



Financial Statements
December 31, 2017 and 2016
City of Groton

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Independent Auditor's Report

The City Council
City of Groton
Groton, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groton (the "City") as of December 31, 2017, and for each of the years in the two year period 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 modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the 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 Audit 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.

Opinions

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities each major fund, and the aggregate remaining fund information of the City of Groton as of December 31, 2017, and the respective changes in financial position – modified cash basis and, where applicable, cash flows - modified cash basis thereof and for each of the years in the two year period then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively compromise the City's financial statements. The budgetary comparison schedules, schedules of net pension liability (asset) and contributions, and schedule of changes in notes and bonds payable are presented for purposes of additional analysis and are not a required part of the financial statements.

The budgetary comparison schedules, schedules of net pension liability (asset) and contributions, and schedules of changes in notes and bonds payable are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2019 on our consideration of the City of Groton'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 of Groton'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
March 6, 2019

City of Groton
Statement of Net Position—Modified Cash Basis
December 31, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 444,314	\$ 982,872	\$ 1,427,186
Restricted assets:			
Cash and cash equivalents	523,152	-	523,152
	<u>\$ 967,466</u>	<u>\$ 982,872</u>	<u>\$ 1,950,338</u>
Net Position			
Restricted for:			
Airport	\$ 7,354	\$ -	\$ 7,354
Debt service	510,068	9,604	519,672
Cemetery perpetual care - nonexpendable	35,192	-	35,192
Promotion	5,730	-	5,730
Unrestricted	409,122	973,268	1,382,390
	<u>\$ 967,466</u>	<u>\$ 982,872</u>	<u>\$ 1,950,338</u>

City of Groton
Statements of Activities—Modified Cash Basis
Year Ended December 31, 2017

Functions/Programs	2017						
	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		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 352,225	\$ 34,302	\$ -	\$ -	\$ (317,923)	\$ -	\$ (317,923)
Public safety	421,174	5,518	-	51,237	(364,419)	-	(364,419)
Public works	392,731	38,909	60,217	52,207	(241,398)	-	(241,398)
Health and welfare	5,347	-	-	-	(5,347)	-	(5,347)
Culture and recreation	293,859	91,767	-	-	(202,092)	-	(202,092)
Conservation and development	714	-	-	-	(714)	-	(714)
Debt service	250,268	-	-	85,669	(164,599)	-	(164,599)
Miscellaneous	6,679	-	-	-	(6,679)	-	(6,679)
Total governmental activities	<u>1,722,997</u>	<u>170,496</u>	<u>60,217</u>	<u>189,113</u>	<u>(1,303,171)</u>	<u>-</u>	<u>(1,303,171)</u>
Business-type activities:							
Water fund	234,517	324,792	-	-	-	90,275	90,275
Sewer fund	128,421	210,355	-	-	-	81,934	81,934
Electric fund	1,278,196	1,808,851	-	-	-	530,655	530,655
Solid waste fund	86,948	99,712	-	-	-	12,764	12,764
Total business-type activities	<u>1,728,082</u>	<u>2,443,710</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>715,628</u>	<u>715,628</u>
Total primary government	<u>\$ 3,451,079</u>	<u>\$ 2,614,206</u>	<u>\$ 60,217</u>	<u>\$ 189,113</u>	<u>(1,303,171)</u>	<u>715,628</u>	<u>(587,543)</u>
General Revenues							
Taxes:							
Property taxes					657,759	-	657,759
Sales taxes					615,672	-	615,672
Penalties & interest on delinquent taxes					1,621	-	1,621
State shared revenues					17,255	-	17,255
Unrestricted investment earnings					1,212	-	1,212
Miscellaneous revenue					30,898	-	30,898
Transfers					425,000	(425,000)	-
Sale of Municipal Property					7,147	-	7,147
Compensation for Damage to Capital Assets					9,739	-	9,739
Total general revenues					<u>1,766,303</u>	<u>(425,000)</u>	<u>1,341,303</u>
Change in Net Position					463,132	290,628	753,760
Net Position - Beginning					504,334	692,244	1,196,578
Net Position - Ending					<u>\$ 967,466</u>	<u>\$ 982,872</u>	<u>\$ 1,950,338</u>

See Notes to Financial Statements

City of Groton
Statements of Activities—Modified Cash Basis
Year Ended December 31, 2016

Functions/Programs	2016						
	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		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 323,327	\$ 33,794	\$ -	\$ -	\$ (289,533)	\$ -	\$ (289,533)
Public safety	349,583	3,610	-	18,714	(327,259)	-	(327,259)
Public works	322,738	3,887	60,113	19,726	(239,012)	-	(239,012)
Health and welfare	4,568	-	-	-	(4,568)	-	(4,568)
Culture and recreation	168,851	69,242	-	-	(99,609)	-	(99,609)
Conservation and development	922	-	-	-	(922)	-	(922)
Debt service	271,244	-	-	109,158	(162,086)	-	(162,086)
Miscellaneous	1,118	-	-	-	(1,118)	-	(1,118)
Total governmental activities	<u>1,442,351</u>	<u>110,533</u>	<u>60,113</u>	<u>147,598</u>	<u>(1,124,107)</u>	<u>-</u>	<u>(1,124,107)</u>
Business-type activities:							
Water fund	243,039	311,061	-	-	-	68,022	68,022
Sewer fund	128,733	213,188	-	-	-	84,455	84,455
Electric fund	1,229,649	1,688,489	-	-	-	458,840	458,840
Solid waste fund	81,918	93,538	-	-	-	11,620	11,620
Total business-type activities	<u>1,683,339</u>	<u>2,306,276</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>622,937</u>	<u>622,937</u>
Total primary government	<u>\$ 3,125,690</u>	<u>\$ 2,416,809</u>	<u>\$ 60,113</u>	<u>\$ 147,598</u>	<u>(1,124,107)</u>	<u>622,937</u>	<u>(501,170)</u>
General Revenues							
Taxes:							
Property taxes					648,477	-	648,477
Sales taxes					507,388	-	507,388
Penalties & interest on delinquent taxes					1,342	-	1,342
State shared revenues					16,261	-	16,261
Unrestricted investment earnings					621	-	621
Miscellaneous revenue					18,428	-	18,428
Transfers					81,160	(81,160)	-
Total general revenues					<u>1,273,677</u>	<u>(81,160)</u>	<u>1,192,517</u>
Change in Net Position					<u>149,570</u>	<u>541,777</u>	<u>691,347</u>
Net Position - Beginning					<u>354,764</u>	<u>150,467</u>	<u>505,231</u>
Net Position - Ending					<u>\$ 504,334</u>	<u>\$ 692,244</u>	<u>\$ 1,196,578</u>

