

Financial Statements
December 31, 2023

City of Dell Rapids, South Dakota

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City of Dell Rapids, South Dakota
Elected and Appointed Officials (unaudited)
December 31, 2023

<u>Elected</u>	<u>Term Position</u>	<u>Term Expires December 31,</u>
Denise Hanzlik	Council Member	2024
Barry Berg (Appointed)	Council Member	2024
Gary Haak	Council Member	2025
Wendy Nelson	Council Member	2025
Chad Ronshaugen	Council Member	2024
Chuck Jones	Council Member	2025
Denise Caviegeli	Council Member	2024
Bob Mier	Council Member	2025
<u>Hired</u>		
Steve McFarland	City Administrator	
<u>Appointed</u>		
Claire Baartman	Finance Officer	



Independent Auditor's Report

To the City Council
City of Dell Rapids
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 (the City), as of and for the year ended December 31, 2023 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, as of December 31, 2023, 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 the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

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 the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of employer's proportionate 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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 15, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Mankato, Minnesota
August 15, 2024

This section of City of Dell Rapids (City) financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2023. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$4,395,148 and \$3,437,762 governmental expenses. This is a decrease from the prior year when revenue exceeded expenses by \$1,096,493.
- In the City's business-type activities, revenues were \$5,912,984 and \$3,913,891 business-type expenses. This is an increase from the prior year when expenses exceeded revenues by \$142,298.

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 City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipal government, reporting the City'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 City operates like businesses. The City 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 City’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 City 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 City’s net position and how they have changed. Net position – the difference between the City’s assets and liabilities – is one way to measure the City’s financial health or position.

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

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

- **Governmental Activities** -- This category includes the most of the City'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 City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here as well as the City's Liquor Fund.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City 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 City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily 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 City'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 City 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 City'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 CITY AS A WHOLE

NET POSITION

The City's combined net position increased by 8.65% between fiscal year 2022 and 2023 – or an increase of \$2,956,480 (See Table A-1).

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

	Governmental Activities		Business-Type Activities		Total		Total % Changed
	2022	2023	2022	2023	2022	2023	
Current and Other Assets	\$ 7,953,959	\$ 6,942,485	\$ 5,227,679	\$ 5,214,677	\$ 13,181,638	\$ 12,157,162	-7.77%
Capital Assets	14,567,538	16,625,371	22,468,710	24,794,275	37,036,248	41,419,646	11.84%
Total Assets	<u>\$ 22,521,497</u>	<u>\$ 23,567,856</u>	<u>\$ 27,696,389</u>	<u>\$ 30,008,952</u>	<u>\$ 50,217,886</u>	<u>\$ 53,576,808</u>	<u>6.69%</u>
Deferred Outflows of Resources	\$ 187,213	\$ 145,999	\$ 108,668	\$ 86,810	\$ 295,881	\$ 232,809	-21.32%
AP and Other Current Liabilities	\$ 443,389	\$ 626,856	\$ 1,665,109	\$ 1,129,016	\$ 2,108,498	\$ 1,755,872	-16.72%
Noncurrent Liabilities	2,256,334	2,112,348	11,583,494	12,490,033	13,839,828	14,602,381	5.51%
Total Liabilities	<u>\$ 2,699,723</u>	<u>\$ 2,739,204</u>	<u>\$ 13,248,603</u>	<u>\$ 13,619,049</u>	<u>\$ 15,948,326</u>	<u>\$ 16,358,253</u>	<u>2.57%</u>
Deferred Inflows of Resources	\$ 118,187	\$ 86,473	\$ 268,928	\$ 230,086	\$ 387,115	\$ 316,559	-18.23%
Net Position							
Net Investment in Capital Assets	\$ 12,248,232	\$ 14,372,980	\$ 10,376,814	\$ 11,517,907	\$ 22,625,046	\$ 25,890,887	14.43%
Restricted	480,974	590,929	1,106,243	970,494	1,587,217	1,561,423	-1.63%
Unrestricted	7,161,594	5,924,269	2,804,469	3,758,226	9,966,063	9,682,495	-2.85%
Total Net Position	<u>\$ 19,890,800</u>	<u>\$ 20,888,178</u>	<u>\$ 14,287,526</u>	<u>\$ 16,246,627</u>	<u>\$ 34,178,326</u>	<u>\$ 37,134,805</u>	<u>8.65%</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 City, 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 City's assets and liabilities is its net position.

The City'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 City 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 City's purchase of multiple improvement projects, library furniture and equipment, library books, and new street department equipment for use by the appropriate Municipal Departments.

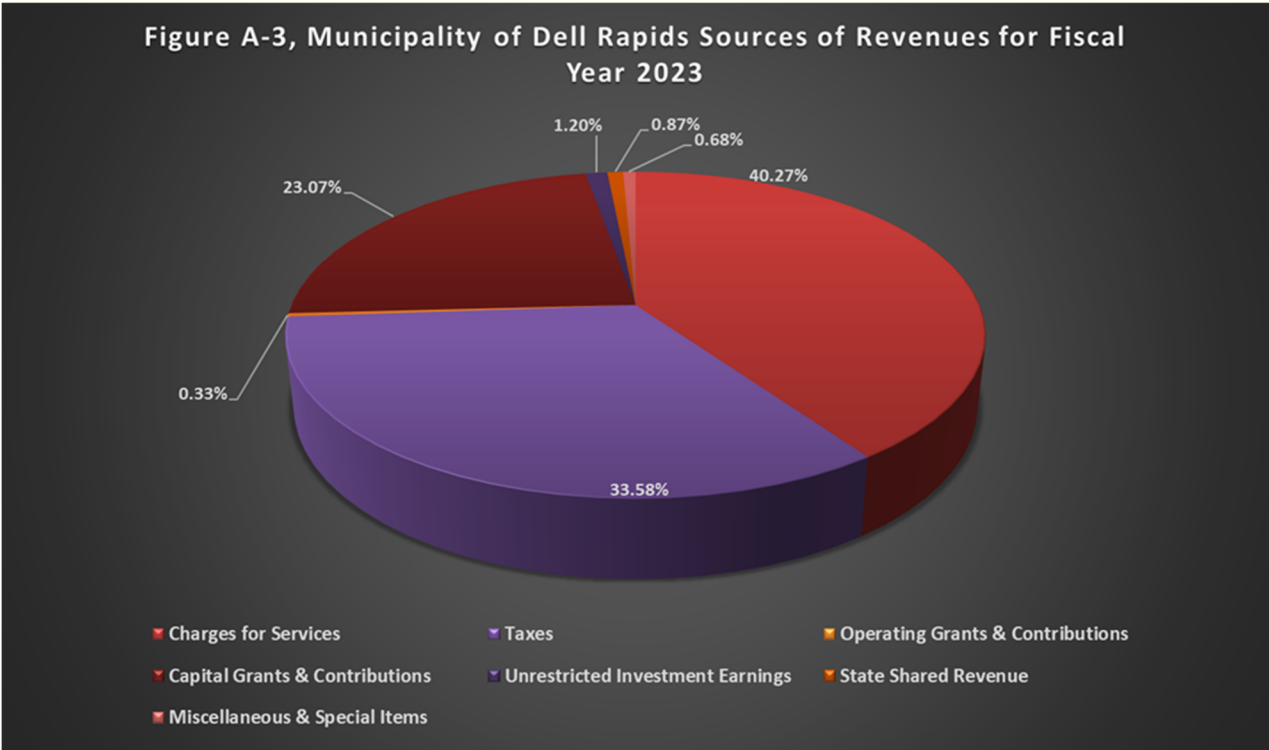
The City's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to additional debt service and GASB 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 City's ongoing obligations to citizens and creditors.

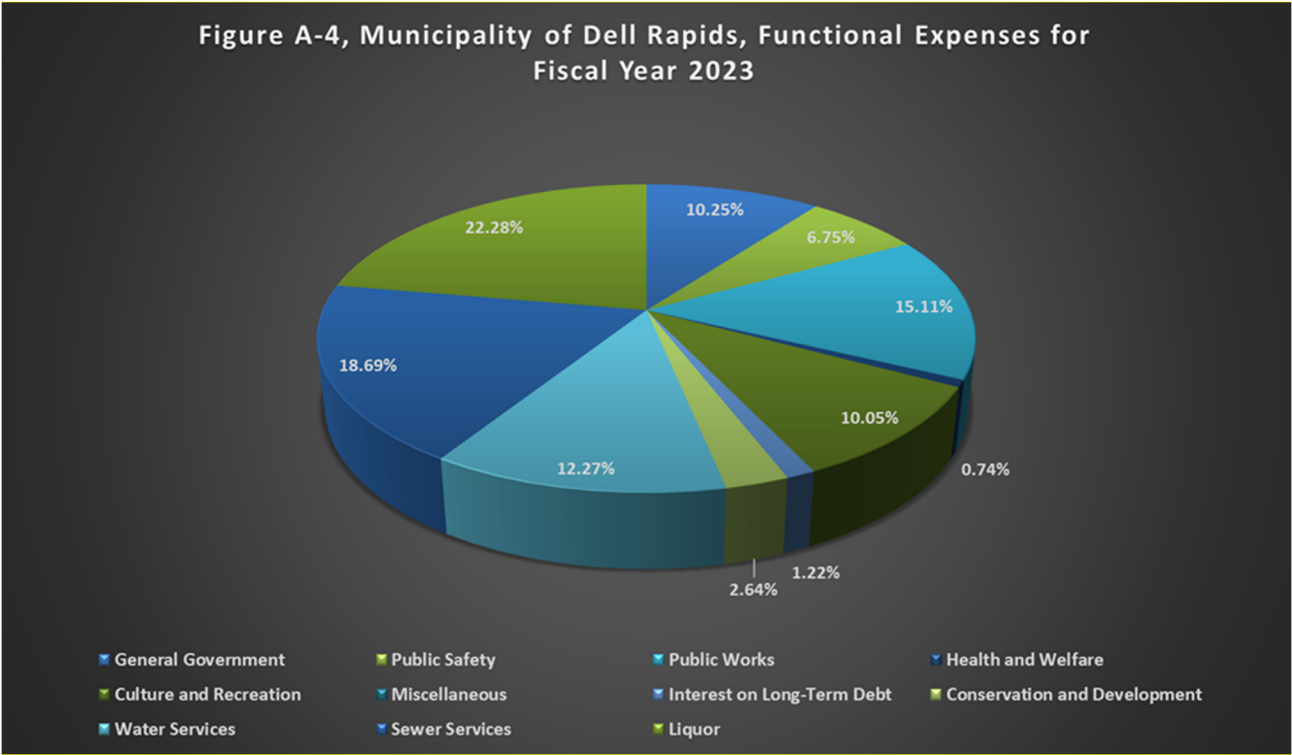
At the end of the current year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior year.

