

**City of De Smet, South Dakota
Schedule of Findings
Independent Auditor's Report
Basic Financial Statements
And Supplementary Information
For the Year Ending December 31, 2020**

City of De Smet, South Dakota

City of De Smet, South Dakota
City Officials

Gary Wolkow	Mayor
Lowell Hansen	President
George Cavanaugh	Vice-President
Shon Asleson	Council Member
Jay Slater	Council Member
Pam Spader	Council Member
Bret Jensen	Council Member

Tracey Larson	Finance Officer
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Todd Wilkinson	Attorney
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City of De Smet, South Dakota

**City of De Smet, South Dakota
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GRANT AND WILLIAMS, INC.

Certified Public Accountants

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

To the Honorable Mayor and City Council of the
City of De Smet, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Smet, South Dakota (City), as of December 31, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 27, 2022. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit, as described in our report on the City's financial statements. The report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City'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 were not identified. However, as described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City'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 Current Audit Findings as items 2020-001 and 2020-002 to be material weaknesses.

A *significant deficiency* is a deficiency or 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 Current Audit Findings as item 2020-003 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Grant and Williams, Inc.
Sioux Falls, South Dakota
May 27, 2022

**City of De Smet, South Dakota
Schedule Of Prior Audit Findings**

Finding # 2019-001 – Segregation of Duties – A material weakness relating to internal control over financial reporting is not adequate.

Current status – A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues, expenditures and payroll. This comment has not been corrected and is restated as current audit finding number 2020-001.

Finding # 2019-002: Financial Statement Preparation

Current status – A material weakness in internal controls was noted; there is an inadequate system for recording and processing entries material to the financial statements, as well as the inability to prepare financial statements and accompanying notes to the financial statements that are materially correct. This comment has not been corrected and is restated as current audit finding number 2019-002.

Finding # 2019-003: Annual Reports

Current status – Annual Reports have not been submitted as required by South Dakota State Statute 9-22-21 for years after 2015. This comment has not been corrected and is restated as current audit finding number 2019-003.

Schedule of Current Audit Findings

Internal Control-Related Findings – Material Weaknesses:

Finding # 2020-001 Segregation of Duties

Criteria – Proper controls over segregation of duties for revenues, expenditures and payroll resulting in decreased reliability of reported financial data and increase potential for the loss of public assets.

Condition – Two financial officers processed all revenue transactions from beginning to end. The staff were able to receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements and prepare financial statements.

Cause – The City has a limited budget so the employees are cross-trained and perform their duties as necessary to fill the administrative needs of the City.

Effect – In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to revenues, expenditures and payroll. Lack of this segregation of duties could adversely affect the City's ability to record, process, summarize and report financial data consistent with management assertions.

Recommendation – We recommend that the City of De Smet's officials be cognizant of this lack of segregation of duties for revenues, expenditures and payroll and attempt to provide compensating controls whenever and wherever possible and practical.

Response – The City Council will continue to monitor the Finance Office's revenue process through monthly council reports and the implementation of compensating internal controls, whenever, and wherever possible.

Conclusion – Response accepted.

Finding # 2020-002: Financial Statement Preparation

Criteria – Proper controls over financial reporting include an adequate system for recording and processing entries material to the financial statements, as well as the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition – The City’s internal control system is designed to provide monthly financial statement. Due to time constraints, the Finance Officer has not designed the annual financial statements within the accounting system. The City has requested that the auditors draft the financial statements and the accompanying notes to the financial statements.

Cause – The City does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect – Inadequate controls over financial reporting of the City results in the likelihood that the City would not be able to draft the financial statement and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendation – While we recognize that this condition is not unusual in an organization of your size, it is important that you be aware of this condition for financial reporting purposes. Management and the City Council should continually be aware of the financial reporting of the City and changes in reporting requirements.

Response – We are aware of the risk associated with not preparing our financial statements, but believe our review of the financial statements to be adequate to reduce this risk.

Conclusion – Response accepted.

Internal Control-Related Findings – Significant Deficiency

Finding # 2020-003: Annual Reports

Criteria – South Dakota State Statute 9-22-21 requires that the annual report is to be given to the board at the first meeting in March prior to 2018, or within thirty days thereafter, if an extension was obtained from the Department of Legislative Audit. Since 2018 the annual report is due to the Department of Legislative Audit no later than May 31 of each year, no extensions are allowed. Additionally, the annual report must be published in the official newspaper within thirty days of being presented to the board or within thirty days of completion of the annual audits.

Condition – The annual reports have not been filed and are late.

Cause – Prior to 2015, the City’s accounting records were maintained by manual ledgers and it took longer to reconcile the year-end amounts needed for preparing the annual report. Additionally, there were transitions from manual records to computerized records and changes of personnel with both the finance officer and deputy finance officer positions causing further delays.

Effect – Inadequate procedures over the accounting records resulted in delays in getting the information needed for the reports to be completed in a timely basis.

Recommendation – The City Council should be aware of deadlines and encourage timely filings.

Response – We are aware of the annual reports for 2016, 2017, 2018, 2019 and 2020 have not yet been submitted to the South Dakota Department of Legislative Audit or published. We are currently working on this to correct the non-reporting as soon as possible.

Conclusion – Response accepted.

Closing Conference – The contents of this report were discussed with Finance Officer Tracey Larson, Mayor Gary Wolkow and City Council Members – Bret Jensen and Pam Spader on May 27, 2022.

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Independent Auditor's Report

To the Honorable Mayor and City Council of the City of
De Smet, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Smet, South Dakota, (City) as of December 31, 2020, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as its related to the amounts included for the discretely presented component unit, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of De Smet as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) and the Schedule of City's Contributions on pages 44 through 52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A), that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2022 on our consideration of the City's internal control over financial reporting and 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 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.



Grant and Williams, Inc.
Sioux Falls, South Dakota
May 27, 2022

City of De Smet

City of De Smet
Statement of Net Position
December 31, 2020

	Primary Government		Total	Component Units
	Governmental Activities	Business-Type Activities		
Assets and Deferred Outflows of Resources:				
Assets:				
Cash and Cash Equivalents	\$ 2,726,299.34	\$ 710,795.00	\$ 3,437,094.34	203,748.71
Accounts Receivable, Net	18,166.20	37,994.63	56,160.83	5,062.30
Due from Other Government	67,405.45	-	67,405.45	-
Inventories	54,323.84	7,798.18	62,122.02	-
Other Assets	4,709.01	2,056.52	6,765.53	5,677.05
Restricted Assets:				
Cash and cash equivalents	95,313.04	52,463.68	147,776.72	20,570.00
Deposits	9,549.00	32,685.00	42,234.00	-
Net Pension Asset	673.97	92.61	766.58	-
Capital Assets:				
Land and Construction in Progress	286,769.87	18,850.00	305,619.87	19,678.50
Capital Assets, Net of Depreciation	13,038,389.12	1,551,921.10	14,590,310.22	1,396,336.34
Total Assets	16,301,598.84	2,414,656.72	18,716,255.56	1,651,072.90
Deferred Outflows of Resources:				
Pension Related Deferred Outflows	81,804.05	32,418.21	114,222.26	-
Total Deferred Outflows of Resources	81,804.05	32,418.21	114,222.26	-
Total Assets and Deferred Outflows of Resources:	16,383,402.89	2,447,074.93	18,830,477.82	1,651,072.90
Liabilities, Deferred Inflows of Resources and Net Position:				
Liabilities:				
Accounts Payable	7,225.37	3,049.23	10,274.60	16,986.51
Other Current Liabilities	9,998.51	33,206.75	43,205.26	52,138.23
Noncurrent Liabilities:				
Due Within One Year	105,430.79	10,090.91	115,521.70	56,664.15
Due in More than One Year	4,147.85	102,584.94	106,732.79	641,823.73
Total Liabilities	126,802.52	148,931.83	275,734.35	767,612.62
Deferred Inflows of Resources:				
Pension Related Deferred Inflows	80,063.64	20,924.78	100,988.42	-
Total Deferred Inflows of Resources:	80,063.64	20,924.78	100,988.42	-
Net Position:				
Net Investment in Capital Assets	13,230,514.29	1,459,945.67	14,690,459.96	738,629.75
Restricted for:				
Facilities and Promoting the City	42,018.69	-	42,018.69	-
Library Purposes	8,493.07	-	8,493.07	-
Fire Department Purposes	32,407.60	-	32,407.60	-
Debt Service Purposes	-	52,463.68	52,463.68	-
Depot Museum	12,952.75	-	12,952.75	-
SDRS Pension Purposes	2,414.38	11,586.04	14,000.42	-
Unrestricted (Deficit)	2,847,735.95	753,222.93	3,600,958.88	144,830.53
Total Net Position	16,176,536.73	2,277,218.32	18,453,755.05	883,460.28
Total Liabilities, Deferred Inflows of Resources and Net Position:	\$ 16,383,402.89	\$ 2,447,074.93	\$ 18,830,477.82	\$ 1,651,072.90

