



Financial Statements  
December 31, 2018  
**City of Britton**

City of Britton  
Municipal Officials (unaudited)  
December 31, 2018

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Mayor ..... Clyde Fredrickson

Governing Board ..... Brian Beck, President  
Shane Storley, Vice-President  
Bill Deutsch  
Brian Freeman  
Ward Satterlee  
Austin Saker

Finance Officer ..... Marie Marlow

Attorney ..... Justin Scott

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## Independent Auditor's Report

The City Council  
City of Britton  
Britton , South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities and each major fund of the City of Britton (the City) as of and for the year ended December 31, 2018, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; 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 also 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.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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 from 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 entity'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 entity'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.



## Summary of Opinions

<u>Opinion Unit</u>	<u>Type of Opinion</u>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Liquor, Lodging, and Dining Gross Receipts Tax Fund	Unmodified
Revolving Loan Fund	Unmodified
Library Fines Fund	Unmodified
Cemetery Perpetual Care Fund	Unmodified
Library Foundation Fund	Unmodified
Water Fund	Unmodified
Sewer Fund	Unmodified

### **Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit**

Management has not included the financial data for a legally separate component unit in the City's financial statements. Accounting principles applicable to the City's modified cash basis of accounting require the financial data for the component unit to be reported with the financial data for the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit has not been determined.

### **Adverse Opinion on the Aggregate Discretely Presented Component Unit**

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit" paragraph, the modified cash basis financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2018, or the changes in financial position thereof for the year then ended.

### **Unmodified Opinions**

Further, in our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the City of Britton as of December 31, 2018, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 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 opinions are not modified with respect to this matter.

## Other Matters

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of municipal officers, schedule of employer's share of net pension liability (asset) and pension contributions, budgetary comparison schedules, and schedule of changes in notes and bonds payable and capital lease are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and is not a required part of the financial statements.

The listing of municipal officers, schedule of employer's share of net pension liability (asset) and pension contributions, budgetary comparison schedules, schedule of changes in notes and bonds payable and capital lease, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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. Because of the significance of the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit paragraph, it is inappropriate to, and we do not express an opinion on, such supplementary information. The listing of municipal officials has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Eide Bailly LLP*

Aberdeen, South Dakota  
June 28, 2019

City of Britton  
Statement of Net Position—Modified Cash Basis  
December 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 923,672	\$ 1,085,843	\$ 2,009,515
Investments	204,250	-	204,250
Restricted assets:			
Cash and cash equivalents	8,384	459,694	468,078
Investments	354,947	-	354,947
	<u>\$ 1,491,253</u>	<u>\$ 1,545,537</u>	<u>\$ 3,036,790</u>
<b>Net Position</b>			
Restricted for:			
Debt service purposes	\$ -	\$ 285,422	\$ 285,422
Cemetery perpetual care			
Expendable	5,254	-	5,254
Nonexpendable	50,000	-	50,000
Library foundation			
Expendable	3,130	-	3,130
Nonexpendable	61,290	-	61,290
Library fines fund	53,414	-	53,414
Revolving loan fund	336,722	-	336,722
Equipment repair or replacement	-	174,272	174,272
Promoting the City	26,689	-	26,689
Unrestricted	954,754	1,085,843	2,040,597
	<u>\$ 1,491,253</u>	<u>\$ 1,545,537</u>	<u>\$ 3,036,790</u>

**City of Britton**  
**Statement of Activities—Modified Cash Basis**  
**Year Ended December 31, 2018**

Functions/Programs	Program Revenues				Net Revenue (Expense) and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Governmental Activities	Primary Business-Type Activities	Total
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 1,162,091	\$ 25,676	\$ -	\$ -	\$ (1,136,415)	\$ -	\$ (1,136,415)
Public safety	224,895	-	-	-	(224,895)	-	(224,895)
Public works	577,303	112,920	91,261	293,490	(79,632)	-	(79,632)
Health and welfare	25,652	70	-	-	(25,582)	-	(25,582)
Culture and recreation	406,287	31,996	53,294	-	(320,997)	-	(320,997)
Conservation and development	537,966	-	-	-	(537,966)	-	(537,966)
Debt service	463	-	-	-	(463)	-	(463)
Other	656	-	-	-	(656)	-	(656)
<b>Total governmental activities</b>	<b>2,935,313</b>	<b>170,662</b>	<b>144,555</b>	<b>293,490</b>	<b>(2,326,606)</b>	<b>-</b>	<b>(2,326,606)</b>
<b>Business-type activities:</b>							
Water	2,124,234	294,282	-	546,048	-	(1,283,904)	(1,283,904)
Sewer	326,880	338,533	-	-	-	11,653	11,653
<b>Total business-type activities</b>	<b>2,451,114</b>	<b>632,815</b>	<b>-</b>	<b>546,048</b>	<b>-</b>	<b>(1,272,251)</b>	<b>(1,272,251)</b>
<b>Total primary government</b>	<b>\$ 5,386,427</b>	<b>\$ 803,477</b>	<b>\$ 144,555</b>	<b>\$ 839,538</b>	<b>(2,326,606)</b>	<b>(1,272,251)</b>	<b>(3,598,857)</b>
<b>General Revenues</b>							
Taxes:							
Property taxes					482,118	-	482,118
Sales taxes					744,664	-	744,664
State shared revenues					11,053	-	11,053
Unrestricted investment earnings					25,452	25,564	51,016
Debt issued					-	1,490,061	1,490,061
Miscellaneous revenue					231,767	3,283	235,050
Other general revenue					71,125	-	71,125
<b>Total general revenues</b>					<b>1,566,179</b>	<b>1,518,908</b>	<b>3,085,087</b>
<b>Change in Net Position</b>					<b>(760,427)</b>	<b>246,657</b>	<b>(513,770)</b>
<b>Net Position - Beginning</b>					<b>2,251,680</b>	<b>1,298,880</b>	<b>3,550,560</b>
<b>Net Position - Ending</b>					<b>\$ 1,491,253</b>	<b>\$ 1,545,537</b>	<b>\$ 3,036,790</b>

