

**CITY OF CANTON**  
**FINANCIAL STATEMENTS**  
**AND**  
**INDEPENDENT AUDITOR'S REPORT**  
**DECEMBER 31, 2018**

**QUAM, BERGLIN & POST, P.C.**

**CERTIFIED PUBLIC ACCOUNTANTS**

**CITY OF CANTON  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2018**

**Mayor**

Sandra Lundstrom

**Governing Board**

Todd Baldwin

Jerry Chaon

Moses Isais

Sara Steffensen

**Finance Officer**

Kyle Cwach

**Attorney**

Larry Nelson

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# QUAM, BERGLIN, & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

110 WEST MAIN – P.O. BOX 426

ELK POINT, SOUTH DAKOTA 57025

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(605) 356-3374

## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Canton  
Canton, South Dakota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota as of and for the year ended December 31, 2018, 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***

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 an opinion on these financial statements based on our audit. We did not audit the financial statements of the Canton Housing and Redevelopment Commission (HRC) (a discretely presented component unit), which statements represent 100% of the total assets at June 30, 2018 and 100% of the total revenue for the year then ended of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it relates to the amounts included for the Canton Housing and Redevelopment Commission is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

### ***Basis for Qualified Opinions***

Management has elected not to record their long-term financial obligations and commitments related to other postemployment benefits (OPEB) in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America require OPEB costs to be recognized and reported in a systematic, accrual-basis measurement over a period that approximates employees' years of service, which would most likely increase long-term liabilities and expenditures and decrease net assets in the governmental activities Statement of Net Position. Accounting principles generally accepted in the United States of America also require information to be provided about actuarial accrued liabilities associated with OPEB and whether, and to what extent, progress is being made in funding the plan. The amount by which this departure would affect the liabilities, net position and expenditures of the governmental activities is not reasonably determinable.

### ***Qualified Opinions***

In our opinion, except for the effects of not recording their long-term financial obligations and commitments related to OPEB as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the City of Canton as of December 31, 2018, and the respective changes in financial position and, where applicable cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Unmodified Opinions***

In our opinion, based on our audit, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2018 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

#### ***Change in Accounting Principle***

As discussed in Note 14 to the financial statements, in fiscal year 2018, the City decided not to adopt new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is modified with respect to this matter as discussed in the Basis for Qualified Opinions paragraph.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Schedule of the Proportionate Share of the Net Pension Asset, the Schedule of the City's Contributions, and the Budgetary Comparison Schedules listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the

financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 3, 2019, on our consideration of the City of Canton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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.



Quam, Berglin, and Post, P.C.  
Certified Public Accountants

September 3, 2019

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**CITY OF CANTON  
STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

|                                           | Primary Government      |                          |                         | Component Unit       |
|-------------------------------------------|-------------------------|--------------------------|-------------------------|----------------------|
|                                           | Governmental Activities | Business-Type Activities | Total                   |                      |
| <b>ASSETS:</b>                            |                         |                          |                         |                      |
| Cash and Cash Equivalents                 | \$ 3,014,212.15         | \$ 2,120,387.05          | \$ 5,134,599.20         | \$ 26,403.68         |
| Investments-Certificates of Deposit       | 511,750.23              |                          | 511,750.23              | 25,519.77            |
| Taxes Receivable                          | 50,134.32               |                          | 50,134.32               |                      |
| Special Assessments Receivable            | 21,737.40               |                          | 21,737.40               |                      |
| Accounts Receivable, Net                  | 36,664.25               | 389,425.01               | 426,089.26              | 16,880.47            |
| Due From Government                       | 48,261.69               | 33,971.46                | 82,233.15               |                      |
| Interest Receivable                       | 6,222.57                |                          | 6,222.57                |                      |
| Inventory                                 | 80,188.31               | 156,137.31               | 236,325.62              |                      |
| Prepaid Expenses                          | 31,310.68               | 3,878.32                 | 35,189.00               | 1,531.00             |
| Restricted Assets                         |                         |                          |                         |                      |
| Deposits                                  | 111,839.00              | 76,596.00                | 188,435.00              |                      |
| Net Pension Asset                         | 1,267.47                |                          | 1,267.47                | 221.77               |
| Capital Assets:                           |                         |                          |                         |                      |
| Land and Construction Work in Progress    | 380,135.23              | 1,062,585.05             | 1,442,720.28            | 25,811.20            |
| Other Capital Assets, Net of Depreciation | 7,804,270.53            | 11,135,696.55            | 18,939,967.08           | 259,791.70           |
| <b>TOTAL ASSETS</b>                       | <u>12,097,993.83</u>    | <u>14,978,676.75</u>     | <u>27,076,670.58</u>    | <u>356,159.59</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES:</b>    |                         |                          |                         |                      |
| Pension Related Deferred Outflows         | <u>406,671.89</u>       |                          | <u>406,671.89</u>       | <u>24,005.49</u>     |
| <b>LIABILITIES:</b>                       |                         |                          |                         |                      |
| Accounts Payable                          | 42,435.76               | 99,600.95                | 142,036.71              | 17,101.77            |
| Construction Contracts Payable            |                         | 38,070.00                | 38,070.00               |                      |
| Retainage Payable                         |                         | 82,043.53                | 82,043.53               |                      |
| Accrued Wages Payable                     | 61,266.56               | 8,257.34                 | 69,523.90               |                      |
| Customer Deposits Payable                 | 1,535.00                | 76,596.00                | 78,131.00               | 18,407.49            |
| Noncurrent Liabilities:                   |                         |                          |                         |                      |
| Due Within One Year                       | 59,308.61               | 220,585.73               | 279,894.34              | 3,000.00             |
| Due in More than One Year                 | 61,514.20               | 5,220,193.41             | 5,281,707.61            | 3,069.80             |
| <b>TOTAL LIABILITIES</b>                  | <u>226,060.13</u>       | <u>5,745,346.96</u>      | <u>5,971,407.09</u>     | <u>41,579.06</u>     |
| <b>DEFERRED INFLOWS OF RESOURCES:</b>     |                         |                          |                         |                      |
| Pension Related Deferred Inflows          | <u>101,461.92</u>       |                          | <u>101,461.92</u>       | <u>4,263.72</u>      |
| <b>NET POSITION:</b>                      |                         |                          |                         |                      |
| Net Investment in Capital Assets          | 8,177,452.94            | 6,761,533.06             | 14,938,986.00           | 285,602.90           |
| Restricted for:                           |                         |                          |                         |                      |
| Cumulative Reserve - SDPAA                | 111,839.00              |                          | 111,839.00              |                      |
| Economic Development and Promotion        | 171,210.84              |                          | 171,210.84              |                      |
| Library                                   | 34,317.09               |                          | 34,317.09               |                      |
| HRC Purposes                              |                         |                          |                         | 19,963.54            |
| SDRS Pension Purposes                     | 306,477.44              |                          | 306,477.44              |                      |
| Unrestricted                              | <u>3,375,846.36</u>     | <u>2,471,796.73</u>      | <u>5,847,643.09</u>     | <u>28,755.86</u>     |
| <b>TOTAL NET POSITION</b>                 | <u>\$ 12,177,143.67</u> | <u>\$ 9,233,329.79</u>   | <u>\$ 21,410,473.46</u> | <u>\$ 334,322.30</u> |

The attached notes are an integral part of these financial statements.

**CITY OF CANTON**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

| Functions/Programs                    | Program Revenues       |                        |                                    |                                  | Net (Expense) Revenue and Changes in Net Position |                                             |                          | Component Unit |       |
|---------------------------------------|------------------------|------------------------|------------------------------------|----------------------------------|---------------------------------------------------|---------------------------------------------|--------------------------|----------------|-------|
|                                       | Expenses               | Charges for Services   | Operating Grants and Contributions |                                  | Governmental Activities                           | Primary Government Business-Type Activities |                          |                | Total |
|                                       |                        |                        | Operating Grants and Contributions | Capital Grants and Contributions |                                                   | Governmental Activities                     | Business-Type Activities |                |       |
| <b>Primary Government:</b>            |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| Governmental Activities:              |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| General Government                    | \$ 641,920.94          | \$ 265,572.14          | \$                                 | \$                               | \$ (376,348.80)                                   | \$                                          | \$ (376,348.80)          | \$             |       |
| Public Safety                         | 701,346.90             | 52,664.98              |                                    | 1,900.00                         | (646,781.92)                                      |                                             | (646,781.92)             |                |       |
| Public Works                          | 967,816.29             | 31,690.55              | 2,351.00                           | 54,846.25                        | (878,928.49)                                      |                                             | (878,928.49)             |                |       |
| Health and Welfare                    | 8,893.76               | 600.00                 |                                    |                                  | (8,293.76)                                        |                                             | (8,293.76)               |                |       |
| Culture and Recreation                | 465,980.09             | 65,508.01              |                                    |                                  | (400,472.08)                                      |                                             | (400,472.08)             |                |       |
| Conservation & Development            | 38,779.25              |                        |                                    |                                  | (38,779.25)                                       |                                             | (38,779.25)              |                |       |
| <b>Total Governmental Activities</b>  | <b>2,824,737.23</b>    | <b>416,035.68</b>      | <b>2,351.00</b>                    | <b>56,746.25</b>                 | <b>(2,349,604.30)</b>                             |                                             | <b>(2,349,604.30)</b>    |                |       |
| Business-Type Activities:             |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| Liquor                                | 848,468.17             | 857,957.68             |                                    |                                  |                                                   | 9,489.51                                    | 9,489.51                 |                |       |
| Water                                 | 634,819.10             | 713,644.67             |                                    |                                  |                                                   | 78,825.57                                   | 78,825.57                |                |       |
| Sewer                                 | 648,595.66             | 783,291.87             |                                    |                                  |                                                   | 134,696.21                                  | 134,696.21               |                |       |
| Airport                               | 166,527.41             | 43,946.94              |                                    | 50,966.59                        |                                                   | (71,613.88)                                 | (71,613.88)              |                |       |
| <b>Total Business-Type Activities</b> | <b>2,298,410.34</b>    | <b>2,398,841.16</b>    |                                    | <b>50,966.59</b>                 |                                                   | <b>151,397.41</b>                           | <b>151,397.41</b>        |                |       |
| <b>Total Primary Government</b>       | <b>\$ 5,123,147.57</b> | <b>\$ 2,814,876.84</b> | <b>\$ 2,351.00</b>                 | <b>\$ 107,712.84</b>             | <b>\$ (2,349,604.30)</b>                          | <b>\$ 151,397.41</b>                        | <b>(2,198,206.89)</b>    |                |       |
| Component Unit:                       |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| Housing and Redevelopment             | \$ 443,670.64          | \$ 91,621.16           | \$ 266,732.00                      |                                  |                                                   |                                             |                          | (85,317.48)    |       |
| <b>General Revenues:</b>              |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| Taxes:                                |                        |                        |                                    |                                  |                                                   |                                             |                          |                |       |
| Property Taxes                        |                        |                        |                                    |                                  | 1,313,946.69                                      |                                             | 1,313,946.69             |                |       |
| Sales and Use Taxes                   |                        |                        |                                    |                                  | 1,111,412.87                                      |                                             | 1,111,412.87             |                |       |
| State Shared Revenues                 |                        |                        |                                    |                                  | 126,378.07                                        |                                             | 126,378.07               |                |       |
| Unrestricted Investment Earnings      |                        |                        |                                    |                                  | 20,759.86                                         | 8,330.16                                    | 29,090.02                |                |       |
| Miscellaneous Revenue                 |                        |                        |                                    |                                  | 49,257.40                                         | 479.59                                      | 49,736.99                | 9,815.43       |       |
| Transfers                             |                        |                        |                                    |                                  | (26,000.00)                                       | 26,000.00                                   |                          |                |       |
| Total General Revenues and Transfers  |                        |                        |                                    |                                  | 2,595,754.89                                      | 34,809.75                                   | 2,630,564.64             | 9,815.43       |       |
| Extraordinary Items                   |                        |                        |                                    |                                  | 44,422.61                                         |                                             | 44,422.61                |                |       |
| Change in Net Position                |                        |                        |                                    |                                  | 290,573.20                                        | 186,207.16                                  | 476,780.36               | (75,502.05)    |       |
| **Net Position - Beginning            |                        |                        |                                    |                                  | 11,886,570.47                                     | 9,047,122.63                                | 20,933,693.10            | 409,824.35     |       |
| Net Position - Ending                 |                        |                        |                                    |                                  | \$ 12,177,143.67                                  | \$ 9,233,329.79                             | \$ 21,410,473.46         | \$ 334,322.30  |       |