The notes to the financial statements are an integral part of this statement.

City of De Smet
Statement of Activities
For the Year Ended December 31, 2020

Functions/Programs Primary Government:	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Total	
				Governmental Activities	Business-Type Activities		
Governmental Activities:							
General Government	\$ 253,848.05	\$ 2,136.00	\$ -	\$ (251,712.05)	\$ -	\$ (251,712.05)	
Public Safety	147,528.39	4,612.13	4,009.56	(138,906.70)	-	(138,906.70)	
Public Works	564,220.61	95,824.30	68,808.25	(242,440.93)	-	(242,440.93)	
Health and Welfare	173,116.48	-	157,147.13	4,701,985.47	-	4,701,985.47	
Culture and Recreation	435,661.38	263,109.25	-	(170,793.08)	-	(170,793.08)	
Conservation and Development	52,559.22	-	1,759.05	(52,559.22)	-	(52,559.22)	
Miscellaneous Expenditures	1,311.19	-	-	(1,311.19)	-	(1,311.19)	
*Interest on Long-term Debt	35,323.47	-	-	(35,323.47)	-	(35,323.47)	
Total Governmental Activities	1,663,568.79	365,681.68	72,817.81	3,808,938.83	-	3,808,938.83	
Business-type Activities:							
Water	199,085.02	222,020.50	-	-	22,935.48	22,935.48	
Sewer	138,171.69	200,301.23	-	-	62,129.54	62,129.54	
Total Business-type Activities	337,256.71	422,321.73	-	-	85,065.02	85,065.02	
Total Primary Government	\$ 2,000,825.50	\$ 788,003.41	\$ 72,817.81	\$ 3,808,938.83	85,065.02	3,894,003.85	
Component Unit							
Housing and Redevelopment	\$ 352,157.14	\$ 263,332.15	\$ 55,485.36	\$ 53,477.00		\$ 20,137.37	
Commission							
General Revenues:							
Taxes:							
Property Taxes				589,465.59	-	589,465.59	
Sales Taxes				657,784.86	-	657,784.86	
State Shared Revenues				12,275.60	-	12,275.60	
Unrestricted Investment Earnings				4,618.11	656.90	5,275.01	714.33
Loss on disposition of capital assets				-	-	-	(517.60)
Miscellaneous Revenue				63,857.17	-	63,857.17	
Total General Revenues and Transfers				1,328,001.33	656.90	1,328,658.23	196.73
Change in Net Position				5,136,940.16	85,721.92	5,222,662.08	20,334.10
Net Position-Beginning				11,039,596.57	2,191,496.40	13,231,092.97	863,126.18
Net Position - Ending				\$ 16,176,536.73	\$ 2,277,218.32	\$ 18,453,755.05	\$ 883,460.28

*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on general long-term debt.

City of De Smet
Balance Sheet
Governmental Funds
December 31, 2020

	General Fund	Hospital Fund	Liquor, Lodging & Dining Sales Tax Fund	Library Fines Fund	Tax Incremental District No. 1 Debt Service Fund	Total Governmental Funds
Assets and Deferred Outflows of Resources:						
Assets:						
Cash and Cash Equivalents	\$ 1,534,372.81	\$ 1,191,926.53	\$ -	\$ -	\$ -	\$ 2,726,299.34
Taxes Receivable--Delinquent	15,895.29	-	-	-	-	15,895.29
Accounts Receivable, Net	4,546.09	-	-	-	-	4,546.09
Due from State & County Governments	13,082.54	-	-	-	-	13,082.54
Due from Federal Government	66,846.38	-	559.07	-	-	67,405.45
Interest Receivable	487.57	50.00	-	-	-	537.57
Inventory	54,323.84	-	-	-	-	54,323.84
Prepaid Expenses	4,709.01	-	-	-	-	4,709.01
Restricted Cash and Cash Equivalents	45,360.35	-	41,459.62	8,493.07	-	95,313.04
Deposits - Restricted	9,549.00	-	-	-	-	9,549.00
Total Assets	1,749,172.88	1,191,976.53	42,018.69	8,493.07	-	2,991,661.17
Total Assets	1,749,172.88	1,191,976.53	42,018.69	8,493.07	-	2,991,661.17
Liabilities Deferred Inflows of Resources and						
Fund Balances:						
Liabilities:						
Accounts Payable	7,225.37	-	-	-	-	7,225.37
Accrued Taxes Payable	449.51	-	-	-	-	449.51
Customer Deposits	9,549.00	-	-	-	-	9,549.00
Total Liabilities	17,223.88	-	-	-	-	17,223.88
Deferred Inflows of Resources:						
Unavailable Revenue - Property Taxes	15,895.29	-	-	-	-	15,895.29
Total Deferred Inflows of Resources:	15,895.29	-	-	-	-	15,895.29
Fund Balances:						
Nonspendable - Inventory	54,323.84	-	-	-	-	54,323.84
Nonspendable - Prepays	4,709.01	-	-	-	-	4,709.01
Restricted - Depot Museum	12,952.75	-	-	-	-	12,952.75
Restricted - Facilities and Promoting the City	-	-	42,018.69	-	-	42,018.69
Restricted - Library Purposes	-	-	-	8,493.07	-	8,493.07
Restricted - Fire Department	32,407.60	-	-	-	-	32,407.60
Committed - Capital Replacements	-	1,191,976.53	-	-	-	1,191,976.53
Unassigned	1,611,660.51	-	-	-	-	1,611,660.51
Total Fund Balances	1,716,053.71	1,191,976.53	42,018.69	8,493.07	-	2,958,542.00
Total Liabilities Deferred Inflows of Resources and Fund Balances:	\$ 1,749,172.88	\$ 1,191,976.53	\$ 42,018.69	\$ 8,493.07	\$ -	\$ 2,991,661.17

The notes to the financial statements are an integral part of this statement.