See Notes to Financial Statements

City of Britton  
Balance Sheet--Modified Cash Basis--Governmental Funds  
December 31, 2018

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Revolving Loan Fund	Library Fines Fund	Cemetery Perpetual Care Fund	Library Foundation Fund	Total Governmental Funds
<b>Assets</b>							
Cash and cash equivalents	\$ 750,504	\$ 26,689	\$ 93,065	\$ 53,414	\$ -	\$ -	\$ 923,672
Restricted cash and cash equivalents	-	-	-	-	5,254	3,130	8,384
Investments	204,250	-	-	-	-	-	204,250
Restricted investments	-	-	243,657	-	50,000	61,290	354,947
	<u>\$ 954,754</u>	<u>\$ 26,689</u>	<u>\$ 336,722</u>	<u>\$ 53,414</u>	<u>\$ 55,254</u>	<u>\$ 64,420</u>	<u>\$ 1,491,253</u>
<b>Fund Balances</b>							
263 Nonspendable for:	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Perpetual care cemetery library foundation	-	-	-	-	-	61,290	61,290
264 Restricted for:							
Perpetual care	-	-	-	-	5,254	-	5,254
Promoting the City library purposes	-	26,689	-	-	-	-	26,689
Economic development	-	-	-	53,414	-	3,130	56,544
266 Assigned for:			336,722	-	-	-	336,722
Subsequent year budget	318,608	-	-	-	-	-	318,608
Capital outlay accumulations	191,767	-	-	-	-	-	191,767
267 Unassigned	444,379	-	-	-	-	-	444,379
	<u>\$ 954,754</u>	<u>\$ 26,689</u>	<u>\$ 336,722</u>	<u>\$ 53,414</u>	<u>\$ 55,254</u>	<u>\$ 64,420</u>	<u>\$ 1,491,253</u>

City of Britton  
Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds  
Year Ended December 31, 2018

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Revolving Loan Fund	Library Fines Fund	Cemetery Perpetual Care Fund	Library Foundation Fund	Total Governmental Funds
<b>Revenues</b>							
310 Taxes							
311 General property taxes	\$ 480,720	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 480,720
313 General sales and use taxes	709,565	35,099	-	-	-	-	744,664
315 Amusement taxes	36	-	-	-	-	-	36
319 Penalties and interest on delinquent taxes	1,362	-	-	-	-	-	1,362
Total taxes	1,191,683	35,099	-	-	-	-	1,226,782
320 Licenses and permits	606	-	-	-	-	-	606
330 Intergovernmental revenue							
331 Federal grants	269,079	-	-	-	-	-	269,079
334 State grants	22,141	-	-	-	-	-	22,141
335 State shared revenue							
335.01 Bank franchise tax	3,248	-	-	-	-	-	3,248
335.02 Motor vehicle commercial prorata	4,842	-	-	-	-	-	4,842
335.03 Liquor tax reversion	7,805	-	-	-	-	-	7,805
335.04 Motor vehicle licenses (5%)	29,532	-	-	-	-	-	29,532
335.08 Local government highway and bridge fund	43,652	-	-	-	-	-	43,652
338 County shared revenue							
338.02 County road and bridge tax (25%)	13,235	-	-	-	-	-	13,235
Total intergovernmental revenue	393,534	-	-	-	-	-	393,534
340 Charges for goods and services							
341 General government	691	-	-	-	-	-	691
344 Sanitation	112,120	-	-	-	-	-	112,120
345 Health	70	-	-	-	-	-	70
346 Culture and recreation	31,996	-	-	-	-	-	31,996
348 Cemetery	800	-	-	-	-	-	800
Total charges for good and services	145,677	-	-	-	-	-	145,677



City of Britton  
Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis--Governmental Funds  
Year Ended December 31, 2018

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Revolving Loan Fund	Library Fines Fund	Cemetery Perpetual Care Fund	Library Foundation Fund	Total Governmental Funds
360 Miscellaneous revenue							
361 Investment earnings	20,012	920	2,912	-	447	1,161	25,452
362 Rentals	24,379	-	-	-	-	-	24,379
363 Special assessments	2,270	-	-	-	-	-	2,270
367 Contributions and donations from private sources	-	-	-	53,294	-	-	53,294
368 Liquor operating agreement income	71,125	-	-	-	-	-	71,125
369 Other	18,844	-	212,923	-	-	-	231,767
Total miscellaneous revenue	136,630	920	215,835	53,294	447	1,161	408,287
Total revenues	1,868,130	36,019	215,835	53,294	447	1,161	2,174,886
Expenditures							
410 General government							
411 Legislative	17,008	-	-	-	-	-	17,008
412 Executive	3,714	-	-	-	-	-	3,714
414 Financial administration	259,842	-	-	-	-	-	259,842
419 Other	49,525	-	-	-	-	-	49,525
Total general government	330,089	-	-	-	-	-	330,089
420 Public safety							
421 Police	170,757	-	-	-	-	-	170,757
422 Fire	54,046	-	-	-	-	-	54,046
423 Protective inspection	92	-	-	-	-	-	92
Total public safety	224,895	-	-	-	-	-	224,895
430 Public works							
431 Highways and streets	223,622	-	-	-	-	-	223,622
432 Sanitation	119,834	-	-	-	-	-	119,834
435 Airport	7,557	-	-	-	-	-	7,557
437 Cemeteries	14,352	-	-	-	-	-	14,352
439 Transit	1,847	-	-	-	-	-	1,847
Total public works	367,212	-	-	-	-	-	367,212