Changes in Net Position

The City’s revenues totaled \$10,308,132 (See Table A-2). Over 70% of the City’s revenue comes from charges for services and taxes, with 40.27 cents of every dollar raised coming from charges for services (primarily water, sewer, and liquor operations) and 33.58 cents of every dollar raised comes from some type of tax (See Figure A-3). The remaining 26.15% comes from capital grants and contributions, state-shared revenues, interest earnings and miscellaneous and special items.



The City’s expenses cover a range of services, with just over half related to Business-type Activities (Water – 12.27%, Sewer – 18.69% , and Liquor Funds – 22.28%) (See Figure A-4).



City of Dell Rapids, South Dakota
Management Discussion and Analysis
December 31, 2023

Table A-2
City of Dell Rapids
Statement of Activities

	Governmental Activities		Business-Type Activities		Total		Total % Change
	2022	2023	2022	2023	2022	2023	
Revenues							
Program Revenues							
Charges for Services	\$ 550,131	\$ 251,466	\$ 3,581,758	\$ 3,899,894	\$ 4,131,889	\$ 4,151,360	0.47%
Operating Grants	15,000	34,150	-	-	15,000	34,150	127.67%
Capital Grants and Contributions	61,076	399,453	85,253	1,978,328	146,329	2,377,781	1524.96%
General Revenues							
Taxes	3,191,973	3,461,583	-	-	3,191,973	3,461,583	8.45%
Revenue State Sources	82,092	89,501	-	-	82,092	89,501	9.03%
Unrestricted Investment Earnings	6,910	90,993	5,520	32,912	12,430	123,905	896.82%
Miscellaneous	205,743	68,002	2,847	1,850	208,590	69,852	-66.51%
Total Revenues	<u>\$ 4,112,925</u>	<u>4,395,148</u>	<u>\$ 3,675,378</u>	<u>\$ 5,912,984</u>	<u>\$ 7,788,303</u>	<u>\$ 10,308,132</u>	32.35%
Expenses							
General Government	\$ 604,245	\$ 753,368	\$ -	\$ -	\$ 604,245	\$ 753,368	24.68%
Public Safety	463,753	496,077	-	-	463,753	496,077	6.97%
Public Works	948,543	1,111,166	-	-	948,543	1,111,166	17.14%
Health and Welfare	50,370	54,433	-	-	50,370	54,433	8.07%
Culture and Recreation	649,273	738,916	-	-	649,273	738,916	13.81%
Conservation and Development	255,443	194,053	-	-	255,443	194,053	-24.03%
Miscellaneous	-	-	-	-	-	-	
Interest on Long-Term Debt	44,805	89,749	-	-	44,805	89,749	100.31%
Water Services	-	-	859,368	901,982	859,368	901,982	4.96%
Wastewater Services	-	-	1,448,867	1,374,055	1,448,867	1,374,055	-5.16%
Liquor	-	-	1,509,441	1,637,854	1,509,441	1,637,854	8.51%
Total Expenses	<u>\$ 3,016,432</u>	<u>\$ 3,437,762</u>	<u>\$ 3,817,676</u>	<u>\$ 3,913,891</u>	<u>\$ 6,834,108</u>	<u>\$ 7,351,653</u>	7.57%
Excess (Deficiency) Before Transfers	1,096,493	957,386	(142,298)	1,999,093	954,195	2,956,479	209.84%
Transfers	<u>39,992</u>	<u>39,992</u>	<u>(39,992)</u>	<u>(39,992)</u>	<u>-</u>	<u>-</u>	
Increase (Decrease) in Net Position	1,136,485	997,378	(182,290)	1,959,101	954,195	2,956,479	
Beginning 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%
Ending Net Position	<u>\$ 19,890,800</u>	<u>\$ 20,888,178</u>	<u>\$ 14,287,526</u>	<u>\$ 16,246,627</u>	<u>\$ 34,178,326</u>	<u>\$ 37,134,805</u>	8.65%

Governmental Activities

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

Governmental revenues for the City increased 6.86% from prior year, and Governmental expenses increased 13.97%. The majority of the increase is due to an increase in property taxes by \$75,000 and sales tax increased by \$198,000. The increase in expenses from prior year is due to the following: executive department expenses increased approximately \$150,000 most of which is due to City Admin turnover and increase in operating costs such as utilities and supplies. Public Works contributed to this increase due to the amount of snow removal needed at the beginning of 2023. The snow department increased \$166,000 as compared to prior year. Finally, the Culture and Recreation Departments increased a total of \$90,000 most of this was in personnel accounts. Most likely due to the increase in pay to pool employees to meet minimum wage standards as well as the increase in nice days they pool could be open as compared to prior year.

Business-type Activities

Revenues of the City's business-type activities increased 60.88%. While expenses remained static with a 2.52% increase. The \$2 million increase in revenues is due to \$126,000 in surcharge revenue increases, as well as, and the most significant reason for the increase in revenues from 2022 is the capital grant funding of \$1.75 million associated with the Third Street Project. Whereas the City did not receive as much loan and grant monies in the previous year.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City 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 additional \$45,000 due to an the departure of the previous City Administrator as well as other increases in applications (website and agenda management).

Snow Removal department was approved for an additional \$200,000 due to the large amounts of snow during the 22-23 winter. The majority of the snow fall took place the first few months of 2023.

Debt Services was approved from an additional \$181,000 to allow for payments on the 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.

CAPITAL ASSET ADMINISTRATION

In 2023 the City finish South East Infrastructure Phase 2 and began work on 3rd street. Both these projects are high dollar infrastructure projects. The City also began work on upgrading the old Wells Fargo building into the new City Hall, Council Chambers, and Even Hall. As such the City's capital assets increased significantly from the prior year (See Table A-3).

Table A-3
City of Dell Rapids - Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total Dollar Change	Total % Change
	2022	2023	2022	2023		
Land	\$ 1,699,294	\$ 1,699,294	\$ 85,157	\$ 85,157	\$ -	0.00%
Construction in Progress	1,265,961	3,005,268	2,873,023	3,203,982	2,070,266	50.02%
Buildings and structures	2,991,713	2,940,409	7,369,289	7,086,647	(333,946)	-3.22%
Improvements Other Than Buildings	7,958,619	8,109,174	11,820,833	14,121,728	2,451,450	12.39%
Machinery and Equipment	651,951	871,226	320,408	296,761	195,628	20.12%
Total Capital Assets (Net)	<u>\$ 14,567,538</u>	<u>\$ 16,625,371</u>	<u>\$ 22,468,710</u>	<u>\$ 24,794,275</u>	<u>\$ 4,383,398</u>	<u>11.84%</u>

This year's major capital asset additions included:

- Governmental fund major additions:
 - Construction in Progress - City Hall/Event Center - \$1,055,641, 3rd Street Project - \$287,095 and Old 77 Rec Trail - \$317,962.
 - As well as the completion of SE Phase 2 project and other minor additions.
- Business-type major additions:
 - Construction in Progress – 3rd Street Project \$2,963,265
 - SE Infrastructure phase 2 - \$2,877,727. As well as other minor additions.

LONG-TERM DEBT

At year-end the City had \$15,317,590 in Sales Tax Revenue Bonds, Water and Wastewater SRF loans, and other long-term obligations. This is an increase of 5.65% 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
	2022	2023	2022	2023		
Compensated Absences	\$ 55,813	\$ 34,508	\$ 32,047	\$ 36,665	\$ (16,687)	-18.99%
Sales Tax Revenue Bond	2,319,306	2,201,569	-	-	(117,737)	-5.08%
Water SRF Loans	-	-	4,292,990	4,872,844	579,854	13.51%
Wastewater SRF Loans	-	-	7,798,912	8,172,004	373,092	4.78%
Total Outstanding Debt and Obligations	<u>\$ 2,375,119</u>	<u>\$ 2,236,077</u>	<u>\$ 12,123,949</u>	<u>\$ 13,081,513</u>	<u>\$ 818,522</u>	<u>5.65%</u>

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

The City has one 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 City has eight outstanding SRF Drinking Water Loans totaling \$4,872,844. 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 2055.

The City has ten outstanding SRF Clean Water Loans totaling \$8,172,004. 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 2055.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

BUDGET SUMMARY

The 2024 proposed spending for all funds is \$16,922,310 as compared to \$14,097,142 in the 2023 adopted budget. These figures are all inclusive of personnel and operational expenditures as well as capital improvements, debt service, 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 2024 Growth has been calculated at 2.51% (\$35,694) and the CPI is 3% (\$42,662). This is a total of \$78,356 additional general fund property tax dollars for the 2024 budget. The total general property tax base amount of 2023 is predicted at \$1,500,427. These numbers were provided to the City by the Minnehaha County Auditor's office. The City automatically receives the Growth projection of 2.51%, however the City has the option to either accept or deny the CPI increase. The City has taken the CPI for the vast majority of budget 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 2023 levy level of 4.216. It is predicted that the mill levy will decrease again in 2024 because of the strong 2.51% growth percentage. The estimate (emphasize estimate) based on current numbers would be a very slight decrease from the current levy rate of 4.216 to approximately 3.89. 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 2024 has been budgeted at \$1,500,000. This amount was increased from the budgeted amount of \$900,000 in 2021 and \$1,000,000 in 2022 and \$1,200,000 in 2023. The City continues to see strong sales tax growth with the current trend at a 14% increase in 2023. 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 2024 is that sales tax revenue should remain the same or in slight excess of 2023. 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 \$1,500,000 in sales tax.

The City Council amended the City's adopted Pay Plan in 2021. This new pay strategy has been implemented into the 2024 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 2023 (3%). This will be implemented at the first meeting in January in the form of the Payroll Resolution. The budget also reflects an up to 3% merit increase for employees. The total impact to the budget is an 6% 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 6% 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 conducted a wage and salary survey in 2023. The results of that survey determined that the majority of the City wages are in line with our areas market rates, proving the Pay Plan strategy implemented in 2004 is still working in 2023.

