



Financial Statements  
December 31, 2022  
City of Britton

Mayor .....Clyde Fredrickson

Governing Board ..... Brian Beck, President  
Shane Storley, Vice-President  
Cristy Davidson  
Lindsey Kimber  
Norman Mack  
Austin Saker

Finance Officer .....Jennifer Athey

Attorney .....Justin Scott

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## Independent Auditor's Report

To the City Council  
City of Britton  
Britton, South Dakota

### Report on the Audit of the Financial Statements

#### *Opinions*

We have audited the 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, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2022, and the respective changes in modified cash basis financial position, and, where applicable, modified cash basis cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

#### *Basis for Opinions*

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

#### *Emphasis of Matter – 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.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for 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 Responsibilities for the Audit of the Financial Statements***

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

## ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and employer's contribution, budgetary comparison schedules, schedule of changes in notes and bonds payable and direct borrowings payable, and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of employer's share of net pension liability (asset) and employer's contribution, budgetary comparison schedules, schedule of changes in notes and bonds payable and direct borrowings payable, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole, on the basis of accounting described in Note 1.

### ***Other Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2023 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.



Aberdeen, South Dakota  
June 13, 2023

City of Britton  
Statement of Net Position – Modified Cash Basis  
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Cash and cash equivalents	\$ 489,216	\$ 154,369	\$ 643,585
Investments	80,000	-	80,000
Restricted assets:			
Cash and cash equivalents	14,388	476,624	491,012
Investments	190,699	-	190,699
	<u>\$ 774,303</u>	<u>\$ 630,993</u>	<u>\$ 1,405,296</u>
<b>Net Position</b>			
Restricted for:			
Debt service purposes	\$ -	\$ 476,624	\$ 476,624
Cemetery perpetual care			
Expendable	7,836	-	7,836
Nonexpendable	50,000	-	50,000
Library foundation			
Expendable	1,817	-	1,817
Nonexpendable	61,290	-	61,290
Library fines fund	62,876	-	62,876
Revolving loan fund	174,389	-	174,389
Promoting the City	54,244	-	54,244
Unrestricted	361,851	154,369	516,220
	<u>\$ 774,303</u>	<u>\$ 630,993</u>	<u>\$ 1,405,296</u>

City of Britton  
Statement of Activities – Modified Cash Basis  
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
Governmental activities:							
General government	\$ 612,700	\$ 49,401	\$ -	\$ -	\$ (563,299)	\$ -	\$ (563,299)
Public safety	198,183	-	-	-	(198,183)	-	(198,183)
Public works	787,403	153,859	93,293	73,638	(466,613)	-	(466,613)
Health and welfare	11,078	-	-	-	(11,078)	-	(11,078)
Culture and recreation	604,281	52,918	17,105	-	(534,258)	-	(534,258)
Conservation and development	60,834	-	-	-	(60,834)	-	(60,834)
Debt service	61,508	-	-	-	(61,508)	-	(61,508)
Miscellaneous	4,321	83,184	-	-	78,863	-	78,863
Total governmental activities	<u>2,340,308</u>	<u>339,362</u>	<u>110,398</u>	<u>73,638</u>	<u>(1,816,910)</u>	<u>-</u>	<u>(1,816,910)</u>
Business-type activities:							
Water	501,932	305,553	-	3,116	-	(193,263)	(193,263)
Sewer	1,400,885	391,336	139,561	61,632	-	(808,356)	(808,356)
Total business-type activities	<u>1,902,817</u>	<u>696,889</u>	<u>139,561</u>	<u>64,748</u>	<u>-</u>	<u>(1,001,619)</u>	<u>(1,001,619)</u>
Total primary government	<u>\$ 4,243,125</u>	<u>\$ 1,036,251</u>	<u>\$ 249,959</u>	<u>\$ 138,386</u>	<u>(1,816,910)</u>	<u>(1,001,619)</u>	<u>(2,818,529)</u>
<b>General Revenues</b>							
Taxes:							
Property taxes					510,284	-	510,284
Sales taxes					939,268	-	939,268
State shared revenues					18,971	-	18,971
Unrestricted investment earnings					15,208	9,608	24,816
Debt issued					-	845,000	845,000
Miscellaneous					52,597	3,625	56,222
Total general revenues					<u>1,536,328</u>	<u>858,233</u>	<u>2,394,561</u>
Change in Net Position					(280,582)	(143,386)	(423,968)
Net Position - Beginning					1,054,885	774,379	1,829,264
Net Position - Ending					<u>\$ 774,303</u>	<u>\$ 630,993</u>	<u>\$ 1,405,296</u>

See Notes to Financial Statements



City of Britton  
Balance Sheet – Modified Cash Basis – Governmental Funds  
December 31, 2022