**City of Britton**  
**Statement of Revenues, Expenditures and Changes in Fund Balances--Modified Cash Basis--Governmental Funds**  
**Year Ended December 31, 2018**

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Revolving Loan Fund	Library Fines Fund	Cemetery Perpetual Care Fund	Library Foundation Fund	Total Governmental Funds
440 Health and welfare							
441 Health	25,652	-	-	-	-	-	25,652
Total health and welfare	25,652	-	-	-	-	-	25,652
450 Culture and recreation							
451 Recreation	123,682	-	-	-	-	-	123,682
452 Parks	43,164	-	-	-	-	-	43,164
455 Libraries	146,858	-	-	6,547	-	-	153,405
456 Auditorium	27,439	-	-	-	-	-	27,439
Total culture and recreation	341,143	-	-	6,547	-	-	347,690
460 Conservation and development							
465 Economic development and assistance (industrial development)	10,952	44,575	310,000	-	-	-	365,527
Total conservation and development	10,952	44,575	310,000	-	-	-	365,527
470 Debt service	463	-	-	-	-	-	463
485 Capital outlay	1,100,690	-	172,439	-	-	-	1,273,129
490 Miscellaneous							
492 Other	-	-	-	-	-	656	656
Total miscellaneous	-	-	-	-	-	656	656
Total expenditures	2,401,096	44,575	482,439	6,547	-	656	2,935,313
Net Change in Fund Balance	(532,966)	(8,556)	(266,604)	46,747	447	505	(760,427)
Fund Balance - Beginning	1,487,720	35,245	603,326	6,667	54,807	63,915	2,251,680
Fund Balance - Ending	\$ 954,754	\$ 26,689	\$ 336,722	\$ 53,414	\$ 55,254	\$ 64,420	\$ 1,491,253

City of Britton  
Statement of Net Position—Modified Cash Basis—Proprietary Funds  
December 31, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 751,334	\$ 334,509	\$ 1,085,843
Total current assets	<u>751,334</u>	<u>334,509</u>	<u>1,085,843</u>
<b>Noncurrent Assets</b>			
107.1 Restricted cash and cash equivalents	-	459,694	459,694
Total noncurrent assets	<u>-</u>	<u>459,694</u>	<u>459,694</u>
	<u>\$ 751,334</u>	<u>\$ 794,203</u>	<u>\$ 1,545,537</u>
<b>Net Position</b>			
253.20 Restricted net position for:			
253.21 Revenue bond debt service	\$ -	\$ 285,422	\$ 285,422
253.26 Equipment repair and/or replacement	-	174,272	174,272
253.90 Unrestricted	<u>751,334</u>	<u>334,509</u>	<u>1,085,843</u>
Total net position	<u>751,334</u>	<u>794,203</u>	<u>1,545,537</u>
	<u>\$ 751,334</u>	<u>\$ 794,203</u>	<u>\$ 1,545,537</u>

City of Britton

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
Charges for goods and services	\$ 294,282	\$ 338,533	\$ 632,815
369 Miscellaneous	3,283	-	3,283
Total operating revenue	<u>297,565</u>	<u>338,533</u>	<u>636,098</u>
Operating Expenses			
410 Personal services	32,201	27,468	59,669
420 Other current expense	204,674	47,101	251,775
426.2 Materials	4,920	6,467	11,387
430 Capital assets	1,867,562	-	1,867,562
Total operating expenses	<u>2,109,357</u>	<u>81,036</u>	<u>2,190,393</u>
Operating Income (Loss)	<u>(1,811,792)</u>	<u>257,497</u>	<u>(1,554,295)</u>
Nonoperating Revenue (Expense)			
334 Capital grants	546,048	-	546,048
361 Investment earnings	10,809	14,755	25,564
391.20 Long-term debt issued	1,490,061	-	1,490,061
441 Debt service principal	-	(135,651)	(135,651)
470 Interest expense and fiscal charges	(14,877)	(110,193)	(125,070)
Total nonoperating revenue (expense)	<u>2,032,041</u>	<u>(231,089)</u>	<u>1,800,952</u>
Net Change in Fund Balance	220,249	26,408	246,657
Net Position - Beginning	<u>531,085</u>	<u>767,795</u>	<u>1,298,880</u>
Net Position - Ending	<u>\$ 751,334</u>	<u>\$ 794,203</u>	<u>\$ 1,545,537</u>

City of Britton  
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds  
Year Ended December 31, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipts from customers	\$ 297,565	\$ 338,533	\$ 636,098
Payments to suppliers	(209,594)	(53,568)	(263,162)
Payments to employees	(32,201)	(27,468)	(59,669)
Net Cash from Operating Activities	<u>55,770</u>	<u>257,497</u>	<u>313,267</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	1,490,061	-	1,490,061
Capital grants	546,048	-	546,048
Purchase of capital assets	(1,867,562)	-	(1,867,562)
Principal paid on capital debt	-	(135,651)	(135,651)
Interest paid on capital debt	(14,877)	(110,193)	(125,070)
Net Cash from (used for) Capital and Related Financing Activities	<u>153,670</u>	<u>(245,844)</u>	<u>(92,174)</u>
Cash Flows from Investing Activities			
Interest earnings	10,809	14,755	25,564
Net Cash from Investing Activities	<u>10,809</u>	<u>14,755</u>	<u>25,564</u>
Net Change in Cash and Cash Equivalents	220,249	26,408	246,657
Cash and Cash Equivalents - Beginning	531,085	767,795	1,298,880
Cash and Cash Equivalents - Ending	<u>\$ 751,334</u>	<u>\$ 794,203</u>	<u>\$ 1,545,537</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 751,334	\$ 334,509	\$ 1,085,843
Restricted cash and cash equivalents	-	459,694	459,694
	<u>\$ 751,334</u>	<u>\$ 794,203</u>	<u>\$ 1,545,537</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (1,811,792)	\$ 257,497	\$ (1,554,295)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Purchase of capital assets	1,867,562	-	1,867,562
Net Cash from Operating Activities	<u>\$ 55,770</u>	<u>\$ 257,497</u>	<u>\$ 313,267</u>

## **Note 1 - Summary of Significant Accounting Policies**

As discussed further in Note 1.C, the financial statements are presented on a 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 City of Britton (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); 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 City's financial statements to be misleading or incomplete.

