration	326,700	-	326,700	273,362	53,338
Other	210,800	-	210,800	148,141	62,659
Total General Government	980,400	-	980,400	625,588	354,812
Public Safety:					
Police Department	1,175,500	600,000	1,775,500	1,727,569	47,931
Fire Department	99,000	-	99,000	98,184	816
Total Public Safety	1,274,500	600,000	1,874,500	1,825,753	48,747
Public Works:					
Highways and Streets	710,800	500,000	1,210,800	1,240,390	(29,590)
Sanitation	1,000	-	1,000	-	1,000
Total Public Works	711,800	500,000	1,211,800	1,240,390	(28,590)

(continued)

CITY OF TEA, SOUTH DAKOTA
SCHEDULES OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
General Fund
FOR THE YEAR ENDED DECEMBER 31, 2023

	Budgeted Amounts			Actual Amounts	Variance Positive (Negative)
	Original	Amendment	Final		
Culture and Recreation:					
Recreation	2,158,400	102,000	2,260,400	2,276,729	(16,329)
Libraries	26,900	1,000	27,900	30,331	(2,431)
Total Culture and Recreation	<u>2,185,300</u>	<u>103,000</u>	<u>2,288,300</u>	<u>2,307,060</u>	<u>(18,760)</u>
Community Development:					
Economic Development and Assistance	560,600	75,000	635,600	612,920	22,680
Total Community and Development	<u>560,600</u>	<u>75,000</u>	<u>635,600</u>	<u>612,920</u>	<u>22,680</u>
Health and Welfare					
Health	10,000	-	10,000	-	10,000
Total Health and Welfare	<u>10,000</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>10,000</u>
Debt Service	593,120	150,000	743,120	743,838	(718)
Total Expenditures	<u>6,315,720</u>	<u>1,428,000</u>	<u>7,743,720</u>	<u>7,355,549</u>	<u>388,171</u>
Excess of Revenues over Expenditures	<u>1,106,880</u>	<u>(1,428,000)</u>	<u>(321,120)</u>	<u>1,379,256</u>	<u>1,700,376</u>
Other Financing Sources (Uses):					
Proceeds from Sale of Fixed Assets	-	-	-	14,987	14,987
Transfers In	-	-	-	221,068	221,068
Transfers Out	(133,000)	(3,000,000)	(3,133,000)	(318,778)	2,814,222
Total Other Financing Sources (Uses)	<u>(133,000)</u>	<u>(3,000,000)</u>	<u>(3,133,000)</u>	<u>(82,723)</u>	<u>3,050,277</u>
Excess (Deficiency) of Revenues over Expenditures and Other Uses	973,880		(3,454,120)	1,296,533	4,750,653
Fund Balance - Beginning of Year	<u>5,375,175</u>		<u>5,375,175</u>	<u>5,375,175</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 6,349,055</u>		<u>\$ 1,921,055</u>	<u>\$ 6,671,708</u>	<u>\$ 4,750,653</u>

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
Schedules of Budgetary Comparisons for the General Fund with a Legal Required Budget

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget of the general fund, the special revenue funds, and the capital projects fund 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 5.0% of the total municipal budget and may be transferred by the 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. During the current year, the City Council adopted the following supplemental appropriation ordinance that included increases in previously budgeted amounts:

General Fund	
Expenditures	
Public Safety	\$ 600,000
Public Works	500,000
Culture and Recreation	103,000
Community Development	75,000
Debt Service	150,000
Transfers Out	3,000,000

5. Unexpended appropriations lapse at year-end. The procedure used by the City is to adopt a supplemental appropriation ordinance during the following year by the Council to provide additional funds for certain purchase commitments outstanding at year-end. Any transfers of budgeted amounts between departments of the General fund, transfers between other funds, and any revision that alter the total expenditure of any department or fund must be approved by the City Council. This is the legal level of control.
6. Formal budgetary integration is employed as a management control device during the year for the General, special revenue, capital project, and debt service funds.
7. Budgets for the general, capital projects, special revenue, and debt service funds are adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP).

Encumbrances carry over from one year to the next unless canceled by the City. These encumbrances are charged against the new year's budget until a supplemental appropriation ordinance is adopted as described in number 5 above.

8. GAAP/Budgetary Accounting Basis Differences – The financial statements prepared in conformity with U.S. GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they are related.

