Financial Statements
December 31, 2019 and 2018

City of Groton

City of Groton
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Independent Auditor's Report

The City Council
City of Groton
Groton, South Dakota

Report on the Financial Statements
We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groton (the "City") as of December 31, 2019, and for each of the years in the two year period then ended and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

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

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

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Opinions
In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the respective financial position - modified cash basis - of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groton as of December 31, 2019, and the respective changes in financial position – modified cash basis and, where applicable, cash flows - modified cash basis thereof for each of the years in the two year period then ended in conformity with the basis of accounting described in Note 1.

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

Other Matters

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

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

Other Reporting Required by Government Auditing Standards
In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2021, on our consideration of the City of Groton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Groton's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
August 5, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 493,072	$ 2,223,577	$ 2,716,649
Restricted assets:			
Cash and cash equivalents	91,910	-	91,910
	$ 584,982	$ 2,223,577	$ 2,808,559
Net Position			
Restricted for:			
Debt service	$ 148,052	$ -	$ 148,052
Cemetery perpetual care - nonexpendable	35,192	-	35,192
Promotion	59,033	-	59,033
Unrestricted	342,705	2,223,577	2,566,282
	$ 584,982	$ 2,223,577	$ 2,808,559

City of Groton
Statements of Activities–Modified Cash Basis
Year Ended December 31, 2019

Functions/Programs	2019 Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants, Contributions, and Loan Proceeds	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Total
Primary Government							
Governmental activities:							
General government	$ 336,406	$ 33,168	$ -	$ -	$ (303,238)	$ -	$ (303,238)
Public safety	362,489	2,398	-	14,098	(345,993)	-	(345,993)
Public works	836,196	18,190	60,149	10,465	(747,392)	-	(747,392)
Health and welfare	4,498	-	-	-	(4,498)	-	(4,498)
Culture and recreation	234,029	119,722	-	-	(114,307)	-	(114,307)
Conservation and development	2,407	-	-	-	(2,407)	-	(2,407)
Debt service	249,907	-	-	59,851	(190,056)	-	(190,056)
Miscellaneous	1,740	-	-	-	(1,740)	-	(1,740)
Total governmental activities	2,027,672	173,478	60,149	84,414	(1,709,631)	-	(1,709,631)
Business-type activities:							
Water fund	330,867	355,567	-	-	-	24,700	24,700
Sewer fund	166,113	204,235	19,706	-	-	57,828	57,828
Electric fund	1,226,024	1,818,415	-	-	-	592,391	592,391
Solid waste fund	98,664	98,472	-	-	-	(192)	(192)
Total business-type activities	1,821,668	2,476,689	19,706	-	-	674,727	674,727
Total primary government	$ 3,849,340	$ 2,650,167	$ 79,855	$ 84,414	(1,709,631)	674,727	(1,034,904)
General Revenues							
Taxes:							
Property taxes					683,377	-	683,377
Sales taxes					551,096	-	551,096
Penalties and interest on delinquent taxes					1,062	-	1,062
State shared revenues					18,361	-	18,361
Unrestricted investment earnings					12,786	19,954	32,740
Miscellaneous revenue					18,716	-	18,716
Total general revenues					1,285,398	19,954	1,305,352
Change in Net Position					(424,233)	694,681	270,448
Net Position - Beginning					1,009,215	1,528,896	2,538,111
Net Position - Ending					$ 584,982	$ 2,223,577	$ 2,808,559

See Notes to Financial Statements

City of Groton

Statements of Activities–Modified Cash Basis

Year Ended December 31, 2018

Functions/Programs	2018 Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants, Contributions, and Loan Proceeds	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Total
Primary Government							
Governmental activities:							
General government	$ 322,716	$ 34,147	$ -	$ -	$ (288,569)	$ -	$ (288,569)
Public safety	389,223	2,763	-	43,563	(342,897)	-	(342,897)
Public works	354,158	7,864	59,663	47,574	(239,057)	-	(239,057)
Health and welfare	4,228	-	-	-	(4,228)	-	(4,228)
Culture and recreation	267,843	100,055	-	-	(167,788)	-	(167,788)
Conservation and development	1,607	-	-	-	(1,607)	-	(1,607)
Debt service	248,782	-	-	68,352	(180,430)	-	(180,430)
Miscellaneous	1,304	-	-	-	(1,304)	-	(1,304)
Total governmental activities	1,589,861	144,829	59,663	159,489	(1,225,880)	-	(1,225,880)
Business-type activities:							
Water fund	222,179	309,737	-	-	-	87,558	87,558
Sewer fund	260,749	203,316	-	-	-	(57,433)	(57,433)
Electric fund	1,319,252	1,831,062	-	-	-	511,810	511,810
Solid waste fund	84,336	80,363	-	-	-	(3,973)	(3,973)
Total business-type activities	1,886,516	2,424,478	-	-	-	537,962	537,962
Total primary government	$ 3,476,377	$ 2,569,307	$ 59,663	$ 159,489	(1,225,880)	537,962	(687,918)
General Revenues							
Taxes:							
Property taxes					674,504	-	674,504
Sales taxes					555,694	-	555,694
Penalties and interest on delinquent taxes					1,800	-	1,800
State shared revenues					19,179	-	19,179
Unrestricted investment earnings					9,323	8,062	17,385
Miscellaneous revenue					7,129	-	7,129
Total general revenues					1,267,629	8,062	1,275,691
Change in Net Position					41,749	546,024	587,773
Net Position - Beginning					967,466	982,872	1,950,338
Net Position - Ending					$ 1,009,215	$ 1,528,896	$ 2,538,111