The reporting entity is comprised of the primary government, City of Britton, and one component unit, The Housing and Redevelopment Commission.

The Housing and Redevelopment Commission of the City of Britton (commission) is a component unit of the City of Britton. The five members of the Commission are appointed by the Mayor with the approval of the governing body 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 housing unit, or to issue debt, which gives the governing board the ability to impose its will on the commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified. During 2018, the assets of the Commission, which was substantially inactive, were moved into the revolving loan fund and the Commission was dissolved.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit does not issue financial statements.

### **B. Basis of Presentation**

#### **Government-Wide Financial Statements**

The statement of net position and statement of activities display information about the City as a whole. They include all funds of the City. 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 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 City 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 two major categories: governmental and proprietary. 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 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% 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% 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 of Britton 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 an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium or athletic facilities buildings including the promotion of advertising of the city (SDCL 10-52A-2). This is a major fund.
- **Revolving Loan Fund** – To account for resources loaned to businesses to be repaid over a period of time and resources used to collateralize business loans. This is a major fund.
- **Library Fines Fund** – To account for library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City’s programs, that is for the benefit of the City and its citizenry.

- Cemetery Perpetual Care Fund – To account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is a major fund.
- Library Foundation Fund – To account for the library endowment placed with the South Dakota Community Foundation and related investment earnings established by the library board. This is a major fund.

### **Proprietary Funds**

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

The City reports the following enterprise funds:

- Water Fund - Financed primarily by user charges, this fund accounts for the construction and operation of the municipal 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 municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

### **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**

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.

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

### **Basis of Accounting**

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involved modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include investments in certificates of deposit (those with maturities more than 90 days (three months) from date of acquisition) acquired with cash accounts at cost and interfund advances and borrowings arising from the use of a pooled cash account.

The modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expense or expenditures (such as accounts payable and expenses for goods and services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

### **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 investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

## **E. Interfund Eliminations and Reclassifications**

### **Government-Wide Financial Statements**

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

- The City did not have any interfund receivables and payables which required elimination as of December 31, 2018.
- The City did not have internal service fund activity which required elimination as of December 31, 2018.

## **F. Capital Assets**

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

## **G. Long-Term Liabilities**

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

## **H. Program Revenues**

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry as a whole. Program revenues are classified into three categories, as follows:

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

## **I. Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's statement of revenues, expenses and changes in fund 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.

## **J. Cash and Cash Equivalents**

The City pools the cash resources of its funds for cash management purposes. The Water Fund and Sewer Fund 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.

## **K. Equity Classifications**

### **Government-Wide Statements**

Equity is classified as net position and is comprised of three components, invested in capital assets, net of related debt; restricted net position; and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

1. 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.
2. Unrestricted Net Position – All other net position that do not meet the definition of "restricted."

### **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.

## **L. Application of Net Position and Fund Balance**

The City uses restricted amounts first when both restricted and unrestricted net position/fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements 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.

## **M. Fund Balance Classification Policies and Procedures**

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bond holders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by City Council through adoption of a resolution designating a fund balance is intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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, and Dining Gross Receipts Tax Fund	Sales taxes
Revolving Loan Fund	Interest
Library Fines Fund	Donations

#### **N. Rounding**

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

#### **Note 2 - Deposits and Investments**

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

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, 2018, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2018 are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 517,009
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	2,569,730
	\$ 3,086,739

The City's carrying amount of deposits at December 31, 2018 is as follows:

Cash and cash equivalents	\$ 2,477,593
Investments	559,197
	\$ 3,036,790

### Investments

In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940 whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

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. As of December 31, 2018, all of the City’s investments consist of certificates of deposit which have maturities of less than one year.

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

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, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

### **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 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.

### **Note 4 - Water Supply Contract**

The City entered into a 40-year agreement with B.D.M. Rural Water Systems, Inc. to provide water to the City. A monthly minimum in the amount of \$3,419 is paid by the City to B.D.M. Rural Water Systems, Inc. along with a charge of \$4.00 per thousand gallons of water consumed. The monthly service charge represents a contribution by the City to aid B.D.M. Rural Water Systems, Inc. in the construction of the facilities necessary to provide water to the City. The City will not acquire ownership of any of these water facilities through these payments. Payments are made from the City’s Water Fund.

The following are the minimum payments on this agreement:

Year Ending June 30,	Amount
2019	\$ 41,033
2020	41,033
2021	41,033
2022	41,033
2023	41,033
2024-2028	205,166
2029-2033	205,166
2034-2038	205,166
2039-2040	82,066

**Note 5 - Retirement Plan**

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer hybrid defined benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in 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, 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 judicial members, 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 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 enacted the current COLA process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> 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 3<sup>rd</sup> 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.

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% of salary; Class B Judicial Members, 9% of salary; and Class B Public Safety Member, 8% of salary. The City’s share of contributions to the SDRS for the years ended December 31, 2018, 2017 and 2016 were \$18,881, \$18,392, and \$18,511, respectively, equal to the required contributions each year.

