



Financial Statements
December 31, 2022
City of Groton

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Independent Auditor's Report

To the City Council
City of Groton
Groton, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groton (the City) as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

Basis for Opinions

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

Emphasis of Matter – Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and employer's contribution, budgetary comparison schedules, and schedule of changes in notes and bonds payable (collectively the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 2024, 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'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.

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

Aberdeen, South Dakota
July 24, 2024

City of Groton
Statement of Net Position—Modified Cash Basis
December 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 861,340	\$ 4,278,205	\$ 5,139,545
Restricted assets:			
Cash and cash equivalents	188,044	-	188,044
	<u>\$ 1,049,384</u>	<u>\$ 4,278,205</u>	<u>\$ 5,327,589</u>
Net Position			
Restricted for:			
Cemetery perpetual care - nonexpendable	\$ 35,242	\$ -	\$ 35,242
Promotion	155,167	-	155,167
Unrestricted	858,975	4,278,205	5,137,180
	<u>\$ 1,049,384</u>	<u>\$ 4,278,205</u>	<u>\$ 5,327,589</u>

City of Groton
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2022

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants, Contributions, and Loan Proceeds	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities:							
General government	\$ 380,736	\$ 42,542	\$ -	\$ -	\$ (338,194)	\$ -	\$ (338,194)
Public safety	401,979	2,229	-	34,118	(365,632)	-	(365,632)
Public works	468,905	9,663	63,180	150,185	(245,877)	-	(245,877)
Health and welfare	5,226	-	-	-	(5,226)	-	(5,226)
Culture and recreation	442,728	112,925	-	-	(329,803)	-	(329,803)
Conservation and development	13,520	-	-	-	(13,520)	-	(13,520)
Debt service	244,209	-	-	41,159	(203,050)	-	(203,050)
Total governmental activities	<u>1,957,303</u>	<u>167,359</u>	<u>63,180</u>	<u>225,462</u>	<u>(1,501,302)</u>	<u>-</u>	<u>(1,501,302)</u>
Business-type activities:							
Water Fund	1,717,009	564,141	-	1,333,889	-	181,021	181,021
Sewer Fund	180,593	210,348	-	-	-	29,755	29,755
Electric Fund	1,484,121	1,756,080	-	-	-	271,959	271,959
Solid Waste Fund	113,560	132,153	-	-	-	18,593	18,593
Total business-type activities	<u>3,495,283</u>	<u>2,662,722</u>	<u>-</u>	<u>1,333,889</u>	<u>-</u>	<u>501,328</u>	<u>501,328</u>
Total primary government	<u>\$ 5,452,586</u>	<u>\$ 2,830,081</u>	<u>\$ 63,180</u>	<u>\$ 1,559,351</u>	<u>(1,501,302)</u>	<u>501,328</u>	<u>(999,974)</u>
General Revenues							
Taxes:							
Property taxes					744,845	-	744,845
Sales taxes					834,268	-	834,268
Penalties and interest on delinquent taxes					4,305	-	4,305
State shared revenues					48,459	-	48,459
Unrestricted investment earnings					19,628	-	19,628
Miscellaneous revenue					26,675	-	26,675
Total general revenues					<u>1,678,180</u>	<u>-</u>	<u>1,678,180</u>
Change in Net Position					176,878	501,328	678,206
Net Position - Beginning					<u>872,506</u>	<u>3,776,877</u>	<u>4,649,383</u>
Net Position - Ending					<u>\$ 1,049,384</u>	<u>\$ 4,278,205</u>	<u>\$ 5,327,589</u>

City of Groton
Balance Sheet—Modified Cash Basis—Governmental Funds
December 31, 2022

	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 858,975	\$ -	\$ -	\$ -	\$ 2,365	\$ 861,340
Restricted cash and cash equivalents	-	155,167	-	-	32,877	188,044
Due from Funds	260,271	-	-	-	-	260,271
	<u>\$ 1,119,246</u>	<u>\$ 155,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,242</u>	<u>\$ 1,309,655</u>
Liabilities						
Due to General Fund	\$ -	\$ -	\$ 40,155	\$ 220,116	\$ -	\$ 260,271
Total liabilities	-	-	40,155	220,116	-	260,271
Fund Balances						
263 Nonspendable						
Cemetery perpetual care	-	-	-	-	35,242	35,242
264 Restricted for						
Promotion	-	155,167	-	-	-	155,167
267 Unassigned	1,119,246	-	(40,155)	(220,116)	-	858,975
Total fund balance	<u>1,119,246</u>	<u>155,167</u>	<u>(40,155)</u>	<u>(220,116)</u>	<u>35,242</u>	<u>1,049,384</u>
	<u>\$ 1,119,246</u>	<u>\$ 155,167</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,242</u>	<u>\$ 1,309,655</u>

