

**MUNICIPALITY OF HERREID  
HERREID, SOUTH DAKOTA  
AUDIT REPORT  
FOR THE YEAR THEN ENDED  
DECEMBER 31, 2023**

**MUNICIPALITY OF HERREID**  
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# CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

## 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

### Independent Auditor's Report

Municipal Council  
Municipality of Herreid  
Herreid, 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Herreid, South Dakota, as of December 31, 2023 and for the year then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated July 8, 2024, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

### **Report on Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings, as items 2023-001, 2023-002, 2023-003, 2023-004, and 2023-005 to be material weaknesses.

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## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Municipality's Response to Findings**

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality's response to the findings identified in our audit. The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Municipality's responses were 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 Municipality'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.

*Calvin Banner*

Mobridge, South Dakota  
July 8, 2024

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2023**

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**PRIOR OTHER AUDIT FINDINGS**

**Finding 2022-001:**

A material weakness was reported for a lack of proper segregation of duties for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss public assets.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2023-001. The reason for recurrence is due to cost considerations, the Municipality has determined it is not practical to employ additional staff to adequately segregate duties. The Municipality will implement compensating controls where practical.

**Finding 2022-002:**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2023-002. The reason for recurrence is due to cost considerations, the Municipality accepts the risks associated with the auditors preparing the financial statements. The Municipality will implement compensating controls where practical.

**Finding 2022-003:**

A material weakness was reported for the Municipality having an inadequate listing of fixed asset records.

**Current Status**

This finding has been corrected.

**Finding 2022-004**

The Municipality expended money in excess of budgeted amounts without supplementing the budget as allowed by SDCL 9-21-7 in two departments of the General Fund.

**Current Status**

Ongoing: This finding has been corrected.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2023**

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**Finding 2022-005:**

The Municipality did not submit payroll taxes and SDRS contributions on a timely basis.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2023-004. Management is aware this deficiency and is working on internal controls that can detect and prevent from occurring in the future.

**Finding 2022-006:**

The Municipality does not have an internal control system designed to ensure the audit report is made available on their website as required by SDCL 4-11-12.

**Current Status**

This finding has been corrected.

**Finding 2022-007:**

The Municipality does not have an internal control system designed to provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

**Current Status**

Ongoing: Condition still exists, see current audit finding number 2023-003. Management is aware of their overall responsibility for the completeness of the Municipality's financial statements and the necessity for those to be complete with all material adjustments reflected and will attempt to complete all material adjustments for future financial statements.

**Finding 2022-008:**

The Municipality did not timely deposit property tax receipts into the designated financial institution.

**Current Status**

This finding has been corrected.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2023**

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**CURRENT AUDIT FINDINGS:**

**Internal Control-Related Findings - Material Weaknesses:**

**Finding 2023-001:**

**Criteria:**

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

**Condition Found:**

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures, and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

**Cause and Effect:**

The Municipality of Herreid has a limited number of employees who prepare all records for cash, revenues, equity, expenditures, and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

**Recommendation:**

We recommend that Municipality officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

**Identification of Repeat Finding:**

This is the twelfth consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2023**

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**Finding 2023-002:**

**Criteria:**

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

**Condition Found:**

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

**Cause and Effect:**

This condition may affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

**Recommendation:**

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

**Identification of Repeat Finding:**

This is the twelfth consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Both the City Council and management are aware of this process and have expressed their confidence in that the information is accurate and they are willing to accept this risk.

**Finding Number 2023-003:**

**Criteria:**

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with generally accepted accounting principles.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS**  
**DECEMBER 31, 2023**

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**Condition Found:**

While conducting our audit, we proposed material audit adjustments that would not have been identified as a result of the Municipality's existing internal controls, and therefore could have resulted in a material misstatement of the Municipality's financial statements.

**Cause and Effect:**

This condition may affect the School District's ability to record, process, summarize, and report financial statement data consistent with the assertions of management in the financial statements.

**Recommendation:**

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

**Identification of Repeat Finding:**

This is the second consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Municipality's finance officer, Keith Hall, is the contact person responsible for the corrective action plan for this comment. The Municipality of Herreid is continuing its work in correcting this deficiency.

**Finding Number 2023-004:**

**Criteria:**

An organization's internal control structure should provide for the maintenance and timely filing of payroll related liabilities, as well as requiring completion and maintenance of proper employee personnel files and related forms.

