



Financial Statements
December 31, 2015
City of Britton

City of Britton
Municipal Officials (unaudited)
December 31, 2015

Mayor Clyde Fredrickson

Governing Board Brian Beck, President
Shane Storley, Vice-President
Virginia Schaaf
Brian Freeman
Pat Renner
Linda Bosse

Finance Officer.....Marie Marlow

Attorney..... Justin Scott

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Independent Auditor's Report

The City Council
City of Britton
Britton , South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Britton as of December 31, 2015, and for the fiscal year then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Summary of Opinions

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Unit

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, net position, revenues and expenditures of the aggregate discretely presented component unit is not reasonably determinable.

Adverse Opinion on the Aggregate Discretely Presented Component Unit

In our opinion, because of the omission of the discretely presented component units, as described in the "Basis for Adverse Opinion on the Aggregate discretely Presented Component Unit" paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City as of December 31, 2015, or the changes in financial position thereof for the year then ended.

Unmodified Opinions

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, and each major fund of the City of Britton as of December 31, 2015, and the respective changes in financial position - modified cash basis and, where applicable, cash flows - modified cash basis thereof and for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statements are prepared using accounting principles prescribed or permitted by the South Dakota Department of Legislative Audit, which practices differ from accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The listing of municipal officers, schedule of employer's share of net pension asset and pension contributions, budgetary comparison, and schedule of changes in long-term debt are presented for purposes of additional analysis and are not a required part of the financial statements. Because of the significance of the matter described above in regards to the adverse opinion of the component unity, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 22, 2016 on our consideration of the City of Britton'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 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 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 City of Britton's internal control over financial reporting and compliance.

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 address and date.

Aberdeen, South Dakota
July 22, 2016

City of Britton
Statement of Net Position—Modified Cash Basis
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 1,992,667	\$ 1,057,662	\$ 3,050,329
Investments	-	450,000	450,000
Restricted assets:			
Cash and cash equivalents	56,402	317,211	373,613
Investments	295,110	-	295,110
	<u>\$ 2,344,179</u>	<u>\$ 1,824,873</u>	<u>\$ 4,169,052</u>
Net Position			
Restricted for:			
Debt service purposes	\$ -	\$ 26,090	\$ 26,090
Permanently restricted purposes	54,359	-	54,359
Library	71,691	-	71,691
Revolving loans fund	617,609	-	617,609
Equipment repair or replacement	148,767	291,121	439,888
Other purposes	41,690	-	41,690
Unrestricted	<u>1,410,063</u>	<u>1,507,662</u>	<u>2,917,725</u>
	<u>\$ 2,344,179</u>	<u>\$ 1,824,873</u>	<u>\$ 4,169,052</u>

City of Britton
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental activities:							
General government	\$ 189,356	\$ 14,028	\$ -	\$ -	\$ (175,328)	\$ -	\$ (175,328)
Public safety	221,143	193	-	7,229	(213,721)	-	(213,721)
Public works	650,113	97,417	74,148	179,032	(299,516)	-	(299,516)
Health and welfare	17,797	-	-	-	(17,797)	-	(17,797)
Culture and recreation	341,665	32,966	-	-	(308,699)	-	(308,699)
Conservation and development	56,082	-	-	-	(56,082)	-	(56,082)
Other	629	-	-	-	(629)	-	(629)
Total governmental activities	<u>1,476,785</u>	<u>144,604</u>	<u>74,148</u>	<u>186,261</u>	<u>(1,071,772)</u>	<u>-</u>	<u>(1,071,772)</u>
Business-type activities:							
Water	289,279	255,767	8,000	-	-	(25,512)	(25,512)
Sewer	3,357,094	394,560	1,837,397	-	-	(1,125,137)	(1,125,137)
Total business-type activities	<u>3,646,373</u>	<u>650,327</u>	<u>1,845,397</u>	<u>-</u>	<u>-</u>	<u>(1,150,649)</u>	<u>(1,150,649)</u>
Total primary government	<u>\$ 5,123,158</u>	<u>\$ 794,931</u>	<u>\$ 1,919,545</u>	<u>\$ 186,261</u>	<u>(1,071,772)</u>	<u>(1,150,649)</u>	<u>(2,222,421)</u>
General Revenues							
Taxes:							
Property taxes					447,723	-	447,723
Sales taxes					755,327	-	755,327
State shared revenues					10,180	-	10,180
Unrestricted investment earnings					4,038	1,134	5,172
Debt issued					-	1,300,012	1,300,012
Miscellaneous revenue					23,118	936	24,054
Other general revenue					66,498	-	66,498
Total general revenues					<u>1,306,884</u>	<u>1,302,082</u>	<u>2,608,966</u>
Change in Net Position					235,112	151,433	386,545
Net Position - Beginning					<u>2,109,067</u>	<u>1,673,440</u>	<u>3,782,507</u>
Net Position - Ending					<u>\$ 2,344,179</u>	<u>\$ 1,824,873</u>	<u>\$ 4,169,052</u>