	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	\$ 277,116	\$ 54,244	\$ 144,389	\$ 13,467	\$ -	\$ -	\$ 489,216
Restricted cash and cash equivalents	4,735	-	-	-	7,836	1,817	14,388
Investments	80,000	-	-	-	-	-	80,000
Restricted investments	-	-	30,000	49,409	50,000	61,290	190,699
	<u>\$ 361,851</u>	<u>\$ 54,244</u>	<u>\$ 174,389</u>	<u>\$ 62,876</u>	<u>\$ 57,836</u>	<u>\$ 63,107</u>	<u>\$ 774,303</u>
<b>Fund Balances</b>							
263 Nonspendable for:							
Perpetual care cemetery	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
Library foundation	-	-	-	-	-	61,290	61,290
264 Restricted for:							
Perpetual care	-	-	-	-	7,836	-	7,836
Promoting the City	-	54,244	-	-	-	-	54,244
Library purposes	-	-	-	62,876	-	1,817	64,693
Economic development	-	-	174,389	-	-	-	174,389
266 Assigned for:							
Subsequent year budget	256,057	-	-	-	-	-	256,057
Capital outlay accumulations	70,745	-	-	-	-	-	70,745
Event center improvements	35,049	-	-	-	-	-	35,049
267 Unassigned	-	-	-	-	-	-	-
	<u>\$ 361,851</u>	<u>\$ 54,244</u>	<u>\$ 174,389</u>	<u>\$ 62,876</u>	<u>\$ 57,836</u>	<u>\$ 63,107</u>	<u>\$ 774,303</u>

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds  
Year Ended December 31, 2022

	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	\$ 509,318	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 509,318
313 General sales and use taxes	898,646	40,622	-	-	-	-	939,268
319 Penalties and interest on delinquent taxes	966	-	-	-	-	-	966
<b>Total taxes</b>	<b>1,408,930</b>	<b>40,622</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,449,552</b>
320 Licenses and permits	2,340	-	-	-	-	-	2,340
330 Intergovernmental revenue							
331 Federal grants	64,973	-	-	-	-	-	64,973
334 State grants	7,217	-	-	-	-	-	7,217
335 State shared revenue							
335.01 Bank franchise tax	10,457	-	-	-	-	-	10,457
335.02 Motor vehicle commercial prorated	5,847	-	-	-	-	-	5,847
335.03 Liquor tax reversion	8,514	-	-	-	-	-	8,514
335.04 Motor vehicle licenses (5%)	23,252	-	-	-	-	-	23,252
335.08 Local government highway and bridge fund	47,604	-	-	-	-	-	47,604
338 County shared revenue							
338.01 County road tax (25%)	1,375	-	-	-	-	-	1,375
338.02 County road and bridge tax (25%)	15,215	-	-	-	-	-	15,215
<b>Total intergovernmental revenue</b>	<b>184,454</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>184,454</b>
340 Charges for goods and services							
341 General government	544	-	-	-	-	-	544
344 Sanitation	149,159	-	-	-	-	-	149,159
346 Culture and recreation	52,918	-	-	-	-	-	52,918
348 Cemetery	4,700	-	-	-	-	-	4,700
<b>Total charges for good and services</b>	<b>207,321</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>207,321</b>

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds  
Year Ended December 31, 2022

	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	7,868	744	2,871	1,216	497	2,012	15,208
362 Rentals	46,517	-	-	-	-	-	46,517
363 Special assessments	1,448	-	-	-	-	-	1,448
367 Contributions and donations from private sources	4,735	-	-	12,370	-	-	17,105
368 Liquor operating agreement income	83,184	-	-	-	-	-	83,184
369 Other	35,533	-	-	-	-	-	35,533
Total miscellaneous revenue	179,285	744	2,871	13,586	497	2,012	198,995
Total revenues	1,982,330	41,366	2,871	13,586	497	2,012	2,042,662
Expenditures							
410 General government							
411 Legislative	20,399	-	-	-	-	-	20,399
412 Executive	4,521	-	-	-	-	-	4,521
414 Financial administration	467,850	-	-	-	-	-	467,850
419 Other	116,171	-	-	-	-	-	116,171
Total general government	608,941	-	-	-	-	-	608,941
420 Public safety							
421 Police	141,851	-	-	-	-	-	141,851
422 Fire	56,332	-	-	-	-	-	56,332
Total public safety	198,183	-	-	-	-	-	198,183
430 Public works							
430 Public safety administration	56,295	-	-	-	-	-	56,295
431 Highways and streets	343,044	-	-	-	-	-	343,044
432 Sanitation	153,481	-	-	-	-	-	153,481
435 Airport	32,250	-	-	-	-	-	32,250
437 Cemeteries	112,582	-	-	-	-	-	112,582
Total public works	697,652	-	-	-	-	-	697,652

City of Britton

Statement of Revenues, Expenditures and Changes in Fund Balances – Modified Cash Basis – Governmental Funds  
Year Ended December 31, 2022