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM
LAST 10 FISCAL YEARS*

	2014	2015	2016	2017	2018
Municipality's proportion of the net pension liability (asset)	0.0395925%	0.0383046%	0.0370589%	-0.0393732%	-0.0439486%
Municipality's proportionate share of net pension liability (asset)	\$ (285,248)	\$ (162,461)	\$ 125,181	\$ (3,573)	\$ (1,025)
Municipality's covered payroll	\$ 640,197	\$ 612,533	\$ 617,389	\$ 703,311	\$ 799,389
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	44.56%	26.52%	20.28%	0.51%	0.13%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%	100.1%	100.0%
	2019	2020	2021	2022	2023
Municipality's proportion of the net pension liability (asset)	-0.0459198%	-0.0530210%	-0.0538330%	-0.0546860%	0.0706570%
Municipality's proportionate share of net pension liability (asset)	\$ (4,866)	\$ (2,303)	\$ (412,269)	\$ (5,169)	\$ (6,896)
Municipality's covered payroll	\$ 853,753	\$ 1,011,681	\$ 1,069,155	\$ 1,148,766	\$ 1,547,504
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.57%	0.23%	38.56%	0.45%	0.45%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.1%	100.0%	105.5%	100.1%	100.1%

Notes to the Schedule:

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset), which is June 30.

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF THE CITY'S CONTRIBUTIONS
SOUTH DAKOTA RETIREMENT SYSTEM
LAST 9 YEARS*

	2015	2016	2017	2018	2019
Contractually required contribution	\$ 40,891	\$ 45,884	\$ 49,956	\$ 56,843	\$ 63,866
Contributions in relation to the contractually required contribution	40,891	45,884	49,956	56,843	63,866
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Municipality's covered payroll	\$ 598,571	\$ 672,541	\$ 737,117	\$ 830,642	\$ 931,844
Contributions as a percentage of covered payroll	6.83%	6.82%	6.78%	6.84%	
	2020	2021	2022	2023	
Contractually required contribution	\$ 72,476	\$ 73,520	\$ 89,068	\$ 120,190	
Contributions in relation to the contractually required contribution	72,476	73,520	89,068	120,190	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	
Municipality's covered payroll	\$ 1,058,553	\$ 1,085,360	\$ 1,294,216	\$ 1,754,541	
Contributions as a percentage of covered payroll	6.85%	6.77%	6.88%	6.85%	

Notes to the Schedule:

* Due to an auditor change, the above information is not available for fiscal year 2014.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

CITY OF TEA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
for the Year Ended December 31, 2023
Schedule of the Proportionate Share of the Net pension Liability (Asset) and
Schedule of Pension Contributions

Changes from Prior Valuation

The June 30, 2023, actuarial valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2022, actuarial valuation.

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

Benefit Provision Changes

During the 2023 legislative session, no significant SDRS benefit changes were made and emergency medical services personnel prospectively became Class B Public Safety members.

Actuarial Method Changes

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

Actuarial Assumption Changes

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

As of June 30, 2022 the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2023 SDRS COLA was limited to a restricted maximum of 2.10%. For the June 30, 2022, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 2.10%.

As of June 30, 2023 the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2024 SDRS COLA is limited to a restricted maximum of 1.91%. The July 2024 SDRS COLA will equal inflation, between 0% and 1.91%. For this June 30, 2023 actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.91%.

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

SUPPLEMENTARY INFORMATION

**CITY OF TEA, SOUTH DAKOTA
COMBINING BALANCE SHEET
GOVERNMENTAL NONMAJOR FUNDS
DECEMBER 31, 2023**

	Special Revenue				
	Tax 3rd Penny	Storm Drainage II	TIF #1	TIF #2	Street Maintenance Assessment
ASSETS					
Cash and Cash Equivalents	\$ 463,226	\$ 2,326	\$ 127,825	\$ 51,066	\$ 5,528
Receivables (Net where applicable, of allowance for uncollectibles):					
Taxes	-	-	36,092	28,456	-
Special Assessments	-	2,990	-	-	19,053
Due from Other Governmental Agencies	9,926	-	-	-	-
Restricted Assets:					
Cash and Cash Equivalents	-	-	-	-	-
Total Assets	473,152	5,316	163,917	79,522	24,581
LIABILITIES					
Accounts Payable	2,522	2,527	127,825	-	-
Due to Other Funds	-	210,000	-	-	-
Total Liabilities	2,522	212,527	127,825	-	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	-	2,008	8,463	-	15,771
Unavailable revenue - special assessments	-	-	-	-	-
Total Deferred Inflows of Resources	-	2,008	8,463	-	15,771
FUND BALANCES					
Restricted:					
Debt Service	-	-	-	-	-
Capital Improvement	470,630	-	27,629	79,522	8,810
Assigned:					
Capital Projects	-	-	-	-	-
Unassigned	-	(209,219)	-	-	-
Total Fund Balances (Deficits)	470,630	(209,219)	27,629	79,522	8,810
Total Liabilities, Deferred Inflows of Resources, and Fund Balances (Deficits)	\$ 473,152	\$ 5,316	\$ 163,917	\$ 79,522	\$ 24,581