City of De Smet
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
December 31, 2020

Total Fund Balances - Governmental Funds (page 15)	\$	2,958,542.00
Amounts reported for governmental activities in the statement of net assets are different because:		
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		673.97
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		13,325,158.99
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.		81,804.05
Long-term liabilities, including bonds payable, net pension liability and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds.		(109,578.64)
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.		(80,063.64)
Net Position-Governmental Funds (page 13)	<u>\$</u>	<u>16,176,536.73</u>

City of De Smet

City of De Smet
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended December 31, 2020

	General Fund	Hospital	Dining Sales Tax	Library Fines Fund	Tax Incremental District No. 1 Debt Service Fund	Total Governmental Funds
Revenues:						
Taxes:						
General Property Taxes	\$ 517,440.71	\$ -	\$ -	\$ -	\$ 69,813.39	\$ 587,254.10
General Sales and Use Taxes	625,967.31	-	31,817.55	-	-	657,784.86
Amusement Taxes	168.00	-	-	-	-	168.00
Penalties and Interest on Delinquent Taxes	2,043.49	-	-	-	-	2,043.49
Licenses and Permits	1,600.00	-	-	-	-	1,600.00
Intergovernmental Revenue:						
Federal Grants	157,147.13	-	-	-	-	157,147.13
State Grants	4,009.56	-	-	-	-	4,009.56
State Shared Revenue:						
Bank Franchise Tax	4,737.81	-	-	-	-	4,737.81
Prorate License Fees	2,077.27	-	-	-	-	2,077.27
Liquor Tax Reversion (25%)	7,537.79	-	-	-	-	7,537.79
Motor Vehicle Licenses	18,874.16	-	-	-	-	18,874.16
Local Government Highway and Bridge	39,672.05	-	-	-	-	39,672.05
Other	1,846.00	-	-	-	-	1,846.00
County Shared Revenue:						
County Road Tax (25%)	1,880.95	-	-	-	-	1,880.95
County Wheel Tax	4,057.82	-	-	-	-	4,057.82
General Government	2,136.00	-	-	-	-	2,136.00
Public Safety	2,700.00	-	-	-	-	2,700.00
Sanitation	95,824.30	-	-	-	-	95,824.30
Culture and Recreation	28,105.05	-	-	-	-	28,105.05
Court Fines and Costs	312.13	-	-	-	-	312.13
Miscellaneous Revenue:						
Investment Earnings	1,679.35	2,898.22	40.54	-	-	4,618.11
Rentals	119,804.20	115,200.00	-	-	-	235,004.20
Special Assessments	400.00	-	-	-	-	400.00
Donations from Private Sources	-	-	-	1,759.05	-	1,759.05
Liquor Operating Agreement Income	37,999.92	-	-	-	-	37,999.92
Other	25,857.39	-	-	-	-	25,857.39
Total Revenue	1,703,878.39	118,098.22	31,858.09	1,759.05	69,813.39	1,925,407.14

City of De Smet
Reconciliation of the Statement of Revenues, Expenditures and Changes in
Fund Balance to the Statement of Activities
For the Year Ended December 31, 2020

Net Change in Fund Balances - Total Governmental Funds (page 19)	\$ 414,496.45
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	5,245,079.79
This amount represents the current year depreciation 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.	(506,072.30)
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.	85,711.73
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.	(72,264.37)
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.	648.74
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	(30,659.88)
Change in Net Position of Governmental Activities (page 14)	<u>\$ 5,136,940.16</u>

City of De Smet
Statement of Net Position
Proprietary Funds
December 31, 2020

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Assets and Deferred Outflows of Resources:			
Current Assets:			
Cash and Cash Equivalents	\$ 375,857.46	\$ 334,937.54	\$ 710,795.00
Accounts Receivable, Net	19,469.84	18,524.79	37,994.63
Inventory	3,662.36	4,135.82	7,798.18
Prepaid Expenses	615.06	1,441.46	2,056.52
Total Current Assets	399,604.72	359,039.61	758,644.33
Noncurrent Assets:			
Restricted Cash and Cash Equivalents	32,076.46	20,387.22	52,463.68
Deposits	32,685.00	-	32,685.00
Net Pension Asset	44.91	47.70	92.61
Capital Assets:			
Land and Construction in Progress	3,100.00	15,750.00	18,850.00
Capital Assets, Net of Depreciation	1,022,441.43	529,479.67	1,551,921.10
Total Noncurrent Assets	1,090,347.80	565,664.59	1,656,012.39
Total Assets	1,489,952.52	924,704.20	2,414,656.72
Deferred Outflows of Resources:			
Pension Related Deferred Outflows	19,328.54	13,089.67	32,418.21
Total Deferred Outflows of Resources	19,328.54	13,089.67	32,418.21
Total Assets and Deferred Outflows of Resources:	\$ 1,509,281.06	\$ 937,793.87	\$ 2,447,074.93
Liabilities Deferred Inflows of Resources and Net Position:			
Current Liabilities:			
Accounts Payable	\$ 2,573.15	\$ 476.08	\$ 3,049.23
Accrued Interest Payable	521.75	-	521.75
Customer Deposits	32,685.00	-	32,685.00
Bonds Payable Current:			
Revenue Bonds Payable	8,240.51	-	8,240.51
Compensated Absences Payable-Current	925.20	925.20	1,850.40
Total Current Liabilities	44,945.61	1,401.28	46,346.89
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	102,584.94	-	102,584.94
Total Noncurrent Liabilities	102,584.94	-	102,584.94
Total Liabilities	147,530.55	1,401.28	148,931.83
Deferred Inflows of Resources:			
Pension Related Deferred Inflows	12,068.07	8,856.71	20,924.78
Total Deferred Inflows of Resources:	12,068.07	8,856.71	20,924.78
Net Position:			
Net Investment in Capital Assets	914,715.98	545,229.69	1,459,945.67
Restricted Net Assets, Restricted for:			
Revenue Bond Debt Service	32,076.46	20,387.22	52,463.68
SDRS Pension Purposes	7,305.38	4,280.66	11,586.04
Unrestricted	395,584.62	357,638.31	753,222.93
Total Net Position	1,349,682.44	927,535.88	2,277,218.32
Total Liabilities Deferred Inflows of Resources and Net Position:	\$ 1,509,281.06	\$ 937,793.87	\$ 2,447,074.93

The notes to the financial statements are an integral part of this statement.

City of De Smet
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2020

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue:			
Charges for Goods and Services	\$ 203,870.50	\$ 197,042.57	\$ 400,913.07
Surcharge as Security for Debt	18,000.00	-	18,000.00
Miscellaneous	150.00	3,258.66	3,408.66
Total Operating Revenue	<u>222,020.50</u>	<u>200,301.23</u>	<u>422,321.73</u>
Operating Expenses:			
Personal Services	56,143.48	47,545.98	103,689.46
Other Current Expense	63,375.23	31,828.20	95,203.43
Materials (Cost of Goods Sold)	39,675.03	35,697.84	75,372.87
Depreciation	37,292.72	23,099.67	60,392.39
Total Operating Expenses	<u>196,486.46</u>	<u>138,171.69</u>	<u>334,658.15</u>
Operating Income (Loss)	<u>25,534.04</u>	<u>62,129.54</u>	<u>87,663.58</u>
Nonoperating Revenue (Expense):			
Investment Earnings	362.42	294.48	656.90
Interest Expense	(2,598.56)	-	(2,598.56)
Total Nonoperating Revenue (Expense)	<u>(2,236.14)</u>	<u>294.48</u>	<u>(1,941.66)</u>
Change in Net Assets	<u>23,297.90</u>	<u>62,424.02</u>	<u>85,721.92</u>
Net Position - Beginning	<u>1,326,384.54</u>	<u>865,111.86</u>	<u>2,191,496.40</u>
Net Position - Ending	<u>\$ 1,349,682.44</u>	<u>\$ 927,535.88</u>	<u>\$ 2,277,218.32</u>

The notes to the financial statements are an integral part of this statement.