See Notes to Financial Statements

City of Groton

Balance Sheet–Modified Cash Basis–Governmental Funds

December 31, 2019

	General Fund	3rd Penny Sales Tax Fund	Airport Fund	Debt Service Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Assets						
Cash and cash equivalents	$ 342,705	$ -	$ -	$ 148,052	$ 2,315	$ 493,072
Restricted cash and cash equivalents	-	59,033	-	-	32,877	91,910
Due from Airport Fund	837					837
	$ 343,542	$ 59,033	$ -	$ 148,052	$ 35,192	$ 585,819
Liabilities						
Due to General Fund	-	-	837	-	-	837
Total liabilities	-	-	837	-	-	837
Fund Balances						
263 Nonspendable						
Cemetery perpetual care	-	-	-	-	35,192	35,192
264 Restricted for						
Debt service	-	-	-	148,052	-	148,052
Promotion	-	59,033	-	-	-	59,033
267 Unassigned	343,542	-	(837)	-	-	342,705
Total fund balance	343,542	59,033	(837)	148,052	35,192	584,982
	$ 343,542	$ 59,033	$ -	$ 148,052	$ 35,192	$ 585,819

See Notes to Financial Statements

	2019					
	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	$ 683,377	$ -	$ -	$ -	$ -	$ 683,377
313 General sales and use taxes	523,768	27,328	-	-	-	551,096
319 Penalties and interest on delinquent taxes	1,062	-	-	-	-	1,062
Total taxes	1,208,207	27,328	-	-	-	1,235,535
320 Licenses and permits	12,664	-	-	-	-	12,664
330 Intergovernmental revenue						
334 State grants	10,465	-	-	-	-	10,465
335 State shared revenue						
335.01 Bank franchise tax	8,859	-	-	-	-	8,859
335.02 Motor vehicle commercial prorate	3,300	-	-	-	-	3,300
335.03 Liquor tax reversion	9,502	-	-	-	-	9,502
335.04 Motor vehicle licenses (5%)	22,246	-	-	-	-	22,246
335.08 Local government highway and bridge fund	32,673	-	-	-	-	32,673
338 County shared revenue						
338.01 County road tax (25%)	889	-	-	-	-	889
338.03 County wheel tax	1,041	-	-	-	-	1,041
Total intergovernmental revenue	88,975	-	-	-	-	88,975
340 Charges for goods and services						
341 General government	809	-	-	-	-	809
342 Public safety	1,708	-	-	-	-	1,708
343 Highways and streets	13,893	-	-	-	-	13,893
346 Culture and recreation	119,722	-	-	-	-	119,722
348 Cemetery	4,297	-	-	-	-	4,297
Total charges for good and services	140,429	-	-	-	-	140,429
350 Fines and forfeits						
352 Animal control fines	600	-	-	-	-	600
353 Parking meter fines	90	-	-	-	-	90
354 Library	-	-	-	-	-	-
Total fines and forfeits	690	-	-	-	-	690
360 Miscellaneous revenue						
361 Investment earnings	7,586	407	507	4,286	-	12,786
362 Rentals	-	-	19,695	-	-	19,695
363 Special assessments	-	-	-	59,851	-	59,851
367 Contributions and donations from private sources	14,098	-	-	-	-	14,098
368 Liquor operating agreement income	18,093	-	-	-	-	18,093
369 Other	623	-	-	-	-	623
Total miscellaneous revenue	40,400	407	20,202	64,137	-	125,146
Total revenues	1,491,365	27,735	20,202	64,137	-	1,603,439

	2019					
	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	26,785	-	-	-	-	26,785
412 Executive	8,916	-	-	-	-	8,916
413 Elections	-	-	-	-	-	-
414 Financial administration	285,833	-	-	-	-	285,833
419 Other	14,872	-	-	-	-	14,872
Total general government	336,406	-	-	-	-	336,406
420 Public safety						
421 Police	362,489	-	-	-	-	362,489
429 Other protection	-	-	-	-	-	-
Total public safety	362,489	-	-	-	-	362,489
430 Public works						
431 Highways and streets	793,496	-	-	-	-	793,496
432 Sanitation	2,379	-	-	-	-	2,379
435 Airport	-	-	22,255	-	-	22,255
437 Cemeteries	15,567	-	-	-	-	15,567
439 Transit	2,499	-	-	-	-	2,499
Total public works	813,941	-	22,255	-	-	836,196
440 Health and welfare						
441 Health	4,498	-	-	-	-	4,498
Total health and welfare	4,498	-	-	-	-	4,498
450 Culture and recreation						
451 Recreation	225,043	-	-	-	-	225,043
452 Parks	2,793	-	-	-	-	2,793
455 Libraries	4,510	-	-	-	-	4,510
456 Auditorium	1,683	-	-	-	-	1,683
Total culture and recreation	234,029	-	-	-	-	234,029
460 Conservation and development						
465 Economic development and assistance (industrial development)	2,407	-	-	-	-	2,407
Total conservation and development	2,407	-	-	-	-	2,407
470 Debt service	-	-	-	249,907	-	249,907
490 Miscellaneous						
492 Other expenditures	1,733	-	-	-	-	1,733
493 Liquor operating agreements	7	-	-	-	-	7
Total miscellaneous	1,740	-	-	-	-	1,740
Total expenditures	1,755,510	-	22,255	249,907	-	2,027,672
Excess (Deficiency) of revenue over expenditures	(264,145)	27,735	(2,053)	(185,770)	-	(424,233)
Net Change in Fund Balance	(264,145)	27,735	(2,053)	(185,770)	-	(424,233)
Fund Balance - Beginning	607,687	31,298	1,216	333,822	35,192	1,009,215
Fund Balance - Ending	$ 343,542	$ 59,033	$ (837)	$ 148,052	$ 35,192	$ 584,982