See Notes to Financial Statements

City of Britton
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2015

	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
Assets							
Cash and cash equivalents	\$ 1,558,830	41,690	382,499	\$ 9,648	\$ -	\$ -	\$ 1,992,667
Restricted cash and cash equivalents	-	-	-	-	54,359	2,043	56,402
Restricted investments	-	-	235,110	-	-	60,000	295,110
	<u>\$ 1,558,830</u>	<u>\$ 41,690</u>	<u>\$ 617,609</u>	<u>\$ 9,648</u>	<u>\$ 54,359</u>	<u>\$ 62,043</u>	<u>\$ 2,344,179</u>
Fund Balances							
263 Nonspendable for:							
Perpetual care cemetery	\$ -	\$ -	\$ -	\$ -	\$ 50,000	\$ -	\$ 50,000
264 Restricted for:							
Perpetual care	-	-	-	-	4,359	-	4,359
Library purposes	-	-	-	9,648	-	62,043	71,691
Economic development	-	-	617,609	-	-	-	617,609
Other purposes	-	41,690	-	-	-	-	41,690
266 Assigned for:							
Subsequent year budget	-	-	-	-	-	-	-
Capital outlay accumulations	148,767	-	-	-	-	-	148,767
267 Unassigned	1,410,063	-	-	-	-	-	1,410,063
	<u>\$ 1,558,830</u>	<u>\$ 41,690</u>	<u>\$ 617,609</u>	<u>\$ 9,648</u>	<u>\$ 54,359</u>	<u>\$ 62,043</u>	<u>\$ 2,344,179</u>

City of Britton
Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	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
Revenues							
310 Taxes							
311 General property taxes	\$ 447,687	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 447,687
313 General sales and use taxes	730,649	24,678	-	-	-	-	755,327
315 Amusement taxes	36	-	-	-	-	-	36
Total taxes	<u>1,178,372</u>	<u>24,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,203,050</u>
320 Licenses and permits	<u>1,158</u>	-	-	-	-	-	<u>1,158</u>
330 Intergovernmental revenue							
331 Federal grants	165,137	-	-	-	-	-	165,137
334 State grants	10,163	-	-	-	-	-	10,163
335 State shared revenue							
335.01 Bank franchise tax	2,463	-	-	-	-	-	2,463
335.02 Motor vehicle commercial prorated	4,673	-	-	-	-	-	4,673
335.03 Liquor tax reversion	7,717	-	-	-	-	-	7,717
335.04 Motor vehicle licenses (5%)	20,721	-	-	-	-	-	20,721
335.08 Local government highway and bridge fund	46,691	-	-	-	-	-	46,691
338 County shared revenue							
338.01 County road tax (25%)	2,063	-	-	-	-	-	2,063
Total intergovernmental revenue	<u>259,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>259,628</u>
340 Charges for goods and services							
341 General government	1,870	-	-	-	-	-	1,870
344 Sanitation	96,307	-	-	-	-	-	96,307
346 Culture and recreation	32,966	-	-	-	-	-	32,966
348 Cemetery	1,110	-	-	-	-	-	1,110
Total charges for good and services	<u>132,253</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>132,253</u>
350 Fines and forfeits							
351 Court fines and costs	193	-	-	-	-	-	193
Total fines and forfeits	<u>193</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193</u>

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	General Fund	Liquor, Lodging and Dining Tax Fund	Revolving Loan Fund	Library Fines Fund	Cemetery Perpetual Care Fund	Library Foundation Fund	Total Governmental Funds
360 Miscellaneous revenue							
361 Investment earnings	1,262	22	1,287	-	143	1,324	4,038
362 Rentals	11,000	-	-	-	-	-	11,000
363 Special assessments	3,732	-	-	-	-	-	3,732
367 Contributions and donations from private sources	-	-	-	7,229	-	-	7,229
368 Liquor operating agreement income	66,498	-	-	-	-	-	66,498
369 Other	23,118	-	-	-	-	-	23,118
Total miscellaneous revenue	105,610	22	1,287	7,229	143	1,324	115,615
Total revenues	1,677,214	24,700	1,287	7,229	143	1,324	1,711,897
Expenditures							
410 General government							
411 Legislative	20,299	-	-	-	-	-	20,299
412 Executive	4,335	-	-	-	-	-	4,335
413 Elections	204	-	-	-	-	-	204
414 Financial administration	115,843	-	-	-	-	-	115,843
419 Other	45,911	-	-	-	-	-	45,911
Total general government	186,592	-	-	-	-	-	186,592
420 Public safety							
421 Police	174,428	-	-	-	-	-	174,428
422 Fire	43,422	-	-	-	-	-	43,422
423 Protective inspection	3,293	-	-	-	-	-	3,293
Total public safety	221,143	-	-	-	-	-	221,143
430 Public works							
431 Highways and streets	190,963	-	-	-	-	-	190,963
432 Sanitation	112,146	-	-	-	-	-	112,146
435 Airport	23,813	-	-	-	-	-	23,813
437 Cemeteries	14,118	-	-	-	-	-	14,118
439 Transit	1,697	-	-	-	-	-	1,697
Total public works	342,737	-	-	-	-	-	342,737