See Notes to Financial Statements

City of Groton
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2017

	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 398,470	\$ -	\$ 10,652	\$ -	\$ 35,192	\$ 444,314
Restricted cash and cash equivalents	7,354	5,730	-	510,068	-	523,152
	<u>\$ 405,824</u>	<u>\$ 5,730</u>	<u>\$ 10,652</u>	<u>\$ 510,068</u>	<u>\$ 35,192</u>	<u>\$ 967,466</u>
Fund Balances						
263 Nonspendable						
Cemetery perpetual care	\$ -	\$ -	\$ -	\$ -	\$ 35,192	\$ 35,192
General fund	1,500	-	-	-	-	1,500
264 Restricted for						
Other	7,354	-	-	-	-	7,354
Debt service	-	-	-	510,068	-	510,068
Promotion	-	5,730	-	-	-	5,730
265 Committed	-	-	10,652	-	-	10,652
267 Unassigned	396,970	-	-	-	-	396,970
	<u>\$ 405,824</u>	<u>\$ 5,730</u>	<u>\$ 10,652</u>	<u>\$ 510,068</u>	<u>\$ 35,192</u>	<u>\$ 967,466</u>

City of Groton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2017

	2017					Total Governmental Funds
	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	
Revenues						
310 Taxes						
311 General property taxes	\$ 657,759	\$ -	\$ -	\$ -	\$ -	\$ 657,759
313 General sales and use taxes	592,748	22,924	-	-	-	615,672
319 Penalties and interest on delinquent taxes	1,621	-	-	-	-	1,621
Total taxes	<u>1,252,128</u>	<u>22,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,275,052</u>
320 Licenses and permits	<u>11,476</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,476</u>
330 Intergovernmental revenue						
334 State grants	52,207	-	-	-	-	52,207
335 State shared revenue						
335.01 Bank franchise tax	8,203	-	-	-	-	8,203
335.02 Motor vehicle commercial prorate	3,203	-	-	-	-	3,203
335.03 Liquor tax reversion	9,052	-	-	-	-	9,052
335.04 Motor vehicle licenses (5%)	22,137	-	-	-	-	22,137
335.08 Local government highway and bridge fund	30,267	-	-	-	-	30,267
335.20 Other	-	-	-	-	-	-
338 County shared revenue						
338.01 County road tax (25%)	3,556	-	-	-	-	3,556
338.02 County road and bridge tax (25%)	-	-	-	-	-	-
338.03 County wheel tax	1,054	-	-	-	-	1,054
Total intergovernmental revenue	<u>129,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>129,679</u>
340 Charges for goods and services						
341 General government	1,301	-	-	-	-	1,301
342 Public safety	4,600	-	-	-	-	4,600
343 Highways and streets	14,697	-	-	-	-	14,697
344 Sanitation	744	-	-	-	-	744
346 Culture and recreation	91,767	-	-	-	-	91,767
348 Cemetery	23,348	-	-	-	120	23,468
Total charges for good and services	<u>136,457</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>120</u>	<u>136,577</u>
350 Fines and forfeits						
351 Court fines and costs	33	-	-	-	-	33
352 Animal control fines	338	-	-	-	-	338
354 Library	27	-	-	-	-	27
359 Other	520	-	-	-	-	520
Total fines and forfeits	<u>918</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>918</u>
360 Miscellaneous revenue						
361 Investment earnings	1,212	-	-	-	-	1,212
362 Rentals	-	-	21,525	-	-	21,525
363 Special assessments	-	-	-	85,669	-	85,669
367 Contributions and donations from private sources	51,237	-	-	-	-	51,237
368 Liquor operating agreement income	16,815	-	-	-	-	16,815
369 Other	6,336	79	147	7,036	485	14,083
Total miscellaneous revenue	<u>75,600</u>	<u>79</u>	<u>21,672</u>	<u>92,705</u>	<u>485</u>	<u>190,541</u>
Total revenues	<u>1,606,258</u>	<u>23,003</u>	<u>21,672</u>	<u>92,705</u>	<u>605</u>	<u>1,744,243</u>

City of Groton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2017

	2017					
	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Expenditures						
410 General government						
411 Legislative	24,673	-	-	-	-	24,673
412 Executive	8,459	-	-	-	-	8,459
413 Elections	803	-	-	-	-	803
414 Financial administration	297,307	-	-	-	-	297,307
419 Other	20,983	-	-	-	-	20,983
Total general government	<u>352,225</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>352,225</u>
420 Public safety						
421 Police	421,174	-	-	-	-	421,174
Total public safety	<u>421,174</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>421,174</u>
430 Public works						
431 Highways and streets	328,840	-	-	-	-	328,840
435 Airport	-	-	28,106	-	-	28,106
437 Cemeteries	34,009	-	-	-	-	34,009
439 Transit	1,776	-	-	-	-	1,776
Total public works	<u>364,625</u>	<u>-</u>	<u>28,106</u>	<u>-</u>	<u>-</u>	<u>392,731</u>
440 Health and welfare						
441 Health	5,347	-	-	-	-	5,347
Total health and welfare	<u>5,347</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,347</u>
450 Culture and recreation						
451 Recreation	256,255	23,683	-	-	-	279,938
452 Parks	6,123	-	-	-	-	6,123
455 Libraries	884	-	-	-	-	884
456 Auditorium	6,914	-	-	-	-	6,914
Total culture and recreation	<u>270,176</u>	<u>23,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>293,859</u>
460 Conservation and development						
465 Economic development and assistance (industrial development)	714	-	-	-	-	714
Total conservation and development	<u>714</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>714</u>
470 Debt service	-	-	-	250,268	-	250,268
490 Miscellaneous						
492 Other expenditures	6,664	-	-	-	-	6,664
493 Liquor operating agreements	15	-	-	-	-	15
Total miscellaneous	<u>6,679</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,679</u>
Total expenditures	<u>1,420,940</u>	<u>23,683</u>	<u>28,106</u>	<u>250,268</u>	<u>-</u>	<u>1,722,997</u>
Excess (Deficiency) of revenue over expenditures	<u>185,318</u>	<u>(680)</u>	<u>(6,434)</u>	<u>(157,563)</u>	<u>605</u>	<u>21,246</u>
Other Financing Sources (Uses)						
391.01 Transfers in	425,000	-	-	250,100	-	675,100
511 Transfers out	(250,100)	-	-	-	-	(250,100)
391.03 Sale of municipal property	7,147	-	-	-	-	7,147
391.04 Compensation for loss/damage to capital assets	9,739	-	-	-	-	9,739
Total other financing sources	<u>191,786</u>	<u>-</u>	<u>-</u>	<u>250,100</u>	<u>-</u>	<u>441,886</u>
Net Change in Fund Balance	377,104	(680)	(6,434)	92,537	605	463,132
Fund Balance - Beginning	28,720	6,410	17,086	417,531	34,587	504,334
Fund Balance - Ending	<u>\$ 405,824</u>	<u>\$ 5,730</u>	<u>\$ 10,652</u>	<u>\$ 510,068</u>	<u>\$ 35,192</u>	<u>\$ 967,466</u>