	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	11,078	-	-	-	-	-	11,078
Total health and welfare	11,078	-	-	-	-	-	11,078
450 Culture and recreation							
451 Recreation	163,350	-	-	-	-	-	163,350
452 Parks	60,764	-	-	-	-	-	60,764
455 Libraries	157,147	-	-	14,129	-	-	171,276
456 Auditorium	42,450	-	-	-	-	-	42,450
Total culture and recreation	423,711	-	-	14,129	-	-	437,840
460 Conservation and development							
465 Economic development and assistance (industrial development)	19,013	27,740	14,081	-	-	-	60,834
Total conservation and development	19,013	27,740	14,081	-	-	-	60,834
470 Debt service	61,508	-	-	-	-	-	61,508
485 Capital outlay	259,951	-	-	-	-	-	259,951
490 Miscellaneous							
492 Other	-	-	-	-	-	4,321	4,321
Total miscellaneous	-	-	-	-	-	4,321	4,321
Total expenditures	2,280,037	27,740	14,081	14,129	-	4,321	2,340,308
Other Financing Sources							
391.03 Sale of municipal property	17,064	-	-	-	-	-	17,064
Total other financing sources	17,064	-	-	-	-	-	17,064
Net Change in Fund Balance	(280,643)	13,626	(11,210)	(543)	497	(2,309)	(280,582)
Fund Balance - Beginning	642,494	40,618	185,599	63,419	57,339	65,416	1,054,885
Fund Balance - Ending	\$ 361,851	\$ 54,244	\$ 174,389	\$ 62,876	\$ 57,836	\$ 63,107	\$ 774,303

City of Britton  
Statement of Net Position – Modified Cash Basis – Proprietary Funds  
December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 99,960	\$ 54,409	\$ 154,369
Total current assets	<u>99,960</u>	<u>54,409</u>	<u>154,369</u>
Noncurrent Assets			
107.1 Restricted cash and cash equivalents	<u>26,490</u>	<u>450,134</u>	<u>476,624</u>
Total noncurrent assets	<u>26,490</u>	<u>450,134</u>	<u>476,624</u>
	<u>\$ 126,450</u>	<u>\$ 504,543</u>	<u>\$ 630,993</u>
Net Position			
253.20 Restricted net position for:			
253.21 Revenue bond debt service	\$ 26,490	\$ 450,134	\$ 476,624
253.90 Unrestricted	<u>99,960</u>	<u>54,409</u>	<u>154,369</u>
Total net position	<u>126,450</u>	<u>504,543</u>	<u>630,993</u>
	<u>\$ 126,450</u>	<u>\$ 504,543</u>	<u>\$ 630,993</u>

Statement of Revenues, Expenses and Changes in Fund Net Position – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2022

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
Charges for goods and services	\$ 305,553	\$ 391,336	\$ 696,889
369 Miscellaneous	2,600	1,025	3,625
Total operating revenue	<u>308,153</u>	<u>392,361</u>	<u>700,514</u>
Operating Expenses			
410 Personal services	36,258	27,760	64,018
420 Other current expense	334,551	68,452	403,003
426.2 Materials	10,032	10,623	20,655
430 Capital assets	21,899	190,491	212,390
Total operating expenses	<u>402,740</u>	<u>297,326</u>	<u>700,066</u>
Operating Income (Loss)	<u>(94,587)</u>	<u>95,035</u>	<u>448</u>
Nonoperating Revenue (Expense)			
330 Operating grants	-	139,561	139,561
334 Capital grants	3,116	61,632	64,748
361 Investment earnings	5,675	3,933	9,608
391.20 Long-term debt issued	-	845,000	845,000
441 Debt service principal	(54,550)	(990,965)	(1,045,515)
470 Interest expense and fiscal charges	(44,642)	(112,594)	(157,236)
Total nonoperating revenue (expense)	<u>(90,401)</u>	<u>(53,433)</u>	<u>(143,834)</u>
Net Change in Net Position	(184,988)	41,602	(143,386)
511 Transfers out	(218,956)	218,956	-
Net Position - Beginning	<u>530,394</u>	<u>243,985</u>	<u>774,379</u>
Net Position - Ending	<u>\$ 126,450</u>	<u>\$ 504,543</u>	<u>\$ 630,993</u>

City of Britton  
Statement of Cash Flows – Modified Cash Basis – Proprietary Funds  
Year Ended December 31, 2022