City of Groton

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

	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Revenues						
310 Taxes						
311 General property taxes	\$ 744,845	\$ -	\$ -	\$ -	\$ -	\$ 744,845
313 General sales and use taxes	803,520	30,748	-	-	-	834,268
319 Penalties and interest on delinquent taxes	4,305	-	-	-	-	4,305
Total taxes	<u>1,552,670</u>	<u>30,748</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,583,418</u>
320 Licenses and permits	<u>23,138</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,138</u>
330 Intergovernmental revenue						
334 State grants	150,185	-	-	-	-	150,185
335 State shared revenue						
335.01 Bank franchise tax	38,789	-	-	-	-	38,789
335.02 Motor vehicle commercial prorated	3,670	-	-	-	-	3,670
335.03 Liquor tax reversion	9,670	-	-	-	-	9,670
335.04 Motor vehicle licenses (5%)	22,879	-	-	-	-	22,879
335.08 Local government highway and bridge fund	34,680	-	-	-	-	34,680
338 County shared revenue						
338.01 County road tax (25%)	889	-	-	-	-	889
338.03 County wheel tax	1,062	-	-	-	-	1,062
Total intergovernmental revenue	<u>261,824</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>261,824</u>
340 Charges for goods and services						
341 General government	1,584	-	-	-	-	1,584
342 Public safety	1,191	-	-	-	-	1,191
343 Highways and streets	6,313	-	-	-	-	6,313
346 Culture and recreation	112,925	-	-	-	-	112,925
348 Cemetery	3,350	-	-	-	-	3,350
Total charges for good and services	<u>125,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>125,363</u>
350 Fines and forfeits						
352 Animal control fines	1,038	-	-	-	-	1,038
Total fines and forfeits	<u>1,038</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,038</u>
360 Miscellaneous revenue						
361 Investment earnings	19,628	-	-	-	-	19,628
362 Rentals	-	-	17,820	-	-	17,820
363 Special assessments	-	-	-	41,159	-	41,159
367 Contributions and donations from private sources	34,118	-	-	-	-	34,118
368 Liquor operating agreement income	11,121	-	-	-	-	11,121
369 Other	-	-	15,554	-	-	15,554
Total miscellaneous revenue	<u>64,867</u>	<u>-</u>	<u>33,374</u>	<u>41,159</u>	<u>-</u>	<u>139,400</u>
Total revenues	<u>2,028,900</u>	<u>30,748</u>	<u>33,374</u>	<u>41,159</u>	<u>-</u>	<u>2,134,181</u>

City of Groton

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

	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	26,077	-	-	-	-	26,077
412 Executive	9,067	-	-	-	-	9,067
413 Elections	593	-	-	-	-	593
414 Financial administration	322,062	-	-	-	-	322,062
419 Other	22,937	-	-	-	-	22,937
Total general government	<u>380,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>380,736</u>
420 Public safety						
421 Police	401,757	-	-	-	-	401,757
429 Other protection	222	-	-	-	-	222
Total public safety	<u>401,979</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>401,979</u>
430 Public works						
431 Highways and streets	399,549	-	-	-	-	399,549
432 Sanitation	737	-	-	-	-	737
435 Airport	-	-	52,868	-	-	52,868
437 Cemeteries	13,251	-	-	-	-	13,251
439 Transit	2,500	-	-	-	-	2,500
Total public works	<u>416,037</u>	<u>-</u>	<u>52,868</u>	<u>-</u>	<u>-</u>	<u>468,905</u>
440 Health and welfare						
441 Health	5,226	-	-	-	-	5,226
Total health and welfare	<u>5,226</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,226</u>
450 Culture and recreation						
451 Recreation	418,133	-	-	-	-	418,133
452 Parks	11,586	-	-	-	-	11,586
455 Libraries	9,334	-	-	-	-	9,334
456 Auditorium	3,675	-	-	-	-	3,675
Total culture and recreation	<u>442,728</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>442,728</u>
460 Conservation and development						
465 Economic development and assistance (industrial development)	13,520	-	-	-	-	13,520
Total conservation and development	<u>13,520</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,520</u>
470 Debt service	-	-	-	244,209	-	244,209
Total expenditures	<u>1,660,226</u>	<u>-</u>	<u>52,868</u>	<u>244,209</u>	<u>-</u>	<u>1,957,303</u>
Excess (Deficiency) of revenue over expenditures	<u>368,674</u>	<u>30,748</u>	<u>(19,494)</u>	<u>(203,050)</u>	<u>-</u>	<u>176,878</u>
Other Financing Sources (Uses)						
391.01 Transfers in	-	-	-	237,500	-	237,500
511 Transfers out	(237,500)	-	-	-	-	(237,500)
Total other financing sources	<u>(237,500)</u>	<u>-</u>	<u>-</u>	<u>237,500</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	131,174	30,748	(19,494)	34,450	-	176,878
Fund Balance - Beginning	988,072	124,419	(20,661)	(254,566)	35,242	872,506
Fund Balance - Ending	<u>\$ 1,119,246</u>	<u>\$ 155,167</u>	<u>\$ (40,155)</u>	<u>\$ (220,116)</u>	<u>\$ 35,242</u>	<u>\$ 1,049,384</u>