City of De Smet
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2020

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Cash Flows From Operating Activities:			
Cash Receipts from Customers	\$ 225,412.16	\$ 201,980.47	\$ 427,392.63
Cash Payments to Employees for Services	(52,515.02)	(44,358.89)	(96,873.91)
Cash Payments to Suppliers of Goods and Services	(102,841.10)	(68,915.98)	(171,757.08)
Net Cash Provided (Used) by Operating Activities	<u>70,056.04</u>	<u>88,705.60</u>	<u>158,761.64</u>
Cash Flows From Capital and Related Financing Activities:			
Purchase of Capital Assets	(24,900.00)	(15,985.83)	(40,885.83)
Principal Paid on Capital Debt	(37,723.00)	-	(37,723.00)
Interest Paid on Capital Debt	(2,767.31)	-	(2,767.31)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(65,390.31)</u>	<u>(15,985.83)</u>	<u>(81,376.14)</u>
Cash Flows From Investing Activities:			
Cash Received for Interest	362.42	294.48	656.90
Net Cash Provided (Used) by Investing Activities	<u>362.42</u>	<u>294.48</u>	<u>656.90</u>
Net Increase (Decrease) in Cash and Cash Equivalents	5,028.15	73,014.25	78,042.40
Balances - Beginning	435,590.77	282,310.51	717,901.28
Balances- Ending	<u>\$ 440,618.92</u>	<u>\$ 355,324.76</u>	<u>\$ 795,943.68</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	25,534.04	62,129.54	87,663.58
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	37,292.72	23,099.67	60,392.39
(Increase) decrease in Receivables	1,191.66	1,679.24	2,870.90
(Increase) decrease in Inventories	419.25	(1,293.00)	(873.75)
(Increase) decrease in Prepays	(115.21)	(83.88)	(199.09)
(Increase) decrease in Net Pension Asset	98.56	85.61	184.17
(Increase) decrease in Pension Related Deferred Outflows	(2,331.06)	(2,024.84)	(4,355.90)
(Decrease) increase in Accounts and Other Payables	(94.88)	(13.06)	(107.94)
(Decrease) increase in Accrued Leave Payable	268.50	268.50	537.00
(Decrease) increase in Pension Related Deferred Inflows	5,592.46	4,857.82	10,450.28
(Decrease) increase in Customer Deposits	2,200.00	-	2,200.00
Net Cash Provided (Used) by Operating Activities	<u>\$ 70,056.04</u>	<u>\$ 88,705.60</u>	<u>\$ 158,761.64</u>

The notes to the financial statements are an integral part of this statement.

**City of De Smet
Statement of Fiduciary Net Position
Fiduciary Funds
December 31, 2020**

	Custodial Funds
Assets:	
Cash and Cash Equivalents	\$ 1,850.00
Total Assets	1,850.00
Liabilities:	
Amounts Held for Others	1,850.00
Total Liabilities and Net Position	\$ 1,850.00

**City of De Smet
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2020**

	Custodial Funds
Additions:	
Investment Earnings:	
Interest and Dividends	18.55
Total Investment Earnings	18.55
Total Additions	18.55
Deductions:	
Other Deductions	18.55
Total Deductions	18.55
Change in Net Position	-
Net Position - Beginning	-
Net Position - Ending	\$ -

The notes to the financial statements are an integral part of this statement.

City of De Smet, South Dakota
Notes to the Financial Statements

1. Summary of Significant Accounting Policies:

a. Financial Reporting Entity:

The reporting entity of the City of De Smet, (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.

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

The Housing and Redevelopment Commission of the City of De Smet, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: De Smet Housing and Redevelopment Commission, 408 Calumet Avenue, De Smet, South Dakota 57231.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental, business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

Fund Financial Statements:

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

City of De Smet, South Dakota
Notes to the Financial Statements

major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

The funds of the City financial reporting entity are described below:

Governmental Funds:

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

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Liquor, Lodging and Dining Gross Receipts Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Hospital Fund – to account for the related financial activity primarily relating to an operational agreement with a regional hospital. This is a major fund.

Library Fines Fund – to account for the library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Tax Incremental District No. 1 Debt Service Fund – to account for the accumulation of resources for, and the payment of the debt principal, interest, and related costs associated with a tax incremental district. This is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even

City of De Smet, South Dakota
Notes to the Financial Statements

if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

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

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and are never considered to be major funds:

Custodial Funds – These are funds that are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City maintains on custodial y fund to account for donations for which the City was requested and agreed to account for the donations as a permanent amount and distribute the interest to the cemetery organization each year.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental, business-type and component unit activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

City of De Smet, South Dakota
Notes to the Financial Statements

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period for the City is thirty days. The revenues which are accrued at December 31, 2020 include sales tax, interest, and charges for goods and services.

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

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. All proprietary and fiduciary fund types are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Deposits:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. *Infrastructure assets* are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. 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 City had an appraisal firm develop detail records of items defined as capital assets, which were generally based upon estimates of cost at the estimated time of acquisition. The total December 31, 2020 balance of governmental activities capital assets includes approximately 34% for which the costs were determined by estimates of the original costs. The total December 31, 2020 balance of business-type capital assets includes approximately 37% for which the costs were determined by estimations of the original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings." For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

City of De Smet, South Dakota
Notes to the Financial Statements

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on the proprietary fund's Statement of Net Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide financial statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land and Land Rights	\$ All	N/A	N/A
Improvements Other Than Buildings	25,000	Straight line	5-50 years
Buildings	25,000	Straight line	25-100 years
Machinery	4,000	Straight line	5-60 years
Utility Improvements	10,000	Straight line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

f. Long-Term Liabilities:

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide financial statements. The long-term liabilities primarily consist of revenue bonds, promissory notes, construction loan and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis of accounting, the same in the fund statements as in the government-wide financial statements.

g. Leases:

The City is a lessor for an operating leases to use the Hospital and Clinic buildings to Avera Queen of Peace for a monthly payment. The agreements can be cancelled by either party upon 180-day notice. No lease payments receivable or deferred inflow of resources has been accrued.

h. Program Revenues:

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

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

City of De Smet, South Dakota
Notes to the Financial Statements

- Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Deferred Inflows and Deferred Outflows of Resources:

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

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

j. Proprietary Funds Revenue and Expense Classifications:

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

k. 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.

l. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components:

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Custodial Funds have no fund equity and is shown as a liability "Amounts Held for Others."

m. Application of Net Position:

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

City of De Smet, South Dakota
Notes to the Financial Statements

n. Fund Balance Classification Policies and Procedures:

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

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. The governing board has committed fund balances for hospital and event center purposes.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the City Council, Mayor or the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The nonspendable fund balance is comprised of inventory and prepaid expenses.

The City Council committed the following fund balance types by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
Capital Replacement	\$ 1,191,976.53	Ordinance

The City uses *restricted /committed* 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 Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Liquor, Lodging & Dining Sales Tax Fund	Sales Tax
Hospital Fund	Lease Proceeds
Library Fines Fund	Contributions and Donations from Private Sources

o. Pensions:

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

2. Violations of Finance-related Legal and Contractual Provisions:

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. The City did not have any overdrafts of the expenditures compared to appropriations in any fund during the year.

City of De Smet, South Dakota
Notes to the Financial Statements

3. Deficit Fund Balances / Net Position of Individual Nonmajor Funds:

As of December 31, 2020 there were no funds that had a deficit fund balance-net position.

4. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

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

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

Investments – In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. As of December 31, 2020 the City did not have any investments.