\*\*Restated due to elimination of OPEB liability

The attached notes are an integral part of these financial statements.

**CITY OF CANTON  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

|                                                                               | <u>Major Funds</u>      |                                   | <u>Nonmajor</u>                        | <u>Total<br/>Governmental<br/>Funds</u> |
|-------------------------------------------------------------------------------|-------------------------|-----------------------------------|----------------------------------------|-----------------------------------------|
|                                                                               | <u>General<br/>Fund</u> | <u>BBB<br/>Sales Tax<br/>Fund</u> | <u>Other<br/>Governmental<br/>Fund</u> |                                         |
| <b>ASSETS:</b>                                                                |                         |                                   |                                        |                                         |
| Cash and Cash Equivalents                                                     | \$ 2,822,485.08         | \$ 169,229.59                     | \$ 22,497.48                           | \$ 3,014,212.15                         |
| Investments-Certificates of Deposit                                           | 500,000.00              |                                   | 11,750.23                              | 511,750.23                              |
| Taxes Receivable - Delinquent                                                 | 50,134.32               |                                   |                                        | 50,134.32                               |
| Special Assessments Receivable                                                | 21,737.40               |                                   |                                        | 21,737.40                               |
| Accounts Receivable, Net                                                      | 36,664.25               |                                   |                                        | 36,664.25                               |
| Due From Government                                                           | 46,280.44               | 1,981.25                          |                                        | 48,261.69                               |
| Interest Receivable                                                           | 6,153.19                |                                   | 69.38                                  | 6,222.57                                |
| Inventory                                                                     | 80,188.31               |                                   |                                        | 80,188.31                               |
| Deposits                                                                      | 111,839.00              |                                   |                                        | 111,839.00                              |
| Prepaid Expenses                                                              | 31,310.68               |                                   |                                        | 31,310.68                               |
| <b>TOTAL ASSETS</b>                                                           | <u>\$ 3,706,792.67</u>  | <u>\$ 171,210.84</u>              | <u>\$ 34,317.09</u>                    | <u>\$ 3,912,320.60</u>                  |
| <b>LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES AND FUND BALANCES:</b>      |                         |                                   |                                        |                                         |
| <b>Liabilities:</b>                                                           |                         |                                   |                                        |                                         |
| Accounts Payable                                                              | \$ 42,435.76            | \$                                | \$                                     | \$ 42,435.76                            |
| Accrued Wages Payable                                                         | 61,266.56               |                                   |                                        | 61,266.56                               |
| Customer Deposits                                                             | 1,535.00                |                                   |                                        | 1,535.00                                |
| <b>Total Liabilities</b>                                                      | <u>105,237.32</u>       |                                   |                                        | <u>105,237.32</u>                       |
| <b>Deferred Inflows of Resources:</b>                                         |                         |                                   |                                        |                                         |
| Unavailable Revenue - Property Taxes                                          | 50,134.32               |                                   |                                        | 50,134.32                               |
| Unavailable Revenue - Special Assessments                                     | 21,737.40               |                                   |                                        | 21,737.40                               |
| <b>Total Deferred Inflows of Resources</b>                                    | <u>71,871.72</u>        |                                   |                                        | <u>71,871.72</u>                        |
| <b>Fund Balances:</b>                                                         |                         |                                   |                                        |                                         |
| Nonspendable                                                                  | 223,337.99              |                                   |                                        | 223,337.99                              |
| Restricted                                                                    |                         | 171,210.84                        | 34,317.09                              | 205,527.93                              |
| Assigned                                                                      | 1,410,729.27            |                                   |                                        | 1,410,729.27                            |
| Unassigned                                                                    | 1,895,616.37            |                                   |                                        | 1,895,616.37                            |
| <b>Total Fund Balances</b>                                                    | <u>3,529,683.63</u>     | <u>171,210.84</u>                 | <u>34,317.09</u>                       | <u>3,735,211.56</u>                     |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS<br/>OF RESOURCES AND FUND BALANCES</b> | <u>\$ 3,706,792.67</u>  | <u>\$ 171,210.84</u>              | <u>\$ 34,317.09</u>                    | <u>\$ 3,912,320.60</u>                  |

The attached notes are an integral part of these financial statements

**CITY OF CANTON  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

Total Fund Balances - Governmental Funds \$ 3,735,211.56

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

|                                 |                       |              |
|---------------------------------|-----------------------|--------------|
| Cost of Assets:                 | \$ 11,005,027.24      |              |
| (Less) Accumulated Depreciation | <u>(2,820,621.48)</u> | 8,184,405.76 |

Long-term liabilities, including loans payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.

|                                   |                     |              |
|-----------------------------------|---------------------|--------------|
| Capital Acquisition Lease Payable | (6,952.82)          |              |
| Accrued Leave Payable             | <u>(113,869.99)</u> | (120,822.81) |

Assets such as taxes receivable (delinquent), special assessments receivable (current, delinquent and deferred) and certain notes receivables are not available to pay for current period expenditures and therefore are deferred in the funds but are revenue in the government-wide financial statements.

71,871.72

Net Pension Asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.

1,267.47

Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.

406,671.89

Pension related deferred inflows are components of pension liability and therefore are not reported in the funds

(101,461.92)

Net Position - Governmental Funds \$ 12,177,143.67

The attached notes are an integral part of these financial statements.

**CITY OF CANTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                          | <u>Major Funds</u>  |                           | <u>Nonmajor</u>                 |                                 |
|------------------------------------------|---------------------|---------------------------|---------------------------------|---------------------------------|
|                                          | <u>General Fund</u> | <u>BBB Sales Tax Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| <b>Revenues:</b>                         |                     |                           |                                 |                                 |
| Taxes:                                   |                     |                           |                                 |                                 |
| General Property Taxes                   | \$ 1,309,397.51     | \$                        | \$                              | \$ 1,309,397.51                 |
| General Sales and Use Taxes              | 1,032,929.74        | 78,483.13                 |                                 | 1,111,412.87                    |
| Licenses and Permits                     | 31,290.55           |                           |                                 | 31,290.55                       |
| Intergovernmental Revenue:               |                     |                           |                                 |                                 |
| Federal Grants                           | 54,846.25           |                           |                                 | 54,846.25                       |
| State Grants                             | 2,351.00            |                           |                                 | 2,351.00                        |
| State Shared Revenue:                    |                     |                           |                                 |                                 |
| Bank Franchise Tax                       | 16,421.53           |                           |                                 | 16,421.53                       |
| Liquor Tax Reversion                     | 18,687.89           |                           |                                 | 18,687.89                       |
| Motor Vehicle Licenses (5%)              | 25,597.39           |                           |                                 | 25,597.39                       |
| Local Government Highway and Bridge Fund | 65,455.26           |                           |                                 | 65,455.26                       |
| Other                                    | 216.00              |                           |                                 | 216.00                          |
| County Shared Revenue:                   |                     |                           |                                 |                                 |
| County Highway and Bridge Tax            | 10,904.84           |                           |                                 | 10,904.84                       |
| County Wheel Tax                         | 5,419.12            |                           |                                 | 5,419.12                        |
| Other Intergovernmental Revenues         | 2,151.32            |                           |                                 | 2,151.32                        |
| Charge for Services:                     |                     |                           |                                 |                                 |
| General Government                       | 265,572.14          |                           |                                 | 265,572.14                      |
| Public Safety                            | 4,677.99            |                           |                                 | 4,677.99                        |
| Highways and Streets                     | 24,625.60           |                           |                                 | 24,625.60                       |
| Sanitation                               | 400.00              |                           |                                 | 400.00                          |
| Health                                   | 600.00              |                           |                                 | 600.00                          |
| Culture and Recreation                   | 52,040.51           |                           | 6,000.11                        | 58,040.62                       |
| Fines and Forfeits:                      |                     |                           |                                 |                                 |
| Court Fines and Costs                    | 1,623.99            |                           |                                 | 1,623.99                        |
| Library                                  |                     |                           | 7,467.39                        | 7,467.39                        |
| Miscellaneous Revenue:                   |                     |                           |                                 |                                 |
| Investment Earnings                      | 20,759.86           |                           |                                 | 20,759.86                       |
| Contributions and Donations              | 1,900.00            |                           |                                 | 1,900.00                        |
| Other                                    | 29,557.90           |                           |                                 | 29,557.90                       |
| <b>Total Revenue</b>                     | <u>2,977,426.39</u> | <u>78,483.13</u>          | <u>13,467.50</u>                | <u>3,069,377.02</u>             |
| <b>Expenditures:</b>                     |                     |                           |                                 |                                 |
| General Government:                      |                     |                           |                                 |                                 |
| Legislative                              | 22,003.77           |                           |                                 | 22,003.77                       |
| Executive                                | 150,053.41          |                           |                                 | 150,053.41                      |
| Financial Administration                 | 271,446.82          |                           |                                 | 271,446.82                      |
| Other                                    | 69,653.22           |                           |                                 | 69,653.22                       |
| <b>Total General Government</b>          | <u>513,157.22</u>   |                           |                                 | <u>513,157.22</u>               |