Debt Service			Capital Project				Total Governmental Nonmajor Funds
271st St. SA Bonds Debt Service	Aquatic Complex	Highway 111 Special Assessment Debt Service Fund	2003 N Half Brian/N. Main Assessments	Gateway BLVD Capital Project	272nd Extension Project		
\$ 93,486	\$ -	\$ 497	\$ -	\$ 4,076	\$ 10,715	\$ 758,745	
-	-	-	-	-	-	64,548	
1,034,108	-	153,210	-	-	-	1,209,361	
-	-	-	-	282,288	-	292,214	
86,081	-	256,063	-	-	-	342,144	
1,213,675	-	409,770	-	286,364	10,715	2,667,012	
-	-	-	-	-	-	132,874	
-	-	-	-	-	-	210,000	
-	-	-	-	-	-	342,874	
-	-	-	-	-	-	26,242	
1,034,108	-	153,210	-	-	-	1,187,318	
1,034,108	-	153,210	-	-	-	1,213,560	
179,567	-	256,560	-	-	-	436,127	
-	-	-	-	286,364	-	872,955	
-	-	-	-	-	10,715	10,715	
-	-	-	-	-	-	(209,219)	
179,567	-	256,560	-	286,364	10,715	1,110,578	
\$ 1,213,675	\$ -	\$ 409,770	\$ -	\$ 286,364	\$ 10,715	\$ 2,667,012	

**CITY OF TEA, SOUTH DAKOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL NONMAJOR FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Special Revenue				
	Tax 3rd Penny	Storm Drainage II	TIF #1	TIF #2	Street Maintenance Assessment
Revenue:					
Property Taxes	\$ -	\$ -	\$ 376,259	\$ 98,022	\$ -
Sales and Other Taxes	165,590	-	-	-	-
Special Assessments	-	99,877	-	-	384,483
Intergovernmental	-	18,665	-	-	-
Interest on Investments	2,175	199	-	-	796
Total Revenue	<u>167,765</u>	<u>118,741</u>	<u>376,259</u>	<u>98,022</u>	<u>385,279</u>
Current Expenditures:					
Public Works	-	533,201	-	-	413,676
Community Development	-	-	505,340	-	-
Debt Service	-	-	-	-	-
Total Expenditures	<u>-</u>	<u>533,201</u>	<u>505,340</u>	<u>-</u>	<u>413,676</u>
Excess (Deficiency) of Revenues over Expenditures	<u>167,765</u>	<u>(414,460)</u>	<u>(129,081)</u>	<u>98,022</u>	<u>(28,397)</u>
Other Financing (Uses):					
Transfers In	-	-	-	-	300,000
Transfers Out	-	-	-	-	-
Total Other Financing (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>300,000</u>
Net Change in Fund Balances	167,765	(414,460)	(129,081)	98,022	271,603
Fund Balances (Deficits) - Beginning of Year	<u>302,865</u>	<u>205,241</u>	<u>156,710</u>	<u>(18,500)</u>	<u>(262,793)</u>
Fund Balances (Deficits) - End of Year	<u>\$ 470,630</u>	<u>\$ (209,219)</u>	<u>\$ 27,629</u>	<u>\$ 79,522</u>	<u>\$ 8,810</u>

Debt Service			Capital Project				Total Governmental Nonmajor Funds
271st St. SA Bonds Debt Service	Aquatic Complex	Highway 111 Special Assessment Debt Service Fund	2003 N Half Brian/N. Main Assessments	Gateway BLVD Capital Project	272nd Extension Project		
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 474,281	
-	-	-	-	-	-	165,590	
67,515	-	32,640	-	-	-	584,515	
-	-	-	-	-	-	18,665	
1,367	-	1,908	-	-	-	6,445	
68,882	-	34,548	-	-	-	1,249,496	
-	-	-	-	-	-	946,877	
-	-	-	-	-	-	505,340	
69,735	-	103,285	-	-	-	173,020	
69,735	-	103,285	-	-	-	1,625,237	
(853)	-	(68,737)	-	-	-	(375,741)	
-	-	18,000	778	-	-	318,778	
-	(47,754)	-	-	-	(173,314)	(221,068)	
-	(47,754)	18,000	778	-	(173,314)	97,710	
(853)	(47,754)	(50,737)	778	-	(173,314)	(278,031)	
180,420	47,754	307,297	(778)	286,364	184,029	1,388,609	
\$ 179,567	\$ -	\$ 256,560	\$ -	\$ 286,364	\$ 10,715	\$ 1,110,578	