	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 308,153	\$ 392,361	\$ 700,514
Payments to suppliers	(344,583)	(79,075)	(423,658)
Payments to employees	(36,258)	(27,760)	(64,018)
Net Cash from (used for) Operating Activities	<u>(72,688)</u>	<u>285,526</u>	<u>212,838</u>
Cash Flows from (used for) Noncapital Financing Activities			
Transfers between funds	(218,956)	218,956	-
Net Cash from (used for) Noncapital Financing Activities	<u>(218,956)</u>	<u>218,956</u>	<u>-</u>
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	-	845,000	845,000
Operating grants	-	139,561	139,561
Capital grants	3,116	61,632	64,748
Purchase of capital assets	(21,899)	(190,491)	(212,390)
Principal paid on capital debt	(54,550)	(990,965)	(1,045,515)
Interest paid on capital debt	(44,642)	(112,594)	(157,236)
Net Cash used for Capital and Related Financing Activities	<u>(117,975)</u>	<u>(247,857)</u>	<u>(365,832)</u>
Cash Flows from Investing Activities			
Interest earnings	5,675	3,933	9,608
Net Cash from Investing Activities	<u>5,675</u>	<u>3,933</u>	<u>9,608</u>
Net Change in Cash and Cash Equivalents	(403,944)	260,558	(143,386)
Cash and Cash Equivalents - Beginning	<u>530,394</u>	<u>243,985</u>	<u>774,379</u>
Cash and Cash Equivalents - Ending	<u>\$ 126,450</u>	<u>\$ 504,543</u>	<u>\$ 630,993</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 99,960	\$ 54,409	\$ 154,369
Restricted cash and cash equivalents	26,490	450,134	476,624
	<u>\$ 126,450</u>	<u>\$ 504,543</u>	<u>\$ 630,993</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating income (loss)	\$ (94,587)	\$ 95,035	\$ 448
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:			
Purchase of capital assets	21,899	190,491	212,390
Net Cash from (used for) Operating Activities	<u>\$ (72,688)</u>	<u>\$ 285,526</u>	<u>\$ 212,838</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, the City of Britton.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City. Based upon the application of these criteria, the City does not have any component units.

### **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 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 the fund 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, 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, and 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 including capital assets specific to the systems that deliver the service. 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 the 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 involves 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, amounts reported as interfund activity and balances in the fund financial statements will be eliminated or reclassified.

- The City did not have any interfund receivables and payables which required elimination as of December 31, 2022.
- The City did not have internal service fund activity which required elimination as of December 31, 2022.

## **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 funds' 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 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 City 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 spendable 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, donors, 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

**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, 2022, the City’s deposits in financial institutions were properly collateralized.

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

	Bank Balance
Insured (FDIC/NCUA)	\$ 459,669
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	960,875
	\$ 1,420,544

The City’s carrying amount of deposits at December 31, 2022, is as follows:

Cash and cash equivalents	\$ 1,134,597
Investments	270,699
	\$ 1,405,296

### 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, 2022, 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 City, 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. The City credits the interest income into the Cemetery Perpetual Care Fund and transfers the earnings to the General Fund at time that the earnings will be spent.

**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 payment 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 December 31,	Amount
2023	\$ 41,033
2024	41,033
2025	41,033
2026	41,033
2027	41,033
2028-2032	205,165
2033-2037	205,165
2038-2040	123,099



## **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 provide retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://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 four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

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. Eligible spouses of Class A and B Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

Legislation enacted in 2017 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 than 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 0.0% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

All benefits except those depending on the member’s accumulated contributions are annually increased by the cost-of-living adjustment.

### 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. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The City’s share of contributions to the SDRS for the years ended December 31, 2022, 2021, and 2020, were \$32,170, \$27,937, and \$25,443, respectively, equal to the required contributions each year.

### Pension Liability (Asset)

At June 30, 2022, SDRS is 100.1% 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, 2022, and reported by the City of Britton as of December 31, 2022, are as follows:

Proportionate share of pension liability	\$ 2,931,175
Less proportionate share of net position restricted for pension benefits	<u>2,933,137</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (1,962)</u></u>

At December 31, 2022, the City disclosed a liability (asset) of (\$1,962) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, 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, 2022, the City’s proportion was 0.02076400%, which is an increase of 0.0014920% from its proportion measured as of June 30, 2021. The City’s proportionate share net pension liability (asset) 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, 2022, 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 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	2.10%

### Mortality Rates

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

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

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

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

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

Beneficiaries:

Pub G-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of 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, 2022, (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%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	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)	\$ 407,459	\$ (1,962)	\$ (336,568)

#### 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 - Contingencies

At December 31, 2022, the City was not involved in any litigation that would be material to the financial statements.

**Note 7 - 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	\$ 174,389
Library Foundation Fund	Contractual	63,107
Water Fund	Contractual	26,490
Sewer Fund	Contractual	450,134
Cemetery Perpetual Care Fund	State Law	57,836
Library Fines Fund	State Law	62,876
Liquor, Lodging, and Dining Gross Receipts Tax Fund	State Law	54,244

**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 year ended December 31, 2022, 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, cyber liability, and enhanced crime. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

The City carries various deductibles for the 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.

### **Workers' Compensation**

The City joined the South Dakota Municipal League Workers' 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 workers' 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 workers' compensation claims. The City pays an annual premium to provide workers' 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.