	2018					
	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	$ 674,504	$ -	$ -	$ -	$ -	$ 674,504
313 General sales and use taxes	530,173	25,521	-	-	-	555,694
319 Penalties and interest on delinquent taxes	1,800	-	-	-	-	1,800
Total taxes	1,206,477	25,521	-	-	-	1,231,998
320 Licenses and permits	12,479	-	-	-	-	12,479
330 Intergovernmental revenue						
334 State grants	47,574	-	-	-	-	47,574
335 State shared revenue						
335.01 Bank franchise tax	10,009	-	-	-	-	10,009
335.02 Motor vehicle commercial prorate	3,316	-	-	-	-	3,316
335.03 Liquor tax reversion	9,170	-	-	-	-	9,170
335.04 Motor vehicle licenses (5%)	22,598	-	-	-	-	22,598
335.08 Local government highway and bridge fund	31,801	-	-	-	-	31,801
338 County shared revenue						
338.01 County road tax (25%)	889	-	-	-	-	889
338.03 County wheel tax	1,059	-	-	-	-	1,059
Total intergovernmental revenue	126,416	-	-	-	-	126,416
340 Charges for goods and services						
341 General government	143	-	-	-	-	143
342 Public safety	2,061	-	-	-	-	2,061
343 Highways and streets	2,134	-	-	-	-	2,134
346 Culture and recreation	100,055	-	-	-	-	100,055
348 Cemetery	5,730	-	-	-	-	5,730
Total charges for good and services	110,123	-	-	-	-	110,123
350 Fines and forfeits						
352 Animal control fines	654	-	-	-	-	654
353 Parking meter fines	25	-	-	-	-	25
354 Library	23	-	-	-	-	23
Total fines and forfeits	702	-	-	-	-	702
360 Miscellaneous revenue						
361 Investment earnings	5,005	47	87	4,184	-	9,323
362 Rentals	-	-	21,525	-	-	21,525
363 Special assessments	-	-	-	68,352	-	68,352
367 Contributions and donations from private sources	43,563	-	-	-	-	43,563
368 Liquor operating agreement income	16,690	-	-	-	-	16,690
369 Other	(9,561)	-	-	-	-	(9,561)
Total miscellaneous revenue	55,697	47	21,612	72,536	-	149,892
Total revenues	1,511,894	25,568	21,612	72,536	-	1,631,610

	2018					
	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	23,253	-	-	-	-	23,253
412 Executive	8,619	-	-	-	-	8,619
413 Elections	249	-	-	-	-	249
414 Financial administration	280,358	-	-	-	-	280,358
419 Other	10,237	-	-	-	-	10,237
Total general government	322,716	-	-	-	-	322,716
420 Public safety						
421 Police	388,920	-	-	-	-	388,920
429 Other protection	303	-	-	-	-	303
Total public safety	389,223	-	-	-	-	389,223
430 Public works						
431 Highways and streets	308,429	-	-	-	-	308,429
432 Sanitation	262	-	-	-	-	262
435 Airport	-	-	31,048	-	-	31,048
437 Cemeteries	12,461	-	-	-	-	12,461
439 Transit	1,958	-	-	-	-	1,958
Total public works	323,110	-	31,048	-	-	354,158
440 Health and welfare						
441 Health	4,228	-	-	-	-	4,228
Total health and welfare	4,228	-	-	-	-	4,228
450 Culture and recreation						
451 Recreation	241,378	-	-	-	-	241,378
452 Parks	17,854	-	-	-	-	17,854
455 Libraries	3,912	-	-	-	-	3,912
456 Auditorium	4,699	-	-	-	-	4,699
Total culture and recreation	267,843	-	-	-	-	267,843
460 Conservation and development						
465 Economic development and assistance (industrial development)	1,607	-	-	-	-	1,607
Total conservation and development	1,607	-	-	-	-	1,607
470 Debt service	-	-	-	248,782	-	248,782
490 Miscellaneous						
492 Other expenditures	1,267	-	-	-	-	1,267
493 Liquor operating agreements	37	-	-	-	-	37
Total miscellaneous	1,304	-	-	-	-	1,304
Total expenditures	1,310,031	-	31,048	248,782	-	1,589,861
Excess (Deficiency) of revenue over expenditures	201,863	25,568	(9,436)	(176,246)	-	41,749
Net Change in Fund Balance	201,863	25,568	(9,436)	(176,246)	-	41,749
Fund Balance - Beginning	405,824	5,730	10,652	510,068	35,192	967,466
Fund Balance - Ending	$ 607,687	$ 31,298	$ 1,216	$ 333,822	$ 35,192	$ 1,009,215

	Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals
Assets					
Current Assets					
Cash and cash equivalents	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577
	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577
Net Position					
253.90 Unrestricted	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577
Total net position	427,808	154,974	1,617,273	23,522	2,223,577
	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577