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

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 does not have a deposit policy for custodial credit risk. As of December 31, 2020 the City’s deposits in financial institutions were fully collateralized.

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

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

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

City of De Smet, South Dakota
Notes to the Financial Statements

5. Restricted Cash and Cash Equivalents:

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

Purpose	12/31/2020
For Facilities and Promoting the City	\$ 41,459.62
Donor restricted purposes for Library	8,493.07
Donor restricted purposes for Fire Department	32,407.60
Debt service for TIF # 1, Water and Sewer	52,463.68
Donor restricted purposes for Depot Museum	12,952.75
	\$ 147,776.72

6. Receivables and Payables:

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Appropriate allowances for estimated uncollectibles will be established when necessary.

7. Inventory:

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for consumption and resale in the proprietary funds are recorded as an asset when acquired. The consumption of inventories held for City use and resale is charged to expense as it is consumed. Inventories held for consumption and resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. 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.

City of De Smet, South Dakota
Notes to the Financial Statements

9. Changes In General Capital Assets:

A summary of changes in capital assets for the year ended December 31, 2020 is as follows:

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Governmental Activities:				
Capital Assets not being depreciated				
Land	\$ 214,947.22	\$ -	\$ -	\$ 214,947.22
Construction Work in Progress	1,144,052.55	71,822.65	(1,144,052.55)	71,822.65
Capital Assets being depreciated				
Buildings	6,361,891.80	5,400,000.00		11,761,891.80
Improvements other than Building:	4,042,855.16	106,649.37		4,149,504.53
Machinery & Equipment	1,637,101.64	810,660.32	(72,755.00)	2,375,006.96
Totals	12,041,848.60	6,317,309.69	(72,755.00)	18,286,403.29
Less Accumulated Depreciation for:				
Buildings	1,828,426.53	236,140.63		2,064,567.16
Improvements other than Building:	1,659,515.22	213,489.85		1,873,005.07
Machinery & Equipment	1,326,755.12	56,441.82	(72,755.00)	1,310,441.94
Totals	4,814,696.87	506,072.30	(72,755.00)	5,248,014.17
Total Capital Assets being depreciated-Net	7,227,151.73	5,811,237.39	-	13,038,389.12
Total Capital Assets-Net	\$ 8,586,151.50	\$ 5,883,060.04	\$ (1,144,052.55)	\$ 13,325,158.99

Depreciation was charged to the following functions of governmental activities:

	Amount
General Government	7,123.77
Public Safety	28,466.60
Public Works	205,127.38
Health and Welfare	159,291.27
Culture and Recreation	106,063.28
Total Governmental Activities	506,072.30

	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Business-type Activities:				
Capital Assets not being depreciated				
Land	\$ 18,850.00	\$ -	\$ -	\$ 18,850.00
	18,850.00	-	-	18,850.00
Capital Assets being depreciated				
Buildings	78,255.00		-	78,255.00
Improvements other than Building:	2,327,757.19	15,985.83	-	2,343,743.02
Machinery & Equipment	240,740.64	24,900.00	(9,445.00)	256,195.64
Totals	2,646,752.83	40,885.83	(9,445.00)	2,678,193.66
Less Accumulated Depreciation for:				
Buildings	77,051.29	1,203.71	-	78,255.00
Improvements other than Building:	869,421.12	38,337.63	-	907,758.75
Machinery & Equipment	128,852.76	20,851.05	(9,445.00)	140,258.81
Totals	1,075,325.17	60,392.39	(9,445.00)	1,126,272.56
Total Capital Assets being depreciated-Net	1,571,427.66	(19,506.56)	-	1,551,921.10
Total Capital Assets-Net	\$ 1,590,277.66	\$ (19,506.56)	\$ -	\$ 1,570,771.10

Depreciation expense was charged to functions as follows:

	Amount
Water	\$ 37,292.72
Sewer	23,099.67
	\$ 60,392.39

City of De Smet, South Dakota
Notes to the Financial Statements

Construction Work in Progress at December 31, 2020 is composed of the Airport Turnarounds of \$71,822.65.

10. Changes In Component Unit Fixed Assets:

A summary of changes in component unit fixed assets for the year ended December 31, 2020 is as follows:

De Smet Housing and Redevelopment Commission	Balance 1/1/2020	Additions	Deletions	Balance 12/31/2020
Capital Assets not being depreciated				
Land	\$ 19,678.50	\$ -	\$ -	\$ 19,678.50
Capital Assets being depreciated				
Buildings & Improvemnts	3,602,871.62	90,699.15	(675.13)	3,692,895.64
Machinery & Equipment	42,314.90	5,657.70	(975.97)	46,996.63
Totals	3,645,186.52	96,356.85	(1,651.10)	3,739,892.27
Less Accumulated Depreciation for:				
Buildings & Improvemnts	2,206,683.36	100,315.20	(157.53)	2,306,841.03
Machinery & Equipment	35,445.50	2,245.37	(975.97)	36,714.90
Totals	2,242,128.86	102,560.57	(1,133.50)	2,343,555.93
Total Capital Assets being depreciated-Net	1,403,057.66	(6,203.72)	(517.60)	1,396,336.34
Total Capital Assets-Net	\$ 1,422,736.16	\$ (6,203.72)	\$ (517.60)	\$ 1,416,014.84

11. Long-Term Liabilities:

A summary of changes in long-term liabilities for the year ended December 31, 2020 is as follows:

	Balance @ 1/1/20	Additions	Retired	Balance @ 12/31/20	Due Within One Year
Governmental Activities					
Economic Development Loans	\$ 74,978.67	\$ -	\$ 50,730.29	\$ 24,248.38	24,248.38
Promissory Note Series 2008 (T.I.D. #1)	33,113.39	72,264.37	34,981.44	70,396.32	66,248.47
Compensated Absences	15,582.68	-	648.74	14,933.94	14,933.94
Total	\$ 123,674.74	\$ 72,264.37	\$ 86,360.47	\$ 109,578.64	\$ 105,430.79
Business-type Activities:					
Revenue Bonds	\$ 148,717.20	\$ -	\$ 37,891.75	\$ 110,825.45	8,240.51
Compensated Absences	1,313.40	537.00	-	1,850.40	1,850.40
Total	150,030.60	537.00	37,891.75	112,675.85	10,090.91
Total Debt	\$ 273,705.34	\$ 72,801.37	\$ 124,252.22	\$ 222,254.49	\$ 115,521.70
Component Unit Activities:					
Revenue Bonds	\$ 730,410.14		\$ 55,045.99	\$ 675,364.15	\$ 51,892.59
Compensated Absences	32,299.81	1,101.00	10,277.08	23,123.73	4,771.56
Total	\$ 762,709.95	\$ 1,101.00	\$ 65,323.07	\$ 698,487.88	\$ 56,664.15

City of De Smet, South Dakota
Notes to the Financial Statements

Debt payable at December 31, 2020 is comprised of the following:

Rural Electric Economic Development Loan:

A long-term loan payable in 180 equal monthly payments with the last payment scheduled to be made in October 2021 at an interest rate of 3% payable from the General Fund. \$ 6,748.38

Rural Electric Economic Development Loan:

A long-term loan payable in 120 equal monthly payments with the last payment scheduled to be made in July 2021 with no interest rate payable from the General 17,500.00

Promissory Note Series 2008 (T.I. D. # 1):

A long-term loan payable twice a year payments with the last payment scheduled to be made in December 2021 at an interest rate of 3.75%. Payable to Wilder Pass, LLC for reimbursement of payments made on behalf of the City in 2010 - 2013, payable by the Tax Incremental District No. 1 Debt Service Fund. 70,396.32