In 2024 City Administration is recommending the hiring of additional staff to serve our community. The growth of the City coupled with major projects and increased reporting requirements have combined to become a burden for the three City Hall employees. Administration is recommending the hiring of an additional Administrative Assistant type position that can be the point person and initial contact for all City related matters. This position would serve as a traffic director to be located in the newly designed front office at the entrance to City Hall. With the addition of this position, Administration is recommending the City transition the current Utility Billing/Administrative Assistant into a roll more in line with an Assistant Finance Officer position. The current employee in this position has proven a capacity to take on these additional tasks, that will provide for more collaboration between this position and the Finance Officer. The City is essentially entering into a new business with the addition of the Community Event Hall operation. The City will need to hire additional employees in the form of an Event Hall Manager, bartenders and other catering type staff. Administration has calculated estimates for the hiring of Part-Time event Hall Manager and estimated hours for additional staffing of the Community Hall facility over a six-month period. These position are described more in depth in the General Fund section of this budget memo.

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 just under 50% (\$8,030,282) of total proposed spending in 2024, 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 2024 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 2024. The budget reflects an increased commitment of \$500,000 towards the maintenance of street infrastructure in the form of crack sealing, slurry seal and asphalt overlaying. The City plans to complete the 3rd Street project in 2024. This project is mainly funded by the Water and Wastewater funds however the General Fund will cover the ineligible loan costs of the project. Fortunately, the City is able to utilize the DOT Community Access Grant revenue to fully cover 3rd Street General Fund expenditure. 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 2023. 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 2024, with anticipated construction to occur in 2025.

This 2024 budget attempts to begin a shift towards more heavily concentrating General Fund dollars towards quality-of-life infrastructure projects. The City has a positive history of focusing on increasing the quality of life of our community through improvements to our parks and trails systems. However, infrastructure has been the main focus of City funds. Administration foresees more concentration in Council priorities towards quality of life park type project. Projects that more that will attract and retain young and aging families in our community. The public demand for improvements to our parks system has become more apparent as community-based groups continue to approach the Council for improvements to areas such as the ballfield. The City engaged an engineering consulting firm in 2023 to begin the process of creating a Master Parks Plan. This Master Parks Plan will be completed in 2024 to provide the Council with further guidance. While the Council awaits this important future based plan, the City will continue to invest in our parks. The City, along with community and State partners has established the Sioux River Red Rock Trail system. This trail system has become the envy of our neighbors in eastern South Dakota. The City continued the expansion of this trail in 2023 with the first phase of the Old 77 Trail, installed between 7th and 10th Street. This first phase was offset with a \$400,000 DOT TA Grant, SRRT committee commitments and general funds. The second phase of the Old 77 Trail is scheduled to be installed in 2024 between 4th and 7th and 10th and 15th Streets with the assistance of a \$600,000 DOT TA Grant. This the biggest expense within the Parks budget. The completion of this section of trail completes the initial vision for a bike trail in Dell Rapids. The City will be working through the Parks Master Plan to begin visualization of additional trail loops or spurs to expand our great trail system.

The City has also been seeking for several years to create a new public shelter and comfort station facility in the City Park. The budget for this project is currently \$900,000. The design of this facility would allow for community events and gatherings to be based out of the facility in the summer and the heated restroom facilities would provide 365 days of use. The City is awaiting word on a Game Fish and Parks LWCF Grant. This grant would allow the City to pursue this long planned important quality of life project.

The Park and Recreation Funds reflects additional projects. The City has seen increased engagement from individuals throughout the community requesting improvements to the City's extensive park system. One of the groups the City has been meeting with on a regular basis is the Dell Rapids Baseball Association. This group has begun to identify projects and prioritize and rank by necessity. The Baseball Association is requesting the City to make an investment in Rickeman Field. One request is to replace the infield, making the field more playable and safer. They are also requesting consideration to fence in the spectator area in order to control traffic in and out of games and collect gate fees. Additional work is requested on both Volunteer Field and the Field E the newly dedicated High School Softball Field. Administration is recommending that each of these requested improvements is discussed and determined later and not at the August 8th budget meeting. A placeholder of \$170,000 has been penciled into the budget. This amount of funding should cover a substantial amount of improvements in 2024. The City should consider funding improvements at this level for the next several years to continue investment in our field infrastructure.

The City is continuing our commitment towards our Tree City USA Status. The Arboreal budget reflects this commitment towards removing, replacing and treating trees associated with Emerald Ash Borer. The City will also continue the Tree Rebate Program into 2024.

One of the most exciting expenses drafted into the 2024 budget is the completion of the City Hall and Community Event Hall project. The City is funding this project through the combination of a sales tax revenue bond and General Fund reserve funds. It has been acknowledged that the original project budget was exceeded by \$500,000. Therefore this budget reflects a studious use of the general fund dollars that will make sure this facility is outfitted properly but within a reasonable budget. The budget reflects the purchase of furniture and necessary council chambers and office related materials. The budget reflects the installation of proper AV systems for the continuation of televising Council meetings. There is also an IT and communication systems budget for the main floor. The lower floor that houses the Community Event Hall, reflects a budget to purchase the catering kitchen equipment, tables and chairs, glasses, dishware and utensils to create a fully functioning event facility. The City has also budgeted to install an AV system for projecting videos with a speaker system and lighting system that caters to the standard for modern day events. As mentioned previously in the memo, the general fund also reflects a budget to staff this facility as operations are anticipated to begin sometime in mid-2023.

The City and Community Event Hall is a legacy project for all involved. The City Council set out to complete this project in a fiscally responsible manner. The bids for the project exceeded the \$2.5 million estimate by \$500,000. The Council made the decision to remove an addition that was planned to house the Minnehaha County Sherriff's office to better fit the budget. The City made then made decision to award bids and pay for the cost increases by utilizing the \$2 million Sales Tax Revenue bond, dedicating reserve funds, utilizing 2023 unspent budget fund, utilizing an investment strategy and budgeting 2024 budget dollars towards this project. The all in costs with furniture and all other necessary needs is estimated in the range of \$3.5 million. This City Hall project is the main reason for the 2024 budget deficit. However, this long term investment in the operations of our City and the benefits of the Community Hall will serve the City well for countless years to come. The 2024 General Fund budget reflects the payment of \$220,000 towards the Sales Tax Revenue Bond issued for this project.

The Dell Rapids Carnegie Library requested and received an increase to the wages of their staff in 2023. The Library is not seeking increases to their operations in 2024. Small increases to their supply budget have been included. The Library Board is planning a transition away from collecting Fines and Fees. A few of these expenses like postage have been shifted away from the Library Fines and Fees fund to the General Fund. The Library Board and the Library Staff is appreciative of the collaboration they have with the City to create one of the best independent Libraries in the State.

City Hall has maintained the same number of staff since 2011, when the City hired a Full-Time Building Inspector/Code Enforcement Officer. This City has continued to grow and the responsibilities of day to day tasks and expectations have continued to increase. The City made the decision to hire a Utility Billing/Administrative Assistant position as a replacement of the former retired Utility Billing Clerk. The City also replaced a Full-Time Building Inspector with a Part-Time Building Inspector in 2023. It has become apparent that the level of services expected by the public are not being met and the workloads of the current City Administrator, Finance Officer and Utility Billing Administrative Assistant position have become overwhelming. It is crucial that the City add positions to the office administrative functions of the City organization. City Administration is requesting and budgeting to add a receptionist/administrative assistant type position. This position would occupy the entrance office designed in the front vestibule of the City Hall design. This position would be considered a traffic director and first point of contact for all City functions. This position will also focus on office organizational, secretarial, and administrative duties. Administration would like to gain approval to bring an individual on staff yet in 2023 to begin training and educating this individual on the functions of the City. Administration is also requesting to re-instate a Full-Time Building Inspector or Planning Director type position. The number of permits and Planning and Zoning related applications, questions and requests that occur monthly at City Hall can't be handled by a part-time position. Administration is planning to transition to a full time position prior to the end of 2023. As mentioned earlier in the Memo, it is will also be necessary to bring on board an Event Hall Coordinator. The new Event Hall will require the organization and implementation of events that will occur at the new public facility. This position is budgeted to be hired in mid-2024. Administration would like to explore this position also potentially involving themselves with other City functions that mainly occur during the summer months. Perhaps this position could be involved with coordinating more youth Parks and Recreation activities. This is a theory that could be explored at a later time, after the City has the opportunity to analyze the time dedication required of the Event facility. The final recommendation of City Administration for the 2024 budget is the promotion of the transition of the current Utility Billing/Administrative Assistant position to an Assistant Finance Officer position. City Administration had planned this transition in 2022, however the City was not able to hire an Assistant Finance Officer. After nearly a year on staff, the current staff member in this position has proven themselves capable of taking on more finance related tasks. Both Finance Officer Baartman and Administrator Weiland face increasing responsibilities and workloads. The addition of capable staff member will provide relief to allow for more focus on important responsibilities. The 2024 Budget reflects wages and benefits that will accomplish the addition of these new positions.

Beyond these positions, the Administration recommends the City continue to analyze the responsibilities of our City government and the services we currently offer to determine if additional staff would be beneficial to our operations. Administration would like to the Council to potentially consider transitioning the current contract SMGA Economic Development position into a Full Time roll for the City. The skills of this position could be combine to better handle Planning and Zoning related tasks, building permit functions and Economic Development planning, inquiries, strategies and hosting. This and other future staffing strategies are conversations the Council should have either at the budget meeting or future meetings.

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, swimming pool season passes, City Council meeting viewing and agenda management system. In 2023 the City implemented on-line building permit, code enforcement and complaint reporting system.

A continued 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 seen a consistent staffing of responsible drivers in 202. The budget reflects a City responsibility of \$50,000 to cover the costs of operation minus the federal funds and ride fares received. This \$50,000 will cover the additional costs of the operation of a new Transit Facility that will be constructed in 2023 and 2024. The City did finally receive approval from the State to bid and build the planned three stall transit facility in 2023. The City and BATA will continue to analyze expenditures and make further efforts to gain more Medicare rides and seek advertising partnerships.