City of Groton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2016

	2016					Total Governmental Funds
	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	
Revenues						
310 Taxes						
311 General property taxes	\$ 648,477	\$ -	\$ -	\$ -	\$ -	\$ 648,477
313 General sales and use taxes	481,595	25,793	-	-	-	507,388
319 Penalties and interest on delinquent taxes	1,342	-	-	-	-	1,342
Total taxes	<u>1,131,414</u>	<u>25,793</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,157,207</u>
320 Licenses and permits	<u>11,489</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,489</u>
330 Intergovernmental revenue						
334 State grants	19,726	-	-	-	-	19,726
335 State shared revenue						
335.01 Bank franchise tax	2,534	-	-	-	-	2,534
335.02 Motor vehicle commercial prorated	3,322	-	-	-	-	3,322
335.03 Liquor tax reversion	9,512	-	-	-	-	9,512
335.04 Motor vehicle licenses (5%)	22,008	-	-	-	-	22,008
335.08 Local government highway and bridge fund	20,573	-	-	-	-	20,573
335.20 Other	4,215	-	-	-	-	4,215
338 County shared revenue						
338.01 County road tax (25%)	-	-	-	-	-	-
338.02 County road and bridge tax (25%)	13,150	-	-	-	-	13,150
338.03 County wheel tax	1,060	-	-	-	-	1,060
Total intergovernmental revenue	<u>96,100</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,100</u>
340 Charges for goods and services						
341 General government	780	-	-	-	-	780
342 Public safety	1,776	-	-	-	-	1,776
343 Highways and streets	1,247	-	-	-	-	1,247
344 Sanitation	-	-	295	-	-	295
346 Culture and recreation	69,242	-	-	-	-	69,242
348 Cemetery	1,945	-	-	-	400	2,345
Total charges for good and services	<u>74,990</u>	<u>-</u>	<u>295</u>	<u>-</u>	<u>400</u>	<u>75,685</u>
350 Fines and forfeits						
351 Court fines and costs	12	-	-	-	-	12
352 Animal control fines	1,093	-	-	-	-	1,093
354 Library	34	-	-	-	-	34
359 Other	695	-	-	-	-	695
Total fines and forfeits	<u>1,834</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,834</u>
360 Miscellaneous revenue						
361 Investment earnings	587	1	5	28	-	621
362 Rentals	-	-	21,525	-	-	21,525
363 Special assessments	-	-	-	109,158	-	109,158
367 Contributions and donations from private sources	18,714	-	-	-	-	18,714
368 Liquor operating agreement income	17,945	-	-	-	-	17,945
369 Other	483	-	-	-	-	483
Total miscellaneous revenue	<u>37,729</u>	<u>1</u>	<u>21,530</u>	<u>109,186</u>	<u>-</u>	<u>168,446</u>
Total revenues	<u>1,353,556</u>	<u>25,794</u>	<u>21,825</u>	<u>109,186</u>	<u>400</u>	<u>1,510,761</u>

City of Groton

Statements of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2016

	2016					
	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Expenditures						
410 General government						
411 Legislative	11,070	-	-	-	-	11,070
412 Executive	5,398	-	-	-	-	5,398
413 Elections	26	-	-	-	-	26
414 Financial administration	296,158	-	-	-	-	296,158
419 Other	10,675	-	-	-	-	10,675
Total general government	<u>323,327</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>323,327</u>
420 Public safety						
421 Police	349,583	-	-	-	-	349,583
Total public safety	<u>349,583</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>349,583</u>
430 Public works						
431 Highways and streets	276,927	-	-	-	-	276,927
435 Airport	-	-	31,862	-	-	31,862
437 Cemeteries	11,948	-	-	-	-	11,948
439 Transit	2,001	-	-	-	-	2,001
Total public works	<u>290,876</u>	<u>-</u>	<u>31,862</u>	<u>-</u>	<u>-</u>	<u>322,738</u>
440 Health and welfare						
441 Health	4,568	-	-	-	-	4,568
Total health and welfare	<u>4,568</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,568</u>
450 Culture and recreation						
451 Recreation	133,808	21,303	-	-	-	155,111
452 Parks	5,814	-	-	-	-	5,814
455 Libraries	4,122	-	-	-	-	4,122
456 Auditorium	3,804	-	-	-	-	3,804
Total culture and recreation	<u>147,548</u>	<u>21,303</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>168,851</u>
460 Conservation and development						
465 Economic development and assistance (industrial development)	922	-	-	-	-	922
Total conservation and development	<u>922</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>922</u>
470 Debt service	-	-	-	271,244	-	271,244
490 Miscellaneous						
492 Other expenditures	1,104	-	-	-	-	1,104
493 Liquor operating agreements	14	-	-	-	-	14
Total miscellaneous	<u>1,118</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,118</u>
Total expenditures	<u>1,117,942</u>	<u>21,303</u>	<u>31,862</u>	<u>271,244</u>	<u>-</u>	<u>1,442,351</u>
Excess (Deficiency) of revenue over expenditures	<u>235,614</u>	<u>4,491</u>	<u>(10,037)</u>	<u>(162,058)</u>	<u>400</u>	<u>68,410</u>
Other Financing Sources (Uses)						
391.01 Transfers in	-	-	-	563,169	-	563,169
511 Transfers out	(482,009)	-	-	-	-	(482,009)
391.03 Sale of municipal property	-	-	-	-	-	-
391.04 Compensation for loss/damage to capital assets	-	-	-	-	-	-
Total other financing sources (uses)	<u>(482,009)</u>	<u>-</u>	<u>-</u>	<u>563,169</u>	<u>-</u>	<u>81,160</u>
Net Change in Fund Balance	(246,395)	4,491	(10,037)	401,111	400	149,570
Fund Balance - Beginning	275,115	1,919	27,123	16,420	34,187	354,764
Fund Balance - Ending	<u>\$ 28,720</u>	<u>\$ 6,410</u>	<u>\$ 17,086</u>	<u>\$ 417,531</u>	<u>\$ 34,587</u>	<u>\$ 504,334</u>

City of Groton
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2017

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Assets					
Current Assets					
Cash and cash equivalents	\$ 307,883	\$ 151,790	\$ 496,038	\$ 27,161	\$ 982,872
	<u>\$ 307,883</u>	<u>\$ 151,790</u>	<u>\$ 496,038</u>	<u>\$ 27,161</u>	<u>\$ 982,872</u>
Net Position					
253.20 Restricted net position for:					
Debt repayment	\$ -	\$ 9,604	\$ -	\$ -	\$ 9,604
253.90 Unrestricted	<u>307,883</u>	<u>142,186</u>	<u>496,038</u>	<u>27,161</u>	<u>973,268</u>
Total net position	<u>307,883</u>	<u>151,790</u>	<u>496,038</u>	<u>27,161</u>	<u>982,872</u>
	<u>\$ 307,883</u>	<u>\$ 151,790</u>	<u>\$ 496,038</u>	<u>\$ 27,161</u>	<u>\$ 982,872</u>

City of Groton

Statements of Revenues, Expenses and Changes in Fund Net Position –Modified Cash Basis–Proprietary Funds
Years Ended December 31, 2017 and 2016