City of Groton
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2022

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Assets					
Current Assets					
Cash and cash equivalents	\$ 858,387	\$ 323,301	\$ 3,035,318	\$ 61,199	\$ 4,278,205
Total current assets	<u>858,387</u>	<u>323,301</u>	<u>3,035,318</u>	<u>61,199</u>	<u>4,278,205</u>
	<u><u>\$ 858,387</u></u>	<u><u>\$ 323,301</u></u>	<u><u>\$ 3,035,318</u></u>	<u><u>\$ 61,199</u></u>	<u><u>\$ 4,278,205</u></u>
Net Position					
253.90 Unrestricted	\$ 858,387	\$ 323,301	\$ 3,035,318	\$ 61,199	\$ 4,278,205
Total net position	<u>858,387</u>	<u>323,301</u>	<u>3,035,318</u>	<u>61,199</u>	<u>4,278,205</u>
	<u><u>\$ 858,387</u></u>	<u><u>\$ 323,301</u></u>	<u><u>\$ 3,035,318</u></u>	<u><u>\$ 61,199</u></u>	<u><u>\$ 4,278,205</u></u>

City of Groton

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

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Operating Revenue					
370 Charges for goods and services	\$ 564,141	\$ 210,348	\$ 1,756,080	\$ 132,153	\$ 2,662,722
Total operating revenue	<u>564,141</u>	<u>210,348</u>	<u>1,756,080</u>	<u>132,153</u>	<u>2,662,722</u>
Operating Expenses					
410 Personal services	-	78,918	249,082	-	328,000
420 Other current expense	21,242	71,960	174,116	1,762	269,080
426.2 Materials	217,091	-	926,243	111,798	1,255,132
429 Other - refunded deposits	8,435	-	-	-	8,435
430 Capital assets	1,388,191	29,715	134,680	-	1,552,586
Total operating expenses	<u>1,634,959</u>	<u>180,593</u>	<u>1,484,121</u>	<u>113,560</u>	<u>3,413,233</u>
Operating Income (Loss)	<u>(1,070,818)</u>	<u>29,755</u>	<u>271,959</u>	<u>18,593</u>	<u>(750,511)</u>
Nonoperating Revenue (Expense)					
383 Grants	664,547	-	-	-	664,547
391.20 Long-term debt issued	669,342	-	-	-	669,342
440 Debt service principal	(9,350)	-	-	-	(9,350)
442 Interest expense	(72,700)	-	-	-	(72,700)
Total nonoperating revenue (expense)	<u>1,251,839</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,251,839</u>
Change in Net Position	181,021	29,755	271,959	18,593	501,328
Net Position - Beginning	<u>677,366</u>	<u>293,546</u>	<u>2,763,359</u>	<u>42,606</u>	<u>3,776,877</u>
Net Position - Ending	<u>\$ 858,387</u>	<u>\$ 323,301</u>	<u>\$ 3,035,318</u>	<u>\$ 61,199</u>	<u>\$ 4,278,205</u>

City of Groton
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2022

	Enterprise Funds				Totals
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	
Cash Flows from (used for) Operating Activities					
Receipts from customers	\$ 555,706	\$ 210,348	\$ 1,756,080	\$ 132,153	\$ 2,654,287
Payments to suppliers	(238,333)	(71,960)	(1,100,359)	(113,560)	(1,524,212)
Payments to employees	-	(78,918)	(249,082)	-	(328,000)
Net Cash from Operating Activities	<u>317,373</u>	<u>59,470</u>	<u>406,639</u>	<u>18,593</u>	<u>802,075</u>
Cash Flows from (used for) Capital and Related Financing Activities					
Proceeds from capital debt	664,547	-	-	-	664,547
Grants received for capital assets	669,342	-	-	-	669,342
Purchase of capital assets	(1,388,191)	(29,715)	(134,680)	-	(1,552,586)
Principal paid on capital debt	(9,350)	-	-	-	(9,350)
Interest paid on capital debt	(72,700)	-	-	-	(72,700)
Net Cash used for Capital and Related Financing activity	<u>(136,352)</u>	<u>(29,715)</u>	<u>(134,680)</u>	<u>-</u>	<u>(300,747)</u>
Net Change in Cash and Cash Equivalents	181,021	29,755	271,959	18,593	501,328
Cash and Cash Equivalents - Beginning	<u>677,366</u>	<u>293,546</u>	<u>2,763,359</u>	<u>42,606</u>	<u>3,776,877</u>
Cash and Cash Equivalents - Ending	<u>\$ 858,387</u>	<u>\$ 323,301</u>	<u>\$ 3,035,318</u>	<u>\$ 61,199</u>	<u>\$ 4,278,205</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	<u>\$ 858,387</u>	<u>\$ 323,301</u>	<u>\$ 3,035,318</u>	<u>\$ 61,199</u>	<u>\$ 4,278,205</u>
	<u>\$ 858,387</u>	<u>\$ 323,301</u>	<u>\$ 3,035,318</u>	<u>\$ 61,199</u>	<u>\$ 4,278,205</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ (1,070,818)	\$ 29,755	\$ 271,959	\$ 18,593	\$ (750,511)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Purchase of capital assets	<u>1,388,191</u>	<u>29,715</u>	<u>134,680</u>	<u>-</u>	<u>1,552,586</u>
Net Cash from Operating Activities	<u>\$ 317,373</u>	<u>\$ 59,470</u>	<u>\$ 406,639</u>	<u>\$ 18,593</u>	<u>\$ 802,075</u>