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 \$103,200 to continue the pursuit of their goals in 2024. The budget reflects a contribution of \$103,200 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 Professional Services program in 2022 and has continued to see contributions to the economic development goals of our City. Economic Development is broken out between the General Fund and 3rd Penny Sales tax the same as previous years. The other significant community group related request for funding is the Chamber of Commerce with a request of \$75,000. The Chamber of Commerce requested this same amount for the 2023 budget and the City approved \$50,000. This is a significant increase from the years of 20 through 22 in the amount of \$40,000. The Chamber sought to increase the salary of the Full-Time Chamber Director and increase the services of the organization. Administration has left the budget in the amount of \$50,000 in 2023 as an increase of \$50,000 to \$60,000 is a 20% increase. This is a discussion item Administration is requesting the Council consider. The Fire Department is requesting a 10% increase to their budget in 2024. The Council provided a one-time contribution of \$20,000 in 2023 for the purchase of an SCBA air system but did not provide an increase in 2023. The independent Dell Rapids Ambulance organization has requested an increase from \$50,000 in 2023 to \$55,000 in 2024. The Ambulance service fee has remained the same between 2018 and 2022, therefore Administration included the request of \$55,000. The Dell Rapids Haven requested the same request as 2023 of \$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 2024. 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 and \$6,000 in 2023. Administration has honored their request of \$7,000 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 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 a 3 and 5%. 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%.. The budget reflects a 3% 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 SD Health Pool has been a stable provider for the City's health insurance needs.

The General Fund currently reflects a deficit of \$3,143,078. 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 very high compared to previous years; This historically high budget deficit is directly attributed to the new City Hall and Community Event Center project. The City is consciously and strategically dedicating reserve funds towards this important community project. The City reserves are healthy and in need of being spent on capital projects like the City Hall project. The City has continually spent less than we take in every year to create the healthy reserve fund. In fact the City's audits reflect the City consistently taking in more than we spend on annually, therefore the transfer from the General Fund reserves is never as severe as what is annually budgeted. Other items affecting the deficit are the Old7 Trail 2nd Phase, the open air comfort station facility in the park, improvements to the ballfields, and commitment to the annual street maintenance of our aging streets.

Water Fund

The City has already made large strides towards the replacement of failing water infrastructure. The City spent multiple years planning and designing for the next project that includes the replacement of the water main under 3rd Street, from Hwy 115 to Orleans Avenue. The 2023 portion of the project included 3rd Street from Orleans to Clark and its side streets of Orleans and Ladelle Ave. The 2024 sections will include Clark Ave west to Hwy 115 and the side streets 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 DANR to cover the \$1,724,100 of expenses. In accordance with engineering calculations the 2024 budget is \$1.1 million. The 3rd Street Project will also place partial assessments of towards those benefitting property owners. The project is making great progress in 2023 and the City is looking forward to complete this important and necessary project in 2024.

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.

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. In 2023 the implementation of a \$6.15 surcharge directly attributed to the 3rd Street project.

In 2024, City Administration and the Finance Office are recommending increasing the base and the per 1,000 gallon usage rate by 3%. This increase is recommended to assure the City continues to cover inflationary and operational expenses within the water department. The City needs to continue small percentage increase to rates that are outside the project based surcharges. The City is facing large scale expenses in the water fund in future years as we explore alternative water resources. The City will need to assure that we generate a positive cash basis in order to have a stake in these large scale investment. Another reason to increase water rates is to continue reaching towards the DANR threshold to receive grant funding of \$52.00 per month. The per 5,000 gallon rate following the implementation of the new \$6.15 3rd St Surcharge will be \$51.05. A 3% increase will increase the usage rate by an additional \$1.00. This will place the City in a position to receive grant funding for future DANR funding requests. The City should maintaining these small rate increases is considered a best practices for a municipal utilities.

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 under 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 \$293,715 in 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 2024.

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. After determining the next project priorities, the 3rd Street project was identified as the next large scale infrastructure project in the community. The first year of this project started in 2023 with the completion of 3rd Street between Orleans and Clark Ave and the side streets of Orleans and Ladelle Ave. The 2024 budget includes completing this project from Clark Avenue to Hwy 115 including the side streets of Clark, Iowa and Juniata Ave. The project will remove and replace all wastewater lines and include storm sewer improvements that extend to the Big Sioux river. The 2024 budget reflects the approximate amount anticipated to be spent in the amount of \$3,200,000. 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 2024 budget.

The City has continually raised rates to fund waste water related capital improvements. In 2023, the City implemented the required surcharge associated with the 3rd Street project in the amount of \$9.40 per user. The City was fortunate to receive \$3.5 million in wastewater related grants as the surcharge could have been in excess of \$15.00 per user. With the implementation of the new surcharge, rates were increased to anticipated to be \$71.15 per month for 5,000 gallons of use.

In 2024, Administration and the Finance Office have recommended a 5% increase to the base wastewater rates. 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. The surcharges are only dedicated towards their projects, therefore the operational revenues of the Waste Water Fund are falling behind. With increased expenses associated with operating and maintaining a facility to meet EPA and DANR standards as well as staff and inflationary increases, the City does not have a choice but to continue raising fees to keep up. Annual planned percentage increases to the base rate should become the standard practice of the waste water fund and they have not been the past several year. The 5% increase to the base and per 1,000 gallon rate will increase the total bill of customers by \$2.05 per 5,000 gallons.

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 wastewater fund is a proprietary fund; therefore it is not necessary to create a zero budgeted balance. However, the current budget balance is approximately \$559,672 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 2024. 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 \$30,000 towards the addition of a window and deck to be installed in the rear of the City Owned bar facility.

New to 2024 will be the implementation an additional City owned property in the new Event Hall. City Administration is recommending all alcohol sold from this property is done through a City owned license. The SD State Legislature recently created a municipal owned License for Event Centers.

3rd Penny Sales Tax

The 3rd Penny Sales Tax fund currently generates approximately \$40,000 in revenue annually. 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 2023 budget included the purchase of a new Street Sweeper.

The total expenditures in the Equipment Replacement fund in 2024 is budgeted at \$70,000 for the purchase of a new Pickup Truck for the Public Works Department and a new Mower for the Parks Department. The General Fund will contribute \$90,000, the water fund will contribute \$15,000 and Wastewater Fund will contribute \$20,000. The combined total from all three funds is \$125,000. After the purchase of the Street Sweeper and the contributions from the General and Water, the current fund balance within the Equipment Replacement Fund is \$373,000. After the purchase of the mower and pickup in 2024 and the contributions back into the fund the fund balance is anticipated to hover around \$423,000.

The City needs to continue to plan 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 is being bumped to funding at \$125,000 in 2024. 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 2024 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 CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors/creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the Dell Rapids Finance Office, 317 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, 2023

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 4,903,535	\$ 4,500,184	\$ 9,403,719
Investments	1,500,000	-	1,500,000
Taxes Receivable--Delinquent	11,519	-	11,519
Accounts Receivable, Net	28,754	376,070	404,824
Unbilled Revenue	-	59,616	59,616
Special Assessments Receivable--Current	35,995	-	35,995
Special Assessments Receivable--Noncurrent	269,880	-	269,880
Interest Receivable	20,739	-	20,739
Leases Receivable - Current	200	59,040	59,240
Leases Receivable - Noncurrent	-	111,800	111,800
Due from State Governments	38,049	-	38,049
Due for County	17,786	-	17,786
Accrued Interest on Investments Purchased	36,049	-	36,049
Inventory of Supplies	38,190	85,248	123,438
Prepaid Items	42,756	18,679	61,435
Intangible Lease Asset	173	-	173
Net Pension Asset	(1,140)	4,040	2,900
Capital Assets:			
Land, Improvements and Construction/Development in Progress	4,704,562	3,289,139	7,993,701
Other Capital Assets, Net of Depreciation/Amortization	11,920,809	21,505,136	33,425,945
TOTAL ASSETS	23,567,856	30,008,952	53,576,808
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	145,999	86,810	232,809
LIABILITIES:			
Accounts Payable	397,731	200,641	598,372
Lease Liability - Current	173	-	173
Contracts Payable - Retained Percentage	50,821	231,520	282,341
Accrued Interest Payable	33,837	82,454	116,291
Accrued Wages Payable	19,682	13,266	32,948
Amounts Held for Others	753	-	753
Unearned Revenue	21	-	21
Customer deposits	109	9,655	9,764
Noncurrent Liabilities:			
Due Within One Year - bonds and compensated absences	123,729	591,480	715,209
Due in More than One Year - bonds and compensated absences	2,112,348	12,490,033	14,602,381
TOTAL LIABILITIES	2,739,204	13,619,049	16,358,253
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	86,273	59,246	145,519
Other Deferred Inflows of Resources	200	170,840	171,040
TOTAL DEFERRED INFLOWS OF RESOURCES	86,473	230,086	316,559
NET POSITION:			
Net Investment in Capital Assets	14,372,980	11,517,907	25,890,887
Restricted For:			
Library	65,949	-	65,949
City Promotion	236,014	-	236,014
Revenue Bond Debt Service	230,380	938,890	1,169,270
SDRS Pension Purposes	58,586	31,604	90,190
Unrestricted	5,924,269	3,758,226	9,682,495
TOTAL NET POSITION	\$ 20,888,178	\$ 16,246,627	\$ 37,134,805