City of Britton

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2015

	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	17,797	-	-	-	-	-	17,797
Total health and welfare	17,797	-	-	-	-	-	17,797
450 Culture and recreation							
451 Recreation	108,231	-	-	-	-	-	108,231
452 Parks	53,772	-	-	-	-	-	53,772
455 Libraries	135,675	-	-	4,107	-	-	139,782
Total culture and recreation	297,678	-	-	4,107	-	-	301,785
460 Conservation and development							
465 Economic development and assistance (industrial development)	16,407	34,675	5,000	-	-	-	56,082
Total conservation and development	16,407	34,675	5,000	-	-	-	56,082
485 Capital outlay	350,020	-	-	-	-	-	350,020
490 Miscellaneous							
492 Other	22	-	-	-	-	607	629
Total miscellaneous	22	-	-	-	-	607	629
Total expenditures	1,432,396	34,675	5,000	4,107	-	607	1,476,785
Net Change in Fund Balance	244,818	(9,975)	(3,713)	3,122	143	717	235,112
Fund Balance - Beginning	1,314,012	51,665	621,322	6,526	54,216	61,326	2,109,067
Fund Balance - Ending	\$ 1,558,830	\$ 41,690	\$ 617,609	\$ 9,648	\$ 54,359	\$ 62,043	\$ 2,344,179

City of Britton
Statement of Net Position—Modified Cash Basis—Proprietary Funds
December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current Assets			
Cash and cash equivalents	\$ 150,617	\$ 907,045	\$ 1,057,662
Investments	450,000	-	450,000
Total current assets	<u>600,617</u>	<u>907,045</u>	<u>1,507,662</u>
Noncurrent Assets			
107.1 Restricted deposits for:			
Debt repayment	158,887	158,324	317,211
Total noncurrent assets	<u>158,887</u>	<u>158,324</u>	<u>317,211</u>
	<u>\$ 759,504</u>	<u>\$ 1,065,369</u>	<u>\$ 1,824,873</u>
Net Position			
253.20 Restricted net position for:			
253.21 Revenue bond debt service	\$ 6,038	\$ 20,052	\$ 26,090
253.26 Equipment repair and/or replacement	152,849	138,272	291,121
253.90 Unrestricted	600,617	907,045	1,507,662
Total net position	<u>759,504</u>	<u>1,065,369</u>	<u>1,824,873</u>
	<u>\$ 759,504</u>	<u>\$ 1,065,369</u>	<u>\$ 1,824,873</u>

City of Britton

Statement of Revenues, Expenses and Changes in Fund Net Position—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue			
Charges for goods and services	\$ 255,767	\$ 394,560	\$ 650,327
369 Miscellaneous	936	-	936
Total operating revenue	<u>256,703</u>	<u>394,560</u>	<u>651,263</u>
Operating Expenses			
410 Personal services	36,370	51,964	88,334
420 Other current expense	188,803	21,014	209,817
426.2 Materials	3,881	9,301	13,182
430 Capital assets	36,073	3,131,690	3,167,763
Total operating expenses	<u>265,127</u>	<u>3,213,969</u>	<u>3,479,096</u>
Operating Income (Loss)	<u>(8,424)</u>	<u>(2,819,409)</u>	<u>(2,827,833)</u>
Nonoperating Revenue (Expense)			
330 Operating Grants	8,000	1,837,397	1,845,397
361 Investment earnings	779	355	1,134
429 Proceeds from loan	-	1,300,012	1,300,012
441 Principal	(17,365)	(75,632)	(92,997)
470 Interest expense and fiscal charges	(6,787)	(67,493)	(74,280)
Total nonoperating revenue (expense)	<u>(15,373)</u>	<u>2,994,639</u>	<u>2,979,266</u>
Net Change in Fund Balance	(23,797)	175,230	151,433
Net Position - Beginning	<u>783,301</u>	<u>890,139</u>	<u>1,673,440</u>
Net Position - Ending	<u>\$ 759,504</u>	<u>\$ 1,065,369</u>	<u>\$ 1,824,873</u>