City of Groton
Statement of Fiduciary Net Position—Modified Cash Basis
December 31, 2022

	Family Crisis Fund
Private Purpose Trust:	
Assets:	
Cash	\$ 14,027
Total assets	\$ 14,027
Net Position	\$ 14,027

City of Groton
Statement of Changes in Fiduciary Net Position—Modified Cash Basis
December 31, 2022

	<u>Family Crisis Fund</u>
Private Purpose Trust:	
Additions:	
Contributions and donations	<u>\$ 7,632</u>
Total additions	<u> 7,632</u>
Deductions:	
Family needs	<u> 3,797</u>
Total deductions	<u> 3,797</u>
Change in Net Position	3,835
Net Position - Beginning	<u> 10,192</u>
Net Position - Ending	<u><u> \$ 14,027</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, the 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 involves modifications to the cash basis of accounting to report in the statement of net position or balance sheet cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash 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.

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 have interfund receivables and payables which required elimination as of December 31, 2022, between the General Fund, the Airport Fund and the Debt Service Fund.

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 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 spendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, 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 does not have a formal minimum fund balance policy.

Note 2 - Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022, the City 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, 2022, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	\$ 368,726
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	3,634,897
	\$ 4,003,623

The City's carrying amount of deposits at December 31, 2022	\$ 3,767,126
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Reconciliation of deposits to government-wide statement of net position:

Cash and cash equivalents	\$ 5,327,589
Add: Private Purpose Trust Fund (not included in government-wide statement of net position)	14,027
Less: SDFIT account included in cash and cash equivalents	(1,574,490)
	\$ 3,767,126

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 SDCL 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, 2022, 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, 2022, 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
3rd Penny Sales Tax Fund	State Law	\$ 155,167
Cemetary Perpetual Care Fund	State Law	35,242

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 year ended December 31, 2022, the City managed its risks as follows:

Employee Health Insurance

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

Liability Insurance

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

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

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

Workers' Compensation

The City joined the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any workers' compensation claims. The City pays an annual premium to provide workers' compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience-to-date of the fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to 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 year ended December 31, 2022, no claims for unemployment benefits were paid. At December 31, 2022, 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, hybrid defined-benefit plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 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, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. The City’s share of contributions made to the SDRS for the years ended December 31, 2022, 2021, and 2020, were \$57,631, \$51,894, and \$50,945, respectively, equal to the required contributions each year.

Pension Liability (Asset)

At June 30, 2022, SDRS is 100.10% 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, 2022, and reported by the City as of December 31, 2022, are as follows:

Proportionate share of pension liability	\$ 5,450,709
Less proportionate share of net position restricted for pension benefits	<u>5,454,358</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (3,649)</u></u>

At December 31, 2022, the City’s proportionate share is a liability (asset) of \$(3,649) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2022, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City’s proportion was 0.038612%, which is an increase of 0.0013060% from its proportion measured as of June 30, 2021. The City’s proportionate share net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2022, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Investment rate of return	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	2.10%

Mortality Rates

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

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

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

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

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

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

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

Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2022, (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	100.0%	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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)	\$ 757,697	\$ (3,649)	\$ (625,870)

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 - Beneficial Interest

The Groton Community Fund was established as an endowment at the Lutheran Community Foundation (the 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 approximately \$400,000 at December 31, 2022.

Note 9 - Commitments

In 2022, the City was approved for a Phase II Water Project to be funded with a state loan of \$1,326,000 and federal grants of \$931,294. The project was started in 2022 and will be completed in 2023.

Note 10 - Transfers

In 2022, the City transferred \$237,500 from the General Fund to the Debt Service Fund to provide for funding to make the required debt payment.

Note 11 - Deficit Fund Balances

In 2022, the City had a deficit fund balance in the Debt Service Fund and the Airport Fund. The deficit in the Debt Service Fund was resolved in 2023 with a transfer from the General Fund and the City will work to resolve the deficit fund balance in the Airport Fund in 2024.