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

As of December 31, 2022, the City has pledged two certificates of deposit totaling \$30,000 from the Revolving Loan Fund as business loan guarantees to lenders. The value of certificates of deposit pledged range from \$9,000 to \$21,000 on loans totaling \$323,285 for two businesses. The City has the risk of loss in the event of default on the loan by the borrowers.

**Note 10 - Interfund Transactions**

During 2022, the City made the following transfers:

- The Water Fund transferred \$218,956 to the Sewer Fund to cover operations.

**Note 11 - Commitments**

During 2021, the City approved a resolution authorizing a Wastewater-Lift Station System, Sewer Improvements, and South Main Addition Project. The total estimated cost of the project is \$1,537,000. The City received notification in 2022 that they had been approved for a grant in the amount of \$504,968 and a SRF loan in the amount of \$911,862 in which a \$5.60 surcharge will be billed to users for debt service payment on this loan. The City has committed other grant funds in the amount of \$115,108 for the project.

During 2022, surveying and designing began on a fuel system project at the Britton Airport that will be primarily funded through grants in 2023 and 2024.

**Note 12 - Violations of Finance-Related Legal and Contractual Provisions**

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. Within the Library Fines Fund, the libraries department incurred expenditures in excess of approved appropriations by \$7,629 for the year ended December 31, 2022. The City plans to more closely monitor actual expenditures compared to appropriations to ensure no overspending of approved budget occurs in future years.



Supplementary Information  
December 31, 2022

**City of Britton**



City of Britton  
Schedules of Employer's Share of Net Pension Liability (Asset) and Employer's Contribution  
Year Ended December 31, 2022

**Schedule of Employer's Share of Net Pension Liability (Asset)**

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	6/30/2022	0.0208%	\$ (1,962)	\$ 495,820	-0.4%	100.10%
SDRS	6/30/2021	0.0193%	(147,591)	437,358	-33.7%	105.52%
SDRS	6/30/2020	0.0183%	(794)	398,103	-0.2%	100.04%
SDRS	6/30/2019	0.0156%	(1,652)	331,372	-0.5%	100.09%
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%	100.10%
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%	104.10%

**Schedule of Employer's Contribution**

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	12/31/2022	\$ 32,170	\$ 32,170	\$ -	\$ 536,167	6.0%
SDRS	12/31/2021	27,937	27,937	-	465,617	6.0%
SDRS	12/31/2020	25,443	25,443	-	424,050	6.0%
SDRS	12/31/2019	21,699	21,699	-	361,650	6.0%
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 these tables. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

Schedule of Changes in Notes and Bonds Payable and Direct Borrowing Payable  
Year Ended December 31, 2022

Business-Type Activities	Notes and Bonds Payable 1/1/22	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/22
Enterprise Notes and Bonds Payable				
Sewer revenue bonds - 2002	\$ 57,729	\$ -	\$ (18,576)	\$ 39,153
Sewer revenue bonds - 2012	464,206	-	(46,448)	417,758
Sewer revenue bonds - 2013	1,263,592	-	(62,407)	1,201,185
Rural Development #1	183,428	-	(3,629)	179,799
Rural Development #2	1,164,677	-	(22,543)	1,142,134
Rural Development #5	2,405,872	-	(54,550)	2,351,322
Rural Development #7	-	845,000	(11,087)	833,913
First Savings Bank - interim financing	826,275	-	(826,275)	-
	<u>\$ 6,365,779</u>	<u>\$ 845,000</u>	<u>\$ (1,045,515)</u>	<u>\$ 6,165,264</u>
Governmental Activities	Direct Borrowing Payable 1/1/22	Add Additions	Less Payments	Direct Borrowing Payable 12/31/22
Governmental Direct Borrowing Payable				
Printer/copier	\$ 3,065	\$ -	\$ (1,711)	\$ 1,354
Caterpillar	168,121	-	(22,117)	146,004
Street sweeper	131,338	-	(26,649)	104,689
	<u>\$ 302,524</u>	<u>\$ -</u>	<u>\$ (50,477)</u>	<u>\$ 252,047</u>