City of Groton

Statements of Revenues, Expenses and Changes in Fund Net Position –Modified Cash Basis–Proprietary Funds

Years Ended December 31, 2019 and 2018

	2019					2018				
	Enterprise Funds					Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals
Operating Revenue										
370 Charges for goods and services	$ 355,567	$ 204,235	$ 1,818,415	$ 98,472	$ 2,476,689	$ 309,737	$ 203,316	$ 1,831,062	$ 80,363	$ 2,424,478
Total operating revenue	355,567	204,235	1,818,415	98,472	2,476,689	309,737	203,316	1,831,062	80,363	2,424,478
Operating Expenses										
410 Personal services	18,969	71,659	146,827	6,969	244,424	16,058	67,962	194,411	4,727	283,158
420 Other current expense	28,408	78,850	82,408	3,097	192,763	19,015	131,488	66,902	1,352	218,757
426.2 Materials	163,823	-	974,309	88,598	1,226,730	177,181	-	1,029,184	78,257	1,284,622
429 Other - Refunded Deposits	6,900	-	-	-	6,900	9,925	-	-	-	9,925
430 Capital assets	112,767	6,000	22,480	-	141,247	-	22,882	28,755	-	51,637
Total operating expenses	330,867	156,509	1,226,024	98,664	1,812,064	222,179	222,332	1,319,252	84,336	1,848,099
Operating Income (Loss)	24,700	47,726	592,391	(192)	664,625	87,558	(19,016)	511,810	(3,973)	576,379
Nonoperating Revenue (Expense)										
361 Investment earnings	5,142	1,544	12,965	303	19,954	2,525	1,245	4,069	223	8,062
383 Grants	-	19,706	-	-	19,706	-	-	-	-	-
441 Debt service (principal)	-	(9,480)	-	-	(9,480)	-	(36,707)	-	-	(36,707)
442 Interest expense	-	(124)	-	-	(124)	-	(1,710)	-	-	(1,710)
Total nonoperating revenue (expense)	5,142	11,646	12,965	303	30,056	2,525	(37,172)	4,069	223	(30,355)
Change in Net Position	29,842	59,372	605,356	111	694,681	90,083	(56,188)	515,879	(3,750)	546,024
Net Position - Beginning	397,966	95,602	1,011,917	23,411	1,528,896	307,883	151,790	496,038	27,161	982,872
Net Position - Ending	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577	$ 397,966	$ 95,602	$ 1,011,917	$ 23,411	$ 1,528,896

City of Groton
Statements of Cash Flows–Modified Cash Basis–Proprietary Funds
Years Ended December 31, 2019 and 2018

	2019					2018				
	Enterprise Funds					Enterprise Funds				
	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals	Water Fund	Sewer Fund	Electric Fund	Solid Waste Fund	Totals
Cash Flows from (used for) Operating Activities										
Receipt from customers	$ 348,667	$ 204,235	$ 1,818,415	$ 98,472	$ 2,469,789	$ 299,812	$ 203,316	$ 1,831,062	$ 80,363	$ 2,414,553
Payments to suppliers	(192,231)	(78,850)	(1,056,717)	(91,695)	(1,419,493)	(196,196)	(131,488)	(1,096,086)	(79,609)	(1,503,379)
Payments to employees	(18,969)	(71,659)	(146,827)	(6,969)	(244,424)	(16,058)	(67,962)	(194,411)	(4,727)	(283,158)
Net Cash from (used for) Operating Activities	137,467	53,726	614,871	(192)	805,872	87,558	3,866	540,565	(3,973)	628,016
Cash Flows from (used for) Capital and Related Financing activities										
Grants received for capital assets	-	19,706	-	-	19,706	-	-	-	-	-
Purchase of capital assets	(112,767)	(6,000)	(22,480)	-	(141,247)	-	(22,882)	(28,755)	-	(51,637)
Principal paid on capital debt	-	(9,480)	-	-	(9,480)	-	(36,707)	-	-	(36,707)
Interest paid on capital debt	-	(124)	-	-	(124)	-	(1,710)	-	-	(1,710)
Net Cash from (used for) Capital and Related Financing activity	(112,767)	4,102	(22,480)	-	(131,145)	-	(61,299)	(28,755)	-	(90,054)
Cash Flows from Investing Activities										
Interest earnings	5,142	1,544	12,965	303	19,954	2,525	1,245	4,069	223	8,062
Net Cash from Investing Activities	5,142	1,544	12,965	303	19,954	2,525	1,245	4,069	223	8,062
Net Change in Cash and Cash Equivalents	29,842	59,372	605,356	111	694,681	90,083	(56,188)	515,879	(3,750)	546,024
Cash and Cash Equivalents - Beginning	397,966	95,602	1,011,917	23,411	1,528,896	307,883	151,790	496,038	27,161	982,872
Cash and Cash Equivalents - Ending	$ 427,808	$ 154,974	$ 1,617,273	$ 23,522	$ 2,223,577	$ 397,966	$ 95,602	$ 1,011,917	$ 23,411	$ 1,528,896
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities										
Operating income (loss)	$ 24,700	$ 47,726	$ 592,391	$ (192)	$ 664,625	$ 87,558	$ (19,016)	$ 511,810	$ (3,973)	$ 576,379
Adjustments to reconcile operating income to (loss) net cash from operating activities:										
Purchase of capital assets	112,767	6,000	22,480	-	141,247	-	22,882	28,755	-	51,637
Net Cash from Operating Activities	$ 137,467	$ 53,726	$ 614,871	$ (192)	$ 805,872	$ 87,558	$ 3,866	$ 540,565	$ (3,973)	$ 628,016