Supplementary Information
December 31, 2022

City of Groton

City of Groton
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2022

<u>Notes and Bonds Payable</u>	<u>Notes and Bonds Payable 1/1/2022</u>	<u>Add New Debt</u>	<u>Less Debt Retired</u>	<u>Notes and Bonds Payable 12/31/2022</u>
Governmental Long-Term Debt				
231.02 Revenue Bonds				
RR Crossing Sewer CWSRF 8	\$ 12,889	\$ -	\$ 12,889	\$ -
West Creek Sewer CWSRF 9	28,435	-	28,435	-
 Sales Tax Revenue Bonds, Series 2015A and 2015B	 <u>2,180,000</u>	 <u>-</u>	 <u>125,000</u>	 <u>2,055,000</u>
 Total governmental long-term debt	 <u><u>\$ 2,221,324</u></u>	 <u><u>\$ -</u></u>	 <u><u>\$ 166,324</u></u>	 <u><u>\$ 2,055,000</u></u>
Enterprise Long-Term Debt				
231.02 Revenue Bonds				
Watertower Drinking Water #5	\$ 1,499,462	\$ 247,192	\$ 9,350	\$ 1,737,304
Watertower Drinking Water #6	-	422,150	-	422,150
 Total enterprise long-term debt	 <u><u>\$ 1,499,462</u></u>	 <u><u>\$ 669,342</u></u>	 <u><u>\$ 9,350</u></u>	 <u><u>\$ 2,159,454</u></u>

City of Groton
Schedules of Net Pension Liability (Asset) and Contributions
December 31, 2022

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2022	0.0386%	\$ (3,649)	\$ 821,465	-0.4%	100.10%
SDRS	6/30/2021	0.0373%	(285,700)	750,039	-38.1%	105.52%
SDRS	6/30/2020	0.0375%	(1,627)	731,672	-0.2%	100.04%
SDRS	6/30/2019	0.0396%	(4,201)	746,595	-0.6%	100.09%
SDRS	6/30/2018	0.0404%	(943)	754,418	-0.1%	100.02%
SDRS	6/30/2017	0.0424%	(3,848)	784,220	-0.5%	100.1%
SDRS	6/30/2016	0.0435%	147,026	746,944	19.7%	96.89%
SDRS	6/30/2015	0.0451%	(191,414)	745,526	-25.7%	104.1%
SDRS	6/30/2014	0.0456%	(328,834)	704,870	-46.7%	107.3%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2022	\$ 57,631	\$ 57,631	\$ -	\$ 859,915	6.7%
SDRS	12/31/2021	51,894	51,894	-	769,561	6.7%
SDRS	12/31/2020	50,945	50,945	-	757,123	6.7%
SDRS	12/31/2019	48,283	48,283	-	720,844	6.7%
SDRS	12/31/2018	50,674	50,674	-	755,559	6.7%
SDRS	12/31/2017	51,442	51,442	-	773,494	6.7%
SDRS	12/31/2016	49,717	49,717	-	748,916	6.6%
SDRS	12/31/2015	51,174	51,174	-	770,440	6.6%
SDRS	12/31/2014	48,708	48,708	-	732,653	6.6%

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

City of Groton
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	\$ 703,000	\$ 703,000	\$ 744,845	\$ 41,845
313 General sales and use taxes	600,000	600,000	803,520	203,520
319 Penalties and interest on delinquent taxes	500	500	4,305	3,805
Total taxes	<u>1,303,500</u>	<u>1,303,500</u>	<u>1,552,670</u>	<u>249,170</u>
320 Licenses and permits	<u>20,100</u>	<u>20,100</u>	<u>23,138</u>	<u>3,038</u>
330 Intergovernmental revenue				
334 State grants	5,000	5,000	150,185	145,185
335 State shared revenue				
335.01 Bank franchise tax	10,500	10,500	38,789	28,289
335.02 Motor vehicle commercial prorated	2,000	2,000	3,670	1,670
335.03 Liquor tax reversion	10,000	10,000	9,670	(330)
335.04 Motor vehicle licenses (5%)	20,000	20,000	22,879	2,879
335.08 Local government highway and bridge fund	35,000	35,000	34,680	(320)
338 County shared revenue				
338.01 County road tax (25%)	889	889	889	-
338.03 County wheel tax	900	900	1,062	162
Total intergovernmental revenue	<u>84,289</u>	<u>84,289</u>	<u>261,824</u>	<u>177,535</u>
340 Charges for good and services				
341 General government	1,480	1,480	1,584	104
342 Public safety	800	800	1,191	391
343 Highways and streets	1,000	1,000	6,313	5,313
346 Culture and recreation	137,225	137,225	112,925	(24,300)
348 Cemetery	1,700	1,700	3,350	1,650
Total charges for goods and services	<u>142,205</u>	<u>142,205</u>	<u>125,363</u>	<u>(16,842)</u>
350 Fines and forfeits				
352 Animal control fines	<u>300</u>	<u>300</u>	<u>1,038</u>	<u>738</u>
Total fines and forfeits	<u>300</u>	<u>300</u>	<u>1,038</u>	<u>738</u>
360 Miscellaneous revenue				
361 Investment earnings	-	-	19,628	19,628
367 Contributions and donations from private sources	1,000	1,000	34,118	33,118
368 Liquor operating agreement income	<u>14,900</u>	<u>14,900</u>	<u>11,121</u>	<u>(3,779)</u>
Total miscellaneous revenue	<u>15,900</u>	<u>15,900</u>	<u>64,867</u>	<u>48,967</u>
Total revenues	<u>1,566,294</u>	<u>1,566,294</u>	<u>2,028,900</u>	<u>462,606</u>