The attached notes are an integral part of these financial statements

**CITY OF CANTON**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                             | <u>Major Funds</u>     |                           | <u>Nonmajor</u>                 |                                 |
|---------------------------------------------|------------------------|---------------------------|---------------------------------|---------------------------------|
|                                             | <u>General Fund</u>    | <u>BBB Sales Tax Fund</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
| Public Safety:                              |                        |                           |                                 |                                 |
| Police                                      | 539,573.40             |                           |                                 | 539,573.40                      |
| Fire                                        | 96,699.41              |                           |                                 | 96,699.41                       |
| Total Public Safety                         | <u>636,272.81</u>      |                           |                                 | <u>636,272.81</u>               |
| Public Works:                               |                        |                           |                                 |                                 |
| Highways and Streets                        | 713,375.30             |                           |                                 | 713,375.30                      |
| Sanitation                                  | 96,062.82              |                           |                                 | 96,062.82                       |
| Total Public Works                          | <u>809,438.12</u>      |                           |                                 | <u>809,438.12</u>               |
| Health and Welfare:                         |                        |                           |                                 |                                 |
| Health                                      | 8,893.76               |                           |                                 | 8,893.76                        |
| Total Health and Welfare                    | <u>8,893.76</u>        |                           |                                 | <u>8,893.76</u>                 |
| Culture and Recreation:                     |                        |                           |                                 |                                 |
| Recreation                                  | 122,863.60             |                           |                                 | 122,863.60                      |
| Parks                                       | 138,003.87             |                           |                                 | 138,003.87                      |
| Libraries                                   | 146,348.23             |                           | 9,252.46                        | 155,600.69                      |
| Total Culture and Recreation                | <u>407,215.70</u>      |                           | <u>9,252.46</u>                 | <u>416,468.16</u>               |
| Conservation and Development:               |                        |                           |                                 |                                 |
| Economic Development and Assistance         | 7,479.25               |                           |                                 | 7,479.25                        |
| Economic Opportunity                        |                        | 31,300.00                 |                                 | 31,300.00                       |
| Total Conservation and Development          | <u>7,479.25</u>        | <u>31,300.00</u>          |                                 | <u>38,779.25</u>                |
| Debt Service                                | 2,548.27               |                           |                                 | 2,548.27                        |
| Capital Outlay                              | 195,275.60             |                           |                                 | 195,275.60                      |
| <b>Total Expenditures</b>                   | <u>2,580,280.73</u>    | <u>31,300.00</u>          | <u>9,252.46</u>                 | <u>2,620,833.19</u>             |
| Excess of Revenue Over (Under)              |                        |                           |                                 |                                 |
| Expenditures                                | <u>397,145.66</u>      | <u>47,183.13</u>          | <u>4,215.04</u>                 | <u>448,543.83</u>               |
| <b>Other Financing Sources (Uses):</b>      |                        |                           |                                 |                                 |
| Sale of Municipal Property                  | 16,454.66              |                           |                                 | 16,454.66                       |
| Transfer (Out)                              | (26,000.00)            |                           |                                 | (26,000.00)                     |
| <b>Total Other Financing Sources (Uses)</b> | <u>(9,545.34)</u>      |                           |                                 | <u>(9,545.34)</u>               |
| Extraordinary Items                         | <u>44,422.61</u>       |                           |                                 | <u>44,422.61</u>                |
| Net Change in Fund Balances                 | 432,022.93             | 47,183.13                 | 4,215.04                        | 483,421.10                      |
| Fund Balance - Beginning                    | <u>3,097,660.70</u>    | <u>124,027.71</u>         | <u>30,102.05</u>                | <u>3,251,790.46</u>             |
| <b>FUND BALANCE - ENDING</b>                | <u>\$ 3,529,683.63</u> | <u>\$ 171,210.84</u>      | <u>\$ 34,317.09</u>             | <u>\$ 3,735,211.56</u>          |

The attached notes are an integral part of these financial statements

**CITY OF CANTON  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Net Change in Fund Balances - Total Governmental Funds \$ 483,421.10

Amounts reported for governmental activities in the Statement of  
Activities are different because:

Governmental funds report capital outlays as expenditures, however, in  
the Statement of Activities the cost of those assets is allocated over  
their estimated useful lives and reported as depreciation expense. This  
is the amount by which depreciation exceeded capital outlays in the  
current period. (114,404.68)

In the Statement of Activities, the loss on disposal of assets is reported,  
whereas in the governmental funds, the disposal of capital assets is not  
reflected. (15,230.44)

Some expenses reported in the statement of activities do not require the  
use of current financial resources and therefore are not reported as  
expenditures in governmental funds. This is the change in:

Compensated Absences Payable 8,338.64

Repayment of debt is an expenditure in the governmental funds, but the  
repayment reduces long-term liabilities in the Statement of Net Position. 2,548.27

Governmental funds report property taxes and certain receivables as  
revenue when cash is received, but the Statement of Activities includes  
these items as revenues when earned. 26,286.58

Changes in the pension related deferred outflows/inflows are direct  
components of pension liability(asset) and are not reflected in the  
governmental funds. (100,386.27)

Change in Net Position of Governmental Activities \$ 290,573.20

The attached notes are an integral part of these financial statements.

**CITY OF CANTON  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2018**

|                                  | <b>Enterprise Funds</b> |                       |                       |                         |                      | <b>Totals</b> |
|----------------------------------|-------------------------|-----------------------|-----------------------|-------------------------|----------------------|---------------|
|                                  | <b>Major Funds</b>      |                       |                       |                         |                      |               |
|                                  | <b>Liquor<br/>Fund</b>  | <b>Water<br/>Fund</b> | <b>Sewer<br/>Fund</b> | <b>Airport<br/>Fund</b> |                      |               |
| <b>ASSETS:</b>                   |                         |                       |                       |                         |                      |               |
| <b>Current Assets:</b>           |                         |                       |                       |                         |                      |               |
| Cash and Cash Equivalents        | \$ 53,183.17            | \$ 749,950.14         | \$ 1,296,988.29       | \$ 20,265.45            | \$ 2,120,387.05      |               |
| Accounts Receivable, Net         | 228,483.66              | 73,518.21             | 86,943.11             | 480.03                  | 389,425.01           |               |
| Due from Other Governments       |                         |                       |                       | 33,971.46               | 33,971.46            |               |
| Inventory of Supplies            |                         | 130,862.93            | 21,548.25             | 3,726.13                | 156,137.31           |               |
| Prepaid Expenses                 |                         | 2,137.13              | 1,741.19              |                         | 3,878.32             |               |
| <b>Total Current Assets</b>      | <u>281,666.83</u>       | <u>956,468.41</u>     | <u>1,407,220.84</u>   | <u>58,443.07</u>        | <u>2,703,799.15</u>  |               |
| <b>Noncurrent Assets:</b>        |                         |                       |                       |                         |                      |               |
| Deposits                         |                         | 76,596.00             |                       |                         | 76,596.00            |               |
| <b>Capital Assets:</b>           |                         |                       |                       |                         |                      |               |
| Land                             |                         | 10,000.00             | 37,990.11             | 68,854.25               | 116,844.36           |               |
| Buildings                        |                         | 20,602.52             | 363,592.58            |                         | 384,195.10           |               |
| Improvement other than Buildings |                         | 4,346,721.27          | 6,737,830.68          | 3,238,546.31            | 14,323,098.26        |               |
| Machinery and Equipment          |                         | 306,706.85            | 613,696.14            | 65,914.00               | 986,316.99           |               |
| Less: Accumulated Depreciation   |                         | (1,778,267.08)        | (2,341,926.94)        | (437,719.78)            | (4,557,913.80)       |               |
| Construction Work in Process     |                         | 945,740.69            |                       |                         | 945,740.69           |               |
| <b>Total Noncurrent Assets</b>   |                         | <u>3,928,100.25</u>   | <u>5,411,182.57</u>   | <u>2,935,594.78</u>     | <u>12,274,877.60</u> |               |
| <b>TOTAL ASSETS</b>              | <u>281,666.83</u>       | <u>4,884,568.66</u>   | <u>6,818,403.41</u>   | <u>2,994,037.85</u>     | <u>14,978,676.75</u> |               |

CITY OF CANTON  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2018

|                                  | Enterprise Funds     |                        |                        |                        | Totals                 |
|----------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
|                                  | Major Funds          |                        |                        |                        |                        |
|                                  | Liquor<br>Fund       | Water<br>Fund          | Sewer<br>Fund          | Airport<br>Fund        |                        |
| <b>LIABILITIES:</b>              |                      |                        |                        |                        |                        |
| Current Liabilities:             |                      |                        |                        |                        |                        |
| Accounts Payable                 | 64,684.97            | 27,768.38              | 5,733.39               | 1,414.21               | 99,600.95              |
| Construction Contracts Payable   |                      | 38,070.00              |                        |                        | 38,070.00              |
| Retainage Payable                |                      | 82,043.53              |                        |                        | 82,043.53              |
| Accrued Wages Payable            |                      | 4,198.67               | 4,058.67               |                        | 8,257.34               |
| Customer Deposits                |                      | 76,596.00              |                        |                        | 76,596.00              |
| Accrued Leave Payable - Current  |                      | 504.58                 | 504.58                 |                        | 1,009.16               |
| Other Long-Term Debt - Current   |                      | 61,671.51              | 157,905.06             |                        | 219,576.57             |
| Total Current Liabilities        | <u>64,684.97</u>     | <u>290,852.67</u>      | <u>168,201.70</u>      | <u>1,414.21</u>        | <u>525,153.55</u>      |
| Noncurrent Liabilities:          |                      |                        |                        |                        |                        |
| Accrued Leave Payable            |                      | 1,510.72               | 1,510.72               |                        | 3,021.44               |
| Other Long-Term Debt             |                      | 1,776,152.93           | 3,441,019.04           |                        | 5,217,171.97           |
| Total Noncurrent Liabilities     |                      | <u>1,777,663.65</u>    | <u>3,442,529.76</u>    |                        | <u>5,220,193.41</u>    |
| <b>NET POSITION:</b>             |                      |                        |                        |                        |                        |
| Net Investment in Capital Assets |                      | 2,013,679.81           | 1,812,258.47           | 2,935,594.78           | 6,761,533.06           |
| Unrestricted Net Position        | 216,981.86           | 802,372.53             | 1,395,413.48           | 57,028.86              | 2,471,796.73           |
| <b>TOTAL NET POSITION</b>        | <u>\$ 216,981.86</u> | <u>\$ 2,816,052.34</u> | <u>\$ 3,207,671.95</u> | <u>\$ 2,992,623.64</u> | <u>\$ 9,233,329.79</u> |

The attached notes are an integral part of these financial statements.