Revenue Borrower Bond, Series 2009:

A long-term bond with quarterly payments of \$2,666.22 with an interest rate of 2.25% with the last payment schedule to be made in October 2032 payable from 110,825.45

Compensated Absences:

Payments for compensated absences are made from the fund from which the employee is generally compensated including \$14,933.94 from Governmental Activities and \$1,850.40 from Business-Type Activities. 16,784.34

COMPONENT UNIT LONG-TERM DEBT PAYABLE:

Essential Functioning Housing Development Revenue Bonds, Series 1999-01

Original issue of \$277,500 maturing in 2026 with interest at 4.0% at December 31, 2013 and adjusted on July 26, 2004 and every five years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and 89,586.00

Essential Functioning Housing Development Revenue Bonds, Series 1999-02

Original issue of \$277,500 maturing in 2025 with interest at 4.0% at December 31, 2013 and adjusted on July 1, 2005 and every five years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and 72,926.00

Essential Functioning Housing Development Revenue Bonds, Series 2001

Original issue of \$277,500 maturing in 2025 with interest at 4.0% at December 31, 2013 and adjusted on July 1, 2007 and every five years thereafter to 200 basis points under the national prime rate callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and 159,602.00

Essential Functioning Housing Development Revenue Bonds, Series 2016

Original issue of \$385,500 maturing in 2047 with interest at 3.0%, callable as provided by SDCL 6-8B-23 secured only by real and personal property of the 4-plex built with this bond and paid by Calumet Town Homes Fund. 353,251.00

Compensated Absences:

Payments for compensated absences are made from the Prairie Park Fund 23,124.00

City of De Smet, South Dakota
Notes to the Financial Statements

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

Annual Requirements to Maturity for Long-Term Debt
December 31, 2020

Ending December 31,	Rural Electric Economic Development Loan		Rural Electric Economic Development Loan		Total Rural Electric Economic Development	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 6,748.38	\$ 157.42	\$ 17,500.00	\$ -	\$ 24,248.38	\$ 157.42
	<u>\$ 6,748.38</u>	<u>\$ 157.42</u>	<u>\$ 17,500.00</u>	<u>\$ -</u>	<u>\$ 24,248.38</u>	<u>\$ 157.42</u>

Year Ending December	SRF Revenue Borrower Bond Series 2009		Promissory Note Series 2008 (T.I.D. #1)		Total of Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 8,240.51	\$ 3,280.33	\$ 66,248.47	\$ 2,697.15	\$ 98,737.36	\$ 6,134.90
2022	8,427.49	2,237.39	4,147.85	99.04	12,575.34	2,336.43
2023	8,618.71	2,046.17	-	-	8,618.71	2,046.17
2024	8,814.26	1,850.62	-	-	8,814.26	1,850.62
2025	9,014.27	1,650.61	-	-	9,014.27	1,650.61
2026-2030	48,233.86	5,090.54	-	-	48,233.86	5,090.54
2031-2032	19,476.35	449.21	-	-	19,476.35	449.21
	<u>\$ 110,825.45</u>	<u>\$ 16,604.87</u>	<u>\$ 70,396.32</u>	<u>\$ 2,796.19</u>	<u>\$ 205,470.15</u>	<u>\$ 19,558.48</u>

Each of the debt issues identified above generally have finance related covenants that have irrevocably pledged select revenue sources for the retirement of the debt; and have provided certain restrictions on the issuance of additional debt.

The annual requirements to amortize all component unit debt outstanding as of December 31, 2020, excluding compensated absences are as follows:

Year Ending December 31,	Essential Function Housing Development Revenue Bond, Series 1999-01		Essential Function Housing Development Revenue Bond, Series 1999-02		Essential Function Housing Development Revenue Bond, Series 2001	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 15,200.00	\$ 3,583.00	\$ 16,200.00	\$ 2,917.00	\$ 11,492.00	\$ 6,384.00
2022	15,808.00	2,975.00	16,848.00	2,269.00	11,952.00	5,924.00
2023	16,440.00	2,343.00	17,522.00	1,595.00	12,430.00	5,447.00
2024	17,098.00	1,686.00	18,222.00	895.00	12,927.00	4,949.00
2025	17,782.00	1,002.00	4,134.00	165.00	13,444.00	4,432.00
2026-2030	7,258.00	290.00	-	-	75,731.00	13,650.00
2031-2035	-	-	-	-	21,626.00	1,050.00
	<u>\$ 89,586.00</u>	<u>\$ 11,879.00</u>	<u>\$ 72,926.00</u>	<u>\$ 7,841.00</u>	<u>\$ 159,602.00</u>	<u>\$ 41,836.00</u>

City of De Smet, South Dakota
Notes to the Financial Statements

Year Ending December 31,	Essential Function Housing Development Revenue Bond, Series 2016		Essential Function Housing Development Revenue Bonds Totals		
	Principal	Interest	Principal	Interest	Total
2021	9,001.00	10,597.00	51,893.00	23,481.00	\$ 75,374.00
2022	9,271.00	10,327.00	53,879.00	21,495.00	75,374.00
2023	9,549.00	10,049.00	55,941.00	19,434.00	75,375.00
2024	9,835.00	9,763.00	58,082.00	17,293.00	75,375.00
2025	10,130.00	9,468.00	45,490.00	15,067.00	60,557.00
2026-2030	55,397.00	42,594.00	138,386.00	56,534.00	194,920.00
2031-2035	64,221.00	33,771.00	85,847.00	34,821.00	120,668.00
2036-2040	74,450.00	23,542.00	74,450.00	23,542.00	97,992.00
2041-2045	86,307.00	11,685.00	86,307.00	11,685.00	97,992.00
2046-2047	25,090.00	940.00	25,090.00	940.00	26,030.00
	<u>\$ 353,251.00</u>	<u>\$ 162,736.00</u>	<u>\$ 675,365.00</u>	<u>\$ 224,292.00</u>	<u>\$ 899,657.00</u>

12. Operating Leases as Lessor:

Hospital Operating Lease: Effective July 1, 2008 the City of De Smet entered into an agreement to lease certain real property and improvements (constituting the De Smet Memorial Hospital) to Avera Queen of Peace, a South Dakota nonprofit corporation. The term of the lease is 20 years and at any time after the end of 180 days from the commencement date, may be terminated by either party upon 180 days written notice. The lease agreement also includes covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions. The monthly lease payment is \$9,600 for the first three years of the agreement. After the three-year period, the parties will meet to review the validity of the lease payment and may make appropriate changes through an addendum to the lease. Through the end of the current period (CY 2020) there were no addendum(s) made to the lease agreement. Annually the City receives \$115,200 each year from Avera Queen of Peace for this lease.

Clinic Operating Lease: The City of De Smet entered into an agreement to lease real property and improvements constituting the Hollis M. Hill Medical Center to Avera Queen of Peace for a term of five years with the agreement commencing on September 1, 2013. The monthly payment is \$4,000 through the end of the lease period. The lease agreement also includes covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions. Annually the City receives \$48,000 each year from Avera Queen of Peace for this lease.

Ambulance Space Operating Lease: Commencing on January 1, 2011 the City of De Smet leased specified space to the De Smet Emergency Rescue Unit, Inc. for a five-year period. The annual rental for these premises is \$9,600 payable in equal quarterly installments of \$2,400 each year through the end of the lease period. The lease agreement also includes covenants as to rights, obligations, indemnifications, contingencies, and default and termination provisions.