City of Britton
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Cash Flows from Operating Activities			
Receipt from customers	\$ 254,741	\$ 394,560	\$ 649,301
Receipts from interfund services provided	1,962	-	1,962
Payments to suppliers	(192,684)	(30,315)	(222,999)
Payments to employees	(36,370)	(51,964)	(88,334)
Net Cash from Operating Activities	<u>27,649</u>	<u>312,281</u>	<u>339,930</u>
Cash Flows used for Capital and Related Financing Activities			
Proceeds from capital debt	-	1,300,012	1,300,012
Operating Grants	8,000	1,837,397	1,845,397
Purchase of capital assets	(36,073)	(3,131,690)	(3,167,763)
Principal paid on capital debt	(17,365)	(75,632)	(92,997)
Interest paid on capital debt	(6,787)	(67,493)	(74,280)
Net Cash used for Capital and Related Financing Activities	<u>(52,225)</u>	<u>(137,406)</u>	<u>(189,631)</u>
Cash Flows from Investing Activities			
Interest earnings	779	355	1,134
Net Cash from Investing Activities	<u>779</u>	<u>355</u>	<u>1,134</u>
Net Change in Cash and Cash Equivalents	(23,797)	175,230	151,433
Cash and Cash Equivalents - Beginning	333,301	890,139	1,223,440
Cash and Cash Equivalents - Ending	<u>\$ 309,504</u>	<u>\$ 1,065,369</u>	<u>\$ 1,374,873</u>
Cash and Cash Equivalents Consist of:			
Cash and cash equivalents	\$ 150,617	\$ 907,045	\$ 1,057,662
Restricted deposits	158,887	158,324	317,211
	<u>\$ 309,504</u>	<u>\$ 1,065,369</u>	<u>\$ 1,374,873</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities			
Operating loss	\$ (8,424)	\$ (2,819,409)	\$ (2,827,833)
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Purchase of capital assets	36,073	3,131,690	3,167,763
Net Cash from Operating Activities	<u>\$ 27,649</u>	<u>\$ 312,281</u>	<u>\$ 339,930</u>

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

The reporting entity of the City of Britton (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

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

The Housing and Redevelopment Commission of the City of Britton (commission) is a component unit of the City of Britton. The five members of the Commission are appointed by the Mayor with the approval of the Governing Body for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the commission's plans to construct a housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the commission. Due to the financial statements of this entity being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

The City's activities are presented using a modified cash basis of accounting while the component unit uses generally accepted accounting principles (GAAP). Based on the variance in the basis of accounting, the City has elected to present only the primary government activities. The component unit's financial statements are available upon request from The Housing and Redevelopment Commission of the City of Britton.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

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

The funds of the City of Britton are described below:

Governmental Funds

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

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

- **Liquor, Lodging and Dining Gross Receipts Tax Fund** – To account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, constructions costs, payments for civic center, auditorium or athletic facilities buildings including the promotion of advertising of the city (SDCL 10-52A-2). This is a major fund.
- **Revolving Loan Fund** – To account for resources loaned to businesses to be repaid over a period of time and, resources used to collateralize business loans. This is a major fund.
- **Library Fines Fund** – To account for library related fines, similar charges, and donations to be used for library purposes. This is a major fund.

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

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

Proprietary Funds

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

The City reports the following enterprise funds:

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

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

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

In the government-wide statement of net position and statement of activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The only modification to the cash basis of accounting implemented by the City in these financial statements is the recording of long-term investments in certificates of deposit (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost and inter-fund advances and borrowings arising from the use of a pooled cash account.

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

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

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

- The City’s interfund receivables and payables were eliminated as of December 31, 2015.
- The City did not have internal service fund activity which required elimination as of December 31, 2015.

F. Capital Assets

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

G. Long-Term Liabilities

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

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

H. Program Revenues

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

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

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statement of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The Water Fund and Sewer Fund essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

K. Equity Classifications

Government-Wide Statements

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

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of “restricted”.

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position

The City uses restricted/committed amounts first when both restricted and unrestricted net position is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the government would first use committed, then assigned, and lastly unassigned amounts of unrestricted net position when expenditures are made.

M. Fund Balance Classification Policies and Procedures

The City has implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. 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).

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 Fund	Donations

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits.

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2015, the City maintained their deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

The actual bank balances at December 31, 2015 are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 625,860
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	3,604,222
	\$ 4,230,082

The City's carrying amount of deposits at December 31, 2015 is as follows:

Cash and cash equivalents	\$ 3,423,942
Investments	745,110
	\$ 4,169,052

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, 2015, all of the City's investments consist of certificates of deposit which have maturities of less than one year.