	2017					2016				
	Enterprise Funds					Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals
Operating Revenue										
369 Miscellaneous	\$ 4,246	\$ 2,093	\$ 6,840	\$ 375	\$ 13,554	\$ -	\$ -	\$ -	\$ -	\$ -
370 Charges for goods and services	320,546	208,262	1,802,011	99,337	2,430,156	311,061	213,188	1,688,489	93,538	2,306,276
Total operating revenue	324,792	210,355	1,808,851	99,712	2,443,710	311,061	213,188	1,688,489	93,538	2,306,276
Operating Expenses										
410 Personal services	55,996	64,301	184,856	4,369	309,522	62,235	48,040	176,799	4,031	291,105
420 Other current expense	26,520	35,307	90,193	1,656	153,676	38,517	42,285	92,414	2,416	175,632
426.2 Materials	152,001	-	1,003,147	80,923	1,236,071	142,300	-	960,473	75,499	1,178,272
Total operating expenses	234,517	99,608	1,278,196	86,948	1,699,269	243,052	90,325	1,229,686	81,946	1,645,009
Operating Income	90,275	110,747	530,655	12,764	744,441	68,009	122,863	458,803	11,592	661,267
Nonoperating Revenue (Expense)										
361 Investment earnings	-	-	-	-	-	13	9	37	2	61
441 Debt service (principal)	-	(26,301)	-	-	(26,301)	-	(33,505)	-	-	(33,505)
442 Interest expense	-	(2,512)	-	-	(2,512)	-	(4,912)	-	-	(4,912)
369.01 Other	-	-	-	-	-	-	-	-	26	26
Total nonoperating revenue (expense)	-	(28,813)	-	-	(28,813)	13	(38,408)	37	28	(38,330)
Income Before Loan Advances	90,275	81,934	530,655	12,764	715,628	68,022	84,455	458,840	11,620	622,937
391.1 Transfers in	45,000	-	-	-	45,000	-	-	-	-	-
511 Transfers out	-	-	(470,000)	-	(470,000)	-	(19,220)	(61,940)	-	(81,160)
Change in Net Position	135,275	81,934	60,655	12,764	290,628	68,022	65,235	396,900	11,620	541,777
Net Position - Beginning	172,608	69,856	435,383	14,397	692,244	104,586	4,621	38,483	2,777	150,467
Net Position - Ending	\$ 307,883	\$ 151,790	\$ 496,038	\$ 27,161	\$ 982,872	\$ 172,608	\$ 69,856	\$ 435,383	\$ 14,397	\$ 692,244

City of Groton
 Statements of Cash Flows—Modified Cash Basis—Proprietary Funds
 Years Ended December 31, 2017 and 2016

	2017					2016				
	Enterprise Funds					Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals
Cash Flows from (used for) Operating Activities										
Receipt from customers	\$ 324,792	\$ 210,355	\$ 1,808,851	\$ 99,712	\$ 2,443,710	\$ 311,061	\$ 213,188	\$ 1,688,489	\$ 93,538	\$ 2,306,276
Payments to suppliers	(178,521)	(35,307)	(1,093,340)	(82,579)	(1,389,747)	(180,817)	(42,285)	(1,052,887)	(77,915)	(1,353,904)
Payments to employees	(55,996)	(64,301)	(184,856)	(4,369)	(309,522)	(62,235)	(48,040)	(176,799)	(4,031)	(291,105)
Net Cash from Operating Activities	90,275	110,747	530,655	12,764	744,441	68,009	122,863	458,803	11,592	661,267
Cash Flows from (used for) Noncapital and Related financing activity										
Transfers in	45,000	-	-	-	45,000	-	-	-	-	-
Transfers out	-	-	(470,000)	-	(470,000)	-	(19,220)	(61,940)	-	(81,160)
Net Cash from (used for) Noncapital and Related financing activities	45,000	-	(470,000)	-	(425,000)	-	(19,220)	(61,940)	-	(81,160)
Cash Flows from (used for) Capital and Related Financing activities										
Principal paid on capital debt	-	(26,301)	-	-	(26,301)	-	(33,505)	-	-	(33,505)
Interest paid on capital debt	-	(2,512)	-	-	(2,512)	-	(4,912)	-	-	(4,912)
Other capital and related financing cash receipts	-	-	-	-	-	-	-	-	26	26
Net Cash from (used for) Capital and Related Financing activity	-	(28,813)	-	-	(28,813)	-	(38,417)	-	26	(38,391)
Cash Flows from Investing Activities										
Interest earnings	-	-	-	-	-	13	9	37	2	61
Net Cash from Investing Activities	-	-	-	-	-	13	9	37	2	61
Net Change in Cash and Cash Equivalents	135,275	81,934	60,655	12,764	290,628	68,022	65,235	396,900	11,620	541,777
Cash and Cash Equivalents - Beginning	172,608	69,856	435,383	14,397	692,244	104,586	4,621	38,483	2,777	150,467
Cash and Cash Equivalents - Ending	\$ 307,883	\$ 151,790	\$ 496,038	\$ 27,161	\$ 982,872	\$ 172,608	\$ 69,856	\$ 435,383	\$ 14,397	\$ 692,244
Reconciliation of Operating Income to Net Cash from Operating Activities										
Operating income	\$ 90,275	\$ 110,747	\$ 530,655	\$ 12,764	\$ 744,441	\$ 68,009	\$ 122,863	\$ 458,803	\$ 11,592	\$ 661,267
Net Cash from Operating Activities	\$ 90,275	\$ 110,747	\$ 530,655	\$ 12,764	\$ 744,441	\$ 68,009	\$ 122,863	\$ 458,803	\$ 11,592	\$ 661,267

City of Groton
Statement of Fiduciary Net Position – Modified Cash Basis
December 31, 2017

	<u>Family Crisis Fund</u>
Private Purpose Trust:	
Assets:	
Cash	\$ 4,600
Total assets	<u>\$ 4,600</u>
Net Position	<u>\$ 4,600</u>

City of Groton
 Statements of Changes in Fiduciary Net Position – Modified Cash Basis
 December 31, 2017 and 2016

	<u>2017</u> Family Crisis Fund	<u>2016</u> Family Crisis Fund
Private Purpose Trust:		
Additions:		
Contributions and donations	\$ 5,239	\$ 2,739
Other	78	38
Total additions	<u>5,317</u>	<u>2,777</u>
Deductions:		
Family needs	<u>2,332</u>	<u>2,114</u>
Total deductions	<u>2,332</u>	<u>2,114</u>
Change in net position	2,985	663
Net position beginning	<u>1,615</u>	<u>952</u>
Net position ending	<u><u>\$ 4,600</u></u>	<u><u>\$ 1,615</u></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 Groton (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 Groton.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City. The City has no 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 to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the 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 Groton 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 by local ordinance for specified purposes. The City has the following special revenue funds:

3rd Penny Sales Tax Fund – A fund allowed to account for the receipts from the 3rd penny sales tax imposed on liquor, lodging and dining sales (SDCL 10-52A-2). The 3rd penny can be spent on the promotion of the City. The 3rd penny sales tax fund is a major fund.

Airport fund – A fund established to provide airport services to customers within the City of Groton (SDCL 50-7-2). However, the airport fund does not collect fees for airport services, only rents for the use of airport land. The airport fund is a major fund.

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

Debt service fund – To account for special assessments which may only be used for the payment of the special assessment debt principal, interest, and related costs. The debt service fund is a major fund.

