

Financial Statements
December 31, 2022

City of Dell Rapids, South Dakota

Elected and Appointed Officials (unaudited).....	1
Independent Auditor's Report.....	2
Management Discussion and Analysis.....	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	26
Statement of Activities	27
Fund Financial Statements	
Governmental Funds	
Balance Sheet	28
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	29
Statement of Revenues, Expenditures, and Changes in Fund Balances	30
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	32
General Fund	
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual	33
Proprietary Funds	
Statement of Net Position.....	35
Statement of Revenues, Expenses, and Changes in Net Position	36
Statement of Cash Flows	37
Notes to Financial Statements.....	39
Required Supplementary Information	
Schedule of Employer's Proportionate Share of Net Pension Liability (Asset).....	63
Schedule of Employer's Contributions.....	64
Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions	65
Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions	66
Additional Reports	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	67
Schedule of Findings	69

City of Dell Rapids, South Dakota
Elected and Appointed Officials (unaudited)
December 31, 2022

<u>Elected</u>	<u>Term Position</u>	<u>Term Expires December 31,</u>
Denise Hanzlik	Council Member	2024
Barry Berg	Council Member	2024
Gary Haak	Council Member	2025
Wendy Nelson	Council Member	2025
Chad Ronshaugen	President	2024
Chuck Jones	Council Member	2025
James Borchert - Appointed	Vice President	2023
Bob Mier	Council Member	2025
<u>Appointed</u>		
Justin Weiland	City Administrator	
Claire Baartman	Finance Officer	



Independent Auditor's Report

To the City Council
City of Dell Rapids, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Dell Rapids as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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 Dell Rapids, as of December 31, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS 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 GAAS 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 City of Dell Rapids' 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 City of Dell Rapids' 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 Management's Discussion and Analysis, Schedule of Employer's Share of Net Pension Liability (Asset), and Schedule of Employer's Contributions 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the listing of Elected and Appointed Officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2023, on our consideration of the City of Dell Rapids' 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 City of Dell Rapids' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Dell Rapids' internal control over financial reporting and compliance.



Mankato, Minnesota
August 14, 2023

This section of Municipality of Dell Rapids (Municipality) financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ended on December 31, 2022. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the Municipality's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$4,112,925 and \$3,016,432 governmental expenditures. This is a decrease from the prior year when revenue exceeded expenditures by \$1,657,344.
- In the Municipality's business-type activities, revenues were \$3,675,378 and \$3,817,676 business-type expenditures. This is a decrease from the prior year when revenue exceeded expenditures by \$881,484.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the Municipality's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the Municipality operates like businesses. The Municipality has three proprietary funds – the Water Fund, the Sewer Fund, and the Liquor Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-2 summarizes the major features of the Municipality’s financial statements, including the portion of the Municipal government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of Municipality of Dell Rapids’s Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire municipal government	The activities of the municipality that are not proprietary, such as finance office, street department and parks	Activities the Municipality operates similar to private businesses, the water and sewer systems and Liquor Fund
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Municipality’s net position and how they have changed. Net position – the difference between the Municipality’s assets and liabilities – is one way to measure the Municipality’s financial health or position.

- Increases or decreases in the Municipality’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional nonfinancial factors such as changes in the Municipality’s property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the Municipality are reported in two categories:

- **Governmental Activities** -- This category includes the most of the Municipality's basic services, such as finance office, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here as well as the Municipality's Liquor Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the Municipality's most significant funds – not the Municipality as a whole. Funds are accounting devices that the Municipality uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The Municipal Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The Municipality has two kinds of funds:

- **Governmental Funds** – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Municipality's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the Municipality charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The Municipality's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE

NET POSITION

The Municipality's combined net position increased by 2.87% between fiscal year 2021 and 2022 – or an increase of \$954,195 (See Table A-1).

Table A-1
City of Dell Rapids
Statement of Net Position

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2021	2022	2021	2022	2021	2022	
Current and Other Assets	\$ 5,839,216	\$ 7,953,959	\$ 4,734,900	\$ 5,227,679	\$ 10,574,116	\$ 13,181,638	24.66%
Capital Assets	13,743,565	14,567,538	23,388,418	22,468,710	37,131,983	37,036,248	-0.26%
Total Assets	<u>\$ 19,582,781</u>	<u>\$ 22,521,497</u>	<u>\$ 28,123,318</u>	<u>\$ 27,696,389</u>	<u>\$ 47,706,099</u>	<u>\$ 50,217,886</u>	<u>5.27%</u>
Deferred Outflows of Resources	\$ 213,112	\$ 187,213	\$ 123,620	\$ 108,668	\$ 336,732	\$ 295,881	-12.13%
AP and Other Current Liabilities	\$ 350,286	\$ 443,389	\$ 1,813,812	\$ 1,665,109	\$ 2,164,098	\$ 2,108,498	-2.57%
Noncurrent Liabilities	367,152	2,256,334	11,476,984	11,583,494	11,844,136	13,839,828	16.85%
Total Liabilities	<u>\$ 717,438</u>	<u>\$ 2,699,723</u>	<u>\$ 13,290,796</u>	<u>\$ 13,248,603</u>	<u>\$ 14,008,234</u>	<u>\$ 15,948,326</u>	<u>13.85%</u>
Deferred Inflows of Resources	\$ 324,140	\$ 118,187	\$ 486,326	\$ 268,928	\$ 810,466	\$ 387,115	-52.24%
Net Position							
Net Investment in Capital Assets	\$ 13,405,254	\$ 12,248,232	\$ 10,545,354	\$ 10,376,814	\$ 23,950,608	\$ 22,625,046	-5.53%
Restricted	329,133	480,974	853,750	1,106,243	1,182,883	1,587,217	34.18%
Unrestricted	5,019,928	7,161,594	3,070,712	2,804,469	8,090,640	9,966,063	23.18%
Total Net Position	<u>\$ 18,754,315</u>	<u>\$ 19,890,800</u>	<u>\$ 14,469,816</u>	<u>\$ 14,287,526</u>	<u>\$ 33,224,131</u>	<u>\$ 34,178,326</u>	<u>2.87%</u>

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets and liabilities is its net position.

The Municipality's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The increase in net position invested in capital assets, net of related debt relates to the Municipality's purchase of multiple improvement projects, library furniture and equipment, library books, and new street department equipment for use by the appropriate Municipal Departments.

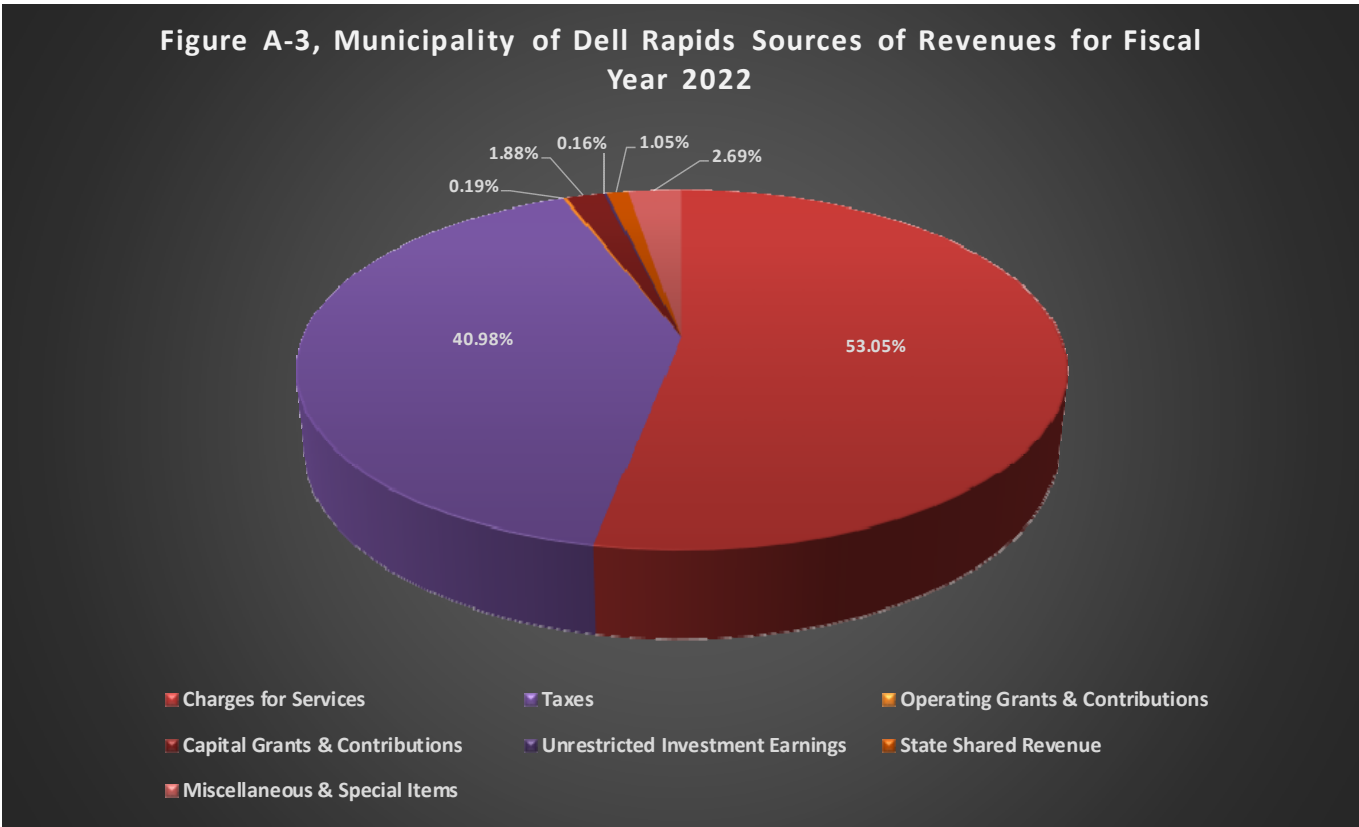
The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to additional debt service and new GASB 68 standards of reporting SDRS Pension on the face of the financial statements.

The remaining balance of net position are unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors.

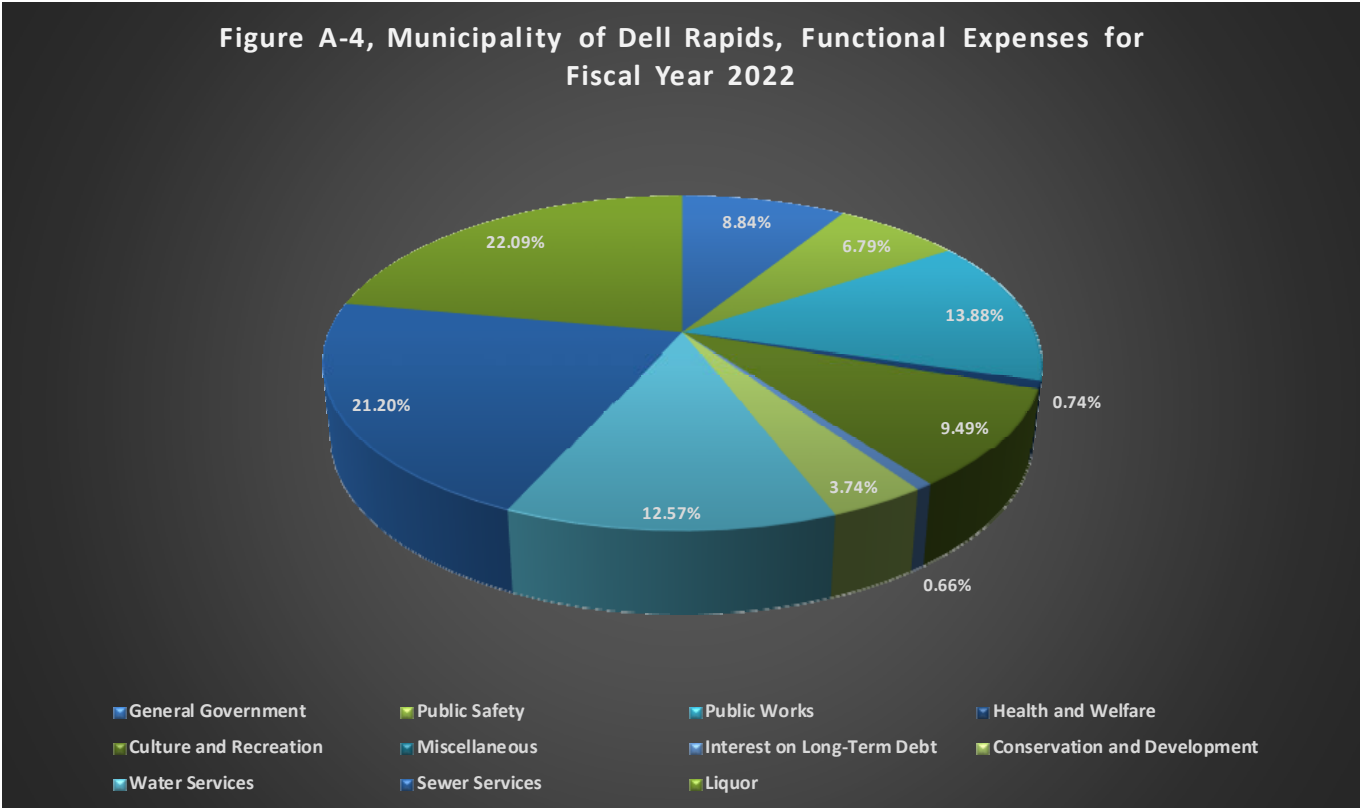
At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Changes in Net Position

The Municipality’s revenues totaled \$7,788,303 (See Table A-2.) Over 90% of the Municipality’s revenue comes from charges for services and taxes, with 53.05 cents of every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 40.98 cents of every dollar raised comes from some type of tax. (See Figure A-3). The remaining 5.97% comes from capital grants and contributions, state-shared revenues, interest earnings and miscellaneous and special items.