	Family Crisis Fund
Private Purpose Trust:	
Assets:	
Cash	$ 7,276
Total assets	$ 7,276
Net Position	$ 7,276

	2019 Family Crisis Fund	2018 Family Crisis Fund
Private Purpose Trust:		
Additions:		
Contributions and donations	$ 3,052	$ 3,059
Total additions	3,052	3,059
Deductions:		
Family needs	2,507	928
Total deductions	2,507	928
Change in net position	545	2,131
Net position beginning	6,731	4,600
Net position ending	$ 7,276	$ 6,731

Note 1 - Summary of Significant Accounting Policies

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

A. Financial Reporting Entity

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

The reporting entity is comprised of the primary government, City of Groton.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City. The City has no component units.

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City of Groton are described below:

Governmental Funds

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

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

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

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

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

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

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

> Cemetery Perpetual Care Fund – A fund established to account for money that can only be used for upkeep of the City's cemetery (SDCL 9-32-18). The Cemetery Perpetual Care Fund is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

Water Fund – A fund established to provide water to customers within the City of Groton. Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) The Water Fund is a major fund.

Sewer Fund – A fund established to provide sewer services to customers within the City of Groton. Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) The Sewer Fund is a major fund.

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

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

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

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

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

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

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

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

Basis of Accounting

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

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

D. Deposits and Investments

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

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, 2019 between the General Fund and the Airport 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 (except for Agency Funds, which have no fund equity) is reported as net position held in trust for other purposes.

L. Application of Net Position / Fund Balance

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

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

M. Fund Balance Classification Policies and Procedures

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

- Nonspendable Fund Balance - Amounts that are not in 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.

N. Rounding

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

Note 2 - Deposits and Investments

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

Deposits

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

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2019, 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, 2019, are as follows:

	Bank Balance
Insured (FDIC/NCUA)	$ 368,031
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	929,392
	$ 1,297,423
The City's carrying amount of deposits at December 31, 2019	$ 1,266,367

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

Cash and cash equivalents	$ 2,808,559
Add: Private Purpose Trust Fund (not included in government-wide statement of net position)	7,276
Less: SDFIT Account included in cash and cash equivalents	(1,549,468)
	$ 1,266,367

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, 2019, 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, 2019, 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	$ 59,033
Debt Service Fund	Contractual Agreement	148,052
Cemetary Perpetual Care Fund	State Law	35,192

Note 6 - Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the years ended December 31, 2019 and 2018, the City managed its risks as follows:

Employee Health Insurance

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a members' annual operating contribution, to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The Municipality 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 January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA, a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next annual budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

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

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

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

As of December 31, 2019, the City's balance available to be refunded per the SDPAA was $98,686, which was an increase of $13,575 from the previous year.

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

Worker's Compensation

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to an additional $2,000,000 per individual, per incident.

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

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for employment benefits.

During the years ended December 31, 2019 and 2018, no claims for unemployment benefits were paid. At December 31, 2019, no claims had been filed for unemployment benefits and none are anticipated in the next year.

Note 7 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at 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 three different classes of employees: Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members. Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level.

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

Legislation enacted in 2017 established 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 than or equal to the accrued liabilities

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statue to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and Class B public safety member, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ended December 31, 2019, 2018, and 2017 were $48,283, $50,674, and $51,442, respectively, equal to required contributions each year.

Pension Liability (Asset)

At June 30, 2019, SDRS is 100.09% 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, 2019 and reported by the City as of December 31, 2019, are as follows:

Proportionate share of pension liability	$ 4,940,254
Less proportionate share of net position restricted for pension benefits	4,944,455
Proportionate share of net pension liability (asset)	$ (4,201)

At December 31, 2019, the City's proportionate share is a liability (asset) of $(4,201) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2019, 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, 2019, the City's proportion was 0.03964%, which is a decrease of 0.002759% from its proportion measured as of June 30, 2018. The City's proportionate share net pension liability is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% 3.00% after 25 years of service
Investment rate of return	6.50% net of plan investment expense
Future COLAs	1.88%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006, projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2019 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
	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)	$ 697,276	$ (4,201)	$ (585,778)

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 - Deficit Fund Balance

As of December 31, 2019, the Airport Fund had a deficit of $837. The deficit was caused by overspending revenues received by the fund. The transfers were in excess of assets on hand. Along with that, the airport fund did not have a properly balanced budget. The deficit will be resolved by transfers of assets from other funds that have excess unrestricted funds available and adopting a balanced budget.

Note 9 - Beneficial Interest

The Groton Community Fund was established as an endowment at the Lutheran Community Foundation in 1997. The City has a beneficial interest in the Foundation and receives annual distributions from the Foundation. Holdings of the Groton Community Fund were $334,155 at December 31, 2019.

Note 10 - Related Party Activity

The City uses the services of business entities owned by members of the City Council. The total amounts paid were $791 and $1,350 in 2019 and 2018, respectively.

Note 11 - Violations of Finance-Related Legal Provisions

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. For the year ended December 31, 2019, the City had overdrafts of expenditures compared to appropriations in the General Fund departments of highways and streets by $27,426. For the year ended December 31, 2018, the City had overdrafts of expenditures compared to appropriations in the General Fund departments of police by $7,181 and recreation by $14,580. The City will monitor budget schedules for overspending and supplement the budget as allowed to avoid overspending in the future.