**Pension Liability (Asset)**

At June 30, 2018, SDRS is 100.02% funded and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System for the City as of the measurement period ending June 30, 2018 and reported by the City of Britton as of December 31, 2018 are as follows:

Proportionate share of pension liability	\$ 1,754,769
Less proportionate share of net position restricted for pension benefits	<u>1,755,104</u>
Proportionate share of net pension liability (asset)	<u>\$ (335)</u>



At December 31, 2018, the City reported a liability (asset) of (\$335) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018, 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, 2018, the City's proportion was 0.01434%, which is a decrease of 0.00112% from its proportion measured as of June 30, 2017 of 0.01546%. The City's proportionate share net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

### Actuarial Assumptions

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, 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, projected generationally with Scale MP-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, 2018 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	100.0%	

**Discount Rate**

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

**Sensitivity of Liability (Asset) to Changes in the Discount Rate**

The following presents the City’s proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the City’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	\$ 252,670	\$ (335)	\$ (206,140)

**Pension Plan Fiduciary Net Position**

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

**Note 6 - Significant Contingencies - Litigation**

At December 31, 2018, the City was not involved in any litigation that would be material to the financial statements.



**Note 7 - Restricted Net Position**

The following table shows the net position restricted for other purposes as shown on the statement of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Revolving Loan Fund	Contractual	\$ 336,722
Library Foundation Fund	Contractual	64,420
Sewer Fund	Contractual	459,694
Cemetery Perpetual Care Fund	State Law	55,254
Library Fines Fund	State Law	53,414
Liquor, Lodging, and Dining Gross Receipts Tax Fund	State Law	26,689

**Note 8 - 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, 2018, the City managed its risks as follows:

**Employee Health Insurance**

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

**Liability Insurance**

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution to provide liability coverage detailed below under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, official's liability, automobile liability, law enforcement liability, physical damage, property, and, equipment. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA, a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses based on the following schedule:

Years	Percentage
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

As of December 31, 2018, the City's balance available to be refunded per the SDPAA was \$51,151, which was an increase of \$22,523 from the previous year.

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

### **Worker's Compensation**

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

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

### **Unemployment Benefits**

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

During the year ended December 31, 2018, no claims for unemployment benefits were paid. At December 31, 2018, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

### **Note 9 - Pledged Assets**

As of December 31, 2018, the City has pledged four certificates of deposit totaling \$243,657 from the Revolving Loan Fund as business loan guarantees to lenders. The value of certificates of deposit pledged range from \$30,000 to \$100,000 on loans totaling \$974,901 for three separate businesses. The City has the risk of loss in the event of default on the loan by the borrower(s).

### **Note 10 - Commitments**

During 2016, the City approved resolutions authorizing a water system improvement project. The estimated cost of completion on the project as of December 31, 2018 is \$1,572,561. This project is expected to be completed in 2019.

During 2018, the City approved a resolution authorizing a storm sewer improvement project to be completed in 2019. The total estimated cost of the project is approximately \$1,055,000. Subsequent to year-end, the City secured financing for the project of a \$845,000 loan from United States Department of Agriculture – Rural Development and federal grants of \$118,000.



Supplementary Information  
December 31, 2018  
**City of Britton**



City of Britton  
 Schedule of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution  
 Year Ended December 31, 2018

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City'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	6/30/2018	0.0143%	\$ (335)	\$ 298,200	-0.1%	100.02%
SDRS	6/30/2017	0.0155%	(1,403)	311,500	-0.5%	100.1%
SDRS	6/30/2016	0.0161%	54,437	301,503	18.1%	96.89%
SDRS	6/30/2015	0.0160%	(67,718)	291,494	-23.2%	104.1%

  

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2018	\$ 18,881	\$ 18,881	\$ -	\$ 314,683	6.0%
SDRS	12/31/2017	18,392	18,392	-	306,533	6.0%
SDRS	12/31/2016	18,511	18,511	-	308,517	6.0%
SDRS	12/31/2015	17,746	17,746	-	295,767	6.0%

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

City of Britton  
Schedule of Changes in Notes and Bonds Payable and Capital Lease  
Year Ended December 31, 2018

<u>Governmental activities</u>	<u>Notes and Bonds Payable 1/1/18</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/18</u>
Enterprise Notes and Bonds Payable				
Sewer revenue bonds - 2002	\$ 125,886	\$ -	\$ (16,159)	\$ 109,727
Sewer revenue bonds - 2012	636,717	-	(41,214)	595,503
Sewer revenue bonds - 2013	1,493,966	-	(54,828)	1,439,138
Rural Development #1	196,987	-	(3,252)	193,735
Rural Development #2	1,248,904	-	(20,198)	1,228,706
Rural Development #3	-	1,490,061	-	1,490,061
	<u>\$ 3,702,460</u>	<u>\$ 1,490,061</u>	<u>\$ (135,651)</u>	<u>\$ 5,056,870</u>
<u>Governmental activities</u>	<u>Capital Lease Payable 1/1/18</u>	<u>Add Additions</u>	<u>Less Payments</u>	<u>Capital Lease Payable 12/31/18</u>
Governmental Capital Lease Payable				
Printer/copier	\$ -	\$ 7,961	\$ (345)	\$ 7,616