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Tax 3rd Penny			TIF #1		
	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
Revenue:						
Taxes:						
General Sales & Use Tax	\$ 121,400	\$ 165,590	\$ 44,190	\$ -	\$ -	\$ -
Property Tax	-	-	-	-	376,259	376,259
Intergovernmental	-	-	-	-	-	-
Charges for goods & services	50,000	-	(50,000)	-	-	-
Special Assessments	-	-	-	-	-	-
Miscellaneous	1,000	-	(1,000)	-	-	-
Interest on Investments	-	2,175	2,175	-	-	-
Total Revenue	172,400	167,765	(4,635)	-	376,259	376,259
Current Expenditures:						
Public Works	-	-	-	-	-	-
Culture and Recreation	172,400	-	172,400	-	-	-
Community Development	-	-	-	-	505,340	(505,340)
Total Expenditures	172,400	-	172,400	-	505,340	(505,340)
Excess (Deficiency) of Revenues over Expenditures	-	167,765	167,765	-	(129,081)	881,599
Other Financing Sources:						
Transfers In	-	-	-	-	-	-
Total Other Financing Sources	-	-	-	-	-	-
Net Change in Fund Balances	\$ -	167,765	\$ 167,765	\$ -	(129,081)	\$ 881,599
Fund Balances (Deficits) - Beginning of Year		302,865			156,710	
Fund Balances (Deficits) - End of Year		\$ 470,630			\$ 27,629	

TIF #2			Storm Drainage II			Street Maintenance Assessment		
Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	98,022	98,022	-	-	-	-	-	-
-	-	-	-	18,665	18,665	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	99,877	99,877	-	384,483	384,483
-	-	-	100,000	-	(100,000)	300,000	-	(300,000)
-	-	-	-	199	199	-	796	796
-	98,022	98,022	100,000	118,741	18,741	300,000	385,279	85,279
-	-	-	100,000	533,201	(433,201)	500,000	413,676	86,324
-	-	-	-	-	-	-	-	-
-	-	-	100,000	533,201	(433,201)	500,000	413,676	86,324
-	98,022	98,022	-	(414,460)	(414,460)	(200,000)	(28,397)	171,603
-	-	-	-	-	-	-	300,000	300,000
-	-	-	-	-	-	-	300,000	300,000
\$ -	98,022	\$ 98,022	\$ -	(414,460)	\$ (414,460)	\$ (200,000)	271,603	\$ 471,603
	(18,500)			205,241			(262,793)	
	\$ 79,522			\$ (209,219)			\$ 8,810	

**CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
CAPITAL PROJECT FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Gateway BLVD Capital Project		
	Final Budgeted	Actual	Variance Favorable (Unfavorable)
Current Expenditures:			
Capital Outlay:			
Public Works	\$ -	\$ -	\$ -
Total expenditures	-	-	-
 (Deficiency) of Revenues over Expenditures	-	-	-
 Other Financing (Uses):			
Transfers Out	-	-	-
Total Other Financing (Uses)	-	-	-
 Net Change in Fund Balances	\$ -	-	\$ -
 Fund Balances (Deficits) - Beginning of Year		286,364	
 Fund Balances (Deficits) - End of Year		\$ 286,364	

272nd Extension Project			Hagedorn Infrastructure Project		
Final Budgeted	Actual	Variance Favorable (Unfavorable)	Final Budgeted	Actual	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -	\$ -	\$ 1,147,177	\$ (1,147,177)
-	-	-	-	1,147,177	(1,147,177)
-	-	-	-	(1,147,177)	(1,147,177)
-	(173,314)	(173,314)	-	-	-
-	(173,314)	(173,314)	-	-	-
<u>\$ -</u>	<u>(173,314)</u>	<u>\$ (173,314)</u>	<u>\$ -</u>	<u>(1,147,177)</u>	<u>\$ (1,147,177)</u>
	184,029			(1,565,055)	
	<u>\$ 10,715</u>			<u>\$ (2,712,232)</u>	