The Municipality’s expenses cover a range of services, with just over half related to Business-type Activities (Water – 12.57%, Sewer – 21.20% , and Liquor Funds – 22.09%). (See Figure A-4)



City of Dell Rapids, South Dakota
Management Discussion and Analysis
December 31, 2022

Table A-2
City of Dell Rapids
Statement of Activity

	Governmental Activities		Business-Type Activities		Total		Total % Change
	2021	2022	2021	2022	2021	2022	
Revenues							
Program Revenues							
Charges for Services	\$ 881,490	\$ 550,131	\$ 3,517,560	\$ 3,581,758	\$ 4,399,050	\$ 4,131,889	-6.07%
Operating Grants	-	15,000	-	-	-	15,000	100.00%
Capital Grants and Contributions	816,104	61,076	588,308	85,253	1,404,412	146,329	-89.58%
General Revenues							
Taxes	2,891,825	3,191,973	-	-	2,891,825	3,191,973	10.38%
Revenue State Sources	83,814	82,092	-	-	83,814	82,092	-2.05%
Unrestricted Investment Earnings	1,842	6,910	1,336	5,520	3,178	12,430	291.13%
Miscellaneous	3,834	205,743	2,650	2,847	6,484	208,590	3117.00%
Total Revenues	<u>\$ 4,678,909</u>	<u>\$ 4,112,925</u>	<u>\$ 4,109,854</u>	<u>\$ 3,675,378</u>	<u>\$ 8,788,763</u>	<u>\$ 7,788,303</u>	-11.38%
Expenses							
General Government	\$ 659,551	\$ 604,245	\$ -	\$ -	\$ 659,551	\$ 604,245	-8.39%
Public Safety	1,139,699	463,753	-	-	1,139,699	463,753	-59.31%
Public Works	877,963	948,543	-	-	877,963	948,543	8.04%
Health and Welfare	50,489	50,370	-	-	50,489	50,370	-0.24%
Culture and Recreation	54,581	649,273	-	-	54,581	649,273	1089.56%
Conservation and Development	224,937	255,443	-	-	224,937	255,443	13.56%
Miscellaneous	4,000	-	-	-	4,000	-	-100.00%
Interest on Long-Term Debt	10,345	44,805	-	-	10,345	44,805	333.11%
Water Services	-	-	746,281	859,368	746,281	859,368	15.15%
Wastewater Services	-	-	1,054,783	1,448,867	1,054,783	1,448,867	37.36%
Liquor	-	-	1,427,306	1,509,441	1,427,306	1,509,441	5.75%
Total Expenses	<u>\$ 3,021,565</u>	<u>\$ 3,016,432</u>	<u>\$ 3,228,370</u>	<u>\$ 3,817,676</u>	<u>\$ 6,249,935</u>	<u>\$ 6,834,108</u>	9.35%
Excess (Deficiency) Before Transfers	1,657,344	1,096,493	881,484	(142,298)	2,538,828	954,195	-62.42%
Transfers	<u>39,992</u>	<u>39,992</u>	<u>(39,992)</u>	<u>(39,992)</u>	<u>-</u>	<u>-</u>	0.00%
Increase (Decrease) in Net Position	1,697,336	1,136,485	841,492	(182,290)	2,538,828	954,195	
Beginning Net Position	<u>17,056,979</u>	<u>18,754,315</u>	<u>13,628,324</u>	<u>14,469,816</u>	<u>30,685,303</u>	<u>33,224,131</u>	8.27%
Ending Net Position	<u>\$ 18,754,315</u>	<u>\$ 19,890,800</u>	<u>\$ 14,469,816</u>	<u>\$ 14,287,526</u>	<u>\$ 33,224,131</u>	<u>\$ 34,178,326</u>	2.87%

Governmental Activities

Table A-2 and the narrative that follows consider the operations of the governmental activities.

Governmental revenues for the Municipality decreased 12.10% from prior year, while Governmental expenses remained relatively stable. The significant decrease in revenues is directly related to the approximately \$600,000 FEMA funding received in 2021 to purchase flooded homes. The City did not receive such funding in the current year and as such revenues appear to decrease. Although expenditures from 2021 to 2022 appear stable. There are significant fluctuations in a few categories. Public Safety saw a decrease in expenditures due to the 2021 purchase of the flood properties. Public Works increased approximately \$100,000. This is due to an increase in street sealing in 2022. Culture and Recreation increase almost \$600,000. This increase is in part due to the Dell Rapids Trailway, increase in library expenses as well as the swimming pool. In 2022 the City completed another portion of the Dell Rapids Trailway. The library personnel fees increased as well as professional services. Finally, the swimming pool also saw an increase in personnel fees as well as pool basin repair and maintenance.

Business-type Activities

Revenues of the Municipality's business-type activities decreased 10.57%. Expenses increased by 18.25% increase. The reason for the decrease in revenues is due to the second phase of the SE Infrastructure Project coming to a close. The City did not receive as much loan and grant monies in the current year. The increase in expenditures is due to an increase in all costs as well as some additional miscellaneous repairs and professional services – hydrant installs and a sewer repair on Clark Ave.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains five governmental funds - General, Gross Receipts, Library Fines and Fees, Library Donations Funds and Federal Grant Fund and three business type funds – Water, Sewer and Liquor Funds.

General Fund Budgetary Highlights

Over the course of the year, the Municipal Council revised the Municipal budget one time. These amendments fall into two categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriation line items, primarily by contingency transfer, to prevent budget overruns.

City Administration department was approved for an addition \$5,000 for an increase in attorney retainer fees as well as other application fee increases (website and agenda management).

Finance department was approved for an additional \$40,000 for the additional costs of a more robust audit company as well as other application fee increases (financial system).

Rubble site department was approved for an additional \$5,000 to cover the additional cost to dig a new hole.

General Building was approved for an additional \$500,000 for the purchase of a building to accommodate City Hall office staff, Council, Economic Development, Chamber, as well as a Community Event Hall.

CAPITAL ASSET ADMINISTRATION

In 2022 the Municipality did not invest in as many capital assets as it has in the past. The City focused on closing out the first phase of the SE Infrastructure project as well as wrapping up the second phase of the project. As such, the City's capital assets remained relatively static from 2021 to 2022. Construction in progress shows a substantial decrease while Improvements Other than Building shows a similar increase – This is the movement of the SE Phase 1 from in progress to complete. (See Table A-3.)

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total % Change
	2021	2022	2021	2022		
Land	\$ 1,699,294	\$ 1,699,294	\$ 85,157	\$ 85,157	\$ -	0.00%
Construction in Progress	1,173,318	1,265,961	9,663,367	2,873,023	(6,697,701)	-61.81%
Buildings and structures	3,082,995	2,991,713	7,652,166	7,369,289	(374,159)	-3.49%
Improvements Other Than Buildings	7,078,074	7,958,619	5,672,377	11,820,833	7,029,001	55.13%
Machinery and Equipment	709,884	651,951	315,351	320,408	(52,876)	-5.16%
Total Capital Assets (Net)	<u>\$ 13,743,565</u>	<u>\$ 14,567,538</u>	<u>\$ 23,388,418</u>	<u>\$ 22,468,710</u>	<u>\$ (95,735)</u>	<u>-0.26%</u>

This year's major capital asset additions included:

- Governmental fund major additions: Street maintenance - \$454,665. As well as other minor additions.
- Business-type major additions: Clark Ave water tower upgrade - \$31,810 and WWTF SCADA PC upgrade - \$5,982. As well as other minor additions.

LONG-TERM DEBT

At year-end the Municipality had \$14,498,895 in Sales Tax Revenue Bonds, Water and Wastewater SRF loans, and other long-term obligations. This is an increase of 16.69% as shown on Table A-4 below.

Table A-4
City of Dell Rapids - Outstanding Debt and Obligations

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total % Change
	2021	2022	2021	2022		
Compensated Absences	\$ 60,977	\$ 55,813	\$ 38,713	\$ 32,047	\$ (11,830)	-11.87%
Sales Tax Revenue Bond	338,311	2,319,306	-	-	1,980,995	585.55%
Water SRF Loans	-	-	4,316,204	4,292,990	(23,214)	-0.54%
Wastewater SRF Loans	-	-	7,670,534	7,798,909	128,375	1.67%
Total Outstanding Debt and Obligations	<u>\$ 399,288</u>	<u>\$ 2,375,119</u>	<u>\$ 12,025,451</u>	<u>\$ 12,123,946</u>	<u>\$ 2,074,326</u>	<u>16.70%</u>

The Municipality is liable for 25% of unused accrued sick leave hours to all full-time employees who have accumulated the maximum number of allowed sick leave hours. The increase in both Governmental and Business-type Activities is due to a higher balance of leave being carried by those eligible.

The Municipality has one Sales Tax Revenue Bond associated with the Quartzite Street Project. This bond is secured and paid for by sales tax revenue.

The Municipality entered into one new Sales Tax Revenue Bond for the purpose of upgrading a building to become the new City Hall and a Community Hall Center. This bond is secured and paid for by sales tax revenue.

The Municipality has seven outstanding SRF Drinking Water Loans totaling \$4,292,990. The loans are secured and paid for from the Water Fund. These bonds were used for various projects and the last one will begin payment in 2023 and will be fully paid off in 2053.

The Municipality has eight outstanding SRF Clean Water Loans totaling \$7,798,909. The bonds are secured and paid for from the Wastewater Fund. These bonds were used for various projects and the last one will begin payment in 2023 be fully paid off in 2053.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

BUDGET SUMMARY

The 2023 proposed spending for all funds is \$14,097,142, as compared to \$10,500,916 in the 2022 adopted budget. (2021 Budget -12,188,462; 2020 Budget - \$11,850,760; 2019 Budget- \$11,506,439; 2018 Budget - \$8,831,780; 2017 Budget -\$12,041,909; 2016 Budget - \$5,639,244; 2015 Budget - \$7,801,881). These figures are all inclusive of personnel and operational expenditures as well as capital improvements, debt service, federal grant fund and the proprietary funds; liquor, water, sewer funds and the equipment replacement fund.

State law limits the increase a taxing district may levy to the combined total of the Consumer Price Index (CPI) and Growth. The 2023 Growth has been calculated at 2.93% (\$39,335) and the CPI is 3% (\$40,273.80). This is a total of \$79,608 additional general fund property tax dollars for the 2023 budget. The total general property tax base amount of 2023 is predicted at \$1,422,068. These numbers were provided to the City by the Minnehaha County Auditor's office. The City automatically receives the Growth projection of 2.93%, however the City has the option to either accept or deny the CPI increase. The City has taken the CPI for the past several years with the exception of 2014 and 2016. It is important to note that the City has continued to take the CPI increase but the Mill Levy has continued to decrease from where it was in 2015 (5.567) to today's 2022 levy level of 4.634. It is predicted that the mill levy will decrease again in 2023 because of the strong 2.93% growth percentage. The estimate (emphasize estimate) based on current numbers would be a very slight decrease from the current levy rate of 4.634 to approximately 4.247. Finance Officer Baartman has prepared a very detailed Mill Levy explanation and spreadsheet of the statistics since 2012. The spreadsheet details the impact of the City not taking the CPI and the impact that decision has on the long-term revenues of the City.

The Sales Tax Revenue for 2023 has been budgeted at \$1,200,000. This amount was increased from the budgeted amount of \$900,000 in 2021 and \$1,000,000 in 2022. The City continues to see strong sales tax growth with the current trend at a 13% increase in 2022. It is important to continue to estimate sales tax revenues low because of the instability and volatility in this revenue. However, the City has shown a strong ability to continue outpacing previous years even in the aftermath of a global pandemic and a predicted down turn in the economy. The current projection for 2023 is that sales tax revenue should remain the same or in slight excess of 2022. 2021 was a record year due to an emphasis on shopping more local during the Covid-19 pandemic. The sales tax increase trend has continued even post pandemic. Best practice for municipal budgeting, that is heavily based on sales tax revenue, is to budget conservatively to avoid forced budget cuts if revenue falls shorter than expected. Administration and the Finance Office is confident with the projected revenue of \$1,200,000 in sales tax.

The City Council amended the City's adopted Pay Plan in 2021. This new pay strategy has been implemented into the 2023 budget projections for employee wages. Based on the amended Pay Plan policy, the City will base the Cost of Living Adjustment (COLA) increase on the Consumer Price Index (CPI) from June of 2022 (8.3%). This will be implemented at the first meeting in January but it was determined that the COLA would not exceed 5%. The budget also reflects an up to 3% merit increase for employees. The total impact to the budget is an 8% adjustment to employee wages. This may appear to be on the high side of wage increases; however Administration has seen this same trend across Municipalities in South Dakota and our region. This up to 8% increase will also assist in keeping our City wages competitive with the area market in order to retain our experienced and new employees. The City is fortunate to have very dedicated employees with a historically low turnover rate. The team the City has built is considered one of the best in the State. Our employees continue to receive accolades for performance and are called upon by colleagues from other Cities for guidance. Dell Rapids employees continue to meet the needs of our growing City without requesting large increases to departmental budgets or requests for additional personnel when not justified. This budget reflects a continued commitment to providing top quality services to our residents and customers.