City of Britton  
 Budgetary Comparison Schedule—General Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 461,477	\$ 461,477	\$ 480,720	\$ 19,243
313 General sales and use taxes	700,000	700,000	709,565	9,565
315 Amusement	36	36	36	-
319 Penalties and interest on delinquent taxes	1,000	1,000	1,362	362
Total taxes	<u>1,162,513</u>	<u>1,162,513</u>	<u>1,191,683</u>	<u>29,170</u>
320 Licenses and permits	<u>1,000</u>	<u>1,000</u>	<u>606</u>	<u>(394)</u>
330 Intergovernmental revenue				
331 Federal grants	-	284,561	269,079	(15,482)
334 State grants	7,000	14,192	22,141	7,949
335 State shared revenue				
335.01 Bank franchise tax	2,000	2,000	3,248	1,248
335.02 Motor vehicle commerical prorata	5,000	5,000	4,842	(158)
335.03 Liquor tax reversion	8,000	8,000	7,805	(195)
335.04 Motor vehicle licenses (5%)	22,450	22,450	29,532	7,082
335.08 Local government highway and bridge fund	46,000	46,000	43,652	(2,348)
338 County shared revenue				
338.01 County road tax (25%)	2,750	2,750	-	(2,750)
338.02 County road and bridge tax (25%)	-	-	13,235	13,235
Total intergovernmental revenue	<u>93,200</u>	<u>384,953</u>	<u>393,534</u>	<u>8,581</u>
340 Charges for good and services				
341 General government	1,200	1,200	691	(509)
344 Sanitation	83,232	83,232	112,120	28,888
345 Health	100	100	70	(30)
346 Culture and recreation	24,000	24,000	31,996	7,996
348 Cemetery	500	500	800	300
Total charges for goods and services	<u>109,032</u>	<u>109,032</u>	<u>145,677</u>	<u>36,645</u>
360 Miscellaneous revenue				
361 Investment earnings	6,500	6,500	20,012	13,512
362 Rentals	12,800	12,800	24,379	11,579
363 Special assessments	1,318	1,318	2,270	952
368 Liquor operating agreement income	65,000	65,000	71,125	6,125
369 Other	12,320	12,320	18,844	6,524
Total miscellaneous revenue	<u>97,938</u>	<u>97,938</u>	<u>136,630</u>	<u>38,692</u>
Total revenues	<u>1,463,683</u>	<u>1,755,436</u>	<u>1,868,130</u>	<u>112,694</u>

City of Britton  
 Budgetary Comparison Schedule—General Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures</b>				
410 General government				
411 Legislative	17,856	17,956	17,008	948
411.5 Contingency	71,000	71,000		
Amount transferred	-	(70,500)	-	500
412 Executive	3,768	3,768	3,714	54
413 Elections	100	100	-	100
414 Financial administration	229,766	267,766	259,842	7,924
419 Other	52,350	884,350	881,527	2,823
Total general government	<u>374,840</u>	<u>1,174,440</u>	<u>1,162,091</u>	<u>12,349</u>
420 Public safety				
421 Police	170,758	170,758	170,757	1
422 Fire	48,793	48,793	54,046	(5,253)
423 Protective inspection	4,218	4,218	92	4,126
Total public safety	<u>223,769</u>	<u>223,769</u>	<u>224,895</u>	<u>(1,126)</u>
430 Public works				
431 Highways and streets	766,164	766,164	278,638	487,526
432 Sanitation	109,189	120,089	119,834	255
435 Airport	24,107	308,668	162,632	146,036
437 Cemetery	26,485	26,485	14,352	12,133
439 Transit	1,860	1,860	1,847	13
Total public works	<u>927,805</u>	<u>1,223,266</u>	<u>577,303</u>	<u>645,963</u>
440 Health and welfare				
441 Health	20,276	27,468	25,652	1,816
Total health and welfare	<u>20,276</u>	<u>27,468</u>	<u>25,652</u>	<u>1,816</u>
450 Culture and recreation				
451 Recreation	140,155	140,155	128,230	11,925
452 Parks	44,312	46,312	45,334	978
455 Library	164,094	181,594	176,602	4,992
456 Auditorium	-	50,000	49,574	426
Total culture and recreation	<u>348,561</u>	<u>418,061</u>	<u>399,740</u>	<u>18,321</u>
460 Conservation and development				
465 Economic development	17,000	19,000	10,952	8,048
Total conservation and development	<u>17,000</u>	<u>19,000</u>	<u>10,952</u>	<u>8,048</u>
470 Debt service	-	-	463	(463)
Total expenditures	<u>1,912,251</u>	<u>3,086,004</u>	<u>2,401,096</u>	<u>684,908</u>



City of Britton  
 Budgetary Comparison Schedule—General Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources				
391 Other	-	-	-	-
391.01 Transfers in	200,000	200,000	-	(200,000)
Total other financing sources	200,000	200,000	-	(200,000)
Net Change in Fund Balance	(248,568)	(1,130,568)	(532,966)	597,602
Fund Balance - Beginning	1,487,720	1,487,720	1,487,720	-
Fund Balance - Ending	<u>\$ 1,239,152</u>	<u>\$ 357,152</u>	<u>\$ 954,754</u>	<u>\$ 597,602</u>

City of Britton  
 Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 37,100	\$ 37,100	\$ 35,099	\$ (2,001)
Total taxes	37,100	37,100	35,099	(2,001)
360 Miscellaneous revenue				
361 Investment earnings	-	-	920	920
Total miscellaneous revenue	-	-	920	920
Total revenues	37,100	37,100	36,019	(1,081)
Expenditures				
460 Conservation and development:				
465 Economic development and assistance (industrial development)	45,000	45,000	44,575	425
Total expenditures	45,000	45,000	44,575	425
Net Change in Fund Balance	(7,900)	(7,900)	(8,556)	(656)
Fund Balance - Beginning	35,245	35,245	35,245	-
Fund Balance - Ending	\$ 27,345	\$ 27,345	\$ 26,689	\$ (656)