City of Britton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
310 Taxes				
311 General property taxes	\$ 522,088	\$ 522,088	\$ 509,318	\$ (12,770)
313 General sales and use taxes	820,000	820,000	898,646	78,646
315 Amusement	60	60	-	(60)
319 Penalties and interest on delinquent taxes	2,000	2,000	966	(1,034)
Total taxes	<u>1,344,148</u>	<u>1,344,148</u>	<u>1,408,930</u>	<u>64,782</u>
320 Licenses and permits	<u>500</u>	<u>500</u>	<u>2,340</u>	<u>1,840</u>
330 Intergovernmental revenue				
331 Federal grants	250,823	260,823	64,973	(195,850)
334 State grants	6,600	6,600	7,217	617
335 State shared revenue				
335.01 Bank franchise tax	4,000	4,000	10,457	6,457
335.02 Motor vehicle commercial prorated	4,800	4,800	5,847	1,047
335.03 Liquor tax reversion	8,500	8,500	8,514	14
335.04 Motor vehicle licenses (5%)	29,000	29,000	23,252	(5,748)
335.08 Local government highway and bridge fund	52,000	52,000	47,604	(4,396)
338 County shared revenue				
338.01 County road tax (25%)	1,375	1,375	1,375	-
338.02 County road and bridge tax (25%)	10,000	10,000	15,215	5,215
Total intergovernmental revenue	<u>367,098</u>	<u>377,098</u>	<u>184,454</u>	<u>(192,644)</u>
340 Charges for good and services				
341 General government	750	750	544	(206)
344 Sanitation	129,600	129,600	149,159	19,559
345 Health	45	45	-	(45)
346 Culture and recreation	45,000	45,000	52,918	7,918
348 Cemetery	5,500	5,500	4,700	(800)
Total charges for goods and services	<u>180,895</u>	<u>180,895</u>	<u>207,321</u>	<u>26,426</u>
360 Miscellaneous revenue				
361 Investment earnings	700	700	7,868	7,168
362 Rentals	31,697	31,697	46,517	14,820
363 Special assessments	1,124	1,124	1,448	324
367 Contributions and donations from private sources	-	-	4,735	4,735
368 Liquor operating agreement income	81,000	81,000	83,184	2,184
369 Other	14,215	14,215	35,533	21,318
Total miscellaneous revenue	<u>128,736</u>	<u>128,736</u>	<u>179,285</u>	<u>50,549</u>
Total revenues	<u>2,021,377</u>	<u>2,031,377</u>	<u>1,982,330</u>	<u>(49,047)</u>

City of Britton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	23,915	23,915	20,399	3,516
411.5 Contingency	71,000	71,000	-	-
Amount transferred	-	(71,000)	-	-
412 Executive	4,844	4,844	4,521	323
413 Elections	100	100	-	100
414 Financial administration	382,984	480,563	468,749	11,814
419 Other	109,468	120,824	119,031	1,793
Total general government	<u>592,311</u>	<u>630,246</u>	<u>612,700</u>	<u>17,546</u>
420 Public safety				
421 Police	209,981	144,963	141,851	3,112
422 Fire	71,988	61,188	56,332	4,856
423 Protective inspection	1,500	1,500	-	1,500
Total public safety	<u>283,469</u>	<u>207,651</u>	<u>198,183</u>	<u>9,468</u>
430 Public works				
430 Public safety administration	50,547	56,706	56,295	411
431 Highways and streets	505,260	396,320	395,287	1,033
432 Sanitation	142,774	153,874	153,481	393
435 Airport	61,693	71,693	69,758	1,935
437 Cemetery	36,857	114,121	112,582	1,539
Total public works	<u>797,131</u>	<u>792,714</u>	<u>787,403</u>	<u>5,311</u>
440 Health and welfare				
441 Health	16,001	16,001	11,078	4,923
Total health and welfare	<u>16,001</u>	<u>16,001</u>	<u>11,078</u>	<u>4,923</u>
450 Culture and recreation				
451 Recreation	184,955	237,255	237,065	190
452 Parks	323,495	323,495	120,959	202,536
455 Library	174,244	174,244	168,015	6,229
456 Auditorium	52,789	72,990	64,113	8,877
Total culture and recreation	<u>735,483</u>	<u>807,984</u>	<u>590,152</u>	<u>217,832</u>
460 Conservation and development				
465 Economic development	41,000	41,000	19,013	21,987
Total conservation and development	<u>41,000</u>	<u>41,000</u>	<u>19,013</u>	<u>21,987</u>
470 Debt service	61,508	61,508	61,508	-
Total expenditures	<u>2,526,903</u>	<u>2,557,104</u>	<u>2,280,037</u>	<u>277,067</u>

City of Britton  
 Budgetary Comparison Schedule – General Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources				
391.03 Sale of municipal property	-	-	17,064	17,064
Transfers in	72,650	72,650	-	(72,650)
Total other financing sources	72,650	72,650	17,064	(55,586)
Net Change in Fund Balance	(432,876)	(453,077)	(280,643)	172,434
Fund Balance - Beginning	642,494	642,494	642,494	-
Fund Balance - Ending	\$ 209,618	\$ 189,417	\$ 361,851	\$ 172,434

City of Britton

Budgetary Comparison Schedule – Liquor, Lodging and Dining Gross Receipts Tax Fund  
Year Ended December 31, 2022