**CITY OF CANTON**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                               | Enterprise Funds     |                        |                        |                        | Totals                 |
|-----------------------------------------------|----------------------|------------------------|------------------------|------------------------|------------------------|
|                                               | Liquor<br>Fund       | Water<br>Fund          | Sewer<br>Fund          | Airport<br>Fund        |                        |
| <b><u>Operating Revenue:</u></b>              |                      |                        |                        |                        |                        |
| Charges for Goods and Services                | \$ 857,957.68        | \$ 583,346.43          | \$ 765,013.94          | \$ 43,946.94           | \$ 2,250,264.99        |
| Other                                         |                      | 130,298.24             | 18,277.93              |                        | 148,576.17             |
| Total Operating Revenue                       | <u>857,957.68</u>    | <u>713,644.67</u>      | <u>783,291.87</u>      | <u>43,946.94</u>       | <u>2,398,841.16</u>    |
| <b><u>Operating Expenses:</u></b>             |                      |                        |                        |                        |                        |
| Personal Services                             |                      | 90,048.21              | 86,450.94              |                        | 176,499.15             |
| Other Current Expense                         | 356.17               | 435,898.91             | 296,576.26             | 86,979.41              | 819,810.75             |
| Cost Of Goods Sold                            | 848,112.00           |                        |                        |                        | 848,112.00             |
| Depreciation                                  |                      | 108,871.98             | 200,222.92             | 79,548.00              | 388,642.90             |
| Total Operating Expenses                      | <u>848,468.17</u>    | <u>634,819.10</u>      | <u>583,250.12</u>      | <u>166,527.41</u>      | <u>2,233,064.80</u>    |
| Operating Income (Loss)                       | <u>9,489.51</u>      | <u>78,825.57</u>       | <u>200,041.75</u>      | <u>(122,580.47)</u>    | <u>165,776.36</u>      |
| <b><u>Nonoperating Revenue (Expense):</u></b> |                      |                        |                        |                        |                        |
| Federal Grants                                |                      |                        |                        | 50,966.59              | 50,966.59              |
| State Grants                                  |                      |                        |                        | 479.59                 | 479.59                 |
| Interest Income                               |                      | 6,518.88               | 1,811.28               |                        | 8,330.16               |
| Interest Expense and Fiscal Charges           |                      |                        | (65,345.54)            |                        | (65,345.54)            |
| Total Nonoperating Revenue (Expense)          |                      | <u>6,518.88</u>        | <u>(63,534.26)</u>     | <u>51,446.18</u>       | <u>(5,569.20)</u>      |
| Income (Loss) Before Transfers                | 9,489.51             | 85,344.45              | 136,507.49             | (71,134.29)            | 160,207.16             |
| Transfer In                                   |                      |                        |                        | 26,000.00              | 26,000.00              |
| Change in Net Position                        | 9,489.51             | 85,344.45              | 136,507.49             | (45,134.29)            | 186,207.16             |
| Net Position - Beginning                      | 207,492.35           | 2,730,707.89           | 3,071,164.46           | 3,037,757.93           | 9,047,122.63           |
| <b>NET POSITION - ENDING</b>                  | <u>\$ 216,981.86</u> | <u>\$ 2,816,052.34</u> | <u>\$ 3,207,671.95</u> | <u>\$ 2,992,623.64</u> | <u>\$ 9,233,329.79</u> |

The attached notes are an integral part of these financial statements.

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CITY OF CANTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

|                                                                         | Enterprise Funds |               |                 |                 | Totals          |
|-------------------------------------------------------------------------|------------------|---------------|-----------------|-----------------|-----------------|
|                                                                         | Major Funds      |               |                 |                 |                 |
|                                                                         | Liquor<br>Fund   | Water<br>Fund | Sewer<br>Fund   | Airport<br>Fund |                 |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>                     |                  |               |                 |                 |                 |
| Cash Receipts from Customers                                            | \$ 786,414.29    | \$ 707,022.33 | \$ 782,322.39   | \$ 193,324.67   | 2,469,083.68    |
| Other Cash Receipts                                                     |                  | 592,359.00    | 707,338.00      |                 | 1,299,697.00    |
| Cash Payments to Employees for Services                                 |                  | (95,513.34)   | (91,953.07)     |                 | (187,466.41)    |
| Cash Payments to Suppliers for Goods and Services                       | (862,066.09)     | (436,320.44)  | (444,258.74)    | (305,069.93)    | (2,047,715.20)  |
| Net Cash Provided (Used) by Operating Activities                        | (75,651.80)      | 767,547.55    | 953,448.58      | (111,745.26)    | 1,533,599.07    |
| <b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>          |                  |               |                 |                 |                 |
| Operating Subsidies                                                     |                  |               |                 | 51,446.18       | 51,446.18       |
| Transfers In                                                            |                  |               |                 | 26,000.00       | 26,000.00       |
| Cash Loans (From) To Other Funds                                        | 109,238.23       | (50,222.34)   | 46,801.77       |                 | 105,817.66      |
| Net Cash Provided (Used) By Noncapital Financing Activities             | 109,238.23       | (50,222.34)   | 46,801.77       | 77,446.18       | 183,263.84      |
| <b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b> |                  |               |                 |                 |                 |
| Purchase of Capital Assets                                              |                  | (697,776.72)  | (6,299.50)      |                 | (704,076.22)    |
| Principal Paid on Capital Debt                                          |                  | 728,152.77    | 366,571.70      |                 | 1,094,724.47    |
| Interest Paid on Capital Debt                                           |                  |               | (65,345.54)     |                 | (65,345.54)     |
| Net Cash Provided (Used) by Capital and Related Financing Activities    |                  | 30,376.05     | 294,926.66      |                 | 325,302.71      |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>                     |                  |               |                 |                 |                 |
| Interest Earnings                                                       |                  | 6,518.88      | 1,811.28        |                 | 8,330.16        |
| Net Cash Provided (Used) by Investing Activities                        |                  | 6,518.88      | 1,811.28        |                 | 8,330.16        |
| Net Increase (Decrease) in Cash and Cash Equivalents                    | \$ 33,586.43     | \$ 754,220.14 | \$ 1,296,988.29 | \$ (34,299.08)  | \$ 2,050,495.78 |
| Cash and Cash Equivalents at Beginning of Year                          | \$ 19,596.74     | \$ 72,326.00  | \$ 0.00         | \$ 54,564.53    | \$ 146,487.27   |
| Cash and Cash Equivalents at End of Year                                | 53,183.17        | 826,546.14    | 1,296,988.29    | 20,265.45       | 2,196,983.05    |
| Net Increase (Decrease) in Cash and Cash Equivalents                    | \$ 33,586.43     | \$ 754,220.14 | \$ 1,296,988.29 | \$ (34,299.08)  | \$ 2,050,495.78 |

CITY OF CANTON  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED  
(USED) BY OPERATING ACTIVITIES:**

|                                                                                                   |    |             |    |             |    |              |    |              |    |              |
|---------------------------------------------------------------------------------------------------|----|-------------|----|-------------|----|--------------|----|--------------|----|--------------|
| Operating Income (Loss)                                                                           | \$ | 9,489.51    | \$ | 78,825.57   | \$ | 200,041.75   | \$ | (122,580.47) | \$ | 165,776.36   |
| Adjustments to Reconcile Operating Income to<br>Net Cash Provided (Used) by Operating Activities: |    |             |    |             |    |              |    |              |    |              |
| Depreciation Expense                                                                              |    |             |    | 108,871.98  |    | 200,222.92   |    | 79,548.00    |    | 388,642.90   |
| Change in Assets and Liabilities:                                                                 |    |             |    |             |    |              |    |              |    |              |
| Receivables                                                                                       |    | (71,543.39) |    | (10,892.34) |    | (969.48)     |    | 157.25       |    | (83,247.96)  |
| Due From Government                                                                               |    |             |    | 592,359.00  |    | 707,338.00   |    | 149,220.48   |    | 1,448,917.48 |
| Inventories                                                                                       |    |             |    | 1,851.81    |    | 1,679.81     |    | 2,057.27     |    | 5,588.89     |
| Prepaid Expenses                                                                                  |    |             |    | 467.87      |    | 380.84       |    |              |    | 848.71       |
| Accounts and Other Payables                                                                       |    | (13,597.92) |    | (2,741.21)  |    | (149,743.13) |    | (220,147.79) |    | (386,230.05) |
| Accrued Wages Payable                                                                             |    |             |    | (64.83)     |    | (101.83)     |    |              |    | (166.66)     |
| Accrued Leave Payable                                                                             |    |             |    | (5,400.30)  |    | (5,400.30)   |    |              |    | (10,800.60)  |
| Customer Deposits                                                                                 |    |             |    | 4,270.00    |    |              |    |              |    | 4,270.00     |
| <b>Net Cash Provided (Used) by Operating Activities</b>                                           |    | <u>\$</u>   |    | <u>\$</u>   |    | <u>\$</u>    |    | <u>\$</u>    |    | <u>\$</u>    |
|                                                                                                   |    | (75,651.80) |    | 767,547.55  |    | 953,448.58   |    | (111,745.26) |    | 1,533,599.07 |

The attached notes are an integral part of these financial statements.