GENERAL FUND

The General Fund accounts for 45% (\$6,344,487) of total proposed spending in 2023, which is attributed to the wide array of programs contained within the fund. The General Fund is responsible for the majority of services the residents expect of their local government. This fund is responsible for the public safety services of Police, Fire and Ambulance as well as the street maintenance, parks and recreation improvements, administrative and finance functions, planning and zoning, building inspection, snow removal, rubble site and community organization support. The 2023 budget reflects a historically strong year of spending on City services and infrastructure as well as quality of life improvements the Council and the residents have identified as a priority. The Council and the City staff attempt to manage the resources of the City with on-going needed improvements, demands and expectations of the community.

Several expenses that have become standard for the General Fund will continue in 2023. The budget reflects an increased commitment of \$400,000 towards the maintenance of street infrastructure in the form of crack sealing, slurry seal and asphalt overlaying. The City will not perform concrete spall repair in 2023 with the completion of the existing concrete streets in 2022. The City is endeavoring upon a much-needed project with the complete reconstruction of 3rd Street from Hwy 115 to Orleans Avenue. This project is mainly funded by the Waster and Wastewater funds however the General Fund will cover the ineligible loan costs of the project in the amount of \$523,950. Also, within the Street Department Budget, is continued work towards the 3rd Street Bridge replacement. The City has engaged Banner Engineering to complete the bridge design in 2022. Continued design and application for State grants will be necessary in 2023. The budget reflects an additional \$100,000 of expenses. The City intends to complete engineering designs in 2023, with anticipated construction to occur in 2025.

This 2023 budget does continue to provide a focus on quality-of-life infrastructure projects. Infrastructure has been the main goal of the City; however, the City will continue to find General Fund dollars to fund these in demand projects. The City, along with community and State partners has established the Sioux River Red Rock Trail system. The City completed the link to the Old Mill/Dam Site area in 2020. The City applied for and received a \$400,000 DOT Transportation Alternative Grant in 2021. This grant funding will help the City to implement the first phase of the Old 77 Recreation Trail between 7th and 10th Street in 2023. This project includes the important improvement of the intersections at 7th, 8th and 10th Street. These crossing will include push button yellow flashers intended to improve the safety of navigating these heavily crossed intersections.

The City also successfully received a \$100,000 Land Water Conservation Fund Grant in 2021 to assist with the construction of a Splash Park. The City anticipates starting this project in the Fall of 22 with the completion to occur in the Spring of 23'. Not opening the pool facility in 2020 during Covid saved the City approximately \$90,000 in general fund expenditures. The Council decided to invest these funds into this pool improvement.

An additional “non-infrastructure” project has been included in the Parks and Recreation budget for 2022. Administration has received a quote of approximately \$60,000 to create a “Quality of Place” Plan to assist with prioritizing future quality of life projects in the City of Dell Rapids. This Quality of Place plan would seek to assist the Council analyze and prioritize the comprehensive list of quality-of-life projects that have been accruing over the past several years. The hiring of a professional consultant to gather the community, employ engagement tactics with the public to provide feedback on desires and needs that are not currently being met. The City has been approached by community groups requesting additional ballfields, a community center, improvements to main street, a dog park, etc. This engagement process would help to gain the feedback of the public and inform the Council’s decisions for future improvements. Putting the public’s taxpayer dollars in the places that they most prefer. City Administration is a believer that an investment in future planning is crucial as our community continues to grow.

Another carry over from the 2022 budget is the eastern drainage study. The General Government Fund reflects \$56,000 in professional services towards the studying of this eastern drainage area from 12th Street to the Big Sioux River. The City received a grant from the Department of Homeland Security in the amount of \$42,000 to cover a large portion of the studies costs. The City will be responsible for \$14,000 of the study. The purpose of the study is to determine a path forward for drainage improvements in this area as well as verify and refute the finding of the recent FEMA floodplain mapping for Dell Rapids. The reason for the delay in finalizing the study in 2022 was to work with FEMA on additional points of data. This project should reach completion in 2023.

One of the most exciting expenses drafted into the 2023 budget is within the Buildings and Maintenance fund. This fund reflects a major investment towards the remodeling of a new City Hall building. In consult with an architecture firm, Administration is recommending a placeholder amount of \$500,000 towards the remodeling of the first floor of the Wells Fargo building. The City Council, in 2022, made the giant step of making an offer on the vacant Wells Fargo building. The City Council viewed the availability of this well-built building on Main Street as a future thinking move for our growing community. In anticipation of continued growth, the City will begin plans to remodel the first floor of the structure in 2023 with future plans to remodel the basement floor in subsequent years. The long-term vision for this building includes creating a flexible community meeting space on the 45,000 square foot basement floor. The \$500,000 will be dedicated to upgrading and remodeling the first floor to meet ADA public accessibility standards, create staff offices and establish a City Council Chambers. The Buildings and Maintenance fund also includes the construction of the Transit Facility. The current status of this project is discussed in further detail below as this is a carry over from the 2022 budget. The budget reflects \$325,000 building with the City responsibility of \$50,000 as a grant will cover the additional costs.

The Park and Recreation Funds reflects several projects. A few such as addition of a Splash Park at the City Swimming Pool is carried over from the 2022 budget. An additional carryover budget expense is the completion of the Comfort Station/Open Air Shelter facility in the Main City Park. The budget reflects an expense of \$400,000, partially funded through dedicated CARES Act dollars and a generous local contribution. This 365-day heated comfort station will provide a great amenity to those that utilize the City's recreational trail system throughout all seasons. A new Park expenditure is \$70,000 dedicated towards the transition of lighting Rickeman Field with LED's. The current lighting system is aging and in need of replacement. An amount of \$50,000 has been inserted into the budget to begin installing lighting in identified dark locations of the Recreational trail. The Arboreal budget also continues the commitment towards removing, replacing and treating trees associated with Emerald Ash Borer. The City will continue the Tree Rebate Program into 2023. The biggest expense within the Parks budget is the construction of the Old 77 Recreational Trail first phase is reflected in the 2023 budget. The \$400,000 grant a contribution from the Sioux River Red Rock Trail Committee and General Fund dollars will cover the costs of this \$900,000 project. The budget also includes additional engineering for the 2nd phase of the Old 77 Trail project.

The Dell Rapids Carnegie Library is requesting an increase to the wages of their staff. The library board and Library Director Moeller conducted a comparative wage analysis comparing wages between our library and libraries within our region. Factors included education, years of service, part-time/full-time and job responsibilities. Through this analysis, the library learned that the compensation for full-time and part-time library staff is below the average. The Dell Rapids library is unique in the fact that it is a small-town library, but it functions like a bigger city library such as Brookings, Madison, Vermillion and even Siouxland. The education and experience of our staff, combined with the level of programs and activities provided and job responsibilities performed does not match their current compensation. With the help of Finance Officer Baartman, it was determined that the increase shown in the budget will allow our library staff to meet the average compensation of the libraries included in our analysis. This wage adjustment is reflected with the library's 2023 Budget.

City Hall has maintained the same number of staff since 2011, when the City hired a Full-Time Building Inspector/Code Enforcement Officer. With the retirement of the long serving Utility Billing Clerk, it is important to take an opportunity to look at the current responsibilities of City Hall staff and potential for changes or restructuring. The City has made the decision to alter the roll of the utility bill clerk into an Assistant Finance Officer position. This new position will be more focused on finance related tasks. Based on this focus, Administration is requesting for the addition of an additional Administrative Assistant position in 2023. This position will be more focused on office organizational, secretarial, and administrative duties. Both Finance Officer Baartman and Administrator Weiland face increasing responsibilities and workloads. This additional staff member will provide relief to allow for more focus on important responsibilities. The 2023 Budget reflects \$45,000 in wages and benefits for an Administrative Assistant position. This wage has been divided by 1/3rd between the General Fund, Water and Wastewater funds.

The City has operationalized the majority of City offered services to on-line platforms within the past 5 years. These technological improvements make serving our customers and residents more convenient and effective. These on-line services include on-line utility improvement, campground reservations, swimming lesson registration, City Council meeting viewing and agenda management system. In 2022 the City started the process of transitioning to an on-line building permit, code enforcement and complaint reporting system. The City has not budgeted new technology systems in 2023, however the budget reflects continued fees to the vendors that support these services.

An additional expenditure of note is the transfer of \$80,000 to the Wastewater Fund to cover the SE Sewer Extension bond payment. This will continue to annually budget this transfer from the General Fund to Wastewater Fund until this loan dedicated to the City sales tax is paid off.

The Transit budget continues to include 5 days of public transit in the fall, winter and spring and moving to 4 days in the summer. The City's relationship with Brookings Area Transit as the managing authority of our Transit System has continued to be positive. BATA has faced challenges with the recruitment and retainment of drivers but has made progress with a dedicated employee in 2022. The budget reflects a City responsibility of \$50,000 to cover the costs of operation minus the federal funds and ride fares received. The City and BATA will continue to analyze expenditures and make further efforts to gain more medicare rides and seek advertising partnerships. Yet again, the 2023 budget includes the construction of a three stall Transit Facility. The City received a grant in 2019, however issues with the State and Federal process have slowed the ability to construct the facility. The plan is to construct this facility at the City's pump station on South Garfield Avenue. With actual construction plans and a site plan now in the review process, Administration is hopeful this project will be completed in 2023.

The City has established a commitment towards assisting several local organizations with annual operational funding. Support of these local organizations is crucial for the betterment of our community and the continuation of services that these outside organizations provide. The City has developed a crucial and important relationship with the Dell Rapids Economic Development Corporation. The DREDC has requested a contribution of \$101,000 to continue the pursuit of their goals in 2023. The budget reflects a contribution of \$95,000 directly towards the DREDC - plus the continuation of the newly established relationship with the Sioux Metro Growth Alliance and their Professional Services program in the amount of \$39,000. The City entered into this program in 2022 and has already seen great results from the staff services of SMGA. Economic Development is broken out between the General Fund and 3rd Penny Sales tax the same as previous years. A total \$50,000 is reflected in the General Fund and \$45,000 is reflected in the 3rd Penny Sales Tax Fund. The other significant community group related request for funding is the is the Chamber of Commerce with a request of \$75,000. This is a significant increase from the years of 20 through 22 in the amount of \$40,000. The Chamber is seeking to increase the salary of the Full-Time Chamber Director and have the flexibility to pursue further goals for the organization. Administration has increased the budget to \$50,000 in 2022. This is a discussion item Administration is requesting the Council consider. The Fire Department is requesting their budget request to remain the same as 2022. However, they have requested a one-time contribution to be dedicated towards the capital purchase of a \$40,000 SCBA filling system. Administration has budgeted an additional \$20,000 one-time contribution towards the Fire Department for this purchase. an increase of 5% in 2022. The independent Dell Rapids Ambulance organization has requested an increase from \$45,000 in 2022 to \$50,000 in 2023. The Ambulance service fee has remained the same since 2018, therefore Administration included the request of \$50,000. The Dell Rapids Haven requested an increase \$8,500 in 2022 to \$9,850. The budget honors this request from Haven. The Dell Rapids Historic Society received a \$5,000 contribution in 2021, \$4,000 in 2022. They have requested \$3,000 in 2023. Administration has plugged in \$4,000 for the Museum budget as their continued expenses with their historic structure are always a challenge. The Dell Rapids Senior Citizens received \$5,000 in the 2021 and 2022 budget. Administration has honored their request of \$6,000 in 2023 as the Senior Citizens are heavily dependent upon the City's contribution for their operations. The City will also continue to be a member of the Sioux Metro Growth Alliance as well as the South Eastern Council of Governments. These two organizations assist the City with economic development representation and assistance with state and federal grant and loan funding. The City received a first time request in 2023 from the American Legion to assist with safety improvement to their facility. Administration included a \$2,000 contribution towards the Legion to assist with the purchase of gun safe to protect the honor guard rifles.

Within all funds the utilities have been analyzed and increased or lowered based on past usage. Throughout the budget, wages were shifted to reflect hours dedicated within each department by our City Staff. The City's Health Insurance consultant has told the City to prepare for a possible increase of between 5 and 8%. In previous years the insurance provider has instructed the City to plan for a 10% increase but have implemented small increases between 0% and 3%. This is understandable as the Health Pool of South Dakota can't analyze their increases until after having a fuller picture of the pools health insurance claims. The budget reflects an 8% increase across all departments. The City won't know what the actual percentage increase is until after the adoption of this budget. The City utilizes the South Dakota Health Pool for employee health insurance since 2017.

The General Fund currently reflects a deficit of \$1,668,869. City Administration has reflected a transfer of General Fund reserves in that same amount to create a zero based/balanced budget. This General Fund Reserve transfer is on the high range compared to previous years; History - 2013 = \$475,801, 2014 = \$263,717, 2015 = \$153,534.70, 2016 = 151,318.09, 2017 = 478,705.36, 2018 = \$639,520.30, 2019 = \$382,157.29, 2020 = \$924,294, 2021= \$1,441,246,000, 2022 = \$1,872,504.38. The City continues to reflect a very healthy reserve fund. In general, the City's annual audits reflect the City taking in more than we spend every year, therefore the transfer from the General Fund reserves is never as severe as what is annually budgeted. The City's healthy reserves have withstood the necessary transfer to cover the deficit. Administration requests the Council discuss this deficit and consideration for the removal of any budgeted items. Please note this unregularly high deficit reflects a prospective commitment towards the construction required to relocate City Hall to the Wells Fargo building. The installation of a Splash Pad at the swimming pool, the construction of a comfort station facility/open air shelter, the 3rd Street project and annual street maintenance are also projects that are contributing to the irregular General Fund deficit.