City of Groton
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	28,880	28,880	26,077	2,803
411.5 Contingency amount transferred	50,000	50,000	-	-
412 Executive	9,310	9,310	9,067	243
413 Elections	1,710	1,710	593	1,117
414 Financial administration	379,970	381,896	322,062	59,834
419 Other	37,900	37,900	22,937	14,963
Total general government	<u>507,770</u>	<u>459,696</u>	<u>380,736</u>	<u>78,960</u>
420 Public safety				
421 Police	399,340	399,340	401,757	(2,417)
429 Other protection	500	500	222	278
Total public safety	<u>399,840</u>	<u>399,840</u>	<u>401,979</u>	<u>(2,139)</u>
430 Public works				
431 Highways and streets	405,250	411,250	399,549	11,701
432 Sanitation	4,600	4,600	737	3,863
437 Cemeteries	13,100	13,300	13,251	49
439 Transit	2,500	2,500	2,500	-
Total public works	<u>425,450</u>	<u>431,650</u>	<u>416,037</u>	<u>15,613</u>
440 Health and Welfare				
441 Health	6,125	6,125	5,226	899
Total health and welfare	<u>6,125</u>	<u>6,125</u>	<u>5,226</u>	<u>899</u>
450 Culture and recreation				
451 Recreation	509,000	529,674	418,133	111,541
452 Parks	10,620	13,820	11,586	2,234
455 Libraries	12,000	12,000	9,334	2,666
456 Auditorium	4,500	4,500	3,675	825
Total culture and recreation	<u>536,120</u>	<u>559,994</u>	<u>442,728</u>	<u>117,266</u>
460 Conservation and development				
465 Economic development and assistance (industrial development)	14,470	14,470	13,520	950
Total conservation and development	<u>14,470</u>	<u>14,470</u>	<u>13,520</u>	<u>950</u>
490 Miscellaneous				
493 Liquor operating agreements	50	50	-	50
Total miscellaneous	<u>50</u>	<u>50</u>	<u>-</u>	<u>50</u>
Total expenditures	<u>1,889,825</u>	<u>1,871,825</u>	<u>1,660,226</u>	<u>211,599</u>

City of Groton
 Budgetary Comparison Schedule—General Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
511 Transfers out	-	-	(237,500)	(237,500)
Total other financing sources (uses)	-	-	(237,500)	(237,500)
Excess of Revenue over (under) Expenditures	(323,531)	(305,531)	131,174	436,705
Fund Balance - Beginning	988,072	988,072	988,072	-
Fund Balance - Ending	<u>\$ 664,541</u>	<u>\$ 682,541</u>	<u>\$ 1,119,246</u>	<u>\$ 436,705</u>

City of Groton
 Budgetary Comparison Schedule—3rd Penny Sales Tax Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	\$ 30,000	\$ 30,000	\$ 30,748	\$ 748
Total taxes	30,000	30,000	30,748	748
Total revenue	30,000	30,000	30,748	748
Expenditures				
Total expenditures	-	-	-	-
Excess of Revenue over Expenditures	30,000	30,000	30,748	748
Fund Balance - Beginning	124,419	124,419	124,419	-
Fund Balance - Ending	\$ 154,419	\$ 154,419	\$ 155,167	\$ 748

City of Groton
 Budgetary Comparison Schedule—Airport Fund
 Year Ended December 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
362 Rentals	\$ 16,000	\$ 16,000	\$ 17,820	\$ 1,820
369 Other	-	-	15,554	15,554
Total miscellaneous revenue	<u>16,000</u>	<u>16,000</u>	<u>33,374</u>	<u>17,374</u>
Total revenue	<u>16,000</u>	<u>16,000</u>	<u>33,374</u>	<u>17,374</u>
Expenditures				
430 Public works				
435 Airport	<u>35,400</u>	<u>53,400</u>	<u>52,868</u>	<u>532</u>
Total expenditures	<u>35,400</u>	<u>53,400</u>	<u>52,868</u>	<u>532</u>
Excess of Revenue over (under) Expenditures	(19,400)	(37,400)	(19,494)	17,906
Fund Balance - Beginning	<u>(20,661)</u>	<u>(20,661)</u>	<u>(20,661)</u>	<u>-</u>
Fund Balance - Ending	<u><u>\$ (40,061)</u></u>	<u><u>\$ (58,061)</u></u>	<u><u>\$ (40,155)</u></u>	<u><u>\$ 17,906</u></u>

Note 1 - Budgets and Budgetary Accounting

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

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

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

The City did not encumber any amounts at December 31, 2022.