**Condition Found:**

The Municipality's internal control system did not ensure that all payroll liabilities are submitted as required on a timely basis. The Municipality incurred several months of late remittances of the SDRS contributions for employees.

**Cause and Effect:**

This condition may result in the Municipality incurring penalties and fines with the SD retirement system for late calculations of employee contributions for SD retirement system purposes, in addition to noncompliance issues regarding payroll records.

**MUNICIPALITY OF HERREID  
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS  
DECEMBER 31, 2023**

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**Recommendation:**

We recommend that management be more aware of payroll and related liability deadlines and as well, conducting a review of employee files to ensure that the appropriate paperwork has been retained.

**Identification of Repeat Finding:**

This is the second consecutive audit report in which this finding has appeared.

**Views of Responsible Officials and Planned Corrective Action:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. The Municipality will ensure to properly monitor payroll tax and related liabilities payments as they are due, as well as reviewing employee files for forms needed for retention.

**Finding Number 2023-005:**

**Criteria:**

SDCL 9-18-1 requires a governing body to publish, within twelve business days, the minutes for each meeting of the governing body including a detailed statement of all expenditures of money and the names of each person paid and the service provided.

**Condition Found:**

While conducting our audit, we found minutes of the Municipality that were not timely published in accordance with SDCL 9-18-1.

**Cause and Effect:**

The Municipality does not have internal controls in place to ensure that minutes are timely published which can lead to the general public not being timely made aware of Municipal proceedings.

**Recommendation:**

We recommend that the Municipality design internal controls to prevent this from occurring in the future.

**Views of Responsible Officials and Planned Corrective Action:**

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. The Municipality is continuing to work on this deficiency.



### *Matters Giving Rise to Adverse Opinion on the Aggregate Discretely Presented Component Units*

Management has not included the aggregate discretely presented component units of the Municipality of Herreid, South Dakota's, financial statements. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

### **Emphasis of Matter**

As discussed in Note 1.c. of the financial statements, which describes the basis of accounting, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS and Government Auditing Standards, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Municipality's ability to continue as a going concern for a reasonable period of time.

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

### **Supplementary Information**

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated July 8, 2024 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 Municipality's internal control over financial reporting and compliance.

*Calvin Bauer*

Mobridge, South Dakota  
July 8, 2024

**MUNICIPALITY OF HERREID**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**DECEMBER 31, 2023**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 773,576	\$ 313,443	\$ 1,087,019
Investments	775,000	100,000	875,000
<b>TOTAL ASSETS</b>	<b>1,548,576</b>	<b>413,443</b>	<b>1,962,019</b>
<b>NET POSITION</b>			
Restricted for			
Revenue contingency bonds	-	95,016	95,016
Equipment repair and/or replacement	-	34,147	34,147
Unrestricted	1,548,576	284,280	1,832,856
<b>TOTAL NET POSITION</b>	<b>\$ 1,548,576</b>	<b>\$ 413,443</b>	<b>\$ 1,962,019</b>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary government							
Governmental activities							
General government	\$ 134,671	\$ 2,760	\$ -	\$ -	\$ (131,911)	\$ -	\$ (131,911)
Public safety	45,346	-	-	-	(45,346)	-	(45,346)
Public works	392,078	71,565	35,972	8,649	(275,892)	-	(275,892)
Health and welfare	2,595	-	-	-	(2,595)	-	(2,595)
Culture and recreation	781,413	14,255	-	345,967	(421,191)	-	(421,191)
Total governmental activities	1,356,103	88,580	35,972	354,616	(876,935)	-	(876,935)
Business-type activities							
Water	154,358	133,808	-	-	-	(20,550)	(20,550)
Sewer	187,623	180,019	-	-	-	(7,604)	(7,604)
Total business-type activities	341,981	313,827	-	-	-	(28,154)	(28,154)
Total primary government	\$ 1,698,084	\$ 402,407	\$ 35,972	\$ 354,616	\$ (876,935)	\$ (28,154)	\$ (905,089)
General Revenues							
Taxes							
Property taxes					148,514	-	148,514
Sales tax					339,986	-	339,986
State shared revenue					4,107	-	4,107
Unrestricted investment earnings					24,666	2,346	27,012
Miscellaneous revenue					2,383	-	2,383
Transfers					(25,000)	25,000	-
Total general revenues					494,656	27,346	522,002
Change in net positions					(382,279)	(808)	(383,087)
Net positions - beginning					1,930,855	414,251	2,345,106
Net positions - ending					\$ 1,548,576	\$ 413,443	\$ 1,962,019