Permanent Funds – Permanent funds are used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City’s activities. The City has the following permanent fund:

Cemetery Perpetual Care Fund – A fund established to account for money that can only be used for upkeep of the City’s cemetery (SDCL 9-32-18). The cemetery perpetual care fund 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 – A fund established to provide water to customers within the City of Groton. 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) The water fund is a major fund.

Sewer Fund – A fund established to provide sewer services to customers within the City of Groton. 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) The sewer fund is a major fund.

Electric Fund – A fund established to provide electrical service to customers within the City of Groton. (SDCL 9-39-1 and 9-39-26) The electric fund is a major fund.

Solid Waste Fund – A fund established to provide solid waste services to customers within the City of Groton. (SDCL 9-32-11 and 34A-6) The solid waste fund is a major fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating revenues and expenses.

Fiduciary Funds

Fiduciary Funds are never considered to be major funds.

Private-purpose trust funds are used to account for trust arrangements under which the principal and income benefit individuals, private organizations, or other governments. The City maintains one private-purpose trust fund for family crisis relief.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

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

D. Deposits and Investments

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

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

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

- The City did not have any interfund receivables and payables which required elimination as of December 31, 2017.
- The City did not have internal service fund activity which required elimination for the years ended December 31, 2017 and 2016.

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 governmental funds and 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, Sewer Fund, Electric Fund, and Solid Waste 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. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

L. Application of Net Position / Fund Balance

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

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

M. Fund Balance Classification Policies and Procedures

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

- **Nonspendable Fund Balance** - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** - Amounts constrained to specific purposes by their providers (such as grantors, 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. 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 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.

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, 2017, the City maintains deposits in in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3. The City also holds deposits with SDFIT, which are not FDIC insured.

The actual bank balances at December 31, 2017 are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 500,000
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	587,300
	\$ 1,087,300
The City's carrying amount of deposits at December 31, 2017	\$ 1,051,680

Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 1,950,338
Add: Private Purpose Trust Fund (not included in government-wide statement of net position)	4,600
Less: SDFIT Account included in cash and cash equivalents	(903,258)
	\$ 1,051,680

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).

As of December 31, 2017, the City did not hold any investments as defined by Governmental Accounting Standards Board. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk.

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 deposits and investments to the fund making the investment.

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 - Significant Contingencies - Litigation

At December 31, 2017, the City was not involved in any litigation that would be material to the financial statements.

Note 5 - 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
General Fund	Contractual Agreement	\$ 7,354
3rd Penny Sales Tax Fund	State Law	5,730
Debt Service Fund	Contractual Agreement	510,068
Cemetary Perpetual Care Fund	State Law	35,192

Note 6 - 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 years ended December 31, 2017 and 2016, 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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for general liability, official’s liability, automobile liability and law enforcement liability.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided to a \$2,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$500,000 to the upper limit. The City carries the following deductibles for the coverages listed above:

Coverage	Deductible
Law enforcement liability	\$ 2,000

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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. 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 an additional \$2,000,000 per individual 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 has elected to be self-insured and retain all risk for liabilities resulting from claims for employment benefits.

During the years ended December 31, 2017 and 2016, no claims for unemployment benefits were paid. At December 31, 2017, no claims had been filed for unemployment benefits and none are anticipated in the next year.

Note 7 - 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 defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in 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.aspx> or by writing to the SDRS, PO 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

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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 to the SDRS for the years ended December 31, 2017, 2016 and 2015 were \$51,442, \$49,717, and \$51,174, respectively, equal to required contributions each year.

Pension Liabilities (Assets)

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the SDRS for the City as of the measurement period ending June 30, 2017 and reported by the City as of December 31, 2017 are as follows:

Proportionate share of pension liability	\$ 4,933,434
Less proportionate share of net position restricted for pension benefits	<u>4,937,282</u>
Proportionate share of net pension liability (asset)	<u>\$ (3,848)</u>

The net pension liability (asset) was measured as of June 30, 2017 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, 2017, the City's proportion was 0.0424018%, which is a decrease of 0.0011% from its proportion measured as of June 30, 2016.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00%
Investment rate of return	6.50% net of plan investment expense

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 liability (asset).

Sensitivity of Liability (Asset) to Change 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 one percentage point lower (5.50%) or one 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)	\$ 704,762	\$ (3,848)	\$ (580,887)

Pension Plan Fiduciary Net Position

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

Note 8 - Interfund Transfers

	Transfers To:		
	General Fund	Debt Service Fund	Water Fund
2017			
Transfers From:			
General Fund	\$ -	\$ 250,100	\$ -
Electric Fund	425,000	-	45,000
2016			
Transfers From:			
General Fund	\$ -	\$ 482,009	\$ -
Electric Fund	-	61,940	-
Sewer Fund	-	19,220	-

Note 9 - Beneficial Interest

The Groton Community Fund was established as an endowment at the Lutheran Community Foundation in 1997. The City has a beneficial interest in the Foundation and receives annual distributions from the Foundation. Holdings of the Groton Community Fund were \$243,647 at December 31, 2017.

Note 10 - Related Party Activity

The City uses the services of business entities owned by members of the City Council. The total amounts paid were \$4,444 and \$18,192 in 2017 and 2016, respectively.

Note 11 - Violations of Finance-Related Legal Provisions

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. For the year ended December 31, 2017, the City had overdrafts of expenditures compared to appropriations in the general fund departments of legislative by \$11,363, police by \$13,952, cemeteries by \$11,489, recreation by \$37,060 and miscellaneous other by \$4,664. The City will monitor budget schedules for overspending and supplement the budget as allowed to avoid overspending in the future.



Supplementary Information
December 31, 2017 and 2016
City of Groton

City of Groton
Schedule of Changes in Notes and Bonds Payable
Years Ended December 31, 2017 and 2016

Notes and Bonds Payable	Notes and Bonds Payable 1/1/2017	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/2017
Governmental Long-Term Debt				
231.02 Revenue Bonds				
RR Crossing Sewer CWSRF 8	\$ 93,487	\$ -	\$ 15,405	\$ 78,082
West Creek Sewer CWSRF 9	156,197	-	24,595	131,602
Sales Tax Revenue Bonds, Series 2015A and 2015B	<u>2,775,000</u>	<u>-</u>	<u>115,000</u>	<u>2,660,000</u>
Total governmental long-term debt	<u>\$ 3,024,684</u>	<u>\$ -</u>	<u>\$ 155,000</u>	<u>\$ 2,869,684</u>
Enterprise Long-Term Debt				
231.02 Revenue Bonds				
Lagoon CWSRF 3	\$ 72,488	\$ -	\$ 26,301	\$ 46,187
Total enterprise long-term debt	<u>\$ 72,488</u>	<u>\$ -</u>	<u>\$ 26,301</u>	<u>\$ 46,187</u>
Notes and Bonds Payable	Notes and Bonds Payable 1/1/2016	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/2016
Governmental Long-Term Debt				
231.02 Revenue Bonds				
RR Crossing Sewer CWSRF 8	\$ 108,550	\$ -	\$ 15,063	\$ 93,487
West Creek Sewer CWSRF 9	180,246	-	24,049	156,197
231.03 Special Assessment Bonds 2006 Curb and Gutter	15,798	-	15,798	-
Sales Tax Revenue Bonds, Series 2015A and 2015B	<u>2,890,001</u>	<u>-</u>	<u>115,001</u>	<u>2,775,000</u>
Total governmental long-term debt	<u>\$ 3,194,595</u>	<u>\$ -</u>	<u>\$ 169,911</u>	<u>\$ 3,024,684</u>
Enterprise Long-Term Debt				
231.02 Revenue bonds				
Lagoon CWSRF 3	\$ 105,993	\$ -	\$ 33,505	\$ 72,488
Total enterprise long-term debt	<u>\$ 105,993</u>	<u>\$ -</u>	<u>\$ 33,505</u>	<u>\$ 72,488</u>