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

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

Under the modified cash basis of accounting, investments are stated at cost.

Note 3 - Property Taxes

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

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

Note 4 - Water Supply Contract

The City entered into a 40 year agreement with B.D.M. Rural Water Systems, Inc. to provide water to the City. A monthly minimum in the amount of \$3,419 is paid by the city to B.D.M. Rural Water Systems, Inc. along with a charge of \$2.00 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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2016	\$ 41,033
2017	41,033
2018	41,033
2019	41,033
2020	41,033
2021-2025	205,166
2026-2030	205,166
2031-2035	205,166
2036-2040	205,166

Note 5 - Retirement Plan

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7% prior to 2008 and 1.55% thereafter of the employee’s final 3-year average compensation times the employee’s years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4% for service prior to 2008 and 2.0% thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733% for service prior to 2008 and 3.333% thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee’s final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more — 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% — 2.1% COLA

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. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions made to the SDRS for the years ended December 31, 2015, 2014 and 2013 were \$17,746, \$17,146, and \$16,232, respectively, equal to the required contributions each year.

Pension Asset

At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the City of Britton are as follows:

Proportionate share of net position restricted for pension benefits	\$ 1,720,614
Less proportionate share of total pension liability	<u>1,652,896</u>
Proportionate share of net pension asset	<u><u>\$ 67,718</u></u>

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was .01597%, which is an increase of .0001% from its proportion measured as of June 30, 2014. The City's proportionate share net pension asset is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25%
Salary increases	5.83% at entry to 3.87% after 30 years of service
Investment rate of return	7.25% through 2017 and 7.50% thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate. The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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 weighting 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, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension asset was 7.25% through 2017 and 7.50% thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

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

The following presents the Municipality’s proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the Municipality’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 (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension asset (liability)	\$ (170,445)	\$ 67,718	\$ 261,918

Pension Plan Fiduciary Net Position

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

Note 6 - Significant Contingencies - Litigation

At December 31, 2015, the City was not involved in any litigation that would be material to the financial statements.

Note 7 - Restricted Net Position

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

Fund	Restricted By	Amount
Revolving Loan Fund	Contractual	\$ 617,609
Library Foundation Fund	Contractual	62,043
Water Fund	Contractual	158,887
Sewer Fund	Contractual	158,324
Equipment repair or replacement	Contractual	148,767
Cemetery purposes	State Law	54,359
Library Fund	State Law	9,648
Liquor, Lodging, and Dining Gross Receipts Tax Fund	State Law	41,690

Note 8 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, 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 an annual premium, 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 generally for general liability, official’s liability, automobile liability, law enforcement liability, and physical damage, property and, boiler and machinery. The City purchases airport bodily injury and property damage liability insurance and surety bond coverage from a commercial insurance carrier.

The agreement with the SDPAA provides that the above coverages will be provided to various limits depending on the area of liability coverage. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

First Full Year	50%
Second Full Year	60%
Third Full Year	70%
Fourth Full Year	80%
Fifth Full Year	90%
Sixth Full Year and Thereafter	100%

As of December 31, 2015, the City has vested balance in the cumulative reserve fund of \$28,628.

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

Worker's Compensation

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

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

Unemployment Benefits

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

Note 9 - Pledged Assets

As of December 31, 2015, the City had pledged four certificates of deposit totaling \$235,110 from the Revolving Loan Fund as business loan guarantees to lenders. The value of certificates of deposit pledged range from \$7,860 to \$109,250 on loans totaling \$1,508,985 for three separate businesses. The City has the risk of loss in the event of default on the loan by the borrower(s).

Note 10 - Commitments

The City is starting a \$4,655,653 water system improvement project which will include painting the 250,000-gallon ground storage tank and constructing a new booster pump house, painting the existing 150,000-gallon elevated storage tank and replacing all 4" cast iron pipe, asbestos cement pipes, 4" PVC, and 6" cast iron pipe with 6" PVC and adding additional valves. The City has been awarded a CWFCP grant for \$1,444,000, a SRF loan for \$3,212,000 from SD DENR, and a \$2,783,000 loan and \$455,000 grant from USDA Rural Development. Bid letting is expected to be in the fall of 2016.