CITY OF TEA, SOUTH DAKOTA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2023

	271st St. SA Bonds Debt Serive			Aquatic Complex		
	Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
Revenue:						
Special Assessments	\$ 67,000	\$ 67,515	\$ 515	\$ -	\$ -	\$ -
Interest on Investments	-	1,367	1,367	-	-	-
Total Revenue	<u>67,000</u>	<u>68,882</u>	<u>1,882</u>	<u>-</u>	<u>-</u>	<u>-</u>
Current Expenditures:						
Debt Service	71,000	69,735	1,265	-	-	-
Total Expenditures	<u>71,000</u>	<u>69,735</u>	<u>1,265</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Deficiency) of Revenues over Expenditures	<u>(4,000)</u>	<u>(853)</u>	<u>617</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses):						
Transfers In	-	-	-	-	-	-
Transfers Out	-	-	-	-	(47,754)	(47,754)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(47,754)</u>	<u>(47,754)</u>
Net Change in Fund Balances	<u>\$ (4,000)</u>	<u>(853)</u>	<u>\$ 617</u>	<u>\$ -</u>	<u>(47,754)</u>	<u>\$ (47,754)</u>
Fund Balances (Deficits) - Beginning of Year		<u>180,420</u>			<u>47,754</u>	
Fund Balances - End of Year		<u>\$ 179,567</u>			<u>\$ -</u>	

**Highway 111 Special Assessment Debt Service
Fund**

2003 N Half Brian/N. Main Assessments

Highway 111 Special Assessment Debt Service Fund			2003 N Half Brian/N. Main Assessments		
Final Budgeted	Actual	Variance Positive (Negative)	Final Budgeted	Actual	Variance Positive (Negative)
\$ 34,000	\$ 32,640	\$ (1,360)	\$ -	\$ -	\$ -
-	1,908	1,908	-	-	-
<u>34,000</u>	<u>34,548</u>	<u>548</u>	<u>-</u>	<u>-</u>	<u>-</u>
104,000	103,285	715	-	-	-
<u>104,000</u>	<u>103,285</u>	<u>715</u>	<u>-</u>	<u>-</u>	<u>-</u>
(70,000)	(68,737)	(167)	-	-	-
-	18,000	18,000	-	778	778
-	-	-	-	-	-
<u>-</u>	<u>18,000</u>	<u>18,000</u>	<u>-</u>	<u>778</u>	<u>778</u>
<u>\$ (70,000)</u>	<u>(50,737)</u>	<u>\$ 17,833</u>	<u>\$ -</u>	<u>778</u>	<u>\$ 778</u>
	<u>307,297</u>			<u>(778)</u>	
	<u>\$ 256,560</u>			<u>\$ -</u>	



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

To the City Council
City of Tea, 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Tea, South Dakota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise City of Tea, South Dakota's basic financial statements and have issued our report thereon dated December 9, 2024. We disclaimed the opinion on the aggregate discretely presented component unit, Housing and Redevelopment Component Unit, because the financial statements of that component unit were not audited.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Tea, 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 City of Tea, South Dakota's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Tea, 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 identified a certain deficiency in internal control, described in the accompanying schedule of findings as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Tea, 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 Tea, South Dakota's Response to Findings

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

Purpose of This Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit.

If you have any questions concerning the above matters, we would be pleased to discuss them with you at your convenience.

Williams & Company P.C.
Certified Public Accountants
Le Mars, Iowa
December 9, 2024

CITY OF TEA, SOUTH DAKOTA
Schedule of Findings
For the Year Ended December 31, 2023

Part I: Summary of the Independent Auditors' Results

- (a) A modified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance:

No matters were noted

Material Weakness:

2023-001 Financial Reporting

Condition and Criteria – The auditors were required to propose and have management post adjusting journal entries to the fund financial statements in order for the financial statements to conform with U.S. generally accepted accounting principles. Management is responsible for the preparation of financial statements in accordance with U.S. generally accepted accounting principles (GAAP).

Effect – The financial statements provided by management are not presented entirely in accordance with U.S. generally accepted accounting principles.

Cause – With a limited number of personnel and current staff workload, the time constraints do not provide management absolute assurance all year end U.S. GAAP adjusting journal entries will be posted.

Recommendation – The City should implement procedures to ensure all required adjustments are properly made to the City's financial statements.

Response – We will double check the financial statements in the future and all supporting schedules to verify that all adjustments are made properly.