General Fund Discussion Items – The City has established an early budget calendar in order to analyze the budget and engage the Council to have in depth discussion on specific budget items. Administration is requesting a Council discussion on the budget with a focus on some of the larger capital projects. The majority of the quality-of-life projects (i.e. splash pad and Park Building, Old 77 Recreation Trail First Phase) were programmed into the 2022 budget and have been carried over to 23'. Therefore, these items should not generate any real extensive discussion. Administration is requesting discussion on the following items: Additional City Hall Full-Time staff position, Master Park Plan / Quality of Place study, Chamber of Commerce additional funds, Fire Department one time expenditure, LED lighting of Rickeman Field and lighting installation on the Recreational Trail. Any other items of Council interest for inclusion or deletion are fair game at the August 8th Special Council Meeting.

WATER FUND

The City has already made large strides towards the replacement of failing water infrastructure. The South East Infrastructure project was a massive undertaking that dominated the budget between 2019 and 2022. This large scale project was the first step in replacing the existing cast iron water main in our community. Through in-depth Capital Improvement Plan discussions the City Council has determined the next phase of cast iron water main removal and replacement in Dell Rapids. The 3rd Street project has been identified as the next priority and is scheduled for construction in 2023. Third Street moved to the front of the priority list because of the condition of the water main. This project includes the replacement of the water main under 3rd Street, from Hwy 115 to Orleans Avenue. This project is also inclusive of water main replacement on sections of Juniata, Clark and Orleans Avenue. The City received funding in the form of a low interest loan from the DNR to cover the \$1,724,100 of expenses in 2023. This project is scheduled to be completed in a two year construction season time-frame. The 3rd Street Project is also planned to partially assess a small percentage of the benefit back to benefitting property owners. It will be necessary for the City to continually communicate with property owners their financial responsibility towards these improvement projects. Communication for these projects has been key to the success of projects and will be emphasized again on the 3rd Street project. This project will continue to emphasize the City's commitment towards replacing outdated infrastructure.

The City began to transition duties to a new Assistant Finance Officer Position in 2022 with the departure of long time Utility Billing Clerk, Diane Lebrun. With increased responsibilities of the City Administrator and the Finance Officer, it is recommended the Council support an additional Full-Time Administrative Assistant position to assist both positions with general duties. City Administration is recommending the Water Fund cover 1/3 of the costs of this new Full-Time position.

The City made a significant investment in time and money towards the implementation of GIS Technology for the Water and Waste Water Departments in 2020. The City continues to bolster the ArcGIS program with more in depth and up to date data. The annual fee for the ArcGIS has been included in the budget. The City will continue to find creative ways to utilize GIS for not only creating a data base of accurate information but also helping us in decision making processes. A stronger commitment to this equipment is necessary in 2023.

As the debt services of the Water Fund are effective until the mid-2020's and beyond, the City will need to continue to adjust the Water rates in order to sustain the current expenses and save for future critical infrastructure. The City increased rates in 2011 and 2012 and 2013 with the addition of a \$3.00 surcharge for 15th Street debt service. No increases were assessed in 2014. In 2015 the City increased rates by 3% in order to offset the increase of water purchased from our supplier, Minnehaha Community Water Corporation. The City increased rates in 2016 to cover the debt service associated with the 10th Street and Hwy 115 project. The City increased rates in 2018 by 3% to keep the fund in line with inflationary costs. In 2019 the City placed a \$7.70 surcharge on the water fund water to cover the costs of the SE Infrastructure project. The City also lowered the base water rate from \$12.00 to \$11.90 and the per 1,000 gallon rate from \$4.64 to \$3.92. The current total water bill for an average user of 5,000 gallons per month is \$42.10. The City did not raise rates in 2020. The 2021 budget reflected the implementation of a surcharge of \$2.70 per customer to cover the Second Phase SE Infrastructure Project (6th Street Project). This is to cover the 110% indebtedness required for the 6th Street project. In 2022 the City raised water rates by 3% to cover increased operational costs.

In 2023, City Administration and the Finance Office are not recommending the increase to the current base/per 1,000 gallon rate. This decision has been made due to the need for the City to implement a \$6.15 Surcharge attached to the 3rd Street project. This Surcharge is necessary to cover the costs of the 3rd Street Water Loan at 110% of the debt coverage. It is also important to note and potentially engage in a discussion about the City's overall water and sewer rate. The DANR threshold to receive grant funding is \$48.00 per month. The City did not receive consideration for grant funding from the DANR on the 3rd Street project because we did not meet the threshold. The City water rate, inclusive of the new surcharge will be \$51.05. Before the City applies for future funding, it is imperative for the City to increase rates above the required threshold. The City should maintain small rate increases in future years as this is considered as a best practices for a municipal utility. Yes, the City has increased rates in previous years, but those increases have been surcharges directed specifically to a project. Increased costs of operation, materials, labor, not to mention inflation and other economic forces are the reasons our City will need to also increase the base and per 1,000o gallon rates.

Current debt services for past loans have been adjusted in the budget to reflect next year's payments. There is light at the end of the tunnel as a few loans are ending their life in the mid 2020's. The City sits at just over 50% of the allotted debt capacity. The City has avoided constituting debt with the implementation of surcharges as opposed to straight rate increases.

The water fund is a proprietary fund; therefore, it is not necessary to create a zero budgeted balance. However, the current budget balance is approximately \$256,255 the red. Therefore, the budget reflects a transfer of that same amount from the water reserves into the water revenue in order to zero balance the fund. The current balance of the water fund reserves can withstand this level of transfer at the end of 2023.

WASTEWATER FUND

The waste water fund has been very focused on the most important critical infrastructure improvements that will secure the future of Dell Rapids. The new main lift station in 2008, the WWTF SBR facility in 2018. The South East Infrastructure project was a large large scale three year commitment towards the replacement of the worst sanitary sewer mains in the south east section of our community. The 3rd Street project has been identified as the next large scale infrastructure project in the community. The 2023 budget reflects the continued investment in replacing the sewer mains along on 3rd Street between Highway 115 and Orleans Avenue. This planned two year project will replace water main on and along 3rd Street and include sewer upgrades to Clark, Ladelle and Orleans Avenue. The waste water fund is also responsible for the improvements to the storm sewer. Storm sewer improvements along 3rd Street, abutting streets and extensions to the Big Sioux River are a major aspect of this project. The 2023 budget reflects the approximate amount anticipated to be spent in 2023 project in the amount of \$4,641,700. The City is financing this project through an SRF loan in the amount of \$2,645,080 and a DANR State ARPA Grant in the amount of \$2,645.00. The City also committed the federal ARPA funds in the amount of \$616,929 and the DANR matched this commitment with an additional \$616,929. The total grants for this project are in excess of \$3.5 million. No other major waste water infrastructure projects are planned within the 2023 budget.

As mentioned in the Water Fund description, communication with property owners will be key to the success of the project. The City began communication with property owners in 2022 with individual property owner meetings that included cost estimates and descriptions of the City's assessment process. The City will place an emphasis on quality communication as the project approaches and during project construction.

The City has continually raised rates to fund waste water related capital improvements. The City raised rates in 2018 by 9% to begin covering operation and maintenance costs of the new WWTF. In 2017 the City increased sewer rates by 14% to cover the cover principal and interest on the WWTF loan. This increase was in coordination with 2016 rate increases of 20% to begin preparing for the WWTF project. The City raised waste water rates in 2019 in the form of a surcharge to cover the DENR SRF loans for the SE Infrastructure project. The total surcharge was \$7.20 per customer. The City did not raise rates in 2020 in anticipation of a rate raise in 2021. In order to finance the Phase 2 SE 6th Street Project, the City adopted a Surcharge of \$5.85 per user. However the City also made the decision to pay off two loans, allowing room to lower the per 1,000 gallon rate and lessen the impact of the new surcharge. In 2022, the City implemented a 3% raise the base and per 1,000 gallon rate.

In 2023, the City is required to increase the rate with the implementation of a Surcharge in the amount of \$7.05 per user. The surcharge is a requirement to cover the payments of the new SRF loan. Please keep in mind that without the \$3.5 million in grants, that the surcharge would need to be in excess of \$15.00 per user. City Administration and the Finance Office plan to analyze the City's current debt to determine if any existing loans could be paid off early in order to lessen the burden on the rate increase. The current base rate remains at \$16.48 per customer, the per 1,000 gallon rate was lowered to \$4.93. With the implementation of the new surcharge, rates are anticipated to be \$70.84 per month for 5,000 gallons of use.

An increase to the base rate and per 1,000 gallon rate is not included in the 2023 budget. The City has steadily increased surcharge rates in the past several years without the needed emphasis on increases to the base and per 1,000 gallons rate. However, these surcharges are not covering the increased costs of operation, materials, labor, or inflationary costs. With increased expenses associated with operating and maintaining a facility to meet EPA and DENR standards as well as staff and inflationary increases, the City will need to continue to analyze the revenue and expenditures within the waste water fund. Annual planned percentage increases to the base rate should become the standard practice of the waste water fund. However it becomes difficult to implement in a year when the City is increasing the rate \$7.05 per month per customer with a surcharge. It is also worth mentioning that the City staff will continue to analyze both the water and sewer enterprise funds to seek options to attempt lowering the impact of the 3rd Street project.

The 2023 Waste Water Fund budget reflects increases to the Principal and Interest payments for debt services. The waste water fund began payments on the Sequence Batch Reactor Waste Water Treatment facility in 2018. The City also closed on the Hwy 115/10th Street loan in 2019. The first and second SE Infrastructure loans have been included in the 2023 budget as we begin payments. These changes have been made to the P&I payments.

The City began to transition duties to a new Assistant Finance Officer Position in 2022 with the departure of long time Utility Billing Clerk, Diane Lebrun. With increased responsibilities of the City Administrator and the Finance Officer, it is recommended the Council support an additional Full-Time Administrative Assistant position to assist both positions with general duties. City Administration is recommending the Waste Water Fund cover 1/3 of the costs of this new Full-Time position.

The wastewater fund is a proprietary fund; therefore it is not necessary to create a zero budgeted balance. However, the current budget balance is approximately \$412,942 in the red. A transfer from wastewater reserves has been included to zero balance the wastewater fund.

LIQUOR FUND

The Liquor Fund remains on solid footing, providing the City General Fund with supplemental income. Administration is proposing to again plan for transfer of \$120,000 from the Liquor Fund to the General Fund in 2023. The current balances in the Liquor Fund allows for this level of transfer. The performance of the liquor fund has increased over the past several years due to the City allowing for more Off-Sale licenses. The City currently does not have an available liquor license. The budget also includes \$5,000 towards any improvements that may need to be done to the City owned bar facility.

3RD PENNY SALES TAX

The 3rd Penny Sales Tax fund currently generates approximately \$40,000 in revenue annually. The Dell Rapids Economic Development Corporation has requested funding from the City in 2020 in the amount of \$100,000. The 3rd Penny Sales Tax budget for 2023 reflects setting aside \$45,000 to be dedicated to the DREDC. The other portion of the DREDC's budget request is within the General Fund inclusive of the SMGA economic development specialist staff position. The Chamber of Commerce will also receive \$15,000 from this fund as a supplement to the additional \$35,000 they will receive from the General Fund.

EQUIPMENT REPLACEMENT FUND

The Equipment Replacement Fund has been established as means for the City to plan for the purchase of future high dollar equipment items. This fund has been utilized to purchase major machinery for the Public Works Department in the form of motor graders, dump trucks, pickup trucks, mowers, vehicles, etc. The 2020 budget saw the purchase of a new mower and Vactor Jetter for the Public Works Department. The 2021 budget included the purchase of a mower, field grooming machine a side by side ATV, a sewer camera and public works trailer. The 2022 budget did not include any large scale purchases in the Equipment Replacement Fund. The 2023 budget includes a large scale purchase for the Street Department with a Street Sweeper (\$230,000) and a new diving board for the Swimming Pool (\$20,000).

The total expenditures in the Equipment Replacement fund in 2022 is budgeted at \$251,000. The General Fund will contribute \$90,000, the water fund will contribute \$15,000 and Wastewater Fund will contribute \$0. The combined total from all three funds is \$105,000. This fund currently carries an approximate \$500,000 balance. Therefore, the fund can cover the major expense of a Street Sweeper.

The City needs to continue for high dollar expenses in future years. With the purchase of a high priced item like a street sweeper, the fund balance will not be sustainable for other planned high dollar purchases. Other high-priced pieces of equipment such as a Front End Loader, a Motor Grader and dump trucks are inevitable as pieces of replacement equipment. These are major expenses that should be programmed for purchase in the next five years. The Council has yet to determine how this Equipment Replacement Fund will be funded for the future for the replacement of this very expensive equipment. Previously the City was contributing upward to \$175,000 a year prior to the 2015 budgets. The City did bump the General Fund contribution to \$100,000 in 2021 and this same level of funding will continue for 2023. This was a good first step towards re-establishing the equipment replacement fund. However, the funding of major equipment purchases should remain at the forefront of future budget discussions.

Contingency Transfer

The City placed \$30,000 in the contingency fund starting in 2012 for the purpose of covering unanticipated over expenditures with departmental funds. The 2022 budget again reflects increasing the contingency fund to \$50,000. Analyzing the last several years of contingency fund transfers shows the City using reserve funds above the \$30,000 budgeted contingency. Increasing the contingency to \$50,000 takes into consideration this previous contingency fund transfer pattern.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors/creditors with a general overview of the Municipality's finances and to demonstrate the Municipality's accountability for the money it receives. If you have questions about this report or need additional information, contact the Dell Rapids Finance Office, 302 E. 4th Street, Po Box 10, Dell Rapids, SD 57022. 605-428-3595.