City of Britton  
 Budgetary Comparison Schedule—Revolving Loan Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
361 Investment earnings	\$ 1,500	\$ 1,500	\$ 2,912	\$ 1,412
369 Other	-	-	212,923	212,923
Total revenues	<u>1,500</u>	<u>1,500</u>	<u>215,835</u>	<u>214,335</u>
Expenditures				
460 Conservation and development:				
465 Economic development and assistance (industrial development)	10,000	485,000	482,439	2,561
Total expenditures	<u>10,000</u>	<u>485,000</u>	<u>482,439</u>	<u>2,561</u>
Net Change in Fund Balance	(8,500)	(483,500)	(266,604)	216,896
Fund Balance - Beginning	<u>603,326</u>	<u>603,326</u>	<u>603,326</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 594,826</u>	<u>\$ 119,826</u>	<u>\$ 336,722</u>	<u>\$ 216,896</u>

City of Britton  
 Budgetary Comparison Schedule—Library Fines Fund  
 Year Ended December 31, 2018

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
367 Contributions and donations from private sources	\$ 1,000	\$ 1,000	\$ 53,294	\$ 52,294
Expenditures				
455 Libraries	25,000	25,000	6,547	18,453
Net Change in Fund Balance	(24,000)	(24,000)	46,747	70,747
Fund Balance - Beginning	6,667	6,667	6,667	-
Fund Balance - Ending	<u>\$ (17,333)</u>	<u>\$ (17,333)</u>	<u>\$ 53,414</u>	<u>\$ 70,747</u>

**Note 1 - Budgets and Budgetary Accounting**

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

1. At the first regular Board meeting in September of each year or within ten days thereafter, the City Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City 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% of the total municipal budget and may be transferred by resolution of the City 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 City 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, special revenue funds and capital projects funds.

The City did not encumber any amounts at December 31, 2018.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and Special Revenue Funds are adopted on a basis consistent with a modified cash basis of accounting.

**Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences**

The financial statements prepared on 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 statement of revenues, expenditures and changes in fund balances; however, in the budgetary comparison 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.

**Note 3 - Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions**

Changes of benefit provision:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal 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, 2017 and exists again this year as of June 30, 2018. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.89% as of June 30, 2017 and is 2.03% as of June 30, 2018.





**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***

The City Council  
City of Britton  
Britton, 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 and each major fund of the City of Britton (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 28, 2019. In our report, we issued an adverse opinion on the aggregate discretely presented component unit because the statements did not include the City's legally separate component unit. The statements were prepared on the modified cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America.

**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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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 findings and questioned costs as 2018-001 and 2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs to as 2018-003 to be a significant deficiency.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 of Britton's Responses to Findings**

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City'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 result 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Aberdeen, South Dakota  
June 28, 2019





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

To the Board of Directors  
City of Britton  
Britton, South Dakota

**Report on Compliance for the Major Federal Program**

We have audited City of Britton's (the City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2018. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

### **Based for Qualified Opinion on the Major Federal Program**

As described in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding CFDA 10.760 Water and Waste Disposal Systems for Rural Communities as described in finding number 2018-004 for Procurement, Suspension, and Debarment. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

### **Qualified Opinion**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended December 31, 2018.

### **Other Matters**

The City's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control over Compliance**

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses and significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2018-004 that we consider to be a material weakness.

The City's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Eide Bailly LLP*

Aberdeen, South Dakota  
June 28, 2019



City of Britton

Schedule of Expenditures of Federal Awards and Notes to Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2018

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Identification Number	CFDA Number	Expenditures
US Department of Transportation Direct Federal Funding Airport Improvement Program	N/A	20.106	\$ 155,075
Total US Department of Transportation			<u>155,075</u>
US Department of Agriculture: Direct Federal Funding Water and Waste Disposal Systems for Rural Communities	N/A	10.760	1,282,134
Total US Department of Agriculture			<u>1,282,134</u>
Total Federal Financial Assistance			<u>\$ 1,437,209</u>

See Notes to Schedule of Expenditures of Federal Awards

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2018. The information is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

**Note B – Summary of Significant Accounting Policies**

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

**Note C – Indirect Cost Rate**

The City does not draw for indirect administrative expenses and has not elected to use the 10% de minimus cost rate.

**Note D – Loan Programs**

Expenditures reported in this schedule consist of the beginning of the year outstanding loan balance plus advances made on the loan during the year. The outstanding balance at December 31, 2018 was \$1,490,061.

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified*
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

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

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Water and Waste Disposal Systems for Rural Communities	10.760
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

\*Unmodified except Adverse for aggregate discretely presented component units.

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**Section II – Financial Statement Findings**

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**2018-001 Lack of Segregation of Duties**

**Material Weakness**

*Criteria:* A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

*Condition:* City of Britton has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

*Cause:* The City has an insufficient number of staff to adequately separate duties.

*Effect:* This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

*Recommendation:* Although it is recognized that number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

*Views of Responsible Officials:* Management agrees with the finding.

**2018-002 Auditor Preparation of Schedule of Expenditures of Federal Awards and Material Adjusting Journal Entries**

**Material Weakness**

*Criteria:* The City's internal control structure should be designed to provide for the preparation of the schedule of expenditures of federal awards, along with having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

*Condition:* The City requested the external auditors to prepare the schedule of expenditures of federal awards for the year ended December 31, 2018. During the course of our engagement, we also proposed material audit adjustments to the City's recorded account balances which, if not recorded, would have resulted in a material misstatement of the City's financial statements.

*Cause:* The City does not have adequate staff trained to prepare the schedule of expenditures of federal awards. The City also does not have an adequate internal accounting control system to identify all relevant and material adjustments necessary to ensure that financial information is in accordance with generally accepted accounting principles.

*Effect:* This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements and could result in the City's interim financial information being materially misstated.

*Recommendation:* This circumstance is not unusual in an organization of this size. 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. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence. We recommend training specific to governmental accounting principles so that staff is able to ensure financial statements are materially correct.

*Views of Responsible Officials:* Management agrees with the finding.

#### **2018-003 Review of Journal Entries**

##### **Significant Deficiency**

*Criteria:* The City's internal control structure should be designed so that manual adjusting journal entries are reviewed in a timely manner by an individual other than the individual proposing the entry.