City of Groton
Schedules of Net Pension Liability (Asset) and Contributions
December 31, 2017 and 2016

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	6/30/2014	0.0456%	\$ (328,834)	\$ 704,870	-46.7%	107.3%
SDRS	6/30/2015	0.0451%	(191,414)	745,526	-25.7%	104.1%
SDRS	6/30/2016	0.0435%	147,026	746,944	19.7%	96.89%
SDRS	6/30/2017	0.0424%	(3,848)	784,220	-0.5%	100.1%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2014	\$ 48,708	\$ 48,708	\$ -	\$ 732,653	6.6%
SDRS	12/31/2015	51,174	51,174	-	770,440	6.6%
SDRS	12/31/2016	49,717	49,717	-	748,916	6.6%
SDRS	12/31/2017	51,442	51,442	-	773,494	6.7%

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

City of Groton
 Budgetary Comparison Schedules—General Fund
 Year Ended December 31, 2017

	2017			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 662,650	\$ 662,650	\$ 657,759	\$ (4,891)
313 General sales and use taxes	510,000	510,000	592,748	82,748
319 Penalties and interest on delinquent taxes	1,000	1,000	1,621	621
Total taxes	<u>1,173,650</u>	<u>1,173,650</u>	<u>1,252,128</u>	<u>78,478</u>
320 Licenses and permits	<u>11,280</u>	<u>11,280</u>	<u>11,476</u>	<u>196</u>
330 Intergovernmental revenue				
334 State grants	144,500	174,032	52,207	(121,825)
335 State shared revenue				
335.01 Bank franchise tax	2,400	2,400	8,203	5,803
335.02 Motor vehicle commercial prorated	3,200	3,200	3,203	3
335.03 Liquor tax reversion	9,000	9,000	9,052	52
335.04 Motor vehicle licenses (5%)	2,200	2,200	22,137	19,937
335.08 Local government highway and bridge fund	12,000	12,000	30,267	18,267
338 County shared revenue				
338.01 County road tax (25%)	-	-	3,556	3,556
338.02 County road and bridge tax (25%)	14,000	14,000	-	(14,000)
338.03 County wheel tax	1,100	1,100	1,054	(46)
Total intergovernmental revenue	<u>188,400</u>	<u>217,932</u>	<u>129,679</u>	<u>(88,253)</u>
340 Charges for good and services				
341 General government	1,100	1,100	1,301	201
342 Public safety	1,180	1,180	4,600	3,420
343 Highways and streets	6,100	6,100	14,697	8,597
344 Sanitation	100	100	744	644
345 Health	20	20	-	(20)
346 Culture and recreation	64,860	64,860	91,767	26,907
348 Cemetery	2,010	2,010	23,348	21,338
Total charges for goods and services	<u>75,370</u>	<u>75,370</u>	<u>136,457</u>	<u>61,087</u>
350 Fines and forfeits				
351 Court fines and costs	30	30	33	3
352 Animal control fines	1,000	1,000	338	(662)
353 Parking fines	260	260	-	(260)
354 Library	30	30	27	(3)
359 Other	-	-	520	520
Total fines and forfeits	<u>1,320</u>	<u>1,320</u>	<u>918</u>	<u>(402)</u>
360 Miscellaneous revenue				
361 Investment earnings	20	20	1,212	1,192
367 Contributions and donations from private sources	36,200	41,200	51,237	10,037
368 Liquor operating agreement income	11,500	11,500	16,815	5,315
369 Other	2,600	2,600	6,336	3,736
Total miscellaneous revenue	<u>50,320</u>	<u>55,320</u>	<u>75,600</u>	<u>20,280</u>
Total revenues	<u>1,500,340</u>	<u>1,534,872</u>	<u>1,606,258</u>	<u>71,386</u>

City of Groton
 Budgetary Comparison Schedules—General Fund
 Year Ended December 31, 2017

	2017			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Expenditures				
410 General government				
411 Legislative	12,310	13,310	24,673	(11,363)
411.5 Contingency	85,000	85,000		
amount transferred	-	(48,395)	-	36,605
412 Executive	6,670	8,670	8,459	211
413 Elections	810	810	803	7
414 Financial administration	302,050	305,050	297,307	7,743
419 Other	23,480	23,480	20,983	2,497
Total general government	<u>430,320</u>	<u>387,925</u>	<u>352,225</u>	<u>35,700</u>
420 Public safety				
421 Police	370,690	407,222	421,174	(13,952)
429 Other protection	1,500	1,500	-	1,500
Total public safety	<u>372,190</u>	<u>408,722</u>	<u>421,174</u>	<u>(12,452)</u>
430 Public works				
431 Highways and streets	452,060	464,810	328,840	135,970
432 Sanitation	8,000	8,000	-	8,000
437 Cemeteries	22,520	22,520	34,009	(11,489)
439 Transit	2,000	2,000	1,776	224
Total public works	<u>484,580</u>	<u>497,330</u>	<u>364,625</u>	<u>132,705</u>
440 Health and Welfare:				
441 Health	9,580	9,580	5,347	4,233
Total health and welfare	<u>9,580</u>	<u>9,580</u>	<u>5,347</u>	<u>4,233</u>
450 Culture and recreation				
451 Recreation	188,870	219,195	256,255	(37,060)
452 Parks	11,340	11,340	6,123	5,217
455 Libraries	5,330	5,330	884	4,446
456 Auditorium	5,540	7,540	6,914	626
Total culture and recreation	<u>211,080</u>	<u>243,405</u>	<u>270,176</u>	<u>(26,771)</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	2,610	2,740	714	2,026
Total conservation and development	<u>2,610</u>	<u>2,740</u>	<u>714</u>	<u>2,026</u>
490 Miscellaneous				
492 Other expenditures	2,000	2,000	6,664	(4,664)
493 Liquor operating agreements	30	30	15	15
Total miscellaneous	<u>2,030</u>	<u>2,030</u>	<u>6,679</u>	<u>(4,649)</u>
Total expenditures	<u>1,512,390</u>	<u>1,551,732</u>	<u>1,420,940</u>	<u>130,792</u>
Other Financing Sources (Uses)				
391.01 Transfers in	205,000	205,000	425,000	220,000
511 Transfers out	(250,100)	(250,100)	(250,100)	-
391.03 Sale of municipal property	-	-	7,147	7,147
391.04 Compensation for loss/damage to capital assets	-	-	9,739	9,739
Total other financing sources (uses)	<u>(45,100)</u>	<u>(45,100)</u>	<u>191,786</u>	<u>236,886</u>
Excess of Revenue over (under) Expenditures	(57,150)	(61,960)	377,104	439,064
Fund Balance - Beginning	28,720	28,720	28,720	-
Fund Balance - Ending	<u>\$ (28,430)</u>	<u>\$ (33,240)</u>	<u>\$ 405,824</u>	<u>\$ 439,064</u>