**MUNICIPALITY OF HERREID**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2023**

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 773,576	\$ 773,576
Investments	775,000	775,000
TOTAL ASSETS	<u>1,548,576</u>	<u>1,548,576</u>
FUND BALANCES		
Unassigned	<u>1,548,576</u>	<u>1,548,576</u>
TOTAL FUND BALANCES	<u>\$ 1,548,576</u>	<u>\$ 1,548,576</u>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Primary Government	
	General Fund	Total Governmental Funds
REVENUES		
Taxes		
General property taxes	\$ 148,028	\$ 148,028
General sales and use taxes	339,986	339,986
Penalties and interest on delinquent taxes	486	486
Licenses and permits	1,660	1,660
Intergovernmental revenue		
Federal grants	230,000	230,000
State shared revenue		
Bank franchise tax	1,248	1,248
Motor vehicle commercial prorate	3,790	3,790
Liquor tax reversion	2,859	2,859
Motor vehicle licenses (5%)	12,555	12,555
Local government highway and bridge fund	19,110	19,110
County shared revenue		
County road tax (25%)	517	517
Charges for goods and services		
Sanitation	71,455	71,455
Culture and recreation	14,255	14,255
Cemetery	110	110
Miscellaneous revenue		
Investment earnings	24,666	24,666
Rentals	1,100	1,100
Special assessments	8,649	8,649
Contributions and donations from private sources	115,967	115,967
Other	2,245	2,245
Total Revenues	<u>\$ 998,686</u>	<u>\$ 998,686</u>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -**  
**MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Primary Government	
	General Fund	Total Governmental Funds
EXPENDITURES		
General government		
Legislative	\$ 24,275	\$ 24,275
Executive	1,360	1,360
Elections	598	598
Financial administration	71,227	71,227
Other	37,211	37,211
Public safety		
Police	36,082	36,082
Fire	4,831	4,831
Protective inspection	4,433	4,433
Public works		
Highways and streets	326,712	326,712
Sanitation	61,546	61,546
Airport	1,974	1,974
Cemeteries	1,846	1,846
Health and welfare		
Health	2,595	2,595
Culture and recreation		
Recreation	770,427	770,427
Parks	6,315	6,315
Libraries	2,671	2,671
Conservation and development		
Economic development and assistance (Industrial development)	2,000	2,000
Total expenditures	<u>1,356,103</u>	<u>1,356,103</u>
Excess of revenue over (under) expenditures	(357,417)	(357,417)
Other financing sources (uses)		
Transfer out	(25,000)	(25,000)
Sale of municipal property	138	138
Total other financing sources	<u>(24,862)</u>	<u>(24,862)</u>
Net change in fund balances	(382,279)	(382,279)
Fund balance - beginning	<u>1,930,855</u>	<u>1,930,855</u>
Fund Balance - Ending	<u>\$ 1,548,576</u>	<u>\$ 1,548,576</u>

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

**MUNICIPALITY OF HERREID**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2023**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ 53,115	\$ 260,328	\$ 313,443
Investments	-	100,000	100,000
Total current assets	<u>53,115</u>	<u>360,328</u>	<u>413,443</u>
 Total assets	<u>53,115</u>	<u>360,328</u>	<u>413,443</u>
 <b>NET POSITION</b>			
Restricted for			
Revenue bond contingency	-	95,016	95,016
Equipment repair and/or replacement	34,147	-	34,147
Unrestricted	<u>18,968</u>	<u>265,312</u>	<u>284,280</u>
 Total net position	<u>\$ 53,115</u>	<u>\$ 360,328</u>	<u>\$ 413,443</u>