CITY OF CANTON  
NOTES TO THE FINANCIAL STATEMENTS

**1. Summary of Significant Accounting Policies**

**a. Financial Reporting Entity:**

The reporting entity of the City of Canton consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting 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 financial reporting entity's financial statements to be misleading or incomplete.

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 Housing and Redevelopment Commission of Canton, South Dakota (Commission) is a proprietary fund-type, discretely presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from the Canton Housing and Redevelopment Commission, 903 West Fifth, Canton, SD 57013.

**b. Basis of Presentation:**

*Government-wide Financial Statements:*

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. 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 reporting entity 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 and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent 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 financial reporting entity 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 and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

*BBB Tax Fund* – To account for a 3<sup>rd</sup> cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisitions, civic centers and auditoriums and debt services related to these acquisitions (SDCL 10-52-8). This is a major fund.

*Library Fund* – To account for library contributions, fines and other revenues and related expenditures. This is not a major fund.

#### **Proprietary Funds:**

*Enterprise Funds* – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principle revenue sources.

- a. *The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)*

- b. *Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.*
- c. *The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).*

Liquor Fund – A fund used to record financial transactions related to liquor operations. This fund is financed by user charges. This is a major fund.

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

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

Airport Fund – Financed primarily by user charges this fund accounts for the construction and operation of the municipal airport system and related facilities. This is a major fund.

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:**

*Government-wide Financial Statements:*

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 on the accrual basis of accounting.

*Fund Financial Statements:*

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental fund types, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary funds.

**Basis of Accounting:**

*Government-wide Financial Statements:*

In the government-wide Statement of Net Position and Statement of Activities, governmental, business-type, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

### *Fund Financial Statements:*

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Canton, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2018, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

#### d. 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:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

#### e. Deposits and Investments

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

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

#### f. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

*Government-Wide Statements:*

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2018 balance of governmental activities capital assets includes approximately 5.6% for which the costs were determined by estimates of the original costs. The total December 31, 2018 balance of capital assets for business-type activities are valued at original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities capital assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net investment in capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

|                                   | All       | NA            | NA          |
|-----------------------------------|-----------|---------------|-------------|
| Land and Land Rights              |           |               |             |
| Improvements other than Buildings | \$ 50,000 | Straight Line | 25-75 years |
| Buildings                         | 50,000    | Straight Line | 10-30 years |
| Machinery and Equipment           | 5,000     | Straight Line | 5-50 years  |
| Infrastructure                    | All       | Straight Line | 25-75 years |

Land is an inexhaustible capital asset and is not depreciated.

*Fund Financial Statements:*

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

**g. Long-Term Liabilities:**

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of state revolving loans, notes payable, capital leases, and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide financial statements.

**h. Program Revenues:**

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. Deferred Inflows and Deferred Outflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

**j. Proprietary Funds Revenue and Expense Classifications:**

In the proprietary fund's Statement of Revenues, Expenses, and Changes in 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.

**k. Cash and Cash Equivalents:**

The City pools the cash resources of its funds for cash management purposes. The proprietary funds 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 for the purpose of the Statement of Cash Flows.

## I. Equity Classifications:

### *Government-wide Statements:*

Equity is classified as net position and is displayed in three components:

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints places 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.
3. Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

### *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.

## m. Application of Net Position:

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 positions are available.

## n. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

- Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end.
- Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered, restricted, or committed. Fund Balance may be assigned by the City Council.
- Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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 a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use *committed, then assigned, and lastly, unassigned amounts* of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

A schedule of fund balances is provided as follows:

CITY OF CANTON  
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET  
GOVERNMENTAL FUNDS

|                            | General                | BBB<br>Sales Tax     | Other<br>Non-Major<br>Governmental | Total<br>Governmental  |
|----------------------------|------------------------|----------------------|------------------------------------|------------------------|
| <b>Fund Balances:</b>      | <u>Fund</u>            | <u>Fund</u>          | <u>Funds</u>                       | <u>Funds</u>           |
| <i>Nonspendable:</i>       |                        |                      |                                    |                        |
| Inventory                  | \$ 80,188.31           | \$                   | \$                                 | \$ 80,188.31           |
| Prepaid Expenses           | 31,310.68              |                      |                                    | 31,310.68              |
| SDPAA (Deposit)            | 111,839.00             |                      |                                    | 111,839.00             |
| <i>Restricted for:</i>     |                        |                      |                                    |                        |
| Liquor/Lodging             |                        | 171,210.84           |                                    | 171,210.84             |
| Library                    |                        |                      | 34,317.09                          | 34,317.09              |
| <i>Assigned:</i>           |                        |                      |                                    |                        |
| Swimming Pool              | 113,400.00             |                      |                                    | 113,400.00             |
| Capital Improvement        | 509,000.00             |                      |                                    | 509,000.00             |
| Library Building           | 71,000.00              |                      |                                    | 71,000.00              |
| Equipment                  | 328,500.00             |                      |                                    | 328,500.00             |
| Street Sweeper             | 180,000.00             |                      |                                    | 180,000.00             |
| Fire Truck                 | 200,000.00             |                      |                                    | 200,000.00             |
| Bike Trail                 | 8,829.27               |                      |                                    | 8,829.27               |
| <i>Unassigned</i>          | <u>1,895,616.37</u>    |                      |                                    | <u>1,895,616.37</u>    |
| <b>Total Fund Balances</b> | <u>\$ 3,529,683.63</u> | <u>\$ 171,210.84</u> | <u>\$ 34,317.09</u>                | <u>\$ 3,735,211.56</u> |

**2. Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk**

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 percent 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.

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 or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also SDCL § 4-5-9, requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of December 31, 2018, the City had the following investments:

External Investment Pool:

SDFIT      Unrated      \$ 266,486.16

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

**Interest Rate Risk** – The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Concentration of Credit Risk** – The City places no limit on the amount that may be invested in any one issuer.

**Assignment of Investment Income** – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

### **3. Restricted Cash and Investments**

Assets restricted to use for a specific purpose through segregation of balances in separate accounts are as follows:

| <u>Fund</u> | <u>Amount</u> | <u>Purpose</u>  |
|-------------|---------------|-----------------|
| Water Fund  | \$ 76,596.00  | Tenant deposits |

### **4. Receivables and Payables**

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

### **5. Inventory**

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

*Government-wide Financial Statements:*

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

*Fund Financial Statements:*

In the governmental fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a non-spendable fund balance classification which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

**6. Property Taxes**

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach an enforceable lien on property, and become due and payable as of the following January, 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.

**7. Changes In General Capital Assets**

A summary of changes in capital assets for the year ended December 31, 2018 is as follows:

|                                                                         | <u>Balance</u><br><u>01/01/18</u> | <u>Increases</u>       | <u>Decreases</u>      | <u>Balance</u><br><u>12/31/18</u> |
|-------------------------------------------------------------------------|-----------------------------------|------------------------|-----------------------|-----------------------------------|
| Governmental Activities:                                                |                                   |                        |                       |                                   |
| Land                                                                    | <u>\$ 380,135.23</u>              | <u>\$</u>              | <u>\$</u>             | <u>\$ 380,135.23</u>              |
| Total Capital Assets, not being<br>Depreciated                          | <u>380,135.23</u>                 |                        |                       | <u>380,135.23</u>                 |
| Capital Assets, being Depreciated:                                      |                                   |                        |                       |                                   |
| Buildings                                                               | 2,545,641.86                      |                        |                       | 2,545,641.86                      |
| Improvements, other than Buildings                                      | 5,526,159.75                      | 23,013.16              | (3,633.00)            | 5,545,539.91                      |
| Machinery and Equipment                                                 | <u>2,440,879.40</u>               | <u>172,262.44</u>      | <u>(79,431.60)</u>    | <u>2,533,710.24</u>               |
| Total Capital Assets, being<br>Depreciated                              | <u>10,512,681.01</u>              | <u>195,275.60</u>      | <u>(83,064.60)</u>    | <u>10,624,892.01</u>              |
| Less Accumulated Depreciation for:                                      |                                   |                        |                       |                                   |
| Buildings                                                               | 912,674.51                        | 59,237.88              |                       | 971,912.39                        |
| Improvements, other than Buildings                                      | 549,382.11                        | 125,017.33             | (3,633.00)            | 670,766.44                        |
| Machinery and Equipment                                                 | <u>1,116,718.74</u>               | <u>125,425.07</u>      | <u>(64,201.16)</u>    | <u>1,177,942.65</u>               |
| Total Accumulated Depreciation                                          | <u>2,578,775.36</u>               | <u>309,680.28</u>      | <u>(67,834.16)</u>    | <u>2,820,621.48</u>               |
| Total Governmental Activities<br>Capital Assets, being Depreciated, Net | <u>7,933,905.65</u>               | <u>(114,404.68)</u>    | <u>(15,230.44)</u>    | <u>7,804,270.53</u>               |
| Total Governmental Activities<br>Capital Assets, Net                    | <u>\$ 8,314,040.88</u>            | <u>\$ (114,404.68)</u> | <u>\$ (15,230.44)</u> | <u>\$ 8,184,405.76</u>            |