City of Dell Rapids, South Dakota

Statement of Activities

Year Ended December 31, 2023

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		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 753,368	\$ 11,091	\$ -	\$ -	\$ (742,277)	\$ -	\$ (742,277)
Public Safety	496,077	43,111	34,150	337,500	(81,316)	-	(81,316)
Public Works	1,111,166	82,790	-	-	(1,028,376)	-	(1,028,376)
Health and Welfare	54,433	-	-	-	(54,433)	-	(54,433)
Culture and Recreation	738,916	114,474	-	-	(624,442)	-	(624,442)
Conservation and Development	194,053	-	-	-	(194,053)	-	(194,053)
Interest on Long-term Debt	89,749	-	-	-	(89,749)	-	(89,749)
Total Governmental Activities	<u>3,437,762</u>	<u>251,466</u>	<u>34,150</u>	<u>337,500</u>	<u>(2,814,646)</u>	<u>-</u>	<u>(2,814,646)</u>
Business-type Activities:							
Water	901,982	983,192	-	-	-	81,210	81,210
Wastewater	1,374,055	1,098,707	-	1,978,328	-	1,702,980	1,702,980
Liquor	1,637,854	1,817,995	-	-	-	180,141	180,141
Total Business-Type Activities	<u>3,913,891</u>	<u>3,899,894</u>	<u>-</u>	<u>1,978,328</u>	<u>-</u>	<u>1,964,331</u>	<u>1,964,331</u>
Total Primary Government	<u>7,351,653</u>	<u>4,151,360</u>	<u>34,150</u>	<u>2,315,828</u>	<u>(2,814,646)</u>	<u>1,964,331</u>	<u>(850,315)</u>
General Revenues:							
Taxes:							
Property Taxes					1,543,721	-	1,543,721
Sales Taxes					1,917,862	-	1,917,862
State Shared Revenues					89,501	-	89,501
Grants and Contributions not Restricted to Specific Programs					61,953	-	61,953
Unrestricted Investment Earnings					90,993	32,912	123,905
Miscellaneous Revenue					68,002	1,850	69,852
Transfers					39,992	(39,992)	-
Total General Revenues and Transfers					<u>3,812,024</u>	<u>(5,230)</u>	<u>3,806,794</u>
Change in Net Position					997,378	1,959,101	2,956,479
Net Position - Beginning					19,890,800	14,287,526	34,178,326
NET POSITION - ENDING					<u>\$ 20,888,178</u>	<u>\$ 16,246,627</u>	<u>\$ 37,134,805</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, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 4,258,983	\$ 301,763	\$ 4,560,746
Investments	1,500,000	-	1,500,000
Taxes Receivable--Delinquent	11,519	-	11,519
Accounts Receivable, Net	28,754	-	28,754
Special Assessments Receivable--Current	35,995	-	35,995
Special Assessments Receivable--Noncurrent	269,880	-	269,880
Interest Receivable--Special Assessments	20,739	-	20,739
Leases Receivable	200	-	200
Due from State Governments	37,849	200	38,049
Due for County	17,786	-	17,786
Accrued Interest on Investments Purchased	36,049	-	36,049
Inventory of Supplies	37,942	248	38,190
Prepaid Items	42,756	-	42,756
Intangible Lease Asset	173	-	173
TOTAL ASSETS	\$ 6,298,625	\$ 302,211	\$ 6,600,836
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Accounts Payable	\$ 397,731	\$ -	\$ 397,731
Contracts Payable--Retained Percentage	50,821	-	50,821
Lease Liability - Current	173	-	173
Accrued Interest Payable	33,837	-	33,837
Accrued Wages Payable	19,682	-	19,682
Accrued Taxes Payable	21	-	21
Amounts Held for Others	753	-	753
Unapplied Credits	109	-	109
Total Liabilities	503,127	-	503,127
Deferred Inflows of Resources:			
Unavailable Revenue--Property Taxes	11,519	-	11,519
Unavailable Revenue--Special Assessments	326,615	-	326,615
Other Deferred Inflows of Resources	200	-	200
Total Deferred Inflows of Resources	338,334	-	338,334
Fund Balances:			
Nonspendable	80,698	248	80,946
Restricted	230,380	301,963	532,343
Unassigned	5,146,086	-	5,146,086
Total Fund Balances	5,457,164	302,211	5,759,375
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 6,298,625	\$ 302,211	\$ 6,600,836

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, 2023

Total Fund Balances - Governmental Funds	\$ 5,759,375
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.	(1,140)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	16,065,805
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	145,999
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.	(2,236,077)
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.	338,134
Pension and lease related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	(86,273)
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.	902,355
Net Position - Governmental Activities	<u>\$ 20,888,178</u>

City of Dell Rapids, South Dakota
Governmental Funds
Statement of Revenues, Expenditures, and Changes in Fund Balances
Year Ended December 31, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	\$ 1,546,942	\$ -	\$ 1,546,942
General Sales and Use Taxes	1,835,941	81,921	1,917,862
Penalties and Interest on Delinquent Taxes	2,793	-	2,793
Licenses and Permits	32,128	-	32,128
Intergovernmental Revenue:			
Federal Grants	20,933	13,217	34,150
State Grants	337,500	-	337,500
State Shared Revenue:			
Bank Franchise Tax	61,874	-	61,874
Prorate License Fees	3,640	-	3,640
Liquor Tax Reversion (25%)	27,627	-	27,627
Motor Vehicle Licenses	35,354	-	35,354
Local Government Highway and Bridge Fund	54,543	-	54,543
County Shared Revenue:			
County Wheel Tax	6,442	-	6,442
Charges for Goods and Services:			
General Government	931	-	931
Public Safety	2,233	-	2,233
Sanitation	11,377	-	11,377
Culture and Recreation	104,574	-	104,574
Fines and Forfeits:			
Parking Meter Fines	1,550	-	1,550
Library	-	4,900	4,900
Other	160	-	160
Miscellaneous Revenue:			
Investment Earnings	86,923	1,619	88,542
Rentals	2,200	-	2,200
Special Assessments	31,477	-	31,477
Contributions and Donations from Private Sources	-	61,953	61,953
Other	38,275	-	38,275
Total Revenue	<u>4,245,417</u>	<u>163,610</u>	<u>4,409,027</u>
Expenditures:			
General Government:			
Legislative	61,380	-	61,380
Executive	299,896	-	299,896
Financial Administration	187,592	-	187,592
Capital Outlay	1,077,300	-	1,077,300
Other	141,475	-	141,475
Total General Government	<u>1,767,643</u>	<u>-</u>	<u>1,767,643</u>
Public Safety:			
Police	309,920	-	309,920
Fire	93,073	-	93,073
Protective Inspection	24,304	-	24,304
Other Protection	24,890	13,787	38,677
Total Public Safety	<u>452,187</u>	<u>13,787</u>	<u>465,974</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, 2023

	General Fund	Other Governmental Funds	Total Governmental Funds
Public Works:			
Highways and Streets	609,150	-	609,150
Sanitation	10,766	-	10,766
Transit	23,745	-	23,745
Capital Outlay	732,687	-	732,687
Total Public Works	<u>1,376,348</u>	<u>-</u>	<u>1,376,348</u>
Health and Welfare:			
Health	2,056	-	2,056
Humane Society	2,377	-	2,377
Ambulance	50,000	-	50,000
Total Health and Welfare	<u>54,433</u>	<u>-</u>	<u>54,433</u>
Culture and Recreation:			
Recreation	170,952	-	170,952
Parks	141,074	-	141,074
Libraries	274,897	5,702	280,599
Capital Outlay	654,034	-	654,034
Total Culture and Recreation	<u>1,240,957</u>	<u>5,702</u>	<u>1,246,659</u>
Conservation and Development:			
Economic Development and Assistance	169,902	24,151	194,053
Debt Service			
Principal	117,737	-	117,737
Interest	89,749	-	89,749
Total Expenditures	<u>5,268,956</u>	<u>43,640</u>	<u>5,312,596</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,023,539)</u>	<u>119,970</u>	<u>(903,569)</u>
Other Financing Sources (Uses):			
Transfers In	120,000	-	120,000
Sale of City Property	12,712	-	12,712
Transfers Out	(80,008)	-	(80,008)
Total Other Financing Sources (Uses)	<u>52,704</u>	<u>-</u>	<u>52,704</u>
Net Change in Fund Balances	(970,835)	119,970	(850,865)
Fund Balance - Beginning	<u>6,427,999</u>	<u>182,241</u>	<u>6,610,240</u>
FUND BALANCE- ENDING	<u>\$ 5,457,164</u>	<u>\$ 302,211</u>	<u>\$ 5,759,375</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, 2023

Net Change in Fund Balances - Total Governmental Funds \$ (850,865)

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. 2,453,215

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. (616,466)

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. 117,737

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.

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". (6,014)

Governmental funds report special assessments and lease receivables 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. (145,043)

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. 21,306

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g., accrued interest expense, pension expense) (9,767)

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. 33,275

Change in Net Position of Governmental Activities \$ 997,378

City of Dell Rapids, South Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2023

	Budgeted Amounts			Variance with Final Budget
	Original	Final	Actual Amounts	Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	\$ 1,558,668	\$ 1,558,668	\$ 1,546,942	\$ (11,726)
General Sales and Use Taxes	1,200,000	1,200,000	1,835,941	635,941
Amusement Taxes	350	350	-	(350)
Penalties and Interest on Delinquent Taxes	1,500	1,500	2,793	1,293
Licenses and Permits	28,500	28,500	32,128	3,628
Intergovernmental Revenue:				
Federal Grants	400,000	400,000	20,933	(379,067)
State Grants	872,000	872,000	337,500	(534,500)
Bank Franchise Tax	55,000	55,000	61,874	6,874
Prorate License Fees	3,500	3,500	3,640	140
Liquor Tax Reversion (25%)	25,000	25,000	27,627	2,627
Motor Vehicle Licenses	30,000	30,000	35,354	5,354
Local Government Highway and Bridge Fund	50,000	50,000	54,543	4,543
County Wheel Tax	6,000	6,000	6,442	442
Charges for Goods and Services:				
General Government	1,000	1,000	931	(69)
Public Safety	1,000	1,000	2,233	1,233
Sanitation	7,500	7,500	11,377	3,877
Culture and Recreation	63,000	63,000	104,574	41,574
Fines and Forfeits:				
Court Fines and Costs	100	100	-	(100)
Parking Meter Fines	1,000	1,000	1,550	550
Other	100	100	160	60
Miscellaneous Revenue:				
Investment Earnings	500	500	86,923	86,423
Rentals			2,200	2,200
Special Assessments	-	-	31,477	31,477
Other	257,900	257,900	38,275	(219,625)
Total Revenue	4,562,618	4,562,618	4,245,417	(317,201)

City of Dell Rapids, South Dakota

General Fund

Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended December 31, 2023

Expenditures:

General Government:				
Legislative	62,200	62,200	61,380	820
Contingency	50,000	-	-	-
Executive	240,010	285,010	299,896	(14,886)
Elections	3,300	3,300	-	3,300
Financial Administration	241,540	241,540	187,592	53,948
Capital Outlay	825,000	825,000	1,077,300	(252,300)
Other	138,500	138,500	141,475	(2,975)
Total General Government	<u>1,560,550</u>	<u>1,555,550</u>	<u>1,767,643</u>	<u>(212,093)</u>
Public Safety:				
Police	309,920	309,920	309,920	-
Fire	94,643	94,643	93,073	1,570
Protective Inspection	92,701	92,701	24,304	68,397
Other Protection	56,000	56,000	24,890	31,110
Total Public Safety	<u>553,264</u>	<u>553,264</u>	<u>452,187</u>	<u>101,077</u>
Public Works:				
Highways and Streets	463,910	663,910	609,150	54,760
Sanitation	20,945	20,945	10,766	10,179
Transit	50,000	50,000	23,745	26,255
Capital Outlay	1,150,000	1,150,000	732,687	417,313
Total Public Works	<u>1,684,855</u>	<u>1,884,855</u>	<u>1,376,348</u>	<u>508,507</u>
Health and Welfare:				
Health	6,395	6,395	2,056	4,339
Humane Society	3,100	3,100	2,377	723
Ambulance	50,000	50,000	50,000	-
Total Health and Welfare	<u>59,495</u>	<u>59,495</u>	<u>54,433</u>	<u>5,062</u>
Culture and Recreation:				
Recreation	151,090	151,090	170,952	(19,862)
Parks	236,375	236,375	141,074	95,301
Libraries	272,000	272,000	274,897	(2,897)
Capital Outlay	1,551,000	1,551,000	654,034	896,966
Total Culture and Recreation	<u>2,210,465</u>	<u>2,210,465</u>	<u>1,240,957</u>	<u>969,508</u>
Conservation and Development:				
Economic Development and Assistance	233,500	233,500	169,902	63,598
Total Conservation and Development	<u>233,500</u>	<u>233,500</u>	<u>169,902</u>	<u>63,598</u>
Debt Service				
Principal	19,500	120,500	117,737	2,763
Interest	10,000	90,000	89,749	251
Total Debt Service	<u>29,500</u>	<u>210,500</u>	<u>207,486</u>	<u>3,014</u>
Total Expenditures	<u>6,331,629</u>	<u>6,707,629</u>	<u>5,268,956</u>	<u>1,438,673</u>
Excess of Revenues Over (Under) Expenditures	<u>(1,769,011)</u>	<u>(2,145,011)</u>	<u>(1,023,539)</u>	<u>1,121,472</u>
Other Financing Sources (Uses):				
Transfers In	120,000	120,000	120,000	-
Sale of City Property	-	-	12,712	12,712
Transfers Out	(80,008)	(80,008)	(80,008)	-
Total Other Financing Sources (Uses)	<u>39,992</u>	<u>39,992</u>	<u>52,704</u>	<u>12,712</u>
Net Change in Fund Balances	<u>(1,729,019)</u>	<u>(2,105,019)</u>	<u>(970,835)</u>	<u>1,134,184</u>
Fund Balance - Beginning	<u>6,427,999</u>	<u>6,427,999</u>	<u>6,427,999</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 4,698,980</u>	<u>\$ 4,322,980</u>	<u>\$ 5,457,164</u>	<u>\$ 1,134,184</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, 2023

	Enterprise Funds				Internal
	Water Fund	Wastewater Fund	Liquor Fund	Totals	Service Funds
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 1,647,716	\$ 2,430,922	\$ 421,546	\$ 4,500,184	\$ 342,789
Accounts Receivable, Net	80,808	142,172	153,090	376,070	-
Unbilled Revenue	25,072	34,544	-	59,616	-
Leases Receivable	41,040	-	18,000	59,040	-
Inventory of Supplies	67,016	18,232	-	85,248	-
Prepaid Items	9,477	8,415	787	18,679	-
Total Current Assets	1,871,129	2,634,285	593,423	5,098,837	342,789
Noncurrent Assets:					
Lease Receivable - Non Current	84,800	-	27,000	111,800	-
Net Pension Asset	2,020	2,020	-	4,040	-
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	5,938,226	10,880,730	-	16,818,956	-
Furnishings and Equipment	540,465	119,070	69,042	728,577	1,471,763
Construction/Development in Progress	894,271	2,309,711	-	3,203,982	-
Less: Accumulated Depreciation	(2,867,295)	(4,414,876)	(135,013)	(7,417,184)	-
Intangible Assets	300,000	-	-	300,000	-
Less: Accumulated Amortization	(276,000)	-	(68,709)	(344,709)	(912,197)
Total Noncurrent Assets	7,287,078	17,570,107	52,930	24,910,115	559,566
TOTAL ASSETS	9,158,207	20,204,392	646,353	30,008,952	902,355
DEFERRED OUTFLOWS OF RESOURCES:					
Pension Related Deferred Outflows	43,405	43,405	-	86,810	-
LIABILITIES:					
Current Liabilities:					
Accounts Payable	21,909	53,994	124,738	200,641	-
Contracts Payable--Retained Percentage	64,939	166,581	-	231,520	-
Accrued Interest Payable	25,785	56,669	-	82,454	-
Accrued Wages Payable	5,179	8,087	-	13,266	-
Customer Deposits	9,158	497	-	9,655	-
Bonds Payable Current:					
Revenue	209,418	381,325	-	590,743	-
Compensated Absences Payable -- Current	369	368	-	737	-
Total Current Liabilities	336,757	667,521	124,738	1,129,016	-
Noncurrent Liabilities:					
Bonds Payable:					
Revenue	4,663,426	7,790,679	-	12,454,105	-
Accrued Leave Payable	16,600	19,328	-	35,928	-
Total Noncurrent Liabilities	4,680,026	7,810,007	-	12,490,033	-
TOTAL LIABILITIES	5,016,783	8,477,528	124,738	13,619,049	-
DEFERRED INFLOWS OF RESOURCES:					
Other Deferred Inflows of Resources	125,840	-	45,000	170,840	-
Pension Related Deferred Inflows	29,623	29,623	-	59,246	-
TOTAL DEFERRED INFLOWS OF RESOURCES	155,463	29,623	45,000	230,086	-
NET POSITION:					
Net Investment in Capital Assets	2,262,475	9,229,502	25,930	11,517,907	559,566
Restricted For:					
Revenue Bond Debt Service	332,358	606,532	-	938,890	-
SDRS Pension Purposes	15,802	15,802	-	31,604	-
Unrestricted	1,418,731	1,888,810	450,685	3,758,226	342,789
TOTAL NET POSITION	\$ 4,029,366	\$ 11,740,646	\$ 476,615	\$ 16,246,627	\$ 902,355

City of Dell Rapids, South Dakota
Proprietary Funds
Statement of Revenues, Expenses, and Changes in Net Position
Year Ended December 31, 2023

	Enterprise Funds				Internal
	Water Fund	Wastewater Fund	Liquor Fund	Totals	Service Funds
Operating Revenue:					
Surcharge as Security for Debt	\$ 273,355	\$ 428,045	\$ -	\$ 701,400	\$ -
Charges for Goods and Services	652,967	670,662	1,738,513	3,062,142	105,000
Lottery Sales	-	-	63,482	63,482	-
Miscellaneous	1,850	-	-	1,850	-
Total Operating Revenue	928,172	1,098,707	1,801,995	3,828,874	105,000
Operating Expenses:					
Personal Services	128,041	211,231	-	339,272	-
Other Current Expense	146,712	316,244	11,772	474,728	-
Materials (Cost of Goods Sold)	233,490	-	1,619,466	1,852,956	-
Depreciation	282,181	600,757	6,616	889,554	98,365
Total Operating Expenses	790,424	1,128,232	1,637,854	3,556,510	98,365
Operating Income (Loss)	137,748	(29,525)	164,141	272,364	6,635
Nonoperating Revenue (Expense):					
Operating Grants	-	1,978,328	-	1,978,328	-
Investment Earnings	8,490	20,948	3,474	32,912	2,450
Rental Revenue	56,870	-	16,000	72,870	-
Interest Expense	(111,557)	(194,972)	-	(306,529)	-
Gain (Loss) on Disposition of Assets	-	(254)	-	(254)	24,190
Other	-	(50,597)	-	(50,597)	-
Total Nonoperating Revenue (Expense)	(46,197)	1,753,453	19,474	1,726,730	26,640
Income (Loss) Before Transfers	91,551	1,723,928	183,615	1,999,094	33,275
Transfers In	-	80,008	-	80,008	-
Transfers Out	-	-	(120,000)	(120,000)	-
Change in Net Position	91,551	1,803,936	63,615	1,959,102	33,275
Net Position - Beginning	3,937,815	9,936,710	413,000	14,287,525	869,080
NET POSITION - ENDING	\$ 4,029,366	\$ 11,740,646	\$ 476,615	\$ 16,246,627	\$ 902,355

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, 2023

	Water	Wastewater	Liquor	Total	Internal Service
Operating Activities					
Receipts from customers and users	\$ 964,366	2,968,019	\$ 1,829,349	\$ 5,761,734	\$ -
Receipts for interfund services provided	-	-	-	-	105,000
Payments to employees	(121,889)	(204,429)	-	(326,318)	-
Payments to other vendors	(450,186)	(1,080,633)	(1,636,486)	(3,167,305)	-
Net cash from operating activities	392,291	1,682,957	192,863	2,268,111	105,000
Non-Capital Financing Activities					
Transfer to/from other funds	-	80,008	(120,000)	(39,992)	-
Capital and Related Financing Activities					
Purchase of capital assets	(829,501)	(2,154,499)	-	(2,984,000)	(295,261)
Proceeds from long-term debt	753,099	696,901	-	1,450,000	-
Payments on long-term debt					
Principal	(173,246)	(323,808)	-	(497,054)	-
Interest	(111,557)	(194,972)	-	(306,529)	-
Net cash used for capital and related financing activities	(361,205)	(1,976,378)	-	(2,337,583)	(295,261)
Investing Activity					
Interest earnings	8,490	20,948	3,474	32,912	2,450
Change in Cash and Cash Equivalents	39,576	(192,465)	76,337	(76,552)	(187,811)
Cash and Cash Equivalents - Beginning of Year (including restricted cash)	1,608,140	2,623,387	345,209	4,576,736	530,600
Cash and Cash Equivalents - End of Year (including restricted cash)	\$ 1,647,716	2,430,922	\$ 421,546	\$ 4,500,184	\$ 342,789

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, 2023

	Water	Wastewater	Liquor	Total	Internal Service
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 137,748	(29,525)	\$ 164,141	\$ 272,364	\$ 6,635
Adjustments to reconcile operating income to net cash from operating activities					
Depreciation expense	282,181	600,757	6,616	889,554	98,365
Other income (expense)	56,870	1,927,731	16,000	2,000,601	-
Changes in assets and liabilities					
Accounts receivable	(17,700)	(53,824)	11,354	(60,170)	-
Unbilled revenue	(2,976)	(4,595)	-	(7,571)	-
Inventory of supplies	(12,927)	(5,161)	-	(18,088)	-
Prepaid expenses	66	-	49	115	-
Net pension asset	71	71	-	142	-
Pension related deferred outflow of resources	10,929	10,929	-	21,858	-
Claims payable	(40,732)	(102,079)	(5,297)	(148,108)	-
Accrued interest payable	(15,979)	(1,536)	-	(17,515)	-
Accrued wages payable	1,428	1,727	-	3,155	-
Deferred revenue	-	(656,110)	-	(656,110)	-
Customer deposits	(412)	497	-	85	-
Pension related deferred inflow of resources	(8,411)	(8,411)	-	(16,822)	-
Compensated absences payable	2,135	2,486	-	4,621	-
Net cash from operating activities	<u>\$ 392,291</u>	<u>1,682,957</u>	<u>\$ 192,863</u>	<u>\$ 2,268,111</u>	<u>\$ 105,000</u>
Supplemental Disclosure of Non-Cash Capital and Related Financing Activities					
Retainage payable incurred for capital assets	<u>\$ 64,939</u>	<u>\$ 166,581</u>	<u>\$ -</u>	<u>\$ 231,520</u>	<u>\$ -</u>

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

The reporting entity of the City 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 \$18,000 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 Items

Payments made to vendors for services that will benefit periods beyond December 31, 2023, 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 (including prepaid items and inventory of supplies) 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.