Supplementary Information
December 31, 2015
City of Britton

City of Britton
 Schedule of Employer's Share of Net Pension Asset and Employer's Contribution
 Year Ended December 31, 2015

Pension Plan	Fiscal Year Ending	City's Proportion of the Net Pension Asset	City's Proportionate Share of the Net Pension Asset (a)	City's Covered-Employee Payroll (b)	City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Asset
SDRS	6/30/2015	<u>0.0160%</u>	<u>\$ 67,718</u>	<u>\$ 295,766</u>	<u>22.9%</u>	<u>104.1%</u>
Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
SDRS	12/31/2015	<u>\$ 17,746</u>	<u>\$ 17,746</u>	<u>\$ -</u>	<u>\$ 295,767</u>	<u>6.0%</u>

City of Britton
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2015

<u>Governmental activities</u>	<u>Notes and Bonds Payable 1/1/2015</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/2015</u>
Enterprise Notes and Bonds Payable				
Water revenue bonds	\$ 157,285	\$ -	\$ (17,365)	\$ 139,920
Sewer revenue bonds - 2002	171,118	-	(14,555)	156,563
Sewer revenue bonds - 2012	881,212	-	(33,796)	847,416
Sewer revenue bonds - 2013	-	832,017	-	832,017
Rural Development #1	5,000	204,000	(5,771)	203,229
Rural Development #2	1,045,187	263,995	(21,510)	1,287,672
	<u>\$ 2,259,802</u>	<u>\$ 1,300,012</u>	<u>\$ (92,997)</u>	<u>\$ 3,466,817</u>

City of Britton
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 430,000	\$ 430,000	\$ 447,687	\$ 17,687
313 General sales and use taxes	600,000	600,000	730,649	130,649
315 Amusement	60	60	36	(24)
319 Penalties and interest on delinquent taxes	100	100	-	(100)
Total taxes	<u>1,030,160</u>	<u>1,030,160</u>	<u>1,178,372</u>	<u>148,212</u>
320 Licenses and permits	<u>1,000</u>	<u>1,000</u>	<u>1,158</u>	<u>158</u>
330 Intergovernmental revenue				
331 Federal grants	207,000	207,000	165,137	(41,863)
334 State grants	161,500	169,470	10,163	(159,307)
335 State shared revenue				
335.01 Bank franchise tax	800	800	2,463	1,663
335.02 Motor vehicle commercial prorata	2,000	2,000	4,673	2,673
335.03 Liquor tax reversion	8,000	8,000	7,717	(283)
335.04 Motor vehicle licenses (5%)	15,000	15,000	20,721	5,721
335.08 Local government highway and bridge fund	40,000	40,000	46,691	6,691
338 County shared revenue				
338.01 County road tax (25%)	687	687	2,063	1,376
Total intergovernmental revenue	<u>434,987</u>	<u>442,957</u>	<u>259,628</u>	<u>(183,329)</u>
340 Charges for good and services				
341 General government	750	750	1,870	1,120
344 Sanitation	97,000	97,000	96,307	(693)
346 Culture and recreation	26,000	26,000	32,966	6,966
348 Cemetery	300	300	1,110	810
Total charges for goods and services	<u>124,050</u>	<u>124,050</u>	<u>132,253</u>	<u>8,203</u>
350 Fines and forfeits				
351 Court fines and costs	-	-	193	193
Total fines and forfeits	<u>-</u>	<u>-</u>	<u>193</u>	<u>193</u>
360 Miscellaneous revenue				
361 Investment earnings	1,000	1,000	1,262	262
362 Rentals	14,800	14,800	11,000	(3,800)
363 Special assessments	3,912	3,912	3,732	(180)
368 Liquor operating agreement income	60,000	60,000	66,498	6,498
369 Other	4,100	4,100	23,118	19,018
Total miscellaneous revenue	<u>83,812</u>	<u>83,812</u>	<u>105,610</u>	<u>21,798</u>
Total revenues	<u>1,674,009</u>	<u>1,681,979</u>	<u>1,677,214</u>	<u>(4,765)</u>