13. Restricted Net Position:

Restricted Net Position for the years ended December 31, 2020 was as follows:

<u>Purpose</u>	<u>Source of Restriction</u>	<u>12/31/2020</u>
Facilities and Promotion	Law	\$ 42,018.69
Library	Law	8,493.07
Fire Purposes	Contract	32,407.60
Debt Service	Debt Covenant	52,463.68
Depot Museum	Donor	12,952.75
SDRS Pension Purposes	Law	14,000.42
Total Restricted Net Position		<u>\$ 162,336.21</u>

City of De Smet, South Dakota
Notes to the Financial Statements

14. Interfund Transfers:

There were no interfund transfers for the year ended December 31, 2020.

15. Pension Plan:

Plan Information:

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 defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions 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://www.sdrs.sd.gov/publications> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and B judicial, and Class C Cement Plant Retirement Fund members.

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generation 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 Cost of Living Adjustment (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.

City of De Smet, South Dakota
Notes to the Financial Statements

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2020, 2019, and 2018 are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 23,429.55
2019	\$ 22,320.36
2018	\$ 23,259.01

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

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

Proportionate share of net position restricted for pension benefits	\$ 2,169,836.59
Less proportionate share of total pension liability (asset)	<u>2,170,603.17</u>
Proportionate share of net pension liability (asset)	<u>\$ (766.58)</u>

At December 31, 2020, the City reported a liability (asset) of \$(766.58) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2020 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2020, the City's proportion was 0.017651%, which is an increase (decrease) of 0.000193% from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the City recognized pension expense (reduction of expense) of \$36,938.26. At December 31, 2020 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.	\$ 2,932.58	\$ 600.52
Changes in assumption	24,692.13	99,584.75
Net difference between projected and actual earning on pension plan investments.	71,249.81	-
Changes in proportion and differences between City contributions and proportionate share of contributions.	3,422.25	803.15
City contributions subsequent to the measurement date.	<u>11,925.49</u>	<u>-</u>
Total	<u>\$ 114,222.26</u>	<u>\$ 100,988.42</u>

City of De Smet, South Dakota
Notes to the Financial Statements

The City has reported \$11,925.49 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 liability in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of expense) as follows:

Year Ended December 31:	
2021	\$ (7,626.62)
2022	(5,832.76)
2023	1,515.39
2024	<u>13,252.34</u>
Total	<u>\$ 1,308.35</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 %
Salary Increases	6.50% at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 % net of pension plan investment expense
Future COLAs	1.41%

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

The actuarial assumptions used in the June 3, 2020 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	<u>2.0%</u>	1.0%
Total	<u>100%</u>	

City of De Smet, South Dakota
Notes to the Financial Statements

Discount Rate:

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

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.5%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 297,382.03	\$ (766.58)	\$ (244,646.27)

Pension Plan Fiduciary Net Position:

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

16. Significant Contingencies – Litigation:

At December 31, 2020, the City was not involved in any litigation.

17. 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 period ended December 31, 2020, 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 operating 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. Under the U.S. Health Care Law it is no longer allowed for the insurance companies to set a dollar limit on essential health benefits for either annual or lifetime coverage.

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The City joined the South Dakota City 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

City of De Smet, South Dakota
Notes to the Financial Statements

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.

18. Tax Abatements:

Governmental Accounting standards Board (GASB) Statement No.77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

There were no tax abatements that meet the above-mentioned definition that affect the City of De Smet in the current year.

19. Related Party Transactions

There were no related-party transactions required to be disclosed in the current year.

20. Implementation of New Accounting Standard

As of January 1, 2020, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Certain agency funds previously accounted for activities that are not considered fiduciary in nature and are now reported in the custodial funds.

21. Subsequent Events:

The City has evaluated for subsequent events through May 27, 2022, the date which the financial statements were available to be issued. The City is not aware of any subsequent events which would require recognition or disclosure in the financial statements. A nonrecognized subsequent event has occurred, but the impact of COVID-19 pandemic cannot be determined for the City at this time.

Required Supplementary Information
City of De Smet
Budgetary Comparison Schedule - Budgetary Basis
General Fund
For the Year Ended December 31, 2020

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	509,000.00	\$ 509,000.00	\$ 517,440.71	\$ 8,440.71
General Sales and Use Taxes	529,000.00	529,000.00	625,967.31	96,967.31
Amusement Taxes	-	-	168.00	168.00
Penalties and Interest on Delinquent Taxes	-	-	2,043.49	2,043.49
Licenses and Permits	500.00	500.00	1,600.00	1,100.00
Intergovernmental Revenue:				
Federal Grants	-	145,000.00	157,147.13	12,147.13
State Grants	-	-	4,009.56	4,009.56
State Shared Revenue:				
Bank Franchise Tax	4,200.00	4,200.00	4,737.81	537.81
Motor Vehicle Commercial Prorat	-	-	2,077.27	2,077.27
Liquor Tax Reversion	6,000.00	6,000.00	7,537.79	1,537.79
Motor Vehicle Licenses (5%)	19,000.00	19,000.00	18,874.16	(125.84)
Local Government Highway and Bridge Fund	38,000.00	38,000.00	39,672.05	1,672.05
Other	-	-	1,846.00	1,846.00
County Shared Revenue:				
County Road Tax (25%)	1,800.00	1,800.00	1,880.95	80.95
County HBR Tax (25%)	-	-	-	-
County Wheel Tax	3,000.00	3,000.00	4,057.82	1,057.82
Charges for Goods and Services:				
General Government	1,000.00	1,000.00	2,136.00	1,136.00
Public Safety	2,700.00	2,700.00	2,700.00	-
Sanitation	83,000.00	83,000.00	95,824.30	12,824.30
Health	-	-	-	-
Culture and Recreation	15,300.00	15,300.00	28,105.05	12,805.05
Fines and Forfeits:				
Court Fines and Costs	200.00	200.00	312.13	112.13
Miscellaneous Revenue:				
Investment Earnings	1,500.00	1,500.00	1,679.35	179.35
Rentals	105,600.00	105,600.00	119,804.20	14,204.20
Special Assessments	-	-	400.00	400.00
Contributions and Donations from Private Sources	400.00	400.00	-	(400.00)
Liquor Operating Agreement Income	22,000.00	22,000.00	37,999.92	15,999.92
Other	8,000.00	8,000.00	25,857.39	17,857.39
Total Revenue	1,350,200.00	1,495,200.00	1,703,878.39	208,678.39