Leases

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.

The City is a lessee for one noncancelable leases on equipment. Intangible lease assets are recognized at the lease commencement date and represent the City's right to use an underlying asset for the lease term. Intangible lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period is 3 years.

Subsequent Events

The City has evaluated subsequent events through August 15, 2024, 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, 2023, 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>8,917,741</u>
Total Deposits	<u><u>\$ 9,417,741</u></u>

The carrying amount of deposits on the December 31, 2023, government-wide statement of net position was \$9,403,719. The reconciliation of deposits to government-wide statement of net position is as follows:

Cash and cash equivalents, carrying amount	\$ 9,403,719
Less petty cash	(150)
Less lottery cash	(10,000)
Add outstanding transactions (net)	<u>24,172</u>
	<u><u>\$ 9,417,741</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, 2023. The investments reported in the financial statements consist of only certificates of deposit.

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, 2023, 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, 2023, 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 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, 2023 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	1,265,961	1,970,666	231,359	3,005,268
Total capital assets not being depreciated	2,965,255	1,970,666	231,359	4,704,562
Capital assets, being depreciated				
Buildings and structures	4,879,060	29,200	-	4,908,260
Improvements other than buildings	11,263,234	633,997	-	11,897,231
Machinery and equipment	2,375,945	407,585	206,781	2,576,749
Total capital assets being depreciated	18,518,239	1,070,782	206,781	19,382,240
Less accumulated depreciation for				
Buildings and structures	1,887,347	80,504	-	1,967,851
Improvements other than buildings	3,304,615	483,442	-	3,788,057
Machinery and equipment	1,723,994	150,886	169,357	1,705,523
Total accumulated depreciation	6,915,956	714,832	169,357	7,461,431
Governmental activities capital assets, net	<u>\$ 14,567,538</u>	<u>\$ 2,326,616</u>	<u>\$ 268,783</u>	<u>\$ 16,625,371</u>
	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities				
Capital assets not being depreciated				
Land	\$ 85,157	\$ -	\$ -	\$ 85,157
Construction in progress	2,873,023	3,203,982	2,873,023	3,203,982
Total capital assets not being depreciated	2,958,180	3,203,982	2,873,023	3,289,139
Capital assets, being depreciated				
Buildings and structures	11,419,496	-	-	11,419,496
Improvements other than buildings	14,241,230	2,877,727	-	17,118,957
Machinery and equipment	722,450	6,834	706	728,578
Total capital assets being depreciated/amortized	26,383,176	2,884,561	706	29,267,031
Less accumulated depreciation for				
Buildings and structures	4,050,207	282,642	-	4,332,849
Improvements other than buildings	2,420,397	576,832	-	2,997,229
Machinery and equipment	402,042	30,080	305	431,817
Total accumulated depreciation/amortization	6,872,646	889,554	305	7,761,895
Business-type activities capital assets, net	<u>\$ 22,468,710</u>	<u>\$ 5,198,989</u>	<u>\$ 2,873,424</u>	<u>\$ 24,794,275</u>

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

Governmental activities	
General government	\$ 68,677
Public safety	34,339
Public works	508,800
Culture and recreation	<u>103,016</u>
Total depreciation expense - governmental activities	<u>\$ 714,832</u>
Business-type activities	
Water	\$ 282,181
Sewer	600,757
Liquor	<u>6,616</u>
Total depreciation/amortization expense - business-type activities	<u>\$ 889,554</u>

Construction work in progress at December 31, 2023, is comprised of the following:

Project name	Project Authorization	Expended through December 31, 2023
New City Hall	\$ 3,036,000	\$ 1,560,469
Transit Building	300,000	20,536
Anyconnect/Meraki	13,700	5,608
3rd Street Bridge	91,000	90,478
3rd Street Improvements	10,290,000	3,907,750
Old Hwy 77 Improvements	900,000	34,856
Slurry Seal - 2024	150,000	3,573
Sioux River Red Rock Trail Phase 1	930,000	420,353
Sioux River Red Rock Trail Phase 2	996,000	10,084
The Haak	1,000,000	3,000
Brown Park Playground	130,000	129,073
Field E Dugout	20,000	16,516
Western Utilities	<u>7,500</u>	<u>6,954</u>
	<u>\$ 17,864,200</u>	<u>\$ 6,209,250</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, 2023:

Indebtedness	Beginning Balance	Add New Additions	Less Debt Deletions	Debt Ending Balance	Due Within One Year
Governmental Activities:					
Sales Tax Revenue Bond - TIF #3	\$ 319,306	\$ -	\$ 19,569	\$ 299,737	\$ 20,151
Sales Tax Revenue Bond - CH	2,000,000	-	98,168	1,901,832	102,530
	<u>2,319,306</u>	<u>-</u>	<u>117,737</u>	<u>2,201,569</u>	<u>122,681</u>
Accrued Compensated					
Absences-Governmental Funds	55,813	34,046	55,351	34,508	1,048
Total Governmental Activity	<u>2,375,119</u>	<u>34,046</u>	<u>173,088</u>	<u>2,236,077</u>	<u>123,729</u>
Business-Type Activities:					
SRF 2003 Drinking Water	92,895	-	40,388	52,507	41,821
SRF 2006 Drinking Water	43,760	-	9,761	33,999	10,082
SRF 2007 Clean Water	408,134	-	59,883	348,251	61,853
SRF 2009 Clean Water	429,658	-	51,443	378,215	53,136
SRF 2011 Drinking Water	246,145	-	21,438	224,707	22,088
SRF 2013 Drinking Water	425,893	-	29,224	396,669	30,111
SRF 2013 Clean Water	416,996	-	28,614	388,382	29,482
SRF 2014 Clean Water	711,906	-	59,314	652,592	61,061
SRF 2016 Drinking Water	648,854	-	16,403	632,451	16,943
SRF 2017 Clear Water	1,830,961	-	44,359	1,786,602	45,819
SRF 2019 Drinking Water	2,157,004	-	51,975	2,105,029	53,287
SRF 2019 Clear Water Series A	2,218,619	-	62,213	2,156,406	63,152
SRF 2019 Clear Water Series NPS	304,495	27,768	8,011	324,252	9,496
SRF 2021 Drinking Water	678,439	55,954	4,056	730,337	8,958
SRF 2021 Clear Water Series A	1,478,143	130,358	9,972	1,598,529	42,936
SRF 2021 Clear Water Series NPS	-	22,829	-	22,829	309
SRF 2022 Drinking Water	-	697,145	-	697,145	26,128
SRF 2022 Clean Water Series A	-	515,946	-	515,946	14,081
Total Debt	<u>12,091,902</u>	<u>1,450,000</u>	<u>497,054</u>	<u>13,044,848</u>	<u>590,743</u>
Accrued Compensated					
Absences-Business-Type Funds	32,047	36,670	32,052	36,665	737
Total Business-Type Activities	<u>12,123,949</u>	<u>1,486,670</u>	<u>529,106</u>	<u>13,081,513</u>	<u>591,480</u>
Total Primary Government	<u>\$ 14,499,068</u>	<u>\$ 1,520,716</u>	<u>\$ 702,194</u>	<u>\$ 15,317,590</u>	<u>\$ 715,209</u>

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. \$ 52,507

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. 33,999

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. 348,251

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. 378,215

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. 224,707

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. 396,669

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. 388,382

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. 652,592

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. 632,451

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. 1,786,602

City of Dell Rapids, South Dakota
Notes to Financial Statements
December 31, 2023

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. 2,105,029

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. 2,156,406

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. 324,252

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, 2053, and an interest rate of 2.125% per annum. Principal payments to be made by the Water Fund. 730,337

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, 2053, and an interest rate of 1.375% per annum. Principal payments to be made by the Wastewater Fund. 1,598,529

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

Note dated April 16, 2021 with payments starting on July 15, 2023, a maturity date of July 15, 2053, and an interest rate of 1.375% per annum. Principal payments to be made by the Wastewater Fund. 22,829

State Revolving Fund (SRF) Loan 2022 Drinking Water

Note dated May 5, 2023 with payments starting on July 15, 2025, a maturity date of July 15, 2055, and an interest rate of 2.125% per annum. Principal payments to be made by the Water Fund. 697,145

State Revolving Fund (SRF) Loan 2022 Clean Water - Series A

Note dated May 5, 2023 with payments starting on July 15, 2025, a maturity date of July 15, 2055, and an interest rate of 1.375% per annum. Principal payments to be made by the Wastewater Fund. 515,946

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. 299,737

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. 1,901,832

Compensated Absences:

Accrued vacation and sick leave payable from the General Fund and Enterprise Funds 71,173

\$ 15,317,590

City of Dell Rapids, South Dakota

Notes to Financial Statements

December 31, 2023

The annual requirements to amortize all bonded debt and financed purchases outstanding as of December 31, 2023, are as follows:

Years Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2024	\$ 122,681	\$ 86,756	\$ 590,743	\$ 273,975
2025	127,589	81,847	575,065	280,333
2026	132,697	76,740	579,298	265,392
2027	138,011	71,425	586,275	250,190
2028	777,633	269,548	598,914	234,859
2029 - 2033	727,850	95,473	2,554,370	967,642
2034 - 2038	175,108	-	1,927,933	705,847
2039 - 2043	-	-	2,039,616	493,466
2044 - 2048	-	-	2,270,602	255,745
2049 - 2053	-	-	1,321,635	46,272
2054	-	-	397	2
Total	<u>\$ 2,201,569</u>	<u>\$ 681,789</u>	<u>\$ 13,044,848</u>	<u>\$ 3,773,723</u>

Note 5 - Interfund Transfers

Transfers

The City had the following transfers during the year ended December 31, 2023.