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

Note 2 - Pension Schedules

Changes of Benefit Provision

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

Changes of Benefit Provision

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

Changes of Assumptions

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

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

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

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

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

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

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

Actuarial Method Changes

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



Federal Awards Reports in Accordance
with the Uniform Guidance
December 31, 2022
City of Groton

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* 1

Independent Auditor’s Report on Compliance for the Major Federal Programs; Report on Internal Control over Compliance; and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance 3

Schedule of Expenditures of Federal Awards 6

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Schedule of Findings and Questioned Costs 8



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

To the School Board
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 (*Government Auditing Standards*), 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 and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements and have issued our report thereon dated July 24, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Groton's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Groton’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Groton’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 that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2022-001 to be a significant deficiency.

Report on Compliance and Other Matters

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

City’s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Groton’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.



Aberdeen, South Dakota
July 24, 2024



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

To the School Board
City of Groton
Groton, South Dakota

Report on Compliance for the Major Federal Programs

Opinion on the Major Federal Programs

We have audited City of Groton’s compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the City of Groton’s major federal program for the year ended December 31, 2022. The City of Groton’s major federal program is identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on the Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2023-003 and 2023-004 to be significant deficiencies.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Groton as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the City of Groton's basic financial statements. We issued our report thereon dated July 24, 2024, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



Aberdeen, South Dakota
July 24, 2024

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Transportation (DOT)			
Passed through SD Department of the Transportation:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	2022-00-34	<u>\$ 10,495</u>
Total Department of Transportation			<u>10,495</u>
Department of Treasury			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds			
Passed through the SD Department of Agriculture and			
Natural Resources:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds:	21.027	2022-ARP-308	<u>664,547</u>
Total COVID-19 -Coronavirus State and Local Fiscal Recovery Funds			<u>931,294</u>
Total Department of Treasury			<u>931,294</u>
National Foundation on the Arts and the Humanities			
Passed through the SD Department of Education:			
COVID - 19 State Library Program (LSTA ARPAA State Grants)	45.310	2021G-881	<u>15,000</u>
Total Federal Financial Assistance			<u><u>\$ 956,789</u></u>

*** - Pass through number not provided to the City.

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the City of Groton under programs of the federal government for the year ended December 31, 2022. The information is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the City of Groton, it is not intended to and does not present the financial position, changes in net position or fund balance, or cash flows of the City of Groton.

Note 2 - Summary of Significant Accounting Policies

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

Note 3 - Indirect Cost Rate

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

Section I – Summary of Auditor’s Results

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516a:	Yes

Identification of major programs:

Name of Federal Program	Federal Financial Assistance Listing
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027
Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2022-001 – Lack of Reconciliations

Significant Deficiency

Criteria: The City of Groton’s (the City) internal control structure should provide for timely reconciliation of accounts in accordance with the modified cash basis of accounting and also provide for review of the reconciliation by someone after the reconciliation is prepared.

Condition: The City did not fully reconcile the reconciled bank balance to the adjusted trial balance at year’s end and did not have the reconciliation reviewed after completed.

Cause: The City did not have staff adequately trained to prepare 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 our recommendation that City employees are trained on how to complete the reconciliations in a timely manner and a review process is in place to ensure they are completed correctly.

Views of Responsible Officials: Management agrees with the finding.

Finding 2022-002 – Preparation of Financial Statements, Footnotes and Schedule of Expenditures of Federal Awards (SEFA) including Significant Audit Journal Entries

Criteria: The City of Groton’s (the City) internal control structure should be designed to provide for the preparation of the financial statements, footnotes, and the SEFA which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: The City has requested the external auditors to assist in the preparation of the financial statements and related footnotes along with assistance is preparing the SEFA for the year ended December 31, 2022. As part of audit procedures and preparation of the financial statements, we identified and proposed various audit adjustments, some of which were material, that were not identified by the City’s current internal controls.

Cause: The limited size of the City’s staff and resources causes the inability to prepare the financial statements, footnotes and SEFA and cause the need for auditors to, at times, propose journal entries.

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. It may also affect the condition of financial information throughout the year being used by management in analysis and decision making and increase the risk that potential misstatements remain present 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.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

**2022-003 U.S. Department of Treasury
Federal Financial Assistance Listing # 21.027 Award Years: 2021, 2022
Grant Award Number: Unknown
COVID–19 Coronavirus State and Local Fiscal Recovery Funds**

Procurement, Suspension and Debarment

Significant Deficiency in Internal Control over Compliance

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

Condition: In our testing of procurement, suspension, and debarment, it was noted that the City of Groton’s (the City) procurement policy followed state law which in some cases is less restrictive than federal law. We also noted that the policy does not include the required contract provisions that are needed in contracts with federal grants.