Required Supplementary Information
City of De Smet
Budgetary Comparison Schedule - Budgetary Basis
General Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures:				
General Government:				
Legislative	43,625.00	43,625.00	32,820.61	10,804.39
Contingency	56,100.00	-	-	-
Elections	1,000.00	1,000.00	-	1,000.00
Financial Administration	148,750.00	153,750.00	147,844.68	5,905.32
Other	58,925.00	74,925.00	70,786.36	4,138.64
Total General Government	<u>308,400.00</u>	<u>273,300.00</u>	<u>251,451.65</u>	<u>21,848.35</u>
Public Safety:				
Police	75,400.00	75,400.00	75,399.96	0.04
Fire	50,275.00	70,275.00	66,884.83	3,390.17
Total Public Safety	<u>125,675.00</u>	<u>145,675.00</u>	<u>142,284.79</u>	<u>3,390.21</u>
Public Works:				
Highways and Streets	315,550.00	385,150.00	380,369.51	4,780.49
Sanitation	100,120.00	104,120.00	95,539.03	8,580.97
Airport	29,754.00	114,754.00	108,051.58	6,702.42
Total Public Works	<u>445,424.00</u>	<u>604,024.00</u>	<u>583,960.12</u>	<u>20,063.88</u>
Health and Welfare:				
Health	11,740.00	11,740.00	2,285.28	9,454.72
Clinic	6,400.00	6,400.00	5,873.00	527.00
Total Health and Welfare	<u>18,140.00</u>	<u>18,140.00</u>	<u>8,158.28</u>	<u>9,981.72</u>
Culture and Recreation:				
Recreation	78,925.00	78,925.00	67,856.51	11,068.49
Parks	64,420.00	64,420.00	60,346.03	4,073.97
Libraries	76,525.00	76,525.00	61,847.50	14,677.50
Auditorium	169,870.00	169,870.00	144,752.14	25,117.86
Museums	10,480.00	10,480.00	4,380.59	6,099.41
Total Culture and Recreation	<u>400,220.00</u>	<u>400,220.00</u>	<u>339,182.77</u>	<u>61,037.23</u>
Economic Development	29,800.00	29,800.00	22,079.22	7,720.78
Debt Service	60,000.00	60,000.00	51,221.81	8,778.19
Liquor Operating Agreements	400.00	1,900.00	1,311.19	588.81
Total Expenditures	<u>1,388,059.00</u>	<u>1,533,059.00</u>	<u>1,399,649.83</u>	<u>133,409.17</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(37,859.00)</u>	<u>(37,859.00)</u>	<u>304,228.56</u>	<u>342,087.56</u>
Fund Balance - Beginning	<u>1,411,825.15</u>	<u>1,411,825.15</u>	<u>1,411,825.15</u>	<u>-</u>
Fund Balance- Ending	<u>\$ 1,373,966.15</u>	<u>\$ 1,373,966.15</u>	<u>\$ 1,716,053.71</u>	<u>\$ 342,087.56</u>

Required Supplementary Information
City of De Smet
Budgetary Comparison Schedule - Budgetary Basis
Hospital Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget -Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
Investment Earnings	\$ 3,000.00	\$ 3,000.00	\$ 2,898.22	\$ (101.78)
Rentals	115,200.00	115,200.00	115,200.00	-
Total Revenue	<u>118,200.00</u>	<u>118,200.00</u>	<u>118,098.22</u>	<u>(101.78)</u>
Expenditures:				
Health and Welfare:				
Hospitals	<u>21,500.00</u>	<u>21,500.00</u>	<u>5,633.86</u>	<u>15,866.14</u>
Total Expenditures	<u>21,500.00</u>	<u>21,500.00</u>	<u>5,633.86</u>	<u>15,866.14</u>
Excess of Revenue Over (Under)				
Expenditures	<u>96,700.00</u>	<u>96,700.00</u>	<u>112,464.36</u>	<u>15,764.36</u>
Fund Balance - Beginning	<u>1,079,512.17</u>	<u>1,079,512.17</u>	<u>1,079,512.17</u>	<u>-</u>
Fund Balance- Ending	<u><u>\$ 1,176,212.17</u></u>	<u><u>\$ 1,176,212.17</u></u>	<u><u>\$ 1,191,976.53</u></u>	<u><u>\$ 15,764.36</u></u>

Required Supplementary Information
City of De Smet
Budgetary Comparison Schedule - Budgetary Basis
Liquor, Lodging & Dining Sales Tax Special Revenue Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	\$ 29,000.00	\$ 29,000.00	\$ 31,817.55	\$ 2,817.55
Investment Earnings	-	-	40.54	40.54
Total Revenue	<u>29,000.00</u>	<u>29,000.00</u>	<u>31,858.09</u>	<u>2,858.09</u>
Expenditures:				
Economic Development	30,500.00	30,500.00	30,480.00	20.00
Total Expenditures	<u>30,500.00</u>	<u>30,500.00</u>	<u>30,480.00</u>	<u>20.00</u>
Excess of Revenue Over (Under) Expenditures	<u>(1,500.00)</u>	<u>(1,500.00)</u>	<u>1,378.09</u>	<u>2,878.09</u>
Fund Balance - Beginning	<u>40,640.60</u>	<u>40,640.60</u>	<u>40,640.60</u>	-
FUND BALANCE - ENDING	<u><u>\$ 39,140.60</u></u>	<u><u>\$ 39,140.60</u></u>	<u><u>\$ 42,018.69</u></u>	<u><u>\$ 2,878.09</u></u>

Required Supplementary Information
City of De Smet
Budgetary Comparison Schedule - Budgetary Basis
Library Fines Fund
For the Year Ended December 31, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget -Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Library	\$ 1,000.00	\$ 1,000.00	\$ -	\$ (1,000.00)
Contributions and Donations from Private Sources	<u>5,000.00</u>	<u>5,000.00</u>	<u>1,759.05</u>	<u>(3,240.95)</u>
Total Revenue	<u>6,000.00</u>	<u>6,000.00</u>	<u>1,759.05</u>	<u>(4,240.95)</u>
Expenditures:				
Culture and Recreation:				
Libraries	<u>6,000.00</u>	<u>6,000.00</u>	<u>5,333.61</u>	<u>666.39</u>
Total Expenditures	<u>6,000.00</u>	<u>6,000.00</u>	<u>5,333.61</u>	<u>666.39</u>
Excess of Revenue Over (Under)				
Expenditures	<u>-</u>	<u>-</u>	<u>(3,574.56)</u>	<u>(3,574.56)</u>
Fund Balance - Beginning	<u>12,067.63</u>	<u>12,067.63</u>	<u>12,067.63</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 12,067.63</u></u>	<u><u>\$ 12,067.63</u></u>	<u><u>\$ 8,493.07</u></u>	<u><u>\$ (3,574.56)</u></u>

City of De Smet
Notes to the Required Supplementary Information
Schedules of Budgetary Comparisons for the General Fund and for
each major Special Revenue Fund with a legally required budget.

Note 1. Budgets and Budgetary Accounting:

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total city budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the City Council.
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 (USGAAP).

Note 2. GAAP/Budgetary Accounting Basis Differences:

The financial statements are prepared in conformity with USGAAP applied within the context of the modified accrual basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay are reported with in the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

Required Supplementary Information
City of De Smet
Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)
South Dakota Retirement System
Last 6 Fiscal Years *

	2020	2019	2018	2017	2016	2015
City's proportion of the net pension liability (asset)	0.017651%	0.017458%	0.018510%	0.018268%	0.019614%	0.017386%
City's proportionate share of net pension liability (asset)	\$ (767)	\$ (1,850)	\$ (432)	\$ (1,658)	\$ 66,254	\$ (73,739)
City's covered-employee payroll	\$ 387,413	\$ 374,955	\$ 384,795	\$ 371,171	\$ 370,711	\$ 317,423
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(0.20%)	(0.49%)	(0.11%)	(0.45%)	17.87%	(23.23%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

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

Required Supplementary Information
City of De Smet
Schedule of the City's Contributions
South Dakota Retirement System
Last 6 Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 23,430	\$ 22,320	\$ 23,259	\$ 22,380	\$ 22,680	\$ 20,238
Contributions in relation to the contractually required contribution	<u>23,430</u>	<u>22,320</u>	<u>23,259</u>	<u>22,380</u>	<u>22,680</u>	<u>\$ 20,238</u>
Contribution deficiency (excess)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
City's covered-employee payroll	\$ 390,492	\$ 372,528	\$ 390,911	\$ 373,001	\$ 377,997	\$ 337,293
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%

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

City of De Smet
Notes to Required Supplementary Information
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of Pension Contributions.

Changes from Prior Valuation

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

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

Benefit Provision Changes

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

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

Actuarial Assumption Changes

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

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

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

Actuarial Method Changes

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