**MUNICIPALITY OF HERREID**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**- MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 133,808	\$ 180,019	\$ 313,827
Total operating revenue	<u>133,808</u>	<u>180,019</u>	<u>313,827</u>
OPERATING EXPENSES			
Personal services	27,276	27,538	54,814
Other current expense	8,703	39,681	48,384
Materials	109,741	-	109,741
Total operating expenses	<u>145,720</u>	<u>67,219</u>	<u>212,939</u>
Operating income	<u>(11,912)</u>	<u>112,800</u>	<u>100,888</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	-	2,346	2,346
Debt service principle	(4,730)	(64,176)	(68,906)
Interest expense and fiscal charges	(3,908)	(56,228)	(60,136)
Total nonoperating expenses	<u>(8,638)</u>	<u>(118,058)</u>	<u>(126,696)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	(20,550)	(5,258)	(25,808)
Transfers in	<u>25,000</u>	<u>-</u>	<u>25,000</u>
CHANGE IN NET POSITION	4,450	(5,258)	(808)
NET POSITION - BEGINNING	<u>48,665</u>	<u>365,586</u>	<u>414,251</u>
NET POSITION - ENDING	<u>\$ 53,115</u>	<u>\$ 360,328</u>	<u>\$ 413,443</u>

**MUNICIPALITY OF HERREID  
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2023  
(See Independent Auditors' Report)**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

As discussed further in Note 1.c, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

*a. Financial Reporting Entity*

The reporting entity of the Municipality of Herreid (Municipality), 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, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the 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 Municipality 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 Municipality. The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Herreid, 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 low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Herreid Housing and Redevelopment Commission, Herreid, South Dakota.

**NOTES TO FINANCIAL STATEMENTS - Page 2**  
**(See Independent Auditors' Report)**

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*b. Basis of Presentation*

**Government-wide Financial Statements**

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses and 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 major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. 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 Municipality financial reporting entity are described below within their respective fund types:

**NOTES TO FINANCIAL STATEMENTS - Page 3**  
**(See Independent Auditors' Report)**

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**Governmental Funds**

General Fund - The General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always 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 and 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 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 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 municipal waterworks system and related facilities. (SDL 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 municipal sanitary system and related facilities. (SDL 9-48-2 ) This is a major fund.

*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.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

**NOTES TO FINANCIAL STATEMENTS - Page 4**  
**(See Independent Auditors' Report)**

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**Measurement Focus**

**Government-wide Financial Statements**

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

**Fund Financial Statements**

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of modified cash basis of accounting.

**Basis of Accounting**

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

**NOTES TO FINANCIAL STATEMENTS - Page 5**  
**(See Independent Auditors' Report)**

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*d. Deposits and Investments*

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

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Law (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

*e. Long-Term Liabilities*

Long-term liabilities include, but are not limited to Revenue Bonds and Revolving Funding loans.

As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

*f. Program Revenues*

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

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

**NOTES TO FINANCIAL STATEMENTS - Page 6**  
**(See Independent Auditors' Report)**

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

*g. 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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

*h. Cash and Cash Equivalents*

The Municipality 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.

*i. Capital Assets*

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, 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.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate so any capital assets owned by the Municipality and the related depreciation/amortization are not reported on the financial statements of the Municipality.

*j. Equity Classifications*

**Government-wide Statements**

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

- a: 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.

**NOTES TO FINANCIAL STATEMENTS - Page 7**  
**(See Independent Auditors' Report)**

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b: Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

**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.

*k. Application of Net Positions*

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

*l. Fund Balance Classification and Policies and Procedures*

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality 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.

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 Municipal Council or 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.

**NOTES TO FINANCIAL STATEMENTS - Page 8**  
**(See Independent Auditors' Report)**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS**

The Municipality 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 Municipality's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 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 municipality 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 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, 2023, the Municipality did not have any investments. The investments reported in the financial statements consist only of Certificates of Deposit.

**Interest Rate Risk** - The Municipality 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.

**Credit Risk** - State law limits eligible investments for the Municipality of Herreid. The Municipality has no investment policy that would further limit its investment choices.

**Custodial Credit Risk** - The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2023, none of the Municipality's deposits were exposed to custodial credit risk.

**NOTES TO FINANCIAL STATEMENTS - Page 9**  
**(See Independent Auditors' Report)**

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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 Municipality's policy is to credit all income to the fund making the investment.

**NOTE 3 - PROPERTY TAXES**

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

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

**NOTE 4 - 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 survivors 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

**Benefits Provided:**

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

**NOTES TO FINANCIAL STATEMENTS - Page 10**  
**(See Independent Auditors' Report)**

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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 retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouse of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

Legislation enacted in 2017 established the current COLA process. At each valuation date:

Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.