City of Groton
 Budgetary Comparison Schedules—General Fund
 Year Ended December 31, 2016

	2016			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 634,400	\$ 634,400	\$ 648,477	\$ 14,077
313 General sales and use taxes	500,000	500,000	481,595	(18,405)
319 Penalties and interest on delinquent taxes	1,000	1,000	1,342	342
Total taxes	<u>1,135,400</u>	<u>1,135,400</u>	<u>1,131,414</u>	<u>(3,986)</u>
320 Licenses and permits	<u>11,000</u>	<u>11,000</u>	<u>11,489</u>	<u>489</u>
330 Intergovernmental revenue				
331 Federal grants	2,000	2,000	-	(2,000)
334 State grants	139,500	139,500	19,726	(119,774)
335 State shared revenue				
335.01 Bank franchise tax	2,200	2,200	2,534	334
335.02 Motor vehicle commercial prorated	3,200	3,200	3,322	122
335.03 Liquor tax reversion	8,500	8,500	9,512	1,012
335.04 Motor vehicle licenses (5%)	18,000	18,000	22,008	4,008
335.08 Local government highway and bridge fund	28,000	28,000	20,573	(7,427)
335.20 Other	-	-	4,215	4,215
338 County shared revenue				
338.02 County road and bridge tax (25%)	-	-	13,150	13,150
338.03 County wheel tax	1,100	1,100	1,060	(40)
Total intergovernmental revenue	<u>202,500</u>	<u>202,500</u>	<u>96,100</u>	<u>(106,400)</u>
340 Charges for good and services				
341 General government	920	920	780	(140)
342 Public safety	980	980	1,776	796
343 Highways and streets	6,100	6,100	1,247	(4,853)
344 Sanitation	100	100	-	(100)
345 Health	10	10	-	(10)
346 Culture and recreation	57,390	57,390	69,242	11,852
348 Cemetery	2,200	2,200	1,945	(255)
Total charges for goods and services	<u>67,700</u>	<u>67,700</u>	<u>74,990</u>	<u>7,290</u>
350 Fines and forfeits				
351 Court fines and costs	50	50	12	(38)
352 Animal control fines	400	400	1,093	693
353 Parking fines	60	60	-	(60)
354 Library	40	40	34	(6)
359 Other	-	-	695	695
Total fines and forfeits	<u>550</u>	<u>550</u>	<u>1,834</u>	<u>1,284</u>
360 Miscellaneous revenue				
361 Investment earnings	500	500	587	87
367 Contributions and donations from private sources	14,170	14,170	18,714	4,544
368 Liquor operating agreement income	11,850	11,850	17,945	6,095
369 Other	2,000	2,000	483	(1,517)
Total miscellaneous revenue	<u>28,520</u>	<u>28,520</u>	<u>37,729</u>	<u>9,209</u>
Total revenues	<u>1,445,670</u>	<u>1,445,670</u>	<u>1,353,556</u>	<u>(92,114)</u>

City of Groton
 Budgetary Comparison Schedules—General Fund
 Year Ended December 31, 2016

	2016			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	12,890	12,890	11,070	1,820
411.5 Contingency	120,000	120,000		
amount transferred	-	(56,130)	-	63,870
412 Executive	7,000	7,000	5,398	1,602
413 Elections	810	810	26	784
414 Financial administration	311,580	314,580	296,158	18,422
419 Other	20,980	20,980	10,675	10,305
Total general government	<u>473,260</u>	<u>420,130</u>	<u>323,327</u>	<u>96,803</u>
420 Public safety				
421 Police	382,450	390,350	349,583	40,767
429 Other protection	1,500	1,500	-	1,500
Total public safety	<u>383,950</u>	<u>391,850</u>	<u>349,583</u>	<u>42,267</u>
430 Public works				
431 Highways and streets	393,580	403,210	276,927	126,283
432 Sanitation	8,000	8,000	-	8,000
437 Cemeteries	14,450	14,450	11,948	2,502
439 Transit	1,600	2,100	2,001	99
Total public works	<u>417,630</u>	<u>427,760</u>	<u>290,876</u>	<u>136,884</u>
440 Health and welfare				
441 Health	10,530	10,530	4,568	5,962
Total health and welfare	<u>10,530</u>	<u>10,530</u>	<u>4,568</u>	<u>5,962</u>
450 Culture and recreation				
451 Recreation	144,000	157,890	133,808	24,082
452 Parks	10,850	13,040	5,814	7,226
455 Libraries	5,370	5,370	4,122	1,248
456 Auditorium	2,940	3,890	3,804	86
Total culture and recreation	<u>163,160</u>	<u>180,190</u>	<u>147,548</u>	<u>32,642</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	1,970	2,020	922	1,098
Total conservation and development	<u>1,970</u>	<u>2,020</u>	<u>922</u>	<u>1,098</u>
470 Debt service	172,300	190,300	-	190,300
490 Miscellaneous				
492 Other expenditures	1,300	1,300	1,104	196
493 Liquor operating agreements	80	100	14	86
Total miscellaneous	<u>1,380</u>	<u>1,400</u>	<u>1,118</u>	<u>282</u>
Total expenditures	<u>1,624,180</u>	<u>1,624,180</u>	<u>1,117,942</u>	<u>506,238</u>
Other Financing Sources (Uses)				
391.01 Transfers in	338,510	338,510	-	(338,510)
511 Transfers out	(172,300)	(172,300)	(482,009)	(309,709)
Total other financing sources (uses)	<u>166,210</u>	<u>166,210</u>	<u>(482,009)</u>	<u>(648,219)</u>
Excess of Revenue under Expenditures	(12,300)	(12,300)	(246,395)	(234,095)
Fund Balance - Beginning	275,115	275,115	275,115	-
Fund Balance - Ending	<u>\$ 262,815</u>	<u>\$ 262,815</u>	<u>\$ 28,720</u>	<u>\$ (234,095)</u>

City of Groton
 Budgetary Comparison Schedules—3rd Penny Sales Tax Fund
 Year Ended December 31, 2017

	2017			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 24,000	\$ 24,000	\$ 22,924	\$ (1,076)
Total taxes	24,000	24,000	22,924	(1,076)
360 Miscellaneous revenue				
369 Other	-	-	79	79
Total miscellaneous revenue	-	-	79	79
Total revenue	24,000	24,000	23,003	(997)
Expenditures				
450 Culture and recreation				
451 Recreation	23,690	23,690	23,683	7
Total expenditures	23,690	23,690	23,683	7
Excess of Revenue over (under) Expenditures	310	310	(680)	(990)
Fund Balance - Beginning	6,410	6,410	6,410	-
Fund Balance - Ending	\$ 6,720	\$ 6,720	\$ 5,730	\$ (990)