Depreciation expenses were charged to functions as follows:

|                                                                |                             |
|----------------------------------------------------------------|-----------------------------|
| General Government                                             | \$ 36,716.09                |
| Public Safety                                                  | 65,074.09                   |
| Public Works                                                   | 158,378.17                  |
| Culture and Recreation                                         | <u>49,511.93</u>            |
| <b>Total Depreciation Expense,<br/>Governmental Activities</b> | <b><u>\$ 309,680.28</u></b> |

|                                                                                  | <u>Balance<br/>1/1/2018</u>    | <u>Increases</u>            | <u>Decreases</u>         | <u>Balance<br/>12/31/2018</u>  |
|----------------------------------------------------------------------------------|--------------------------------|-----------------------------|--------------------------|--------------------------------|
| <b>Business-Type Activities:</b>                                                 |                                |                             |                          |                                |
| <b>Capital Assets, not being Depreciated</b>                                     |                                |                             |                          |                                |
| Land                                                                             | \$ 116,844.36                  | \$                          | \$                       | \$ 116,844.36                  |
| Construction in Progress                                                         | <u>259,152.51</u>              | <u>686,588.18</u>           | <u></u>                  | <u>945,740.69</u>              |
| <b>Total Capital Assets, not being Depreciated</b>                               | <b><u>375,996.87</u></b>       | <b><u>686,588.18</u></b>    | <b><u></u></b>           | <b><u>1,062,585.05</u></b>     |
| <b>Capital Assets, being Depreciated:</b>                                        |                                |                             |                          |                                |
| Buildings                                                                        | 384,195.10                     |                             |                          | 384,195.10                     |
| Machinery and Equipment                                                          | 976,467.99                     | 9,849.00                    |                          | 986,316.99                     |
| Improvements Other than Building                                                 | <u>14,319,546.57</u>           | <u>7,639.04</u>             | <u>(4,087.35)</u>        | <u>14,323,098.26</u>           |
| <b>Total</b>                                                                     | <b><u>15,680,209.66</u></b>    | <b><u>17,488.04</u></b>     | <b><u>(4,087.35)</u></b> | <b><u>15,693,610.35</u></b>    |
| <b>Less Accumulated Depreciation for:</b>                                        |                                |                             |                          |                                |
| Buildings                                                                        | 72,332.42                      | 8,050.56                    |                          | 80,382.98                      |
| Machinery and Equipment                                                          | 310,259.64                     | 54,028.84                   |                          | 364,288.48                     |
| Improvements Other than Building                                                 | <u>3,790,766.19</u>            | <u>326,563.50</u>           | <u>(4,087.35)</u>        | <u>4,113,242.34</u>            |
| <b>Total Accumulated Depreciation</b>                                            | <b><u>4,173,358.25</u></b>     | <b><u>388,642.90</u></b>    | <b><u>(4,087.35)</u></b> | <b><u>4,557,913.80</u></b>     |
| <b>Total Business-Type Activities Capital<br/>Assets, being depreciated, net</b> | <b><u>11,506,851.41</u></b>    | <b><u>(371,154.86)</u></b>  | <b><u></u></b>           | <b><u>11,135,696.55</u></b>    |
| <b>Business-Type Activity, Capital Assets, net</b>                               | <b><u>\$ 11,882,848.28</u></b> | <b><u>\$ 315,433.32</u></b> | <b><u>\$</u></b>         | <b><u>\$ 12,198,281.60</u></b> |

Depreciation expense was charged to functions as follows:

|                                                             |                             |
|-------------------------------------------------------------|-----------------------------|
| Water                                                       | \$ 108,871.98               |
| Sewer                                                       | 200,222.92                  |
| Airport                                                     | <u>79,548.00</u>            |
| <b>Total Depreciation Expense, Business-Type Activities</b> | <b><u>\$ 388,642.90</u></b> |

Construction Work in Progress at December 31, 2018 is composed of the following:

| <u>Project Name</u>         | <u>Amount<br/>Authorized</u> | <u>Expended<br/>thru<br/>12/31/18</u> | <u>Committed</u>    |
|-----------------------------|------------------------------|---------------------------------------|---------------------|
| <i>Enterprise</i>           |                              |                                       |                     |
| Pump House Renovation-Water | <u>\$ 958,070.69</u>         | <u>\$ 945,740.69</u>                  | <u>\$ 12,330.00</u> |

## 8. Long-Term Liabilities

A summary of changes in long-term liabilities follows:

|                                         | <u>Beginning Balance</u> | <u>Additions</u>       | <u>Retired</u>         | <u>Ending Balance</u>  | <u>Due within One Year</u> |
|-----------------------------------------|--------------------------|------------------------|------------------------|------------------------|----------------------------|
| <b>Primary Government:</b>              |                          |                        |                        |                        |                            |
| <b>Governmental Activities:</b>         |                          |                        |                        |                        |                            |
| Capital Lease Payable                   | \$ 9,501.09              | \$                     | \$ (2,548.27)          | \$ 6,952.82            | \$ 2,373.61                |
| Accrued Compensated Absences-           |                          |                        |                        |                        |                            |
| Governmental Funds                      | <u>122,208.63</u>        | <u>113,869.99</u>      | <u>(122,208.63)</u>    | <u>\$ 113,869.99</u>   | <u>56,935.00</u>           |
| <b>Total Governmental Activities</b>    | <u>131,709.72</u>        | <u>113,869.99</u>      | <u>(124,756.90)</u>    | <u>120,822.81</u>      | <u>59,308.61</u>           |
| <b>Business-Type Activities:</b>        |                          |                        |                        |                        |                            |
| Certificates of Participation           |                          |                        |                        |                        |                            |
| State Revolving Loan                    | 4,342,024.07             | 1,245,691.00           | (150,966.53)           | 5,436,748.54           | 219,576.57                 |
| Accrued Compensated Absences -          |                          |                        |                        |                        |                            |
| Business-Type Funds                     | <u>14,831.20</u>         | <u>4,030.60</u>        | <u>(14,831.20)</u>     | <u>4,030.60</u>        | <u>1,009.16</u>            |
| <b>Total Business - Type Activities</b> | <u>4,356,855.27</u>      | <u>1,249,721.60</u>    | <u>(165,797.73)</u>    | <u>5,440,779.14</u>    | <u>220,585.73</u>          |
| <b>Total Primary Government</b>         | <u>\$ 4,488,564.99</u>   | <u>\$ 1,363,591.59</u> | <u>\$ (290,554.63)</u> | <u>\$ 5,561,601.95</u> | <u>\$ 279,894.34</u>       |

Annual requirement to amortize long-term debt, excluding compensated absences and other postemployment benefits, at December 31, 2018 were:

### Governmental Activities

| Year Ending December 31, | <u>Copier Capital Lease</u> |                  | <u>State Revolving Loan</u> |                        | <u>Total</u>           |                        |
|--------------------------|-----------------------------|------------------|-----------------------------|------------------------|------------------------|------------------------|
|                          | <u>Principal</u>            | <u>Interest</u>  | <u>Principal</u>            | <u>Interest</u>        | <u>Principal</u>       | <u>Interest</u>        |
| 2019                     | \$ 2,373.62                 | \$ 232.94        | \$ 219,576.57               | \$ 176,605.47          | \$ 221,950.19          | \$ 176,838.41          |
| 2020                     | 2,064.45                    | 145.59           | 226,849.86                  | 169,332.18             | 228,914.31             | 169,477.77             |
| 2021                     | 2,148.56                    | 61.48            | 234,365.43                  | 161,846.63             | 236,513.99             | 161,908.11             |
| 2022                     | 366.19                      | 2.15             | 242,131.31                  | 154,050.73             | 242,497.50             | 154,052.88             |
| 2023                     |                             |                  | 284,293.77                  | 146,776.53             | 284,293.77             | 146,776.53             |
| 2024-2028                |                             |                  | 1,018,697.17                | 620,326.03             | 1,018,697.17           | 620,326.03             |
| 2029-2033                |                             |                  | 837,074.33                  | 462,784.97             | 837,074.33             | 462,784.97             |
| 2034-2038                |                             |                  | 712,263.48                  | 344,348.09             | 712,263.48             | 344,348.09             |
| 2039-Beyond              |                             |                  | <u>1,661,496.62</u>         | <u>467,679.96</u>      | <u>1,661,496.62</u>    | <u>467,679.96</u>      |
| <b>TOTAL</b>             | <u>\$ 6,952.82</u>          | <u>\$ 442.16</u> | <u>\$ 5,436,748.54</u>      | <u>\$ 2,703,750.59</u> | <u>\$ 5,443,701.36</u> | <u>\$ 2,704,192.75</u> |

Debt payable at December 31, 2018 is comprised of the following:

|                                                                                                                             |              |
|-----------------------------------------------------------------------------------------------------------------------------|--------------|
| Drinking Water #2, maturing in 2048 with an interest rate of 3.50%. The payments are made from the Water Fund               | 889,752.00   |
| Drinking Water #3, maturing in 2048 with an interest rate of 3.50%. The payments are made from the Water Fund               | 760,000.00   |
| Clean Water #2, maturing in 2024 with an interest rate of 3.50%. The payments are made from the Sewer Fund.                 | 225,662.63   |
| Clean Water #3, maturing in 2031 with an interest rate of 3.00%. The payments are made from the Sewer Fund.                 | 1,104,835.76 |
| Clean Water #4, maturing in 2044 with an interest rate of 3.25%. The payments are made from the Sewer Fund.                 | 672,360.71   |
| Clean Water #5, maturing in 2048 with an interest rate of 3.50%. The payments are made from the Sewer Fund.                 | 1,596,065.00 |
| <b>Capital Lease:</b>                                                                                                       |              |
| Copier lease, maturing in 2019, with a payment of \$56.61 per month. Payments to be made from the General Fund.             | 389.99       |
| Copier lease, maturing in 2022, with a payment of \$184.17 per month. Payments to be made from the General Fund.            | 6,562.83     |
| <b>Compensated Absences:</b>                                                                                                |              |
| Vested sick leave, payable as used or on termination. Payments to be made from the General, Liquor, Water, and Sewer Funds. | 117,900.59   |

#### 9. Restricted Net Position:

Restricted Net Position for the year ended December 31, 2018 was as follows:

| <u>Other Purpose</u>     | <u>Amount</u>        |
|--------------------------|----------------------|
| Cumulative Reserve-SDPAA | \$ 111,839.00        |
| Economic Development     | 171,210.84           |
| SDRS Pension Purposes    | 306,477.44           |
| Special Revenue-Library  | 34,317.09            |
| <b>Total</b>             | <b>\$ 623,844.37</b> |

#### 10. Risk Management

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

##### *Employee Health Insurance:*

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

##### *Liability Insurance:*

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local

government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for torts, thefts, errors and omissions, automobile and general liability.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available 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:

| <u>Years</u> | <u>Percentage</u> |
|--------------|-------------------|
| 1            | 55%               |
| 2            | 50%               |
| 3            | 40%               |
| 4            | 35%               |
| 5            | 30%               |
| 6+           | 20%               |

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

The amount available for refund to the City is considered a deposit for financial reporting purposes.