If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%

If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:

The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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

**NOTES TO FINANCIAL STATEMENTS - Page 11**  
**(See Independent Auditors' Report)**

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**Contribution:**

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 Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2023, 2022, and 2021 were \$7,535, \$6,021 and \$5,732 respectively, equal to the required contributions each year.

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

At June 30, 2023, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2023, and reported by the Municipality as of December 31, 2023 are as follows:

Proportionate share of pension liability	\$ 658,457
Less proportionate share net pension restricted for pension benefits	<u>658,901</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (444)</u></u>

The net pension asset was measured as of June 30, 2023 and the total pension asset used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2023, the Municipality's proportion was 0.0045440%, which is an increase of 0.0005040% from its proportion measured as of June 30, 2022.

**Actuarial Assumptions:**

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

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.5% and real returns of 4.00%
Future COLAs	1.91%

**NOTES TO FINANCIAL STATEMENTS - Page 12**  
**(See Independent Auditors' Report)**

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**Mortality Rates:**

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

**Active and Terminated Vested Members:**

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubG-2010

**Retired Members:**

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

**Beneficiaries:**

PubG-2010 contingent survivor mortality table

**Disabled members:**

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2023 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

**NOTES TO FINANCIAL STATEMENTS - Page 13**  
**(See Independent Auditors' Report)**

<u>Asset Class</u>	<u>Target Allocation</u>	<u>LT Expected Real Rate of Return</u>
Global Equity	56.30%	3.80%
Investment Grade Debt	22.80%	1.70%
High Yield Debt	7.00%	2.70%
Real Estate	12.00%	3.50%
Cash	1.90%	0.80%
Total	100%	

**Discount Rate:**

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

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

The following presents the Municipality's proportionate share of net pension asset calculated using the discount rate of 6.50%, as well as what the Municipality's proportionate share of the net pension 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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension (asset) liability	\$ 90,905	\$ (444)	\$ (75,149)

**Pension Plan Fiduciary Net Position:**

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

**NOTES TO FINANCIAL STATEMENTS - Page 14**  
**(See Independent Auditors' Report)**

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**NOTE 5 - RISK MANAGEMENT**

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

*Liability Insurance*

The Municipality 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.

*Workmen's Compensation*

The Municipality purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

*Unemployment Benefits*

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

**NOTE 6 - LITIGATION**

At December 31, 2023 the Municipality was not involved in any litigation.

**NOTE 7 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

**NOTE 8 - INTERFUND TRANSFERS**

Interfund transfers for the year ended December 31, 2023, were as follows:

	<b>Transfers Out</b>	<b>Transfers In</b>	<b>Total</b>
General Fund	\$ (25,000)	\$ -	\$ (25,000)
Water Fund	-	25,000	25,000
	<u>\$ (25,000)</u>	<u>\$ 25,000</u>	<u>\$ -</u>

The purpose of the interfund transfer from General Fund to the Water Fund was due to revenues being insufficient to support the expenditures of the fund.

## **SUPPLEMENTARY INFORMATION**

**MUNICIPALITY OF HERREID  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	\$ 134,993	\$ 134,993	\$ 148,028	\$ 13,035
General sales and use tax	250,000	250,000	339,986	89,986
Penalties and interest on delinquent taxes	50	50	486	436
Licenses and permits	1,600	1,600	1,660	60
Intergovernmental revenue				
Federal grants	261,000	261,000	230,000	(31,000)
State shared revenue				
Bank franchise tax	1,800	1,800	1,248	(552)
Motor vehicle commercial prorate	3,000	3,000	3,790	790
Liquor tax reversion	3,000	3,000	2,859	(141)
Motor vehicle licenses (5%)	10,000	10,000	12,555	2,555
Local government highway and bridge fund	16,000	16,000	19,110	3,110
County shared revenue				
County road tax (25%)	500	500	517	17
Charges for goods and services				
Sanitation	72,000	72,000	71,455	(545)
Culture and recreation	9,500	9,500	14,255	4,755
Cemetery	100	100	110	10
Miscellaneous revenue				
Investment earnings	4,000	4,000	24,666	20,666
Rentals	2,200	2,200	1,100	(1,100)
Special assessments			8,649	8,649
Contributions and donations from private sources	250,000	250,000	115,967	(134,033)
Other	2,600	2,600	2,245	(355)
Total revenue	\$ 1,022,343	\$ 1,022,343	\$ 998,686	\$ (23,657)