	Transfer Out		
	General Fund	Liquor Fund	Totals
Transfer In			
General Fund	\$ -	\$ 120,000	\$ 120,000
Wastewater Fund	80,008	-	80,008
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, 2023, 2022, and 2021, equal to required contributions each year, were \$42,595, \$47,788, and \$48,407 respectively.

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

At June 30, 2023, 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, 2023 and reported by the City as of December 31, 2022 are as follows

Proportionate share of total pension liability	\$ 4,305,040
Less proportionate share of net position restricted for pension benefits	<u>\$ 4,307,940</u>
Proportionate share of net pension asset	<u><u>\$ (2,900)</u></u>

At December 31, 2023, the City Dell Rapids reported an asset of \$(2,900) for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2023, and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2023, the City's proportion was 0.0297090%, which is an decrease of 0.0052970% from its proportion measured as of June 30, 2023.

For the year ended December 31, 2023, the City recognized a reduction of pension expense of \$409. At December 31, 2023, 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.	\$ 82,194	\$ -
Changes in assumption.	99,138	144,917
Net difference between projected and actual earnings on pension plan investments.	19,305	-
Changes in proportion and difference between City contributions and proportionate share of contributions.	9,794	602
City contributions subsequent to the measurement date.	<u>22,378</u>	<u>-</u>
TOTAL	<u>\$ 232,809</u>	<u>\$ 145,519</u>

At December 31, 2023, \$22,378 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31	
2024	\$ 42,015
2025	(41,163)
2026	59,012
2027	<u>5,048</u>
	<u>\$ 64,912</u>

E. Actuarial Assumptions

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

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense.
Future COLAs	1.91%

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2023 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
Total	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 (Asset) 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)	\$ 594,343	\$ (2,900)	\$ (491,330)

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, 2023.

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, 2023, was \$1,133.

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, 2023, 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, 2023, no claims for unemployment benefits were paid. At December 31, 2023, 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, 2023, the value of the lease receivable was \$171,040. The City receives varying monthly principal and interest payments ranging from \$200 to \$2,650. The leases have an interest rate of 1.75% - 2.00%. The future lease revenue and interest lease revenue as of December 31, 2023, were as follows:

Years Ending December 31,

	<u>Lease Revenue</u>	<u>Interest Revenue</u>
2024	\$ 59,240	\$ 2,239
2025	49,800	1,169
2026	40,800	522
2027	21,200	225
2028	-	93
Total	<u>\$ 171,040</u>	<u>\$ 4,248</u>

The City recognized \$75,070 in lease revenue and \$814 in interest revenue during the year ended December 31, 2023. The City has a deferred inflow of resources associated with these leases that will be recognized over the lease term. As of December 31, 2023, the balance of the deferred inflow of resources related to leases is \$171,040.

Required Supplementary Information
December 31, 2023

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, 2023

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability/asset	0.0297090%	0.0350060%	0.0347070%	0.0344012%	0.0326047%	0.0324610%	0.0312770%	0.0312043%	0.0304757%
City's proportionate share of net pension liability (asset)	\$ (2,900)	\$ (3,308)	\$ (265,796)	\$ (1,494)	\$ (3,455)	\$ (757)	\$ (2,838)	\$ 105,405	\$ (129,256)
City's covered payroll	\$ 718,822	\$ 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%	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%	100.10%	105.52%	100.04%	100.09%	100.02%	100.1%	96.89%	104.10%

* The amounts presented for each year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30. Until a full 10-year trend is compiled, the County/Municipality will present information for those years for which information is available.

* 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, 2023

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

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 42,595	\$ 47,788	\$ 48,407	\$ 46,297	\$ 44,386	\$ 40,224	\$ 37,867	\$ 36,358	\$ 36,251
Contributions in relation to the contractually required contribution	\$ 42,595	47,788	48,407	46,297	44,386	40,224	37,867	36,358	36,251
Contribution deficiency (excess)	-	-	-	-	-	-	-	-	-
City's covered payroll	\$ 709,921	\$ 801,045	\$ 806,788	\$ 771,625	\$ 739,760	\$ 672,122	\$ 630,035	\$ 606,897	\$ 604,182
Contributions as a percentage of covered payroll	6.00%	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.

Actuarial Changes

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

Actuarial Assumption Changes

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

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

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

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

Other Supplementary Information
December 31, 2023

City of Dell Rapids, South Dakota

City of Dell Rapids, South Dakota
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2023

Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	Federal Financial Assistance Listing	Pass-Through Entity Identifying Number	Expenditures
Department of Treasury			
<i>Direct</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	\$ 616,929
<i>Passed Through South Dakota Department of Agriculture and Natural Resources</i>			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	2022G-ARP-133	<u>1,224,977</u>
Total COVID-19 Coronavirus State and Local Fiscal Recovery Funds			\$ 1,841,906
US Department of Homeland Security			
<i>Passed Through South Dakota Department of Public Safety - Office of Emergency Management</i>			
Hazard Mitigation Grant	97.039	Unknown	<u>62,886</u>
Total Federal Financial Assistance			<u>\$ 1,904,792</u>

Note A – Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2023. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position or changes in net position or fund balance of the City.

Note B – Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Note C – Indirect Cost Rate

The District has not elected to use the 10% de minimis cost rate.

Additional Reports
December 31, 2023

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 (*Government Auditing Standards*), 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 (the City), as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 15, 2024.

Report on Internal Control over Financial Reporting

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

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 and Questioned Costs, 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 and Questioned Costs as items 2023-001 and 2023-002 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 deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 2023-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2023-006.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Mankato, Minnesota
August 15, 2024



Independent Auditor's Report on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Report on Compliance for the Major Federal Program

Qualified Opinion

We have audited the City of Dell Rapids (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2023. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Qualified Opinion on Assistance Listing No. 21.027 Coronavirus State and Local Fiscal Recovery Funds

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major Federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2023.

Basis for Qualified Opinion

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

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for the major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Assistance Listing No. 21.027 Coronavirus State and Local Fiscal Recovery Funds

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding *Assistance Listing No. 21.027 Coronavirus State and Local Fiscal Recovery Funds* as described in finding number 2023-004 for Reporting.

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of the major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-004 and 2023-005 to be material weaknesses.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Mankato, Minnesota
August 15, 2024

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	Yes

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major program:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 (a):	Yes

Identification of major program:

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</u>
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

**2023-001 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.

**2023-002 Preparation of Financial Statements including Proposed Journal Entries and Schedule of Expenditures of Federal Awards
Material Weakness**

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the City’s financial statements and schedule of expenditures of federal awards which include all material journal entries.

Condition – The City prepares a draft of the year-end financial statements and schedule of expenditures of federal awards however the financial statements and schedule of expenditures of federal awards 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 and schedule of expenditures of federal awards being audited that include all proposed journal entries.

Effect – The amounts in the financial statements and schedule of expenditures of federal awards 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.

**2023-003 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 City 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.

Section III – Federal Award Findings and Questioned Costs

2023-004 **Department of Treasury**
Federal Financial Assistance Listing No. 21.027
COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Reporting
Material Weakness in Internal Control over Compliance and Material Noncompliance

Criteria – A good system of internal accounting control contemplates an adequate system for ensuring that all reports are completed accurately by the City.

Condition – During the course of our engagement, we noted that the annual project and expenditure report submitted for the year ended December 31, 2023, had amounts reported that did not agree to the general ledger system of the City.

Cause – The City does not have an internal control system designed to ensure that the project and expenditure report is submitted accurately.

Effect – The control deficiency could result in the City's project and expenditure report is not being completed accurately.

Questioned Costs – None reported

Context/Sampling – The entirety of the annual reporting requirement was tested.

Repeat Finding from Prior Years – No

Recommendation – Management should put procedures in place to ensure that all quarterly construction reports are accurate and submitted by the required due dates.

View of responsible officials – Management is in agreement with the finding.

**2023-005 Department of Treasury
Federal Financial Assistance Listing No. 21.027
COVID-19 Coronavirus State and Local Fiscal Recovery Funds**

**Procurement, Suspension, and Debarment
Material Weakness in Internal Control over Compliance and Immaterial Instance of
Noncompliance**

Criteria – Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required.

Condition – In our testing of procurement, suspension and debarment it was identified that the City did not have a written policy on procurement that satisfied the requirements of 2 CFR sections 200.318 through 200.326.

Cause – Lack of oversight, awareness, or understanding of all of the specific requirements under the Uniform Guidance and applicable CFR sections and controls were not adequately designed to ensure compliance with all of these requirements.

Effect – A lack of documented policies increase the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts to lower tier entities.

Questioned Costs – None reported

Context/Sampling – All vendors, which totaled one, were selected for procurement testing.

Repeat Finding from Prior Years – No

Recommendation – Management should establish a written policy that addresses all of the procurement requirements for federal programs as identified in 2 CFR sections 200.318 through 200.326 and maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

View of responsible officials – Management is in agreement with the finding.

Section IV – State Compliance Item

**2023-006 Expenditures in Excess of Amount Appropriated
Material Noncompliance**

Criteria - Budget appropriations in SD state statute 9-21-9, 9-21-9.1, 9-21-9.2, 9-21-10, and 9-21-15 limit officials from spending in excess of amounts appropriated.

Condition - At December 31, 2023, the City had expenditures in excess of budgeted appropriations for the General Government category of the General Fund budget.

Cause - The City had higher costs than anticipated in 2023 within the General Government expenditure category.

Effect - The City is not in compliance with the budget appropriations requirement of SD state statute 9-21-9, 9-21-9.1, 9-21-9.2, 9-21-10, and 9-21-15.

Recommendation - The City should adhere to all specific requirements of SD state statute 9-21-9, 9-21-9.1, 9-21-9.2, 9-21-10, and 9-21-15.

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