City of Dell Rapids, South Dakota
Statement of Net Position
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 7,068,883	\$ 4,576,736	\$ 11,645,619
Taxes Receivable--Delinquent	17,529	-	17,529
Accounts Receivable, Net	278,718	315,901	594,619
Unbilled Revenue	-	52,045	52,045
Special Assessments Receivable--Current	23,391	-	23,391
Special Assessments Receivable--Delinquent	611	-	611
Special Assessments Receivable--Noncurrent	436,015	-	436,015
Interest Receivable	11,641	-	11,641
Leases Receivable - Current	200	67,020	67,220
Leases Receivable - Noncurrent	-	125,840	125,840
Due from State Governments	24,192	-	24,192
Due from County	11,847	-	11,847
Inventory of Supplies	37,265	67,160	104,425
Prepaid Expenses	44,367	18,795	63,162
Intangible Lease Asset	173	-	173
Net Pension Asset (liability)	(873)	4,182	3,309
Capital Assets:			
Land, Improvements and Construction/Development in Progress	2,965,255	2,958,180	5,923,435
Other Capital Assets, Net of Depreciation/Amortization	11,602,283	19,510,530	31,112,813
TOTAL ASSETS	22,521,497	27,696,389	50,217,886
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	187,213	108,668	295,881
LIABILITIES:			
Accounts Payable	248,921	348,747	597,668
Lease Liability - Current	173	-	173
Accrued Interest Payable	35,787	99,969	135,756
Accrued Wages Payable	25,261	10,261	35,522
Accrued Taxes Payable	63	-	63
Unearned Revenue	13,217	656,110	669,327
Customer deposits	1,182	9,570	10,752
Noncurrent Liabilities:			
Due Within One Year - bonds and compensated absences	118,785	540,452	659,237
Due in More than One Year - bonds and compensated absences	2,256,334	11,583,494	13,839,828
TOTAL LIABILITIES	2,699,723	13,248,603	15,948,326
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	117,987	76,068	194,055
Other Deferred Inflows of Resources	200	192,860	193,060
TOTAL DEFERRED INFLOWS OF RESOURCES	118,187	268,928	387,115
NET POSITION:			
Net Investment in Capital Assets	12,248,232	10,376,814	22,625,046
Restricted For:			
Library	5,046	-	5,046
City Promotion	176,625	-	176,625
Revenue Bond Debt Service	230,380	1,069,461	1,299,841
SDRS Pension Purposes	68,353	36,782	105,135
FEMA Buyout	570	-	570
Unrestricted	7,161,594	2,804,469	9,966,063
TOTAL NET POSITION	\$ 19,890,800	\$ 14,287,526	\$ 34,178,326

City of Dell Rapids, South Dakota

Statement of Activities

Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	\$ 604,245	\$ 11,888	\$ -	\$ -	\$ (592,357)	\$ -	\$ (592,357)
Public Safety	463,753	52,738	-	-	(411,015)	-	(411,015)
Public Works	948,543	376,033	-	-	(572,510)	-	(572,510)
Health and Welfare	50,370	-	-	-	(50,370)	-	(50,370)
Culture and Recreation	649,273	109,472	15,000	-	(524,801)	-	(524,801)
Conservation and Development	255,443	-	-	-	(255,443)	-	(255,443)
Interest on Long-term Debt	44,805	-	-	-	(44,805)	-	(44,805)
Total Governmental Activities	<u>3,016,432</u>	<u>550,131</u>	<u>15,000</u>	<u>-</u>	<u>(2,451,301)</u>	<u>-</u>	<u>(2,451,301)</u>
Business-type Activities:							
Water	859,368	912,276	-	-	-	52,908	52,908
Wastewater	1,448,867	1,001,775	-	85,253	-	(361,839)	(361,839)
Liquor	1,509,441	1,667,707	-	-	-	158,266	158,266
Total Business-Type Activities	<u>3,817,676</u>	<u>3,581,758</u>	<u>-</u>	<u>85,253</u>	<u>-</u>	<u>(150,665)</u>	<u>(150,665)</u>
Total Primary Government	<u>\$ 6,834,108</u>	<u>\$ 4,131,889</u>	<u>\$ 15,000</u>	<u>\$ 85,253</u>	<u>(2,451,301)</u>	<u>(150,665)</u>	<u>(2,601,966)</u>
General Revenues:							
Taxes:							
Property Taxes					1,472,925	-	1,472,925
Sales Taxes					1,719,048	-	1,719,048
State Shared Revenues					82,092	-	82,092
Grants and Contributions not Restricted to Specific Programs					61,076	-	61,076
Unrestricted Investment Earnings					6,910	5,520	12,430
Miscellaneous Revenue					205,743	2,847	208,590
Transfers					39,992	(39,992)	-
Total General Revenues and Transfers					<u>3,587,786</u>	<u>(31,625)</u>	<u>3,556,161</u>
Change in Net Position					1,136,485	(182,290)	954,195
Net Position - Beginning					18,754,315	14,469,816	33,224,131
NET POSITION - ENDING					<u>\$ 19,890,800</u>	<u>\$ 14,287,526</u>	<u>\$ 34,178,326</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota

Governmental Funds

Balance Sheet

December 31, 2022

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Assets:			
Cash and Cash Equivalents	\$ 6,344,141	\$ 194,142	\$ 6,538,283
Taxes Receivable--Delinquent	17,529	-	17,529
Accounts Receivable, Net	278,718	-	278,718
Special Assessments Receivable--Current	23,391	-	23,391
Special Assessments Receivable--Delinquent	611	-	611
Special Assessments Receivable--Noncurrent	436,015	-	436,015
Interest Receivable--Special Assessments	11,641	-	11,641
Leases Receivable	200	-	200
Due from State Governments	23,133	1,059	24,192
Due from County	11,847	-	11,847
Inventory of Supplies	37,008	257	37,265
Prepaid Expenses	44,367	-	44,367
Intangible Lease Asset	173	-	173
TOTAL ASSETS	7,228,774	195,458	7,424,232
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	248,921	-	248,921
Lease Liability - Current	173	-	173
Accrued Interest Payable	35,787	-	35,787
Accrued Wages Payable	25,261	-	25,261
Accrued Taxes Payable	63	-	63
Unapplied credits	1,182	-	1,182
Unearned Revenue	-	13,217	13,217
Total Liabilities	311,387	13,217	324,604
Deferred Inflows of Resources:			
Unavailable Revenue--Property Taxes	17,530	-	17,530
Unavailable Revenue--Special Assessments	471,658	-	471,658
Other Deferred Inflows of Resources	200	-	200
Total Deferred Inflows of Resources	489,388	-	489,388
Fund Balances:			
Nonspendable	81,376	257	81,633
Restricted	230,380	181,984	412,364
Unassigned	6,116,243	-	6,116,243
Total Fund Balances	6,427,999	182,241	6,610,240
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 7,228,774	\$ 195,458	\$ 7,424,232

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
December 31, 2022

Total Fund Balances - Governmental Funds	\$ 6,610,240
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	(873)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,229,058
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	187,213
Long-term liabilities, including bonds payable and compensated absences payable are not due and payables in the current period and therefore are not reported in the funds.	(2,375,119)
Assets such as taxes receivable (delinquent) and special assessment receivables (delinquent and noncurrent) are not available to pay for current period expenditures and therefore are deferred in the funds.	489,188
Pension and lease related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	(117,987)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	869,080
Net Position - Governmental Activities	<u>\$ 19,890,800</u>

City of Dell Rapids, South Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2022

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	\$ 1,471,369	\$ -	\$ 1,471,369
General Sales and Use Taxes	1,638,750	80,298	1,719,048
Penalties and Interest on Delinquent Taxes	2,356	-	2,356
Licenses and Permits	42,281	-	42,281
Intergovernmental Revenue:			
Federal Grants	15,000	-	15,000
State Shared Revenue:			
Bank Franchise Tax	54,318	-	54,318
Prorate License Fees	3,601	-	3,601
Liquor Tax Reversion (25%)	27,774	-	27,774
Motor Vehicle Licenses	34,226	-	34,226
Local Government Highway and Bridge Fund	52,602	-	52,602
County Shared Revenue:			
County Wheel Tax	6,254	-	6,254
Charges for Goods and Services:			
General Government	1,648	-	1,648
Public Safety	3,804	-	3,804
Sanitation	7,742	-	7,742
Culture and Recreation	100,887	-	100,887
Fines and Forfeits:			
Parking Meter Fines	1,653	-	1,653
Library	-	3,585	3,585
Other	240	-	240
Miscellaneous Revenue:			
Investment Earnings	6,173	205	6,378
Special Assessments	109,173	-	109,173
Contributions and Donations from Private Sources	58,876	2,200	61,076
Other	31,154	-	31,154
Total Revenue	<u>3,669,881</u>	<u>86,288</u>	<u>3,756,169</u>
Expenditures:			
General Government:			
Legislative	59,665	-	59,665
Executive	241,127	-	241,127
Elections	19	-	19
Financial Administration	179,838	-	179,838
Other	631,211	-	631,211
Total General Government	<u>1,111,860</u>	<u>-</u>	<u>1,111,860</u>
Public Safety:			
Police	285,896	-	285,896
Fire	74,204	-	74,204
Protective Inspection	73,410	-	73,410
Other Protection	71	-	71
Total Public Safety	<u>433,581</u>	<u>-</u>	<u>433,581</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2022

	General Fund	Other Governmental Funds	Total Governmental Funds
Public Works:			
Highways and Streets	1,179,824	-	1,179,824
Sanitation	35,405	-	35,405
Transit	8,061	-	8,061
Total Public Works	<u>1,223,290</u>	<u>-</u>	<u>1,223,290</u>
Health and Welfare:			
Health	2,133	-	2,133
Humane Society	3,237	-	3,237
Ambulance	45,000	-	45,000
Total Health and Welfare	<u>50,370</u>	<u>-</u>	<u>50,370</u>
Culture and Recreation:			
Recreation	356,374	-	356,374
Parks	142,643	-	142,643
Libraries	315,895	6,352	322,247
Total Culture and Recreation	<u>814,912</u>	<u>6,352</u>	<u>821,264</u>
Conservation and Development:			
Economic Development and Assistance	204,133	51,310	255,443
Debt Service	63,810	-	63,810
Total Expenditures	<u>3,901,956</u>	<u>57,662</u>	<u>3,959,618</u>
Excess of Revenues Over (Under) Expenditures	<u>(232,075)</u>	<u>28,626</u>	<u>(203,449)</u>
Other Financing Sources (Uses):			
Transfers In	120,000	-	120,000
Sale of Municipal Property	275,000	-	275,000
Long-Term Debt Issued	2,000,000	-	2,000,000
Transfers Out	(80,008)	-	(80,008)
Total Other Financing Sources (Uses)	<u>2,314,992</u>	<u>-</u>	<u>2,314,992</u>
Net Change in Fund Balances	2,082,917	28,626	2,111,543
Fund Balance - Beginning	<u>4,345,082</u>	<u>153,615</u>	<u>4,498,697</u>
FUND BALANCE- ENDING	<u>\$ 6,427,999</u>	<u>\$ 182,241</u>	<u>\$ 6,610,240</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of
Governmental Funds to the Statement of Activities
Year Ended December 31, 2022

Net Change in Fund Balances - Total Governmental Funds	\$	2,111,543
--	----	-----------

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

This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government wide statements.		1,515,733
---	--	-----------

This amount represents the current year depreciation/amortization expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.		(687,697)
--	--	-----------

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the statement of net assets.		19,005
--	--	--------

The issuance of long-term debt is an other financing source in the fund statements but an increase in long-term liabilities on the government wide statements.		(2,000,000)
--	--	-------------

The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available".		(799)
---	--	-------

Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.		82,435
---	--	--------

Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.		5,164
--	--	-------

Some expenses reported in the statement of activities do not require the use of current financial resources and and therefore are not reported as expenditures in governmental funds. (e.g., accrued interest expense, pension expense)		60,252
---	--	--------

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net expense of the internal service funds is reported with governmental activities.		30,849
---	--	--------

Change in Net Position of Governmental Activities	\$	1,136,485
---	----	-----------

City of Dell Rapids, South Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual Year Ended December 31, 2022

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	\$ 1,530,460	\$ 1,530,460	\$ 1,471,369	\$ (59,091)
General Sales and Use Taxes	1,000,000	1,000,000	1,638,750	638,750
Amusement Taxes	350	350	-	(350)
Penalties and Interest on Delinquent Taxes	1,000	1,000	2,356	1,356
Licenses and Permits	21,550	21,550	42,281	20,731
Intergovernmental Revenue:				
Federal Grants	400,000	400,000	15,000	(385,000)
State Grants	442,000	442,000	-	(442,000)
Bank Franchise Tax	25,000	25,000	54,318	29,318
Prorate License Fees	3,000	3,000	3,601	601
Liquor Tax Reversion (25%)	20,000	20,000	27,774	7,774
Motor Vehicle Licenses	25,000	25,000	34,226	9,226
Local Government Highway and Bridge Fund	40,000	40,000	52,602	12,602
County Wheel Tax	4,500	4,500	6,254	1,754
Charges for Goods and Services:				
General Government	1,300	1,300	1,648	348
Public Safety	500	500	3,804	3,304
Sanitation	8,500	8,500	7,742	(758)
Culture and Recreation	43,000	43,000	100,887	57,887
Fines and Forfeits:				
Court Fines and Costs	100	100	-	(100)
Parking Meter Fines	1,500	1,500	1,653	153
Other	300	300	240	(60)
Miscellaneous Revenue:				
Investment Earnings	1,000	1,000	6,173	5,173
Special Assessments	-	-	109,173	109,173
Contribution and Donations from Private Sources	210,000	210,000	58,876	(151,124)
Other	20,400	20,400	31,154	10,754
Total Revenue	3,799,460	3,799,460	3,669,881	(129,579)