Note 12 - Subsequent Events

Subsequent to year-end, the City was approved for a Water Project to be funded with a state loan for $2,000,000. The project was started in 2021. In 2020, the City received funding from the state from the Coronavirus Relief Funds in the amount of $296,000. In 2021, the City purchased a building for approximately $210,000 which surplus cash.

The City has evaluated subsequent events through August 5, 2021, the date which the financial statements were available to be issued.

Supplementary Information
December 31, 2019 and 2018

City of Groton

City of Groton

Schedule of Changes in Notes and Bonds Payable

Years Ended December 31, 2019 and 2018

Notes and Bonds Payable	Notes and Bonds Payable 1/1/2019	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/2019
Governmental Long-Term Debt				
231.02 Revenue Bonds				
RR Crossing Sewer CWSRF 8	$ 62,328	$ -	$ 16,112	$ 46,216
West Creek Sewer CWSRF 9	106,449	-	25,724	80,725
Sales Tax Revenue Bonds, Series 2015A and 2015B	2,545,000	-	120,000	2,425,000
Total governmental long-term debt	$ 2,713,777	$ -	$ 161,836	$ 2,551,941
Enterprise Long-Term Debt				
231.02 Revenue Bonds				
Lagoon CWSRF 3	$ 9,480	$ -	$ 9,480	$ -
Total enterprise long-term debt	$ 9,480	$ -	$ 9,480	$ -

Notes and Bonds Payable	Notes and Bonds Payable 1/1/2018	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/2018
Governmental Long-Term Debt				
231.02 Revenue Bonds				
RR Crossing Sewer CWSRF 8	$ 78,082	$ -	$ 15,754	$ 62,328
West Creek Sewer CWSRF 9	131,602	-	25,153	106,449
Sales Tax Revenue Bonds, Series 2015A and 2015B	2,660,000	-	115,000	2,545,000
Total govermental long-term debt	$ 2,869,684	$ -	$ 155,907	$ 2,713,777
Enterprise Long-Term Debt				
231.02 Revenue bonds				
Lagoon CWSRF 3	$ 46,187	$ -	$ 36,707	$ 9,480
Total enterprise long-term debt	$ 46,187	$ -	$ 36,707	$ 9,480

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2014	0.0456%	$ (328,834)	$ 704,870	-46.7%	107.3%
SDRS	6/30/2015	0.0451%	(191,414)	745,526	-25.7%	104.1%
SDRS	6/30/2016	0.0435%	147,026	746,944	19.7%	96.89%
SDRS	6/30/2017	0.0424%	(3,848)	784,220	-0.5%	100.1%
SDRS	6/30/2018	0.0404%	(943)	754,418	-0.1%	100.02%
SDRS	6/30/2019	0.0396%	(4,201)	746,595	-0.6%	100.09%

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

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

	2019			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	$ 657,050	$ 657,050	$ 683,377	$ 26,327
313 General sales and use taxes	600,000	600,000	523,768	(76,232)
319 Penalties and interest on delinquent taxes	1,000	1,000	1,062	62
Total taxes	1,258,050	1,258,050	1,208,207	(49,843)
320 Licenses and permits	9,930	9,930	12,664	2,734
330 Intergovernmetal revenue				
334 State grants	8,000	37,532	10,465	(27,067)
335 State shared revenue				
335.01 Bank franchise tax	8,000	8,000	8,859	859
335.02 Motor vehicle commerical prorate	2,000	2,000	3,300	1,300
335.03 Liquor tax reversion	9,000	9,000	9,502	502
335.04 Motor vehicle licenses (5%)	20,000	20,000	22,246	2,246
335.08 Local government highway and bridge fund	22,000	22,000	32,673	10,673
338 County shared revenue				
338.01 County road tax (25%)	1,500	1,500	889	(611)
338.03 County wheel tax	1,000	1,000	1,041	41
Total intergovernmental revenue	71,500	101,032	88,975	(12,057)
340 Charges for good and services				
341 General government	750	750	809	59
342 Public safety	1,300	1,300	1,708	408
343 Highways and streets	1,000	1,000	13,893	12,893
346 Culture and recreation	74,450	116,560	119,722	3,162
348 Cemetery	700	700	4,297	3,597
Total charges for goods and services	78,200	120,310	140,429	20,119
350 Fines and forfeits				
352 Animal control fines	300	300	600	300
353 Parking fines	75	75	90	15
Total fines and forfeits	375	375	690	315
360 Miscellaneous revenue				
361 Investment earnings	-	-	7,586	7,586
367 Contributions and donations from private sources	6,695	11,695	14,098	2,403
368 Liquor operating agreement income	11,900	11,900	18,093	6,193
369 Other	-	-	623	623
Total miscellaneous revenue	18,595	23,595	40,400	16,805
Total revenues	1,436,650	1,513,292	1,491,365	(21,927)