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	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 31,320	\$ 31,320	\$ 40,622	\$ 9,302
Total taxes	<u>31,320</u>	<u>31,320</u>	<u>40,622</u>	<u>9,302</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	744	744
Total miscellaneous revenue	<u>-</u>	<u>-</u>	<u>744</u>	<u>744</u>
Total revenues	<u>31,320</u>	<u>31,320</u>	<u>41,366</u>	<u>10,046</u>
Expenditures				
460 Conservation and development				
465 Economic development and assistance (industrial development)	31,320	31,320	27,740	3,580
Total expenditures	<u>31,320</u>	<u>31,320</u>	<u>27,740</u>	<u>3,580</u>
Net Change in Fund Balance	-	-	13,626	13,626
Fund Balance - Beginning	<u>40,618</u>	<u>40,618</u>	<u>40,618</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 40,618</u>	<u>\$ 40,618</u>	<u>\$ 54,244</u>	<u>\$ 13,626</u>

City of Britton  
 Budgetary Comparison Schedule – Revolving Loan Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
361 Investment earnings	\$ 1,000	\$ 1,000	\$ 2,871	\$ 1,871
Total revenues	<u>1,000</u>	<u>1,000</u>	<u>2,871</u>	<u>1,871</u>
Expenditures				
460 Conservation and development				
465 Economic development and assistance (industrial development)	10,000	14,082	14,081	1
Total expenditures	<u>10,000</u>	<u>14,082</u>	<u>14,081</u>	<u>1</u>
Net Change in Fund Balance	(9,000)	(13,082)	(11,210)	1,872
Fund Balance - Beginning	<u>185,599</u>	<u>185,599</u>	<u>185,599</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 176,599</u>	<u>\$ 172,517</u>	<u>\$ 174,389</u>	<u>\$ 1,872</u>

City of Britton  
 Budgetary Comparison Schedule – Library Fines Fund  
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue	\$ -	\$ -	\$ 1,216	\$ 1,216
361 Investment earnings				
367 Contributions and donations from private sources	6,500	6,500	12,370	5,870
Total revenues	<u>6,500</u>	<u>6,500</u>	<u>13,586</u>	<u>7,086</u>
Expenditures				
450 Culture and recreation				
455 Libraries	6,500	6,500	14,129	(7,629)
Total expenditures	<u>6,500</u>	<u>6,500</u>	<u>14,129</u>	<u>(7,629)</u>
Net Change in Fund Balance	-	-	(543)	14,715
Fund Balance - Beginning	<u>63,419</u>	<u>63,419</u>	<u>63,419</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 63,419</u>	<u>\$ 63,419</u>	<u>\$ 62,876</u>	<u>\$ 14,715</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 City Council meeting in September of each year, or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in Number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council.

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, 2022.

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**

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

#### **Changes of Benefit Provision**

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

#### **Changes of Assumptions**

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

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

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

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

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

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

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

### **Changes of Assumptions**

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



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

To the City Council  
City of 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 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, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements - modified cash basis and have issued our report thereon dated June 13, 2023. 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.

**Report on Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2022-001 and 2022-002, that we consider to be material weaknesses.

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

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2022-003.

## **City of Britton's Response to Findings**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the 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.

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

Aberdeen, South Dakota  
June 13, 2023



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

The Board of Directors  
City of Britton  
Britton, South Dakota

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

***Opinion on the Major Federal Program***

We have audited the City of Britton’s (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City’s major federal program for the year ended December 31, 2022. 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.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2022.

***Basis for Opinion on the Major Federal Program***

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

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

### ***Responsibilities of Management for Compliance***

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

### ***Auditor's Responsibilities for the Audit of Compliance***

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

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

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

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

## Report on 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Aberdeen, South Dakota  
June 13, 2023



City of Britton  
Schedule of Expenditures of Federal Awards  
Year Ended December 31, 2022

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-through Entity Identifying Number	Federal Financial Assistance Listing	Expenditures
U.S. Department of Transportation			
Direct Federal Funding			
COVID-19 - Airport Improvement Program	N/A	20.106	\$ 35,383
Airport Improvement Program	N/A	20.106	<u>1,831</u>
Total U.S. Department of Transportation			<u>37,214</u>
U.S. Department of Agriculture:			
Direct Federal Funding			
Water and Waste Disposal Systems for Rural Communities	N/A	10.760	<u>1,691,262</u>
Total U.S. Department of Agriculture			<u>1,691,262</u>
U.S. Department of Treasury			
Passed through the SD Bureau of Finance and Management			
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	*	21.027	<u>121,680</u>
Total U.S. Department of Treasury			<u>121,680</u>
Total federal financial assistance			<u><u>\$ 1,850,156</u></u>

\* Pass-through identification number was not provided.

**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, 2022. The information is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City, it is not intended to, and does not, present the financial position, 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, 2022, was \$833,913. The following is the calculation for the number reported on the schedule for Program 10.760:

Beginning Interim Loan Balance:	\$ 826,275
Interim Loan advances:	845,000
Plus expenses incurred but loan advances not received	<u>19,987</u>
Total Water and Waste Disposal Systems for Rural Communities:	<u>\$ 1,691,262</u>

**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	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516?	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>Federal Financial Assistance Listing</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

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**Section II – Financial Statement Findings**

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**2022-001 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:* The City 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 the 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.