City of Britton
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	22,490	22,490	20,299	2,191
411.5 Contingency	50,000	50,000		
Amount transferred	-	(18,750)	-	31,250
412 Executive	7,640	7,640	4,335	3,305
413 Elections	980	980	204	776
414 Financial administration	117,826	121,326	118,607	2,719
419 Other	9,290	42,517	45,911	(3,394)
Total general government	<u>208,226</u>	<u>226,203</u>	<u>189,356</u>	<u>36,847</u>
420 Public safety				
421 Police	141,754	174,427	174,428	(1)
422 Fire	40,027	46,127	43,422	2,705
423 Protective inspection	5,295	5,295	3,293	2,002
Total public safety	<u>187,076</u>	<u>225,849</u>	<u>221,143</u>	<u>4,706</u>
430 Public works				
431 Highways and streets	392,937	642,937	475,813	167,124
432 Sanitation	110,310	110,310	112,146	(1,836)
435 Airport	405,442	415,442	46,339	369,103
437 Cemetery	20,576	20,576	14,118	6,458
439 Transit	2,635	2,635	1,697	938
Total public works	<u>931,900</u>	<u>1,191,900</u>	<u>650,113</u>	<u>541,787</u>
440 Health and welfare				
441 Health	19,792	27,762	17,797	9,965
Total health and welfare	<u>19,792</u>	<u>27,762</u>	<u>17,797</u>	<u>9,965</u>
450 Culture and recreation				
451 Recreation	135,209	135,209	128,412	6,797
452 Parks	59,700	59,700	53,772	5,928
455 Library	141,750	152,750	155,374	(2,624)
Total culture and recreation	<u>336,659</u>	<u>347,659</u>	<u>337,558</u>	<u>10,101</u>
460 Conservation and development				
465 Economic development	12,100	27,350	16,407	10,943
Total conservation and development	<u>12,100</u>	<u>27,350</u>	<u>16,407</u>	<u>10,943</u>
490 Miscellaneous:				
499 Liquor operating agreements	100	100	22	78
Total miscellaneous	<u>100</u>	<u>100</u>	<u>22</u>	<u>78</u>
Total expenditures	<u>1,695,853</u>	<u>2,046,823</u>	<u>1,432,396</u>	<u>614,427</u>

City of Britton
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Net Change in Fund Balance	(21,844)	(364,844)	244,818	609,662
Fund Balance - Beginning	<u>1,314,012</u>	<u>1,314,012</u>	<u>1,314,012</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 1,292,168</u>	<u>\$ 949,168</u>	<u>\$ 1,558,830</u>	<u>\$ 609,662</u>

City of Britton

Budgetary Comparison Schedule—Liquor, Lodging and Dining Gross Receipts Tax Fund
Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 35,000	\$ 35,000	\$ 24,678	\$ (10,322)
Total taxes	35,000	35,000	24,678	(10,322)
360 Miscellaneous revenue				
361 Investment earnings	-	-	22	\$ 22
Total miscellaneous revenue	-	-	22	22
Total revenues	35,000	35,000	24,700	(10,300)
Expenditures				
460 Conservation and development:				
465 Economic development and assistance (industrial development)	35,000	35,000	34,675	325
Total expenditures	35,000	35,000	34,675	325
Net Change in Fund Balance	-	-	(9,975)	(9,975)
Fund Balance - Beginning	51,665	51,665	51,665	-
Fund Balance - Ending	\$ 51,665	\$ 51,665	\$ 41,690	\$ (9,975)

City of Britton
 Budgetary Comparison Schedule—Revolving Loan Fund
 Year Ended December 31, 2015

	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	\$ 1,287	\$ 287
Expenditures				
460 Conservation and development:				
465 Economic development and assistance (industrial development)	5,000	5,000	5,000	-
Total expenditures	5,000	5,000	5,000	-
Net Change in Fund Balance	(4,000)	(4,000)	(3,713)	287
Fund Balance - Beginning	621,322	621,322	621,322	-
Fund Balance - Ending	\$ 617,322	\$ 617,322	\$ 617,609	\$ 287

City of Britton
 Budgetary Comparison Schedule—Library Fines Fund
 Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
367 Contributions and donations from private sources	\$ 1,000	\$ 1,000	\$ 7,229	\$ 6,229
Expenditures				
455 Libraries	25,000	25,000	4,107	20,893
Net Change in Fund Balance	(24,000)	(24,000)	3,122	27,122
Fund Balance - Beginning	6,526	6,526	6,526	-
Fund Balance - Ending	\$ (17,474)	\$ (17,474)	\$ 9,648	\$ 27,122

Note 1 - Budgets and Budgetary Accounting

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

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

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

The City did not encumber any amounts at December 31, 2015.

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.



CPAs & BUSINESS ADVISORS

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

The City Council
City of Britton
Britton, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Britton as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated July 22, 2016. Our report issued an adverse opinion for the aggregate discretely presented component unit because the statements did not include the City’s legally separate component unit. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as 2015-A and 2015-B to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City of Britton’s Responses to Findings

The City’s responses to the findings identified in our audit are described in the accompanying schedule of findings. The City’s responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Aberdeen, South Dakota
July 22, 2016



CPAs & BUSINESS ADVISORS

Independent Auditor’s Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The City Council
City of Britton
Britton, South Dakota

Report on Compliance for the Major Federal Program

We have audited the City of Britton’s (the City) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the City’s major federal program for the year ended December 31, 2015. The City’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

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

Auditor’s Responsibility

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

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

Opinion on the Major Federal Program

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, 2015.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, business-type activities, and each major fund of City of Britton as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 22, 2016, which contained unmodified opinions on those financial statements except for the aggregate discretely presented component unit which was adverse. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Because of the significance of the matter discussed above, it is inappropriate to and we do not express an opinion on the Schedule of Expenditures of Federal Awards.