	2019			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	27,180	28,180	26,785	1,395
411.5 Contingency	50,000	50,000	-	-
amount transferred	-	(50,000)	-	-
412 Executive	9,370	9,370	8,916	454
413 Elections	1,510	10	-	10
414 Financial administration	321,775	321,775	285,833	35,942
419 Other	21,480	21,480	14,872	6,608
Total general government	431,315	380,815	336,406	44,409
420 Public safety				
421 Police	383,430	393,430	362,489	30,941
429 Other protection	1,100	-	-	-
Total public safety	384,530	393,430	362,489	30,941
430 Public works				
431 Highways and streets	726,070	766,070	793,496	(27,426)
432 Sanitation	4,600	4,600	2,379	2,221
437 Cemeteries	13,880	16,880	15,567	1,313
439 Transit	2,500	2,500	2,499	1
Total public works	747,050	790,050	813,941	(23,891)
440 Health and Welfare				
441 Health	6,430	6,430	4,498	1,932
Total health and welfare	6,430	6,430	4,498	1,932
450 Culture and recreation				
451 Recreation	169,470	231,870	225,043	6,827
452 Parks	10,500	10,500	2,793	7,707
455 Libraries	5,800	5,800	4,510	1,290
456 Auditorium	4,700	4,700	1,683	3,017
Total culture and recreation	190,470	252,870	234,029	18,841
460 Conservation and development				
465 Economic development and assistance (industrial development)	14,470	15,970	2,407	13,563
Total conservation and development	14,470	15,970	2,407	13,563
490 Miscellaneous				
492 Other expenditures	1,900	2,400	1,733	667
493 Liquor operating agreements	80	80	7	73
Total miscellaneous	1,980	2,480	1,740	740
Total expenditures	1,776,245	1,842,045	1,755,510	86,535

	2019			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
511 Transfers out	(250,100)	(250,100)	-	250,100
Total other financing sources (uses)	(250,100)	(250,100)	-	250,100
Excess of Revenue over (under) Expenditures	(589,695)	(578,853)	(264,145)	314,708
Fund Balance - Beginning	607,687	607,687	607,687	-
Fund Balance - Ending	$ 17,992	$ 28,834	$ 343,542	$ 314,708

	2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
311 General property taxes	$ 671,450	$ 671,450	$ 674,504	$ 3,054
313 General sales and use taxes	500,000	500,000	530,173	30,173
319 Penalties and interest on delinquent taxes	1,000	1,000	1,800	800
Total taxes	1,172,450	1,172,450	1,206,477	34,027
320 Licenses and permits	10,730	10,730	12,479	1,749
330 Intergovernmetal revenue				
334 State grants	36,000	45,179	47,574	2,395
335 State shared revenue				
335.01 Bank franchise tax	8,000	8,000	10,009	2,009
335.02 Motor vehicle commerical prorate	3,200	3,200	3,316	116
335.03 Liquor tax reversion	9,000	9,000	9,170	170
335.04 Motor vehicle licenses (5%)	22,000	22,000	22,598	598
335.08 Local government highway and bridge fund	20,000	30,000	31,801	1,801
338 County shared revenue				
338.02 County road and bridge tax (25%)	3,500	3,500	889	(2,611)
338.03 County wheel tax	1,000	1,000	1,059	59
Total intergovernmental revenue	102,700	121,879	126,416	4,537
340 Charges for good and services				
341 General government	1,050	1,050	143	(907)
342 Public safety	1,570	1,570	2,061	491
343 Highways and streets	3,600	3,600	2,134	(1,466)
346 Culture and recreation	68,160	115,319	100,055	(15,264)
348 Cemetery	1,200	1,200	5,730	4,530
Total charges for goods and services	75,580	122,739	110,123	(12,616)
350 Fines and forfeits				
352 Animal control fines	350	350	654	304
353 Parking fines	450	450	25	(425)
354 Library	10	10	23	13
Total fines and forfeits	810	810	702	(108)
360 Miscellaneous revenue				
361 Investment earnings	-	-	5,005	5,005
367 Contributions and donations from private sources	10,000	10,000	43,563	33,563
368 Liquor operating agreement income	17,120	17,120	16,690	(430)
369 Other	1,200	1,200	(9,561)	(10,761)
Total miscellaneous revenue	28,320	28,320	55,697	27,377
Total revenues	1,390,590	1,456,928	1,511,894	54,966

	2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government				
411 Legislative	26,530	26,530	23,253	3,277
411.5 Contingency	100,000	100,000	-	-
amount transferred	-	(51,000)	-	49,000
412 Executive	9,680	9,680	8,619	1,061
413 Elections	980	980	249	731
414 Financial administration	300,000	303,000	280,358	22,642
419 Other	14,210	15,210	10,237	4,973
Total general government	451,400	404,400	322,716	81,684
420 Public safety				
421 Police	362,560	381,739	388,920	(7,181)
429 Other protection	600	600	303	297
Total public safety	363,160	382,339	389,223	(6,884)
430 Public works				
431 Highways and streets	280,070	315,070	308,429	6,641
432 Sanitation	4,600	4,600	262	4,338
437 Cemeteries	18,010	18,010	12,461	5,549
439 Transit	2,500	2,500	1,958	542
Total public works	305,180	340,180	323,110	17,070
440 Health and welfare				
441 Health	5,440	5,440	4,228	1,212
Total health and welfare	5,440	5,440	4,228	1,212
450 Culture and recreation				
451 Recreation	180,450	226,798	241,378	(14,580)
452 Parks	12,300	25,111	17,854	7,257
455 Libraries	5,740	5,740	3,912	1,828
456 Auditorium	5,040	5,040	4,699	341
Total culture and recreation	203,530	262,689	267,843	(5,154)
460 Conservation and development				
465 Economic development and assistance (industrial development)	14,800	14,800	1,607	13,193
Total conservation and development	14,800	14,800	1,607	13,193
470 Debt service	250,100	250,100	-	250,100
490 Miscellaneous				
492 Other expenditures	1,900	1,900	1,267	633
493 Liquor operating agreements	80	80	37	43
Total miscellaneous	1,980	1,980	1,304	676
Total expenditures	1,595,590	1,661,928	1,310,031	351,897