City of Groton
 Budgetary Comparison Schedules—3rd Penny Sales Tax Fund
 Year Ended December 31, 2016

	2016			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 22,000	\$ 22,000	\$ 25,793	\$ 3,793
Total taxes	22,000	22,000	25,793	3,793
360 Miscellaneous revenue				
361 Investment earnings	-	-	1	1
Total miscellaneous revenue	-	-	1	1
Total revenue	22,000	22,000	25,794	3,794
Expenditures				
450 Culture and recreation				
451 Recreation	23,690	23,690	21,303	2,387
Total expenditures	23,690	23,690	21,303	2,387
Excess of Revenue over (under) Expenditures	(1,690)	(1,690)	4,491	6,181
Fund Balance - Beginning	1,919	1,919	1,919	-
Fund Balance - Ending	\$ 229	\$ 229	\$ 6,410	\$ 6,181

City of Groton
 Budgetary Comparison Schedules—Airport Fund
 Year Ended December 31, 2017

	2017			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
362 Rentals	\$ 22,250	\$ 22,250	\$ 21,525	\$ (725)
369 Other	-	-	147	147
Total miscellaneous revenue	<u>22,250</u>	<u>22,250</u>	<u>21,672</u>	<u>(578)</u>
Total revenue	<u>22,250</u>	<u>22,250</u>	<u>21,672</u>	<u>(578)</u>
Expenditures				
430 Public works				
435 Airport	<u>36,320</u>	<u>36,320</u>	<u>28,106</u>	<u>8,214</u>
Total expenditures	<u>36,320</u>	<u>36,320</u>	<u>28,106</u>	<u>8,214</u>
Excess of Revenue over (under) Expenditures	(14,070)	(14,070)	(6,434)	7,636
Fund Balance - Beginning	<u>17,086</u>	<u>17,086</u>	<u>17,086</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ 3,016</u></u>	<u><u>\$ 3,016</u></u>	<u><u>\$ 10,652</u></u>	<u><u>\$ 7,636</u></u>

City of Groton
 Budgetary Comparison Schedules– Airport Fund
 Year Ended December 31, 2016

	2016			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
340 Charges for goods and services				
344 Sanitation	\$ -	\$ -	\$ 295	\$ 295
360 Miscellaneous revenue				
361 Investment earnings	-	-	5	5
362 Rentals	24,190	25,820	21,525	(4,295)
Total miscellaneous revenue	24,190	25,820	21,825	(3,995)
Total revenue	24,190	25,820	21,825	(3,995)
Expenditures				
430 Public works				
435 Airport	34,350	34,350	31,862	2,488
Total expenditures	34,350	34,350	31,862	2,488
Excess of Revenue under Expenditures	(10,160)	(8,530)	(10,037)	(1,507)
Fund Balance - Beginning	27,123	27,123	27,123	-
Fund Balance - Ending	\$ 16,963	\$ 18,593	\$ 17,086	\$ (1,507)

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, 2017 or 2016.

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 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 - Pension Schedules

There are no factors that affect trends in the amounts reported, such as change of benefit terms and assumptions. With only four years reported in the supplementary information, there is no additional information to include in notes. Details, if necessary, can be obtained from the SDRS audited financial statements.



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 Groton
Groton, 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, each major fund, and the aggregate remaining fund information of the City of Groton as of December 31, 2017, and for each of the years in the two year period then ended, which collectively comprise the City’s basic financial statements and have issued our report thereon dated March 6, 2019. 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’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 as 2017-A, 2016-A, 2017-B, and 2016-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. We consider the deficiency described in the accompanying schedule of findings as 2017-C, 2016-C, 2017-D and 2016-D to be significant deficiencies.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as items 2017-C, 2016-C, 2017-D and 2016-D.

City of Groton's Response to Findings

The City's response to the findings identified in our audit is 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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.

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

Aberdeen, South Dakota
March 6, 2019

Section II – Findings Related to the Financial Statements

Finding 2017-A and 2016-A - Financial Statements and Footnotes are Prepared by the Auditor

Material Weakness

Criteria: The City’s internal control structure should provide for the preparation of the financial statements and footnotes 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 including required footnotes and disclosures. During the course of our engagement, we were requested to draft the financial statements and accompanying notes to those financial statements.

Cause: The City does not have adequate staff trained to prepare financial statements and the related footnotes.

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.

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.

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-B and 2016-B – Lack of Timely Reconciliations Resulting in Material Audit Adjustments

Material Weakness

Criteria: The City’s internal control structure should provide for timely reconciliation of accounts in accordance with the modified cash basis of accounting.

Condition: The City did not provide timely reconciliations for cash and equity accounts resulting in material audit adjustments.

Cause: The City does not have adequate staff trained to prepare timely reconciliations.

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.

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

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-C and 2016-C – Non-Compliance with Continuing Disclosure Reporting Requirements for Bonds

Significant Deficiency and Non-Compliance

Criteria: The City of Groton’s internal control structure should be designed to provide monitoring that continuing disclosure requirements related to the Sales Tax Revenue Bonds are completed as required.

Condition: The City does not have an internal control system designed to monitor the requirements.

Cause: The City was not aware of the continuing disclosure requirements as required under the bond documents.

Effect: The City has not completed the required reporting as required by the bond documents, which causes noncompliance under that bond agreement.

Recommendation: We recommend management consults with an outside agency to assist the City in determining the required reporting to become in compliance with the continuing disclosure requirement and file all reports which would have previously been required under the bond document.

Views of Responsible Officials: Management agrees with the finding.

Finding 2017-D and 2016-D – Non-Compliance with South Dakota Codified Laws

Significant Deficiency and Non-Compliance

Criteria: The City’s control structure should be such to ensure compliance with South Dakota Codified Law (SDCL) for municipal finances. The SDCL sections listed in the condition section provide the areas in which we noted absence of controls with these SDCLs.

Condition: During testing, the following noncompliance was noted with SDCLs:

- During 2017 and 2016, not all transfers were approved by the City Council prior to being made as required under SDCL 9-21-26.1.
- For 2016, the total amount budgeted for in the general fund contingency line was above the amounts allowed under SDCL 9-21-6.1.
- For 2017, the total amount of expenditures budgeted for in the general fund was in excess of the total means to finance including the amount of carryover fund balance which resulted in budgeting for a deficit in the general fund.
- During 2017, the City overspent multiple department lines in the general fund budget, but they did not overspent the overall budget. SDCL 9-21-9 through 9-21-9.2, 9-21-10 and 9-21-15 provides the criteria requiring the City to refrain from spending in excess of the amount appropriated for any purpose or department each fiscal year.

Cause: A lack of oversight in the control processes, limited staff size, and general unfamiliarity with the applicable SDCLs relating to the above findings could result in the City not being compliant with those applicable SDCLs.

Effect: These conditions affect the City’s ability to be compliant with SDCLs applicable to municipalities and expenditures may exceed that of approved appropriations which could cause deficit fund balances.

Recommendation: We recommend the City officials review the applicable SDCLs applicable to municipalities to become familiar with the statutory requirements and implement necessary controls and processes to ensure the compliance with those such laws.

Views of Responsible Officials: Management agrees with the finding.