*Condition:* There were instances in which manual adjusting journal entries were not reviewed in a timely manner that would allow for the detection and correction of material misstatements to the financial statements, including manual adjusting journal entries for the year ended December 31, 2018 that had not been reviewed as of May 22, 2019.

*Cause:* The City has an insufficient number of staff to adequately perform this duty at the staff and management levels.

*Effect:* This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

*Recommendation:* We recommend that a City Council member or Mayor perform a detailed review and approve all proposed manual journal entries the month after the entries are posted.

*Views of Responsible Officials:* Management agrees with the finding.



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**Section III – Federal Award Findings and Questioned Costs**

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**2018-004 U.S. Department of Agriculture**

**CFDA # 10.760 Award Year: 2016, 2016 Water Improvements, Grant Award Number: Unknown  
Water and Waste Disposal Systems for Rural Communities**

**Procurement, Suspension and Debarment**

**Material Weakness in Internal Control over Compliance and Material Noncompliance**

*Criteria:* Uniform Guidance and 2 CFR sections 200.318 through 200.326 set forth the procurement standards non-federal entities other than states must follow when operating federal programs and the procurement procedures required depending on the amount of the transaction.

*Condition:* In our testing of procurement, suspension, and debarment it was identified that there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, the City secured a contract through noncompetitive proposal without meeting one of the allowable circumstances as indicated in 2 CFR section 200.320.

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

*Effect:* A lack of established controls increase the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts to lower tier entities.

*Questioned Costs:* None reported

*Context/Sampling:* All vendors, which totaled three, were selected for procurement testing.

*Repeat Finding from Prior Year(s):* No

*Recommendation:* We recommend that management maintain adequate supporting documentation and records to document history and methods of procurement and the procedures performed to comply with these CFR sections.

*Views of Responsible Officials:* Management agrees with the finding.





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605-448-5721*

Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
December 31, 2018

Prepared by Management of  
**City of Britton**

Summary Schedule of Prior Audit Findings

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***Finding 2017-A Lack of Segregation of Duties***

*Initial Fiscal Year Finding Occurred: 2011*

*Finding Summary:* City of Britton has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

*Status:* It is not cost effective due to the size of the City and the volume of transactions to have an internal control system designed with additional staff to facilitate the adequate separation of duties in the revenue, expenditures, and payroll function. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding.

***Finding 2017-B Material Adjusting Journal Entries***

*Initial Fiscal Year Finding Occurred: 2011*

*Finding Summary:* During the course of the engagement, material audit adjustments were proposed by Eide Bailly LLP. These would not have been identified as a result of our existing controls and, therefore, could have resulted in a material misstatement of our financial statements.

*Status:* Ongoing.

Corrective Action Plan

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***Finding 2018-001 Lack of Segregation of Duties***

***Finding Summary:*** City of Britton has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

***Responsible Individual:*** Marie Marlow, Finance Officer

***Corrective Action Plan:*** It is not cost effective due to the size of the City and volume of transactions to have an internal control system designed with additional staff to facilitate the segregation of duties from start to finish. Management and the City Council are aware of the condition and accept the relevant risks that are presented by this finding.

***Anticipated Completion Date:*** Ongoing

***Finding 2018-002 Auditor Preparation of Schedule of Expenditures of Federal Awards and Material Adjusting Journal Entries***

***Finding Summary:*** Eide Bailly LLP prepared our schedule of expenditures of federal awards for the year ended December 31, 2018. During the course of the engagement, they also proposed material audit adjustments to the City's recorded account balances which, if not recorded, would have resulted in a material misstatement of the City's financial statements.

***Responsible Individuals:*** Marie Marlow, Finance Officer

***Corrective Action Plan:*** It is not cost effective to have an internal control system designed to provide for the preparation of the schedule of expenditures of federal awards. We requested that our auditors, Eide Bailly LLP, prepare the schedule of expenditures of federal awards as a part of their annual audit. We have designated a member of management to review the schedule of expenditures of federal awards, and we have reviewed with and agree with the material adjustments proposed during the audit.

***Anticipated Completion Date:*** Ongoing

Corrective Action Plan (continued)

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***Finding 2018-003 Review of Journal Entries***

***Finding Summary:*** There were instances in which manual adjusting journal entries were not reviewed in a timely manner that would allow for the detection and correction of material misstatements to the financial statements, including manual adjusting journal entries for the year ended December 31, 2018 that had not been reviewed as of May 22, 2019.

***Responsible Individuals:*** Marie Marlow, Finance Officer

***Corrective Action Plan:*** A City Council member or Mayor will perform a detailed review and approve all proposed manual journal entries the month after the entries are posted.

***Anticipated Completion Date:*** December 31, 2019

***Finding 2018-004***

***Federal Agency Name: U.S. Department of Agriculture***

***Program Name: Water and Waste Disposal Systems for Rural Communities***

***CFDA # 10.760***

***Finding Summary:*** In testing of procurement, suspension, and debarment it was identified that there was no observable control documentation to directly indicate that a cost or price analysis was performed in connection with one covered transaction. Additionally, the City secured a contract through noncompetitive proposal without meeting one of the allowable circumstances as indicated in 2 CFR section 200.320.

***Responsible Individuals:*** Marie Marlow, Finance Officer

***Corrective Action Plan:*** The City, due to timing, is unable to correct this finding for the current project. Since the inception of the current project, the City has established a written policy that addresses all of the procurement requirements of the State of South Dakota and those requirements for federal program procurements as identified in 2 CFR sections 200.318 through 200.326 and will maintain adequate supporting documentation and records to document history of procurement and the procedures performed to comply with these CFR sections.

***Anticipated Completion Date:*** December 31, 2019