	2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses)				
391.01 Transfers in	155,000	155,000	-	(155,000)
Total other financing sources (uses)	155,000	155,000	-	(155,000)
Excess of Revenue under Expenditures	(50,000)	(50,000)	201,863	251,863
Fund Balance - Beginning	405,824	405,824	405,824	-
Fund Balance - Ending	$ 355,824	$ 355,824	$ 607,687	$ 251,863

	2019			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	$ 22,100	$ 22,100	$ 27,328	$ 5,228
Total taxes	22,100	22,100	27,328	5,228
360 Miscellaneous revenue				
361 Investment earnings	-	-	407	407
Total miscellaneous revenue	-	-	407	407
Total revenue	22,100	22,100	27,735	5,635
Expenditures				
450 Culture and recreation				
451 Recreation	22,100	22,100	-	22,100
Total expenditures	22,100	22,100	-	22,100
Excess of Revenue over Expenditures	-	-	27,735	27,735
Fund Balance - Beginning	31,298	31,298	31,298	-
Fund Balance - Ending	$ 31,298	$ 31,298	$ 59,033	$ 27,735

	2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	$ 24,000	$ 24,000	$ 25,521	$ 1,521
Total taxes	24,000	24,000	25,521	1,521
360 Miscellaneous revenue				
361 Investment earnings	-	-	47	47
Total miscellaneous revenue	-	-	47	47
Total revenue	24,000	24,000	25,568	1,568
Expenditures				
450 Culture and recreation				
451 Recreation	23,690	23,690	-	23,690
Total expenditures	23,690	23,690	-	23,690
Excess of Revenue over Expenditures	310	310	25,568	25,258
Fund Balance - Beginning	5,730	5,730	5,730	-
Fund Balance - Ending	$ 6,040	$ 6,040	$ 31,298	$ 25,258

	2019			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
361 Investment earnings	$ -	$ -	$ 507	$ 507
362 Rentals	21,000	21,000	19,695	(1,305)
Total miscellaneous revenue	21,000	21,000	20,202	(798)
Total revenue	21,000	21,000	20,202	(798)
Expenditures				
430 Public works				
435 Airport	29,120	29,120	22,255	6,865
Total expenditures	29,120	29,120	22,255	6,865
Excess of Revenue over (under) Expenditures	(8,120)	(8,120)	(2,053)	6,067
Fund Balance - Beginning	1,216	1,216	1,216	-
Fund Balance - Ending	$ (6,904)	$ (6,904)	$ (837)	$ 6,067

	2018			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
361 Investment earnings	$ -	$ -	$ 87	$ 87
362 Rentals	21,530	21,530	21,525	(5)
Total miscellaneous revenue	21,530	21,530	21,612	82
Total revenue	21,530	21,530	21,612	82
Expenditures				
430 Public works				
435 Airport	35,410	35,410	31,048	4,362
Total expenditures	35,410	35,410	31,048	4,362
Excess of Revenue under Expenditures	(13,880)	(13,880)	(9,436)	4,444
Fund Balance - Beginning	10,652	10,652	10,652	-
Fund Balance - Ending	$ (3,228)	$ (3,228)	$ 1,216	$ 4,444

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, 2019 or 2018.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

Note 3 - Pension Schedules

Changes of benefit terms:

No significant changes.

Changes of assumptions:

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that, if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2018, and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018, and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

Actuarial assumptions are reviewed in-depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes anticipated to be first implemented in the June 30, 2022 Actuarial Valuation.

EideBailly

CPAs & BUSINESS ADVISORS

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

The City Council
City of Groton
Groton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Groton as of December 31, 2019, and for each of the years in the two year period then ended, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 5, 2021. The statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as 2019-001 and 2019-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as 2019-003, to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2019-003.

City of Groton's Response to Findings

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

Purpose of this Report

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

Eide Bailly LLP

Aberdeen, South Dakota
August 5, 2021

Section II – Findings Related to the Financial Statements

Finding 2019-001 - Financial Statements and Footnotes are Prepared by the Auditor

Material Weakness

Criteria: The City's internal control structure should provide for the preparation of the financial statements and footnotes being audited in accordance with the modified cash basis of accounting.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements including required footnotes and disclosures. During the course of our engagement, we were requested to draft the financial statements and accompanying notes to those financial statements.

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

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-002 – Lack of Timely Reconciliations Resulting in Material Audit Adjustments

Material Weakness

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

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

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

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation: It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit, to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2019-003 – Non-Compliance with South Dakota Codified Laws

Significant Deficiency and Non-Compliance

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

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

- During 2019 and 2018, the City overspent multiple department lines in the General Fund budget, but they did not overspend the overall budget. SDCL 9-21-9 through 9-21-9.2, 9-21-10, and 9-21-15 provide the criteria requiring the City to refrain from spending in excess of the amount appropriated for any purpose or department each fiscal year.

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

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

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

Views of Responsible Officials: Management agrees with the finding.