City of Dell Rapids, South Dakota
General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2022

Expenditures:

General Government:				
Legislative	59,125	59,125	59,665	(540)
Contingency	50,000	-	-	-
Executive	198,680	203,680	241,127	(37,447)
Elections	3,300	3,300	19	3,281
Financial Administration	144,705	184,705	179,838	4,867
Other	456,530	956,530	631,211	325,319
Total General Government	<u>912,340</u>	<u>1,407,340</u>	<u>1,111,860</u>	<u>295,480</u>
Public Safety:				
Police	295,895	295,895	285,896	9,999
Fire	73,693	73,693	74,204	(511)
Protective Inspection	79,390	79,390	73,410	5,980
Other Protection	56,000	56,000	71	55,929
Total Public Safety	<u>504,978</u>	<u>504,978</u>	<u>433,581</u>	<u>71,397</u>
Public Works:				
Highways and Streets	2,293,305	2,293,305	1,179,824	1,113,481
Sanitation	24,422	29,422	35,405	(5,983)
Transit	50,000	50,000	8,061	41,939
Total Public Works	<u>2,367,727</u>	<u>2,372,727</u>	<u>1,223,290</u>	<u>1,149,437</u>
Health and Welfare:				
Health	7,945	7,945	2,133	5,812
Humane Society	3,650	3,650	3,237	413
Ambulance	45,000	45,000	45,000	-
Total Health and Welfare	<u>56,595</u>	<u>56,595</u>	<u>50,370</u>	<u>6,225</u>
Culture and Recreation:				
Recreation	1,169,540	1,169,540	356,374	813,166
Parks	522,670	522,670	142,643	380,027
Libraries	298,456	298,456	315,895	(17,439)
Total Culture and Recreation	<u>1,990,666</u>	<u>1,990,666</u>	<u>814,912</u>	<u>1,175,754</u>
Conservation and Development:				
Economic Development and Assistance	283,000	283,000	204,133	78,867
Total Conservation and Development	<u>283,000</u>	<u>283,000</u>	<u>204,133</u>	<u>78,867</u>
Debt Service	29,500	29,500	63,810	(34,310)
Total Expenditures	<u>6,144,806</u>	<u>6,644,806</u>	<u>3,901,956</u>	<u>2,742,850</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,345,346)</u>	<u>(2,845,346)</u>	<u>(232,075)</u>	<u>2,613,271</u>
Other Financing Sources (Uses):				
Transfers In	120,000	120,000	120,000	-
Sale of Municipal Property	-	-	275,000	275,000
Bond Issuance	-	-	2,000,000	2,000,000
Transfers Out	(80,008)	(80,008)	(80,008)	-
Total Other Financing Sources (Uses)	<u>39,992</u>	<u>39,992</u>	<u>2,314,992</u>	<u>2,275,000</u>
Net Change in Fund Balances	(2,305,354)	(2,805,354)	2,082,917	4,888,271
Fund Balance - Beginning	<u>3,786,399</u>	<u>3,786,399</u>	<u>4,345,082</u>	<u>558,683</u>
FUND BALANCE - ENDING	<u>\$ 1,481,045</u>	<u>\$ 981,045</u>	<u>\$ 6,427,999</u>	<u>\$ 5,446,954</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Proprietary Funds
Statement of Net Position
December 31, 2022

	Enterprise Funds				Internal Service Funds
	Water Fund	Wastewater Fund	Liquor Fund	Totals	
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 1,608,140	\$ 2,623,387	\$ 345,209	\$ 4,576,736	\$ 530,600
Accounts Receivable, Net	63,108	88,348	164,445	315,901	-
Unbilled Revenue	22,096	29,949	-	52,045	-
Leases Receivable	59,520	-	7,500	67,020	-
Inventory of Supplies	54,089	13,071	-	67,160	-
Prepaid Expenses	9,543	8,416	836	18,795	-
Total Current Assets	1,816,496	2,763,171	517,990	5,097,657	530,600
Noncurrent Assets:					
Lease Receivable - Non Current	125,840	-	-	125,840	-
Net Pension Asset	2,091	2,091	-	4,182	-
Capital Assets:					
Land	45,128	37,029	3,000	85,157	-
Buildings	2,625,463	8,636,423	157,610	11,419,496	-
Improvements Other Than Buildings	5,225,553	8,715,677	-	13,941,230	-
Furnishings and Equipment	540,465	112,942	69,042	722,449	1,289,035
Construction/Development in Progress	712,504	2,160,519	-	2,873,023	-
Less: Accumulated Depreciation	(2,597,113)	(3,814,426)	(197,106)	(6,608,645)	(950,555)
Intangible Assets	300,000	-	-	300,000	-
Less: Accumulated Amortization	(264,000)	-	-	(264,000)	-
Total Noncurrent Assets	6,715,931	15,850,255	32,546	22,598,732	338,480
TOTAL ASSETS	8,532,427	18,613,426	550,536	27,696,389	869,080
DEFERRED OUTFLOWS OF RESOURCES:					
Pension Related Deferred Outflows	54,334	54,334	-	108,668	-
LIABILITIES:					
Current Liabilities:					
Accounts Payable	62,642	156,070	130,035	348,747	-
Accrued Interest Payable	41,764	58,205	-	99,969	-
Accrued Wages Payable	3,753	6,508	-	10,261	-
Deferred Revenue	-	656,110	-	656,110	-
Customer Deposits	9,570	-	-	9,570	-
Bonds Payable Current:					
Revenue	186,067	353,648	-	539,715	-
Compensated Absences Payable -- Current	368	369	-	737	-
Total Current Liabilities	304,164	1,230,910	130,035	1,665,109	-
Noncurrent Liabilities:					
Bonds Payable:					
Revenue	4,106,922	7,445,262	-	11,552,184	-
Accrued Leave Payable	14,466	16,844	-	31,310	-
Total Noncurrent Liabilities	4,121,388	7,462,106	-	11,583,494	-
TOTAL LIABILITIES	4,425,552	8,693,016	130,035	13,248,603	-
DEFERRED INFLOWS OF RESOURCES:					
Other Deferred Inflows of Resources	185,360	-	7,500	192,860	-
Pension Related Deferred Inflows	38,034	38,034	-	76,068	-
TOTAL DEFERRED INFLOWS OF RESOURCES	223,394	38,034	7,500	268,928	-
NET POSITION:					
Net Investment in Capital Assets	2,295,011	8,049,257	32,546	10,376,814	338,480
Restricted For:					
Revenue Bond Debt Service	431,299	638,162	-	1,069,461	-
SDRS Pension Purposes	18,391	18,391	-	36,782	-
Unrestricted	1,193,114	1,230,900	380,455	2,804,469	530,600
TOTAL NET POSITION	\$ 3,937,815	\$ 9,936,710	\$ 413,001	\$ 14,287,526	\$ 869,080

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2022

	Enterprise Funds				Internal
	Water Fund	Wastewater Fund	Liquor Fund	Totals	Service Funds
Operating Revenue:					
Surcharge as Security for Debt	\$ 234,268	\$ 341,162	\$ -	\$ 575,430	\$ -
Charges for Goods and Services	615,093	660,613	1,610,652	2,886,358	100,000
Lottery Sales	-	-	42,055	42,055	-
Miscellaneous	2,435	412	-	2,847	908
Total Operating Revenue	<u>851,796</u>	<u>1,002,187</u>	<u>1,652,707</u>	<u>3,506,690</u>	<u>100,908</u>
Operating Expenses:					
Personal Services	148,152	226,709	-	374,861	-
Other Current Expense	355,208	359,903	5,005	720,116	-
Materials (Cost of Goods Sold)	-	-	1,493,374	1,493,374	-
Depreciation and Amortization	239,991	515,035	11,062	766,088	75,179
Total Operating Expenses	<u>743,351</u>	<u>1,101,647</u>	<u>1,509,441</u>	<u>3,354,439</u>	<u>75,179</u>
Operating Income (Loss)	<u>108,445</u>	<u>(99,460)</u>	<u>143,266</u>	<u>152,251</u>	<u>25,729</u>
Nonoperating Revenue (Expense):					
Operating Grants	-	85,253	-	85,253	-
Investment Earnings	1,932	3,058	530	5,520	533
Rental Revenue	62,915	-	15,000	77,915	-
Interest Expense	(116,017)	(180,234)	-	(296,251)	-
Gain (Loss) on Disposition of Assets	-	-	-	-	4,587
Other	-	(166,986)	-	(166,986)	-
Total Nonoperating Revenue (Expense)	<u>(51,170)</u>	<u>(258,909)</u>	<u>15,530</u>	<u>(294,549)</u>	<u>5,120</u>
Income (Loss) Before Transfers	<u>57,275</u>	<u>(358,369)</u>	<u>158,796</u>	<u>(142,298)</u>	<u>30,849</u>
Transfers In	-	80,008	-	80,008	-
Transfers Out	-	-	(120,000)	(120,000)	-
Change in Net Position	<u>57,275</u>	<u>(278,361)</u>	<u>38,796</u>	<u>(182,290)</u>	<u>30,849</u>
Net Position - Beginning	<u>3,880,540</u>	<u>10,215,071</u>	<u>374,205</u>	<u>14,469,816</u>	<u>838,231</u>
NET POSITION - ENDING	<u>\$ 3,937,815</u>	<u>\$ 9,936,710</u>	<u>\$ 413,001</u>	<u>\$ 14,287,526</u>	<u>\$ 869,080</u>

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2022

	Water	Wastewater	Liquor	Total	Internal Service
Operating Activities					
Receipts from customers and users	\$ 916,361	\$ 969,774	\$ 1,652,960	\$ 3,539,095	\$ 908
Receipts for interfund services provided	-	-	-	-	100,000
Payments to employees and other vendors	(678,610)	(579,249)	(1,488,181)	(2,746,040)	-
Net cash from operating activities	237,751	390,525	164,779	793,055	100,908
Non-Capital Financing Activities					
Transfer to/from other funds	-	80,008	(120,000)	(39,992)	-
Capital and Related Financing Activities					
Purchase of capital assets, net of liquidated damages	42,192	111,257	-	153,449	(20,126)
Proceeds from long-term debt	168,256	426,695	-	594,951	-
Payments on long-term debt					
Principal	(191,470)	(298,320)	-	(489,790)	-
Interest	(116,017)	(180,234)	-	(296,251)	-
Net cash used for capital and related financing activities	(97,039)	59,398	-	(37,641)	(20,126)
Investing Activity					
Interest earnings	1,932	3,058	530	5,520	533
Change in Cash and Cash Equivalents	142,644	532,989	45,309	720,942	81,315
Cash and Cash Equivalents - Beginning of Year	1,465,496	2,090,398	299,900	3,855,794	449,285
Cash and Cash Equivalents - End of Year	\$ 1,608,140	\$ 2,623,387	\$ 345,209	\$ 4,576,736	\$ 530,600

The accompanying Notes to Financial Statements are an integral part of these statements.

City of Dell Rapids, South Dakota
Proprietary Funds
Statement of Cash Flows
Year Ended December 31, 2022

	Water	Wastewater	Liquor	Total	Internal Service
Reconciliation of Operating Income					
to Net Cash from Operating Activities					
Operating income (loss)	\$ 108,445	\$ (99,460)	\$ 143,266	\$ 152,251	\$ 25,729
Adjustments to reconcile operating					
income to net cash from					
operating activities					
Depreciation/amortization expense	239,991	515,035	11,062	766,088	75,179
Other income (expense)	62,915	(81,733)	15,000	(3,818)	-
Changes in assets and liabilities					
Accounts receivable	2,425	(4,685)	(14,747)	(17,007)	-
Unbilled revenue	(1,163)	(1,399)	-	(2,562)	-
Interest receivable	388	272	-	660	-
Due from other governmental units	-	55,132	-	55,132	-
Inventory of supplies	(1,705)	1,757	-	52	-
Prepaid expenses	(1,341)	(1,113)	(46)	(2,500)	-
Net pension asset	48,142	48,142	-	96,284	-
Pension related deferred outflow of resources	7,476	7,476	-	14,952	-
Accounts payable	(175,811)	(334,752)	10,244	(500,319)	-
Accrued interest payable	13,742	19,048	-	32,790	-
Accrued wages payable	(2,107)	(1,999)	-	(4,106)	-
Deferred revenue	-	331,718	-	331,718	-
Customer deposits	(600)	-	-	(600)	-
Pension related deferred inflow of resources	(59,647)	(59,647)	-	(119,294)	-
Compensated absences payable	(3,399)	(3,267)	-	(6,666)	-
Net cash from					
operating activities	<u>\$ 237,751</u>	<u>\$ 390,525</u>	<u>\$ 164,779</u>	<u>\$ 793,055</u>	<u>\$ 100,908</u>

Note 1 - Summary of Significant Accounting Procedures**Reporting Entity**

The reporting entity of the Municipality of Dell Rapids, South Dakota ("the City") consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); 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.

The City's financial statements include all funds for which the City is financially accountable.

Component units are legally separate organizations for which elected officials of the primary government are financially accountable. The City is financially accountable if it appoints a voting majority of the organization's governing body and is either:

1. able to impose its will on that organization or
2. there is potential for the organization to provide specific financial benefits to, or impose financial burdens on the City. The City may be financially accountable if an organization is fiscally dependent on the City.

Based on this criteria, there are no component units of the City requiring either a blended or discrete presentation.