**2022-002 Preparation of Financial Statements and Footnotes, Auditor Adjustments to Schedule of Expenditures of Federal Awards, and 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 to the financial statements being audited in accordance with the modified cash basis of accounting.

*Condition:* The City does not have an internal control system designed to provide for the preparation of the financial statements being audited, including required footnotes and disclosures. The auditors proposed changes to the schedule of expenditures of federal awards prepared by the City for the year ended December 31, 2022. During the course of our engagement, we also proposed audit adjustments to the City's recorded account balances which, if not recorded, would have resulted in a misstatement of the City's financial statements.

*Cause:* The City does not have adequate staff trained to prepare the financial statements and footnotes or 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 the modified cash basis of accounting.

*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 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.

### **2022-003 SDCL Violation**

*Criteria:* The City's control structure should be such to ensure compliance with South Dakota Codified Law (SDCL) for municipal finances. SDCL 9-22-2 provides for the requirements of the budget and the need for appropriate sums of money necessary to meet all lawful expenses.

*Condition:* Regarding SDCL 9-22-2, in 2022, the City overspent the budget in the Library Fines Fund.

*Cause:* The City does not have a tracking system in place to review the Library Fines Fund budget on a monthly basis to ensure that budgeted expenses are not being overspent.

*Effect:* This condition affects the City's ability to be compliant with SDCLs applicable to municipalities. With the City not fully reviewing this budget monthly or annually, overspending the budget can occur in Library Fines Fund.

*Recommendation:* We recommend the City officials review the Library Fines Fund budget on a monthly or quarterly basis to ensure that the budget will be proper for the fund. If a new revenue stream or larger donation is received which allows for money to be spent annually, budget amendments should be completed.

*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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None.



This institution  
is an equal  
opportunity  
provider

*City of Britton  
1203 3<sup>rd</sup> Street  
PO Box 126  
Britton SD 57430-0126  
605-448-5721*

Management's Response to Auditor's Findings:  
Summary Schedule of Prior Audit Findings and  
Corrective Action Plan  
December 31, 2022

Prepared by Management of  
**City of Britton**

## Summary Schedule of Prior Audit Findings

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### ***Finding 2021-001 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. This includes the absence of an internal control structure that ensures one individual does not handle cash transactions from inception to their recording within the general ledger.

*Status:* Ongoing

### ***Finding 2021-002 Auditor Preparation of Schedule of Expenditures of Federal Awards and Adjusting Journal Entries***

*Initial Fiscal Year Finding Occurred: 2018*

*Finding Summary:* Eide Bailly LLP prepared our schedule of expenditures of federal awards for the year ended December 31, 2021. During the course of the engagement, they also proposed audit adjustments to the City's recorded account balances which, if not recorded, would have resulted in a misstatement of the City's financial statements.

*Status:* Ongoing

### **Finding 2021-003**

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

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

**CFDA # 10.760**

*Initial Fiscal Year Finding Occurred: 2021*

*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 allowable circumstances as indicated in 2 CFR section 200.320.

*Status:* Resolved in 2022



***Finding 2022-001 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. This includes the absence of an internal control structure that ensures one individual does not handle cash transactions from inception to their recording within the general ledger.

Responsible Individuals: Jennifer Athey, 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 2022-002 Preparation of Financial Statements and Footnotes, Auditor Adjustments to Schedule of Expenditures of Federal Awards, and Adjusting Journal Entries***

Finding Summary: Eide Bailly LLP prepared our financial statements, footnotes, and schedule of expenditures of federal awards for the year ended December 31, 2022. During the course of the engagement, they also proposed audit adjustments to the City's recorded account balances which, if not recorded, would have resulted in a misstatement of the City's financial statements.

Responsible Individuals: Jennifer Athey, Finance Officer

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements, footnotes, and schedule of expenditures of federal awards. We requested that our auditors, Eide Bailly LLP, prepare the financial statements, footnotes, and 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 adjustments proposed during the audit.

Anticipated Completion Date: Ongoing

## Corrective Action Plan (continued)

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### **Finding 2022-003 SDCL Violation**

Finding Summary: Eide Bailly LLP identified that the Library Fines Fund overspent the budget in 2022 as there is not a tracking system in place to ensure that budgeted expenses are not being overspent.

Responsible Individuals: Jennifer Athey, Finance Officer

Corrective Action Plan: The Finance Officer will review the Library Fines Fund on a more regular basis to ensure that the budget will not be overspent. If additional funding is received that was not budgeted for which allows for additional expenses, we will approve a formal budget amendment to reflect the additional revenue received and expenses expected prior to year-end.

Anticipated Completion Date: December 31, 2023