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

Aberdeen, South Dakota
July 22, 2016

City of Britton
Schedule of Expenditures of Federal Awards
December 31, 2015

Federal Grantor/Pass-Through Grantor Program Title	Pass-Through Identification Number	CFDA Number	Expenditures	Amounts Passed Through to Subrecipients
US Department of Transportation Direct Federal Funding Airport Improvement Program	*****	20.106	\$ 16,279	\$ -
Total US Department of Transportation			<u>16,279</u>	<u>-</u>
US Environmental Protection Agency Passed through SD Department of Environemnt and Natural Resources State Revolving Fund	*****	66.498	8,000	-
Total US Environmental Protection Agency			<u>8,000</u>	<u>-</u>
US Department of Agriculture: Direct Federal Funding Loans-Rural Development	*****	10.760	1,440,995	-
Total US Department of Agriculture			<u>1,440,995</u>	<u>-</u>
Total Federal Financial Assistance			<u>\$ 1,465,274</u>	<u>\$ -</u>

***** "No" Pass-Through Entity Identifying Number Given

See Notes to Schedule of Expenditures of Federal Awards

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant and loan activity of the City, and is presented on the modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of Uniform Guidance. The City of Britton received federal awards directly from federal agencies. If federal assistance is provided to a subrecipient, it is treated as an expenditure when it is paid to the subrecipient.

Note 2 - Significant Accounting Policies

Governmental and business type funds account for the City of Britton's federal grant activity. Expenditures in the schedule of expenditures of federal awards are recognized on the modified cash basis of accounting – transactions are recorded when cash is received or disbursed. The City of Britton's summary of significant accounting policies is presented in Note 1 in the City's basic financial statements. The City has not elected to use the 10% de minimus cost rate.

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Adverse
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 weakness(es) 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>CFDA Number</u>
Rural Development Loans	10.760
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Findings Related to the Financial Statements

2015-A Lack of Segregation of Duties

Material Weakness

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

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

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

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

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

Views of Responsible Officials: Management agrees with the finding.

2015-B Material Adjusting Journal Entries

Material Weakness

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments to the City's recorded account balances, which if not recorded, would have resulted in a material misstatement of the City's financial statements.

Cause: The City does not have an adequate internal accounting control system to identify all relevant and material adjustments necessary to ensure that financial statements are in accordance with generally accepted accounting principles.

Effect: The lack of internal accounting control could result in the City's interim financial information being materially misstated.

Recommendation: We recommend training specific to governmental accounting principles so that staff is able to ensure financial statements are materially correct. In addition, a thorough review of the transactions and balances in each fund should take place prior to the beginning of the audit to ensure that generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

No findings reported in the current year

Financial Statement Findings

2014-A – Lack of Segregation of Duties

Initial Fiscal Year Finding Occurred: 2011

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

Status: Not corrected. This situation has remained unchanged from the prior fiscal year within these accounting functions.

2014-B - Material Adjusting Journal Entries

Initial Fiscal Year Finding Occurred: 2011

Finding Summary: During the course of our engagement, we proposed material audit adjustments to the City's recorded account balances, which if not recorded, would have resulted in a material misstatement of the City's financial statements.

Status: Not corrected. Our auditors proposed material audit adjustments to the City's recorded account balances.

Findings Related to Federal Awards

No findings reporting in the prior year.

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City of Britton
803 8th St.
Britton SD 57430
605-448-5721

City of Britton respectfully submits the following corrective action plan for its audit findings for the year ended December 31, 2015.

Independent Public Accounting Firm: Eide Bailly LLP
PO Box 430
Aberdeen, SD 57402-0430

Audit Period: January 1, 2015 – December 31, 2015

Finding 2015-A – Lack of Segregation of Duties

Planned Action: Management acknowledges the facts and circumstances concerning limited office personnel prohibiting adequate segregation of duties. Both management and those charged with governance are aware of the condition and accept the risk associated with that condition.

Contact Person: Marie Marlow, Finance Officer

Anticipated Completion Date: Ongoing

Finding 2015-B – Material Adjusting Journal Entries

Planned Action: Management and the City Council will perform a thorough review of the transactions and balances in each fund prior to the beginning of the audit to ensure that the generally accepted accounting principles have been followed for each fund type, especially for transaction types infrequent in occurrence. Due to the City's size, we will accept the risk associated with the condition based on cost and other considerations.

Contact Person: Marie Marlow, Finance Officer

Anticipated Completion Date: Ongoing