Government-Wide and Fund Financial Statements

The goal of government-wide financial statements is to present a broad overview of government's finances. The basic statements that form the government-wide financial statements are the statement of net position and the statement of activities. These two statements report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund and internal service fund activity has been removed from these statements. Exceptions to this general rule are charges between the City's enterprise funds and governmental and internal service funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which are normally financed through taxes and intergovernmental revenues, are reported separately from business-type activities, which are normally financed through user fees and charges for goods or services.

The statement of activities reports gross direct expenses by function reduced by program revenues. This results in a measurement of net revenue or expense for each of the government's activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues are directly associated with the function or business-type activity and include 1) charges for services and 2) operating or capital grants and contributions that are restricted to a particular function. Tax and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are prepared for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, special assessments, intergovernmental revenue, permits, charges for services and investment income associated with the current fiscal period are the major revenues that are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period to the extent they are collected in 60 days. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

General Fund – The general fund is the general operating fund of the City. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

The City reports the following major proprietary funds:

Water Fund – This fund is used to account for the provision of water services to the City's residents and businesses.

Wastewater Fund – This fund is used to account for the provision of sewer services to the City's residents and businesses.

Liquor Fund – This fund is used to account for the sales and expenses of operating an on and off-sale liquor store. The City has entered into an operating lease agreement allowing the operator to operate an on-sale bar and an off-sale liquor store on the real property owned by the City. The City owns lottery machines maintained in the establishment. The lessee purchases all liquor from the City at cost plus ten percent. The operator pays the City \$15,000 per year for the rent of the building and 65% of the video lottery profits.

The City reports the following other fund:

Internal Service Fund – This fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments, or to other governments, on a cost-reimbursement basis. The particular types of goods or services provided to other funds consist of equipment purchases. Internal service funds are never considered to be major funds. The Equipment Replacement Fund is the only internal Service fund maintained by the City.

Amounts reported as program revenues include the following: amounts received from those who purchase, use, or directly benefit from a program; amounts received from parties outside the City that are restricted to one or more specific programs; and earnings on investments that are legally restricted for a specific program. Revenues that do not meet the previous criteria are reported as general revenues, including all taxes.

Proprietary funds report operating revenues and expenses separately from nonoperating items. Operating revenues and expenses generally result from providing services or producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, and then use unrestricted resources as they are needed.

Other Significant Accounting Policies

Budgets and Budgetary Accounting

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 Governing Board/Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board/Municipal Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Governing Board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States (U.S. GAAP).

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.

For purposes 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.

Receivables and Payables

Receivables are carried at invoice amount less an estimate made for uncollectible accounts. Management determines the allowance for uncollectible accounts by using historical experience and review of individual customer accounts. Receivable are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. Accounts receivables of the City are considered to be fully collectible and, therefore, an allowance for uncollectible accounts is not provided.

All outstanding balances between funds are reported as "due to/from other funds" (current portion) or "advances to/from other funds" (non-current portion). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Inventory of Supplies

The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used. Inventories in the liquor fund are presented at lower of cost or net realizable value, using first in/first out (FIFO) method.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond December 31, 2022, are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items are reported using the consumption method and are recorded as an expense or expenditure at the time of consumption.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with initial useful lives extending beyond a single reporting period and costs exceeding the thresholds detailed in the table below. Such assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are recorded at their estimated fair value at the date of donation. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend lives are not capitalized.

Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and land rights	All	N/A	N/A
Improvements other than buildings	\$ 15,000	Straight-line	20 years
Water/sewer lines	\$ 25,000	Straight-line	50 years
Roads	\$ 50,000	Straight-line	15-75 years
Other improvements	\$ 10,000	Straight-line	15-50 years
Buildings	\$ 50,000	Straight-line	50 years
Machinery and equipment	\$ 5,000	Straight-line	5-20 years

Pensions

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

Deferred Inflows and Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end along with changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has three types of items that qualify for reporting in this category. The City reports unavailable revenues from special assessments on the governmental funds balance sheet. These amounts are deferred and recognized as an outflow of resources in the period that the amounts became available. In addition, amounts due for lease receivables that are unavailable are reported as deferred inflows on the government-wide statement of net position. The other item is changes in the net position liability not included in pension expense reported in the government-wide statement of net position.

Long-Term Liabilities

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance – amounts that are not in spendable form (such as inventory) or are required to be maintained intact such as the South Dakota Public Assurance Alliance Cumulative Reserve Fund.

Restricted Fund Balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed Fund Balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.

Assigned Fund Balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or Finance Officer.

Unassigned Fund Balance – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

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 first uses committed, then assigned, then lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

Net Position

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows in the City's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Property Taxes

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

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

Unearned revenue

The City receives grant funding from the federal and state government in advance of incurring expenditures. The amount that is not spent in the fiscal year is reported as unearned revenue. The grant funding will be spent in the subsequent fiscal year for various projects throughout the City.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Implementation of GASB Statement No. 87

As of December 31, 2021, the City early adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The additional disclosures required by this standard is included in Note 10. There was no impact to previously reported net position or fund balance as a result of adoption of this standard.

The City is a lessor for two noncancelable leases on buildings, and a noncancelable lease on a water filtration bay. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. Key estimates and judgements include how the City determines 1) the discount rate it uses to discount the expected lease receipts to present value, 2) lease term, and 3) lease receipts.

- If specified, the City uses the interest rate identified in the contract as the discount rate. If no interest rate is specified, the City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

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

Subsequent Events

The City has evaluated subsequent events through August 14, 2023, the date which the financial statements were available to be issued.

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDDCL 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 or NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is of the add-on type. It is the City's policy to deposit all interest revenue to the fund making the investment.

The actual bank balances at December 31, 2022, were as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by state/Municipality's agent in the name of the state and institution	<u>11,103,939</u>
Total Deposits	<u><u>\$ 11,603,939</u></u>

The carrying amount of deposits on the December 31, 2022, government-wide statement of net position was \$11,645,619. The reconciliation of deposits to government-wide statement of net position is as follows:

Cash and cash equivalents, carrying amount	\$ 11,645,619
Less petty cash	(150)
Less lottery cash	(10,000)
Add outstanding transactions (net)	<u>(31,530)</u>
	<u><u>\$ 11,603,939</u></u>

Investments

In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SCDL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited into a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. There were no investments as of December 31, 2022.

Credit Risk

State law limits eligible investments for the City, as discussed above. The City has an investment policy that would further limit its investment choices.

Custodial Credit Risk - Deposits

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City will minimize credit risk by limiting the portfolio to the types of investments that are authorized and suitable to diminish the impact of potential losses from any one type of investment or from any one issuer. As of December 31, 2022, the City's deposits in financial institutions were fully insured or collateralized and were not exposed to custodial credit risk.

Custodial Credit Risk – Investments

The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2022, the City does not have any investments.

Concentration of Credit Risk

The City requires Qualified Public Depositories to furnish collateral in the sum equal to one hundred percent (100%) of the public deposit accounts that exceed deposit insurance. The financial institution shall submit a copy of their collateralization report to the Finance Officer.

Interest Rate Risk

The City strives to maintain a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is secondary compared to the safety and liquidity objectives.

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 investments to the fund making the investment.

Note 3 - Capital Assets

Capital asset activity for the year ended December 31, 2022 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,699,294	\$ -	\$ -	\$ 1,699,294
Construction in progress	1,173,318	894,362	801,719	1,265,961
Total capital assets not being depreciated	2,872,612	894,362	801,719	2,965,255
Capital assets, being depreciated				
Buildings and structures	4,911,473	17,587	50,000	4,879,060
Improvements other than buildings	9,935,038	1,328,196	-	11,263,234
Machinery and equipment	2,387,044	77,307	88,406	2,375,945
Total capital assets being depreciated	17,233,555	1,423,090	138,406	18,518,239
Less accumulated depreciation for				
Buildings and structures	1,828,478	108,869	50,000	1,887,347
Improvements other than buildings	2,856,964	447,651	-	3,304,615
Machinery and equipment	1,677,160	131,177	84,343	1,723,994
Total accumulated depreciation	6,362,602	687,697	134,343	6,915,956
Governmental activities capital assets, net	\$ 13,743,565	\$ 1,629,755	\$ 805,782	\$ 14,567,538
Business-type activities				
Capital assets not being depreciated				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction in progress	9,663,367	99,618	6,889,962	2,873,023
Total capital assets not being depreciated	9,748,524	99,618	6,889,962	2,958,180
Capital assets, being depreciated/amortized				
Buildings and structures	11,419,496	-	-	11,419,496
Improvements other than buildings	7,642,298	6,598,932	-	14,241,230
Machinery and equipment	684,658	37,792	-	722,450
Total capital assets being depreciated/amortized	19,746,452	6,636,724	-	26,383,176
Less accumulated depreciation/amortization for				
Buildings and structures	3,767,330	282,877	-	4,050,207
Improvements other than buildings	1,969,921	450,476	-	2,420,397
Machinery and equipment	369,307	32,735	-	402,042
Total accumulated depreciation/amortization	6,106,558	766,088	-	6,872,646
Business-type activities capital assets, net	\$ 23,388,418	\$ 5,970,254	\$ 6,889,962	\$ 22,468,710

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

Governmental activities			
General government	\$	68,677	
Public safety		34,339	
Public works		481,665	
Culture and recreation		<u>103,016</u>	
Total depreciation expense - governmental activities	\$	<u>687,697</u>	-
Business-type activities			
Water	\$	239,991	
Sewer		515,035	
Liquor		<u>11,062</u>	
Total depreciation/amortization expense - business-type activities	\$	<u>766,088</u>	-

Construction work in progress at December 31, 2022, is comprised of the following:

Project name	Project Authorization	Expended through December 31, 2022
3rd Street Bridge	\$ 91,000	\$ 7,395
3rd Street Improvements	10,290,000	375,045
Slurry Seal - 2023	150,000	3,108
New City/Community Hall	2,000,000	504,827
Old Hwy 77 Improvements	900,000	34,856
SE Infrastructure Project Phase 2	3,900,000	3,101,278
Sioux River Red Rock Trail Phase 1	930,000	104,823
Sioux River Red Rock Trail Phase 2	<u>996,000</u>	<u>7,652</u>
	<u>\$ 19,257,000</u>	<u>\$ 4,138,984</u>

Note 4 - Long-Term Debt

The following is a summary of changes in long-term debt of the City for the year ended December 31, 2022:

Indebtedness	Beginning Balance	Add New Additions	Less Debt Deletions	Debt Ending Balance	Due Within One Year
Governmental Activities:					
Sales Tax Revenue Bond - TIF #3	\$ 338,311	\$ -	\$ 19,005	\$ 319,306	\$ 19,569
Sales Tax Revenue Bond - CH	-	2,000,000	-	2,000,000	98,168
Accrued Compensated Absences-Governmental Funds	60,977	55,813	60,977	55,813	1,048
Total Governmental Activity	399,288	2,055,813	79,982	2,375,119	118,785
Business-Type Activities:					
SRF 2003 Drinking Water	131,900	-	39,005	92,895	40,388
SRF 2006 Drinking Water	53,210	-	9,450	43,760	9,761
SRF 2007 Clean Water	466,109	-	57,975	408,134	59,883
SRF 2009 Clean Water	479,463	-	49,805	429,658	51,443
SRF 2011 Drinking Water	266,952	-	20,807	246,145	21,438
SRF 2012 Drinking Water	29,807	-	29,807	-	-
SRF 2013 Drinking Water	454,257	-	28,364	425,893	29,224
SRF 2013 Clean Water	444,767	-	27,771	416,996	28,614
SRF 2014 Clean Water	769,303	-	57,397	711,906	59,314
SRF 2016 Drinking Water	664,735	-	15,881	648,854	16,403
SRF 2017 Clear Water	1,873,907	-	42,946	1,830,961	44,359
SRF 2019 Drinking Water	2,116,552	88,608	48,156	2,157,004	51,975
SRF 2019 Clear Water Series A	2,188,333	88,913	58,627	2,218,619	62,213
SRF 2019 Clear Water Series NPS	141,306	166,985	3,799	304,492	6,656
SRF 2021 Drinking Water	598,791	79,648	-	678,439	16,880
SRF 2021 Clear Water Series A	1,307,346	170,797	-	1,478,143	41,164
Total Debt	11,986,738	594,951	489,790	12,091,899	539,715
Accrued Compensated Absences-Business-Type Funds	38,713	32,047	38,713	32,047	737
Total Business-Type Activities	12,025,451	626,998	528,503	12,123,946	540,452
Total Primary Government	\$ 12,424,739	\$ 2,682,811	\$ 608,485	\$ 14,499,065	\$ 659,237

Long-term obligations currently outstanding are as follows:

State Revolving Fund (SRF) Loan 2003 Drinking Water:

Note dated April 30, 2003 including an interest rate of 3.5% per annum and a maturity date of January 15, 2025. Principal payments to be made by Water Fund. \$ 92,895

State Revolving Fund (SRF) Loan 2006 Drinking Water:

Note dated March 31, 2006 including an interest rate of 3.25% per annum and a maturity date of January 15, 2027. Principal payments to be made by Water Fund. 43,760

State Revolving Fund (SRF) Loan 2007 Clean Water:

Note dated December 2, 2008 including an interest rate of 3.25% per annum and a maturity date of January 15, 2029. Principal payments to be made by Wastewater Fund. 408,134

State Revolving Fund (SRF) Loan 2009 Clean Water

Note dated January 15, 2010 with a maturity date of January 15, 2030 and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund. 429,658

State Revolving Fund (SRF) Loan 2011 Drinking Water

Note dated April 15, 2011 with a maturity date of January 15, 2031 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. 246,145

State Revolving Fund (SRF) Loan 2013 Drinking Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Water Fund. 425,893

State Revolving Fund (SRF) Loan 2013 Clean Water

Note dated October 18, 2013 with a maturity date of January 15, 2035 and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. 416,996

State Revolving Fund (SRF) Loan 2014 Clean Water

Note dated April 7, 2014 with payments starting on January 15, 2016, a maturity date of April 15, 2033, and an interest rate of 3.00% per annum. Principal payments to be made by the Wastewater Fund. 711,906

State Revolving Fund (SRF) Loan 2016 Drinking Water

Note dated August 10, 2016 with payments starting on July 15, 2018, a maturity date of July 15, 2048, and an interest rate of 3.25% per annum. Principal payments to be made by the Water Fund. 648,854

State Revolving Fund (SRF) Loan 2017 Clean Water

Note dated February 1, 2017 with payments starting on April 15, 2019, a maturity date of January 15, 2049, and an interest rate of 3.25% per annum. Principal payments to be made by the Wastewater Fund. 1,830,961

City of Dell Rapids, South Dakota
Notes to Financial Statements
December 31, 2022

State Revolving Fund (SRF) Loan 2019 Drinking Water

Note dated May 15, 2019 with payments starting on July 15, 2021, a maturity date of July 15, 2051, and an interest rate of 2.50% per annum. Principal payments to be made by the Water Fund.