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

Effect: A lack of established controls increases the overall risk that employees are not aware of the specific requirements with contracting and awarding contracts when federal grants are involved.

Questioned Costs: None reported

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

Repeat Finding from Prior Year(s): No

Recommendation: We recommend that management review Uniform Guidance and 2 CFR sections 200.318 through 200.326 to ensure that all items identified are included in the procurement policy.

Views of Responsible Officials: Management agrees with the finding.

2022-004 **U.S. Department of Treasury**
Federal Financial Assistance Listing # 21.027 Award Years: 2021, 2022
Grant Award Number: Unknown
COVID-19 Coronavirus State and Local Fiscal Recovery Funds

Reporting

Significant Deficiency in Internal Control over Compliance

Criteria: Annual reports are required by Department of Treasury for all awards received directly from Treasury.

Condition: In our testing of reporting, there was no documented control in place to review reports prior to submission for reporting directly to Department of Treasury.

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

Effect: Inaccurate information could have been reported or lines with required information could have been missed.

Questioned Costs: None.

Context/Sampling: Annual report for 2022.

Repeat Finding from Prior Year(s): No

Recommendation: We recommend a documented review process be implemented prior to report submission to ensure all lines are properly entered and agree to the applicable backup.

Views of Responsible Officials: Management agrees with the finding.

CITY OF GROTON, SOUTH DAKOTA
209 N. Main Street | P.O. Box 587
Groton, South Dakota 57445

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

December 31, 2022

Prepared by Management of
City of Groton

CITY OF GROTON, SOUTH DAKOTA
209 N. Main Street | P.O. Box 587
Groton, South Dakota 57445

Summary Schedule of Prior Audit Findings

Financial Statement Finding

Finding 2021-001 – Financial Statements and Footnotes are Prepared by the Auditor

Initial Fiscal Year Finding Occurred: 2015

Finding Summary: Eide Bailly LLP prepared our draft financial statements and accompanying notes to the financial statements.

Status: Ongoing. Due to cost considerations, we will continue to have our auditors prepare our draft financial statements and accompanying notes to the financial statements.

Finding 2021-002 – Lack of Timely Reconciliations Resulting in Material Audit Adjustments

Initial Fiscal Year Finding Occurred: 2019

Finding Summary: We did not timely reconcile bank and equity accounts which resulted in material audit adjustments.

Status: Partially Resolved, Equity accounts were reconciled, and bank accounts were partially reconciled for 2022.

Corrective Action Plan

Finding 2022-001

Finding Summary: We did not fully reconcile the reconciled bank balance to the adjusted trial balance at year's end and did not have the reconciliation reviewed after completed.

Responsible Individuals: Douglas Heinrich, Finance Officer

Corrective Action Plan: Bank reconciliations will be fully reconciled to the trial balance and review will be completed by someone that is not completing the reconciliation.

Anticipated Completion Date: December 31, 2024

CITY OF GROTON, SOUTH DAKOTA

209 N. Main Street | P.O. Box 587

Groton, South Dakota 57445

Finding 2022-002

Finding Summary: We have requested the external auditors to assist in the preparation of the financial statements and related footnotes along with assistance is preparing the SEFA for the year. As part of audit procedures, the auditors identified and proposed various audit adjustments, some of which were material, that were not identified by our current internal controls.

Responsible Individuals: Douglas Heinrich, Finance Officer

Corrective Action Plan: It is not cost effective to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We requested that our auditors prepare the financial statements and the accompanying notes to the financial statements as a part of their annual audit. We have designated a member of management to review the drafted financial statements and accompanying notes, and we have reviewed with and agree with the material adjustments proposed during the audit.

Anticipated Completion Date: Ongoing.

Finding 2022-003

Finding Summary: In testing of procurement, suspension, and debarment, the auditors noted that the City's procurement policy followed state law which in some cases is less restrictive than federal law. They also noted that the policy does not include the required contract provisions that are needed in contracts with federal grants.

Responsible Individuals: Douglas Heinrich, Finance Officer

Corrective Action Plan: We will assess if we need to adopt a policy for procurement if we receive federal grants in the future. We will be aware of the contract requirements to ensure they are included in contracts which involve federal money.

Anticipated Completion Date: December 31, 2024

CITY OF GROTON, SOUTH DAKOTA

209 N. Main Street | P.O. Box 587

Groton, South Dakota 57445

Finding 2022-004

Finding Summary:

In our testing of reporting, we did not have a documented control in place to review reports prior to submission for reporting directly to Department of Treasury.

Responsible Individuals:

Douglas Heinrich, Finance Officer

Corrective Action Plan:

We will adopt controls to have a review process added before the required reports for federal programs are submitted to federal or state agencies.

Anticipated Completion Date: December 31, 2024