As of December 31, 2018, the City's balance available to be refunded per the SDPAA was \$111,839, which was an increase of \$44,422.61 from the previous year. The change in the amount available for refund was reported as extraordinary item in the current period due to the change in the methodology of determining the amount available for refund. In future periods the change in the amount available for refund will be accounted for as an increase or decrease in the insurance expenditure/expenses.

The City carries a \$100 deductible for the automobile comprehensive coverage and \$250 deductible for the automobile collision coverage, \$500 deductible for official's liability and \$2,000 for Law Enforcement liabilities.

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 objective of the Fund is to formulate, develop, and

administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$1,675,000 per individual incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

*Unemployment Benefits:*

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

**11. Interfund Transfers**

Interfund transfers for the year ended December 31, 2018 were as follows:

|                        |                      |           |
|------------------------|----------------------|-----------|
|                        | <u>Transfers to:</u> |           |
|                        | Airport              |           |
|                        | Fund                 |           |
|                        | -----                |           |
| <u>Transfers From:</u> |                      |           |
| <u>Major Funds:</u>    |                      |           |
| General Fund           | \$                   | 26,000.00 |

The City typically budgets transfers of money to conduct the indispensable functions of the City.

**12. Significant Contingencies-Litigation**

At December 31, 2018, the City was not involved in any litigation.

**13. Pension Plan**

**Plan Information:**

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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

### **Benefits Provided:**

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

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

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

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

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

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

### **Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% 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 percent 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 fiscal years ended December 31, 2018, 2017, and 2016 were \$72,507.03, \$68,510.47, and \$62,367.15, respectively, equal to the required contributions each year.

**Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:**

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period and reported by the City as of December 31, 2018 are as follows:

|                                                   |                      |
|---------------------------------------------------|----------------------|
| Total pension benefits                            | \$ 6,648,344.28      |
| Less net position restricted for pension benefits | <u>6,649,611.75</u>  |
| Net pension (asset) liability                     | <u>\$ (1,267.47)</u> |

At December 31, 2018, the City reported a liability (asset) of \$(1,267.47) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2018 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, 2018, the City's proportion was .05434590%, which is an increase (decrease) of .0010785% from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the City recognized pension expense (revenue) of \$100,386.27. At December 31, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|                                                                                                          | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|----------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------------------|
| Difference between expected and actual experience                                                        | \$ 47,905.78                              | \$                                       |
| Changes in assumption                                                                                    | 321,788.98                                |                                          |
| Net difference between projected and actual earnings on pension plan investments                         |                                           | 95,791.34                                |
| Changes in proportion and difference between City contributions and proportionate share of contributions | 4,436.84                                  | 5,670.58                                 |
| City contributions subsequent to the measurement date                                                    | <u>32,540.29</u>                          |                                          |
| <b>TOTAL</b>                                                                                             | <u>\$ 406,671.89</u>                      | <u>\$ 101,461.92</u>                     |

\$32,540.29 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension (asset) liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:

|              |                             |
|--------------|-----------------------------|
| 2019         | \$ 172,825.28               |
| 2020         | 128,567.26                  |
| 2021         | (16,862.93)                 |
| 2022         | <u>(10,626.20)</u>          |
| <b>TOTAL</b> | <b>\$ <u>273,903.41</u></b> |

**Actuarial Assumptions:**

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

|                  |                                                          |
|------------------|----------------------------------------------------------|
| Inflation        | 2.25 percent                                             |
| Salary Increases | Graded by years of service, from 6.50% at entry to 3.00% |
| Discount Rate    | 6.50% net of plan investment expense                     |

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

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

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

**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 changes in the discount rate:**

The following presents the City's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50) than the current rate:

|                                                                 | <u>1%</u><br><u>Decrease</u> | <u>Current</u><br><u>Discount</u><br><u>Rate</u> | <u>1%</u><br><u>Increase</u> |
|-----------------------------------------------------------------|------------------------------|--------------------------------------------------|------------------------------|
| City's proportionate share of the net pension liability (asset) | \$ 957,296.90                | \$ (1,267.47)                                    | \$ (781,007.58)              |

**Pension Plan Fiduciary Net Position:**

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

**14. Beginning Net Position Adjustment**

The beginning net position as of July 1, 2017 on the Government-Wide Statement of Net Position has been adjusted to restate the cumulative effect of not applying GASB 75 during the first year of required implementation. The Other Post-Employment Benefits Liability in the amount of \$90,007.47 was the total amount of this adjustment.

**REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF CANTON  
BUDGETARY BASIS COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                             | <u>Budgeted Amounts</u> |                     | Actual<br>Amounts<br>(Budgetary<br>Basis) | Variance<br>Positive<br>(Negative) |
|---------------------------------------------|-------------------------|---------------------|-------------------------------------------|------------------------------------|
|                                             | Original                | Final               |                                           |                                    |
| <b>Revenues:</b>                            |                         |                     |                                           |                                    |
| <b>Taxes:</b>                               |                         |                     |                                           |                                    |
| General Property Taxes                      | \$ 1,331,860.00         | \$ 1,331,860.00     | \$ 1,309,397.51                           | \$ (22,462.49)                     |
| General Sales and Use Taxes                 | 925,000.00              | 925,000.00          | 1,032,929.74                              | 107,929.74                         |
| Licenses and Permits                        | 25,700.00               | 25,700.00           | 31,290.55                                 | 5,590.55                           |
| <b>Intergovernmental Revenue:</b>           |                         |                     |                                           |                                    |
| Federal Grants                              |                         |                     | 54,846.25                                 | 54,846.25                          |
| <b>State Shared Revenue:</b>                |                         |                     |                                           |                                    |
| Other State Grants                          |                         |                     | 2,351.00                                  | 2,351.00                           |
| Bank Franchise Tax                          | 15,000.00               | 15,000.00           | 16,421.53                                 | 1,421.53                           |
| Motor Vehicle Commercial Prorate            | 2,000.00                | 2,000.00            |                                           | (2,000.00)                         |
| Liquor Tax Reversion                        | 20,000.00               | 20,000.00           | 18,687.89                                 | (1,312.11)                         |
| Motor Vehicle Licenses (5%)                 | 20,000.00               | 20,000.00           | 25,597.39                                 | 5,597.39                           |
| Local Government Highway and<br>Bridge Fund | 65,000.00               | 65,000.00           | 65,455.26                                 | 455.26                             |
| Other                                       | 500.00                  | 500.00              | 216.00                                    | (284.00)                           |
| <b>County Shared Revenue:</b>               |                         |                     |                                           |                                    |
| County Highway and Bridge Tax               |                         |                     | 10,904.84                                 | 10,904.84                          |
| County Wheel Tax                            | 15,000.00               | 15,000.00           | 5,419.12                                  | (9,580.88)                         |
| Other Intergovernmental Revenues            |                         |                     | 2,151.32                                  | 2,151.32                           |
| <b>Charge for Services:</b>                 |                         |                     |                                           |                                    |
| General Government                          | 287,700.00              | 287,700.00          | 265,572.14                                | (22,127.86)                        |
| Public Safety                               | 4,300.00                | 4,300.00            | 4,677.99                                  | 377.99                             |
| Highways and Streets                        | 6,650.00                | 6,650.00            | 24,625.60                                 | 17,975.60                          |
| Sanitation                                  | 200.00                  | 200.00              | 400.00                                    | 200.00                             |
| Health                                      | 500.00                  | 500.00              | 600.00                                    | 100.00                             |
| Culture and Recreation                      | 46,000.00               | 46,000.00           | 52,040.51                                 | 6,040.51                           |
| <b>Fines and Forfeits:</b>                  |                         |                     |                                           |                                    |
| Court Fines and Costs                       | 1,000.00                | 1,000.00            | 1,623.99                                  | 623.99                             |
| <b>Miscellaneous Revenue:</b>               |                         |                     |                                           |                                    |
| Investment Earnings                         | 16,000.00               | 16,000.00           | 20,759.86                                 | 4,759.86                           |
| Contribution and Donations                  | 3,000.00                | 3,000.00            | 1,900.00                                  | (1,100.00)                         |
| Other                                       | 18,500.00               | 18,500.00           | 29,557.90                                 | 11,057.90                          |
| <b>Total Revenue</b>                        | <u>2,803,910.00</u>     | <u>2,803,910.00</u> | <u>2,977,426.39</u>                       | <u>173,516.39</u>                  |
| <b>Expenditures:</b>                        |                         |                     |                                           |                                    |
| <b>General Government:</b>                  |                         |                     |                                           |                                    |
| Legislative                                 | 23,500.00               | 23,500.00           | 22,003.77                                 | 1,496.23                           |
| Executive                                   | 264,500.00              | 264,500.00          | 150,053.41                                | 114,446.59                         |
| Elections                                   | 4,550.00                | 4,550.00            |                                           | 4,550.00                           |
| Financial Administration                    | 301,100.00              | 301,100.00          | 271,446.82                                | 29,653.18                          |
| Other                                       | 100,550.00              | 108,550.00          | 69,653.22                                 | 38,896.78                          |
| <b>Total General Government</b>             | <u>694,200.00</u>       | <u>702,200.00</u>   | <u>513,157.22</u>                         | <u>189,042.78</u>                  |

**REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF CANTON  
BUDGETARY BASIS COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                                | <u>Budgeted Amounts</u> |                        | <u>Actual<br/>Amounts<br/>(Budgetary<br/>Basis)</u> | <u>Variance<br/>Positive<br/>(Negative)</u> |
|------------------------------------------------|-------------------------|------------------------|-----------------------------------------------------|---------------------------------------------|
|                                                | <u>Original</u>         | <u>Final</u>           |                                                     |                                             |
| Public Safety:                                 |                         |                        |                                                     |                                             |
| Police                                         | 598,750.00              | 598,750.00             | 569,314.95                                          | 29,435.05                                   |
| Fire                                           | 169,140.00              | 169,140.00             | 128,288.41                                          | 40,851.59                                   |
| <b>Total Public Safety</b>                     | <u>767,890.00</u>       | <u>767,890.00</u>      | <u>697,603.36</u>                                   | <u>70,286.64</u>                            |
| Public Works:                                  |                         |                        |                                                     |                                             |
| Highways and Streets                           | 792,250.00              | 982,250.00             | 738,851.30                                          | 243,398.70                                  |
| Sanitation                                     | 117,150.00              | 117,150.00             | 116,980.75                                          | 169.25                                      |
| <b>Total Public Works</b>                      | <u>909,400.00</u>       | <u>1,099,400.00</u>    | <u>855,832.05</u>                                   | <u>243,567.95</u>                           |
| Health and Welfare:                            |                         |                        |                                                     |                                             |
| Health                                         | 20,350.00               | 22,725.00              | 24,733.76                                           | (2,008.76)                                  |
| <b>Total Health and Welfare</b>                | <u>20,350.00</u>        | <u>22,725.00</u>       | <u>24,733.76</u>                                    | <u>(2,008.76)</u>                           |
| Culture and Recreation:                        |                         |                        |                                                     |                                             |
| Recreation                                     | 186,300.00              | 216,300.00             | 122,863.60                                          | 93,436.40                                   |
| Parks                                          | 225,600.00              | 225,600.00             | 186,701.83                                          | 38,898.17                                   |
| Libraries                                      | 187,070.00              | 187,070.00             | 169,361.39                                          | 17,708.61                                   |
| <b>Total Culture and Recreation</b>            | <u>598,970.00</u>       | <u>628,970.00</u>      | <u>478,926.82</u>                                   | <u>150,043.18</u>                           |
| Conservation and Development:                  |                         |                        |                                                     |                                             |
| Economic Development & Assistance              | 18,150.00               | 18,150.00              | 7,479.25                                            | 10,670.75                                   |
| <b>Total Conservation and Development</b>      | <u>18,150.00</u>        | <u>18,150.00</u>       | <u>7,479.25</u>                                     | <u>10,670.75</u>                            |
| Debt Service                                   |                         |                        | 2,548.27                                            | (2,548.27)                                  |
| <b>Total Expenditures</b>                      | <u>3,008,960.00</u>     | <u>3,239,335.00</u>    | <u>2,580,280.73</u>                                 | <u>659,054.27</u>                           |
| Excess of Revenue Over (Under)<br>Expenditures | <u>(205,050.00)</u>     | <u>(435,425.00)</u>    | <u>397,145.66</u>                                   | <u>832,570.66</u>                           |
| <b>Other Financing Sources (Uses):</b>         |                         |                        |                                                     |                                             |
| Transfers Out                                  | <u>(26,000.00)</u>      | <u>(26,000.00)</u>     | <u>(26,000.00)</u>                                  |                                             |
| Extraordinary Items                            |                         |                        | 44,422.61                                           | 44,422.61                                   |
| <b>Net Change in Fund Balances</b>             | <u>(231,050.00)</u>     | <u>(461,425.00)</u>    | <u>432,022.93</u>                                   | <u>893,447.93</u>                           |
| Fund Balance - Beginning                       | <u>3,097,660.70</u>     | <u>3,097,660.70</u>    | <u>3,097,660.70</u>                                 |                                             |
| <b>FUND BALANCE - ENDING</b>                   | <u>\$ 2,866,610.70</u>  | <u>\$ 2,636,235.70</u> | <u>\$ 3,529,683.63</u>                              | <u>\$ 893,447.93</u>                        |

**REQUIRED SUPPLEMENTARY INFORMATION  
CITY OF CANTON  
BUDGETARY BASIS COMPARISON SCHEDULE  
SPECIAL REVENUE FUND - BBB FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

|                                       | <u>Budgeted Amounts</u> |                     | <b>Actual<br/>Amounts<br/>(Budgetary<br/>Basis)</b> | <b>Variance<br/>Positive<br/>(Negative)</b> |
|---------------------------------------|-------------------------|---------------------|-----------------------------------------------------|---------------------------------------------|
|                                       | <u>Original</u>         | <u>Final</u>        |                                                     |                                             |
| <b><u>Revenues:</u></b>               |                         |                     |                                                     |                                             |
| Taxes:                                |                         |                     |                                                     |                                             |
| General Sales and Use Taxes           | \$ 50,000.00            | \$ 50,000.00        | \$ 78,483.13                                        | \$ 28,483.13                                |
| <b>Total Revenue</b>                  | <u>50,000.00</u>        | <u>50,000.00</u>    | <u>78,483.13</u>                                    | <u>28,483.13</u>                            |
| <b><u>Expenditures:</u></b>           |                         |                     |                                                     |                                             |
| Economic Developmet<br>and Assistance | 47,800.00               | 92,800.00           | 31,300.00                                           | 61,500.00                                   |
| <b>Total Expenditures</b>             | <u>47,800.00</u>        | <u>92,800.00</u>    | <u>31,300.00</u>                                    | <u>61,500.00</u>                            |
| Net Change in Fund Balances           | 2,200.00                | (42,800.00)         | 47,183.13                                           | 89,983.13                                   |
| Fund Balance - Beginning              | <u>124,027.71</u>       | <u>124,027.71</u>   | <u>124,027.71</u>                                   | <u>                    </u>                 |
| <b>FUND BALANCE - ENDING</b>          | <u>\$ 126,227.71</u>    | <u>\$ 81,227.71</u> | <u>\$ 171,210.84</u>                                | <u>\$ 89,983.13</u>                         |

**Schedule of Required Supplementary Information  
CITY OF CANTON**

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)  
South Dakota Retirement System**

|                                                                                                                 | <u>2014</u>  | <u>2015</u>  | <u>2016</u> | <u>2017</u>  | <u>2018</u> |
|-----------------------------------------------------------------------------------------------------------------|--------------|--------------|-------------|--------------|-------------|
| City's proportion of the net pension liability (asset)                                                          | 0.0567131%   | 0.0553673%   | 0.0547918%  | 0.0532674%   | 0.0543459%  |
| City's proportionate share of net pension liability (asset)                                                     | \$ (408,595) | \$ (234,829) | \$ 185,081  | \$ (4,834)   | \$ (1,267)  |
| City's covered-employee payroll                                                                                 | \$ 915,271   | \$ 934,277   | \$ 952,510  | \$ 1,036,928 | \$ 992,689  |
| City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | -44.64%      | -25.13%      | 19.43%      | -0.47%       | -0.13%      |
| Plan fiduciary net position as a percentage of the total pension liability (asset)                              | 107.3%       | 104.1%       | 96.9%       | 100.1%       | 100.0%      |

\* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year

**Schedule of Required Supplementary Information**  
**CITY OF CANTON**  
**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**South Dakota Retirement System**

|                                                                      | <u>2015</u>      | <u>2016</u>      | <u>2017</u>      | <u>2018</u>      |
|----------------------------------------------------------------------|------------------|------------------|------------------|------------------|
| Contractually required contribution                                  | <u>\$ 64,239</u> | <u>\$ 62,367</u> | <u>\$ 68,510</u> | <u>\$ 72,507</u> |
| Contributions in relation to the contractually required contribution | <u>\$ 64,239</u> | <u>\$ 62,367</u> | <u>\$ 68,510</u> | <u>\$ 72,507</u> |
| Contribution deficiency (excess)                                     | <u>\$ _____</u>  | <u>\$ _____</u>  | <u>\$ _____</u>  | <u>\$ _____</u>  |
| City's covered-employee payroll                                      | \$ 934,277       | \$ 952,510       | \$1,036,928      | \$ 992,689       |
| Contributions as a percentage of covered-employee payroll            | 6.88%            | 6.55%            | 6.61%            | 7.30%            |

**CITY OF CANTON**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**Schedules of Budgetary Comparisons for the General Fund**  
**and for each major Special Revenue Fund with a legally required budget**

**Note 1: Budgets and Budgetary Accounting:**

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

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

Encumbrances 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 fund, and capital projects funds.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund, special revenue funds and capital project funds.
7. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP).

**Note 2: GAAP/ Budgetary Accounting Basis Differences**

The financial statements prepared in conformity with USGAAP 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 RSI 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.

# QUAM, BERGLIN, & POST, P.C.

CERTIFIED PUBLIC ACCOUNTANTS  
110 WEST MAIN – P.O. BOX 426  
ELK POINT, SOUTH DAKOTA 57025

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(605) 356-3374

## 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

City Council  
The City of Canton  
Canton, 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, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2018, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Canton's basic financial statements and have issued our report thereon dated September 3, 2019. Our report includes a reference to other auditors who audited the financial statements of the Canton Housing and Redevelopment Commission as described in our report on the City of Canton's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

### Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Current Audit Findings as item 2018-001 to be a significant deficiency.

## **Compliance and Other Matters**

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

### **City of Canton, South Dakota's Response to Finding**

The City of Canton's response to the findings identified in our audit can be found in the table of contents. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. The 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. As required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.



Quam, Berglin, & Post, P.C.  
Certified Public Accountants  
Elk Point, South Dakota

September 3, 2019

**CITY OF CANTON  
SCHEDULE OF AUDIT FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

**PRIOR OTHER AUDIT FINDING NUMBER 2017-001:**

There is a significant deficiency resulting from the lack of segregation of duties for revenues and expenditures.

**CURRENT OTHER AUDIT FINDINGS:**

***Internal Control Related Finding – Significant Deficiency:***

**FINDING NUMBER 2018-001**

There is a significant deficiency resulting from the lack of segregation of duties for revenues and expenditures.

**Criteria:**

In order to achieve proper internal control, it is necessary to have segregation of duties provided between performance, review and record keeping of the tasks related to the revenues. Lack of this segregation of duties could adversely affect the organization's ability to record, process, summarize and report financial data consistent with management assertions.

**Condition, Cause and Effect:**

A significant deficiency in internal controls was reported due to a lack of proper segregation of duties for revenues and expenditures resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

**Recommendation:**

We recommend that City officials be cognizant of this lack of segregation of duties and attempt to provide compensating controls whenever and wherever possible and practical.

**Corrective Action Plan:**

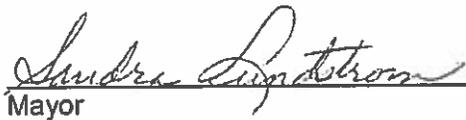
Kyle Cwach, Finance Officer for the City of Canton, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Canton has prepared a response to the finding which is on the following page.



Corrective Action Plan  
For the year ended December 31, 2018

The City of Canton has considered the lack of segregation of duties for the revenue and expenditure functions.

At this time, it is not cost efficient for the City of Canton to hire additional staff needed to achieve segregation of duties. The City of Canton has implemented alternate procedures to decrease the likelihood that financial data is adversely affected.

  
\_\_\_\_\_  
Mayor

  
\_\_\_\_\_  
Finance Officer/City Administrator