2,157,004

State Revolving Fund (SRF) Loan 2019 Clean Water - Series A

Note dated May 15, 2019 with payments starting on July 15, 2021, a maturity date of July 15, 2051, and an interest rate of 1.50% per annum. Principal payments to be made by the Wastewater Fund.

2,218,619

State Revolving Fund (SRF) Loan 2019 Clean Water

Note dated May 15, 2019 with payments starting on July 15, 2021, a maturity date of July 15, 2051, and an interest rate of 1.50% per annum. Principal payments to be made by the Wastewater Fund.

304,492

State Revolving Fund (SRF) Loan 2021 Drinking Water

Note dated April 16, 2021 with payments starting on July 15, 2023, a maturity date of July 15, 2052, and an interest rate of 2.125% per annum. Principal payments to be made by the Water Fund.

678,439

State Revolving Fund (SRF) Loan 2021 Clean Water - Series A

Note dated April 16, 2021 with payments starting on July 15, 2023, a maturity date of July 15, 2052, and an interest rate of 1.375% per annum. Principal payments to be made by the Wastewater Fund.

1,478,143

Sales Tax Revenue Bond 2016 General Fund

Note dated July 6, 2016 with payments starting on June 1, 2018, a maturity date of June 1, 2036, and an interest rate of 2.95% per annum. Principal payments to be made by the General Fund.

319,306

Sales Tax Revenue Bond 2022 General Fund

Note dated November 30, 2022 with payments starting on June 1, 2023, a maturity date of December 1, 2037, and an interest rate of 4.16% per annum. Principal payments to be made by the General Fund.

2,000,000

Compensated Absences:

Accrued vacation and sick leave payable from the General Fund and Enterprise Funds

87,860

\$ 14,499,065

The annual requirements to amortize all bonded debt and financed purchases outstanding as of December 31, 2022, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2023	\$ 117,737	\$ 91,699	\$ 539,715	\$ 269,990
2024	122,681	86,756	562,389	257,798
2025	127,589	81,847	544,971	242,947
2026	132,697	76,740	548,275	228,935
2027	138,011	71,425	554,301	214,680
2028 - 2032	777,633	269,548	2,527,211	871,447
2033 - 2037	727,850	95,473	1,795,422	614,337
2038 - 2042	175,108	-	1,762,881	432,337
2043 - 2047	-	-	1,963,809	234,050
2048 - 2052	-	-	1,292,925	42,310
Total	<u>\$ 2,319,306</u>	<u>\$ 773,488</u>	<u>\$ 12,091,899</u>	<u>\$ 3,408,831</u>

Note 5 - Interfund Transfers

Transfers

The City had the following transfers during the year ended December 31, 2022.

	Transfer Out		Totals
	General Fund	Liquor Fund	
Transfer In			
General Fund	\$ -	\$ 120,000	\$ 120,000
Wastewater Fund	<u>80,008</u>	<u>-</u>	<u>80,008</u>
Total	<u>\$ 80,008</u>	<u>\$ 120,000</u>	<u>\$ 200,008</u>

The \$80,008 transfer from the general fund to the wastewater fund is for sales tax revenue used to pay off clean water drinking bonds. The \$120,000 transfer from the liquor fund to the general fund is for lottery income proceeds.

Note 6 - Multiple Employer Defined Benefit Plan – Public Employees Retirement Association**A. Plan Description**

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605)773-3731.

B. Benefits Provided

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, and 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 .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.

C. 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, 2022, 2021, and 2020, equal to required contributions each year, were \$47,788, \$48,407, and \$46,297, respectively.

D. Pension Liabilities (Assets), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2022, SDRS is 100.10% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City of Dell Rapids as of the measurement period ending June 30, 2022 and reported by the City as of December 31, 2022 are as follows

Proportionate share of total pension liability	4,941,663
Less proportionate share of net position restricted for pension benefits	<u>4,944,972</u>
Proportionate share of net pension asset	<u><u>\$ (3,309)</u></u>

At December 31, 2022, the City Dell Rapids reported an asset of \$(3,309) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022, 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, 2022, the City's proportion was 0.03500600%, which is an increase of 0.0002990% from its proportion measured as of June 30, 2021.

For the year ended December 31, 2022, the City recognized a reduction of pension expense of \$15,975. At December 31, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	\$ 62,976	\$ 215
Changes in assumption.	210,265	184,269
Net difference between projected and actual earnings on pension plan investments.	-	7,928
Changes in proportion and difference between City contributions and proportionate share of contributions.	4	1,643
City contributions subsequent to the measurement date.	22,636	-
TOTAL	<u>\$ 295,881</u>	<u>\$ 194,055</u>

At December 31, 2022, \$22,636 reported as 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 asset in the year ending December 31, 2023. 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 Ended December 31	
2023	\$ 20,698
2024	45,529
2025	(52,529)
2026	65,492
	<u>\$ 79,190</u>

E. Actuarial Assumptions

The total pension asset in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
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.
Future COLAs	2.10%

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.70%
Fixed Income	30.0%	1.10%
Real Estate	10.0%	2.60%
Cash	2.0%	40.00%
Total	100%	

F. Discount Rate

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

H. Pension Liability Sensitivity

The following presents the City's proportionate share of the 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 one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 686,935	\$ (3,309)	\$ (567,420)

I. Pension Plan Fiduciary Net Position

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

Note 7 - Litigation, Claims, and Disputes

The City generally follows the practice of recording liabilities resulting from claims and legal actions only when they become fixed or determinable in amount. There were no significant legal actions outstanding as of December 31, 2022.

Note 8 - Tax Abatements

The City of Dell Rapids has created tax increment districts under the authority granted by South Dakota Codified Law section 11-9. The tax increment districts were created to stimulate and develop the general economic welfare and prosperity of the City through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources; and the improvement of the area will likely enhance significantly the value of substantially all the other real property in the tax increment district.

The county, city, and other local general property taxes levied on all taxable property within a tax increment district on the increase in assessed value of the taxable property is allocated to pay for the cost of improvements in the tax increment district. The tax increments are allocated until all cost of the tax increment district project has been repaid; however, it cannot exceed 20 years.

The City of Dell Rapids has one active tax increment district. Because the general property taxes on tax increment districts are allocated to the districts, the taxes are not available to the City of Dell Rapids during the life of the tax increment district.

The amount of property taxes collected from the tax increment that were not available to the City of Dell Rapids during the calendar year ended December 31, 2022, was \$2,709.

Note 9 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2022, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operation as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes an unlimited lifetime maximum payment per person.

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program from South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is 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 Member's Annual Operating Contribution, to provide liability coverage detailed below, under a claims-paid policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, auto liability, property damage, and wrongful acts.

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 wrongful acts coverage and \$500 deductible on a per item basis for building, contents, and equipment coverage.

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

Workers Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

Unemployment Benefits

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

During the year ended December 31, 2022, no claims for unemployment benefits were paid. At December 31, 2022, no claims had been filed for unemployment benefits and none were anticipated in the next fiscal year.

Note 10 - Leases

In prior years, the City entered into a building rental agreement and various tower lease agreements as the lessor. As of December 31, 2022, the value of the lease receivable was \$193,060. The City receives varying monthly and annual principal and interest payments ranging from \$2,650 to \$25,200. The leases have an interest rate of 1.75% - 2.00%. The future lease revenue and interest lease revenue as of December 31, 2022, were as follows:

Years Ending December 31,

	<u>Lease Revenue</u>	<u>Interest Revenue</u>
2023	\$ 67,220	\$ 1,169
2024	41,040	522
2025	31,800	225
2026	31,800	93
2027	21,200	76
Total	<u>\$ 193,060</u>	<u>\$ 2,085</u>

The City recognized \$80,315 in lease revenue and \$2,239 in interest revenue during the year ended December 31, 2022. The City has a deferred inflow of resources associated with these leases that will be recognized over the lease term. As of December 31, 2022, the balance of the deferred inflow of resources related to leases is \$193,060.

Required Supplementary Information
December 31, 2022

City of Dell Rapids, South Dakota

City of Dell Rapids, South Dakota
Schedule of Employer's Proportionate Share of Net Pension Liability (Asset)
December 31, 2022

**Schedule of Employer's Proportionate Share of Net Pension Liability
Last 10 Fiscal Years ***

	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability/asset	0.0350060%	0.0347070%	0.03440120%	0.0326047%	0.0324610%	0.0312770%	0.0312043%	0.0304757%
City's proportionate share of net pension liability (asset)	\$ (3,309)	\$ (265,796)	\$ (1,494)	\$ (3,455)	\$ (757)	\$ (2,838)	\$ 105,405	\$ (129,256)
City's covered payroll	\$ 826,330	\$ 787,619	\$ 755,005	\$ 694,856	\$ 673,848	\$ 629,129	\$ 593,344	\$ 560,950
City's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	0.40%	33.75%	0.20%	0.50%	0.11%	0.45%	17.76%	23.04%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.10%	105.52%	100.04%	100.09%	100.02%	100.1%	96.89%	104.10%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

City of Dell Rapids, South Dakota
Schedule of Employer's Contributions
December 31, 2022

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 47,788	\$ 48,407	\$ 46,297	\$ 44,386	\$ 40,224	\$ 37,867	\$ 36,358	\$ 36,251
Contributions in relation to the contractually required contribution	<u>47,788</u>	<u>48,407</u>	<u>46,297</u>	<u>44,386</u>	<u>40,224</u>	<u>37,867</u>	<u>36,358</u>	<u>36,251</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered payroll	\$ 801,045	\$ 806,788	\$ 771,625	\$ 739,760	\$ 672,122	\$ 630,035	\$ 606,897	\$ 604,182
Contributions as a percentage of covered payroll	5.97%	6.00%	6.00%	6.00%	5.98%	6.01%	5.99%	6.00%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Changes from Prior Valuation

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

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

Benefit Provision Changes

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

Actuarial Assumption Changes

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

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

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

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

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

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

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

Actuarial Method Changes

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

Additional Reports
December 31, 2022

City of Dell Rapids, South Dakota



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

To the City Council
City of Dell Rapids
Dell Rapids, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Dell Rapids, as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise City of Dell Rapids' basic financial statements and have issued our report thereon dated August 14, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Dell Rapids' 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 Dell Rapids' internal control. Accordingly, we do not express an opinion on the effectiveness of City of Dell Rapids' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-001 and 2022-002 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings as items 2022-003 and 2022-004 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Dell Rapids' 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 Dell Rapids' Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on City of Dell Rapids' response to the findings identified in our audit and described in the accompanying Schedule of Findings. City of Dell Rapids' 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Mankato, Minnesota
August 14, 2023

**2022-001 Segregation of Duties
Material Weakness**

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

Condition – The City has a lack of segregation of duties surrounding review of bank reconciliations, year-end account reconciliations for all financial statement areas, and review and approval of manual journal entries due to a limited staff.

Cause – There is a limited amount of office employees.

Effect – Inadequate segregation of duties could adversely affect the City's ability to detect misstatements in amounts that would-be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the City. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-002 Preparation of Financial Statements including Proposed Journal Entries
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the City's financial statements which include all material journal entries.

Condition – The City prepares a draft of the year-end financial statements however the financial statements being audited were adjusted based on material journal entries proposed.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited that include all proposed journal entries.

Effect – The amounts in the financial statements could be incomplete.

Recommendation – It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-003 Failure to Report and Transmit Outstanding Checks to the State of South Dakota
Significant Deficiency

Criteria – A good system of internal accounting control contemplates an adequate system for complying with state compliance.

Condition – During the course of our engagement, we identified that old, outstanding checks were not reported and transmitted to the state.

Cause – The City does not have an internal control system designed to properly identify the missed reporting in line with state requirements.

Effect – The deficiency could result in noncompliance with state requirements.

Recommendation – Management should make an effort to ensure all state compliance requirements are met.

Views of Responsible Officials – There is no disagreement with the audit finding.

2022-004 Improper Completion and Retention of Employee Personnel Forms
Significant Deficiency

Criteria - A good system of internal control contemplates an adequate system for ensuring all required documentation is completed accurately and retained.

Condition - During the course of our engagement, we noted employee personnel forms that were incomplete or missing.

Cause - The District does not have an internal control system designed to properly complete and retain all required documentation.

Effect - This deficiency could result in improper reporting of employee information.

Recommendation - Management should make an effort to ensure all employee personnel forms are completed properly and retained appropriately.

View of Responsible Officials - There is no disagreement with the finding.