**MUNICIPALITY OF HERREID**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND - MODIFIED CASH BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
EXPENDITURES				
General government				
Legislative	\$ 19,350	\$ 26,700	\$ 24,275	\$ 2,425
Contingency	20,000	20,000	-	
Amount transferred	-	(20,000)	-	-
Executive	3,350	3,150	1,360	1,790
Elections	1,100	1,100	598	502
Financial administration	68,950	71,300	71,227	73
Other	48,650	48,650	37,211	11,439
Public safety				
Police	27,300	37,300	36,082	1,218
Fire	8,700	8,700	4,831	3,869
Protective Inspection	5,000	5,000	4,433	567
Public works				
Highways and streets	155,243	356,243	326,712	29,531
Cemetary	18,650	18,650	1,846	16,804
Airport	1,800	2,350	1,974	376
Sanitation	62,700	62,700	61,546	1,154
Health and welfare				
Health	2,800	3,100	2,595	505
Culture and recreation				
Recreation	819,200	819,200	770,427	48,773
Parks	5,300	7,800	6,315	1,485
Libraries	250	2,750	2,671	79
Conservation and development				
Economic development and assistance (industrial development)	4,000	4,000	2,000	2,000
Total Expenditures	1,272,343	1,478,693	1,356,103	122,590
Excess revenue over/under expenditures	(250,000)	(456,350)	(357,417)	98,933
Other financing sources/(uses)				
Transfers out	-	(25,000)	(25,000)	-
Sale of municipal property	-	-	138	138
Total other financing sources (uses)	-	(25,000)	(24,862)	138
Net change in fund balances	(250,000)	(481,350)	(382,279)	99,071
Fund balance - beginning	1,930,855	1,930,855	1,930,855	-
Fund balance - ending	\$ 1,680,855	\$ 1,449,505	\$ 1,548,576	\$ 99,071

**MUNICIPALITY OF HERREID**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH**  
**MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

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**NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING**

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Municipal Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Municipal Commission 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 Municipal Commission.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2023.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.

**MUNICIPALITY OF HERREID**

**NOTES TO SUPPLEMENTARY INFORMATION - Page 2**

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH  
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2023**

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**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH  
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statements 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.

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF CHANGES IN LONG-TERM DEBT**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**

Indebtedness	Long-Term Debt 1/1/2023	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2023
Enterprise Long-Term Debt				
USDA Rural Development Loan #93-03	\$ 197,429	\$ -	\$ 7,629	\$ 189,800
USDA Rural Development Loan #92-04	158,751	-	8,122	150,629
SRF #461252-01 Wastewater Loan	551,190	-	18,628	532,562
USDA Rural Development Loan #92-05	1,657,435	-	31,077	1,626,358
USDA Rural Development Loan #92-07	180,140	-	3,450	176,690
Total	<u>\$ 2,744,945</u>	<u>\$ -</u>	<u>\$ 68,906</u>	<u>\$ 2,676,039</u>

**MUNICIPALITY OF HERREID**  
**SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE**  
**NET PENSION LIABILITY (ASSET)**  
**SOUTH DAKOTA RETIREMENT SYSTEM**

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	06/30/2023	0.0045%	\$ (444)	\$ 117,212	-0.38%	100.10%
SDRS	06/30/2022	0.0040%	(382)	96,472	-0.40%	100.10%
SDRS	06/30/2021	0.0044%	(33,819)	100,225	-33.74%	105.52%
SDRS	06/30/2020	0.0042%	(183)	92,343	-0.20%	100.04%
SDRS	06/30/2019	0.0041%	(437)	89,583	-0.49%	100.09%
SDRS	06/30/2018	0.0041%	(95)	86,308	-0.11%	100.02%
SDRS	06/30/2017	0.0042%	(376)	84,422	-0.45%	100.10%
SDRS	06/30/2016	0.0042%	14,025	78,951	17.76%	96.89%
SDRS	06/30/2015	0.0040%	(17,098)	73,593	-23.23%	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. Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

**MUNICIPALITY OF HERREID**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2023**  
**SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION**  
**LIABILITY (ASSET) AND SCHEDULE OF PENSION CONTRIBUTIONS**

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**Changes from Prior Valuation:**

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

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

**Benefit Provision Changes:**

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

**Actuarial Method Changes:**

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

**Actuarial Assumption Changes:**

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

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

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

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