

**MUNICIPALITY OF CANISTOTA
CANISTOTA, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2014 TO DECEMBER 31, 2014
AND
FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF CANISTOTA

MUNICIPAL OFFICIALS
DECEMBER 31, 2015

MAYOR:

Don Kom

GOVERNING BOARD:

Joel Weidenbach – President
Rich Becker – Vice-President
Rihannon Delle
Brad Miller

FINANCE OFFICER:

Kathy Townsend

ATTORNEY:

Mike Fink

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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

Municipal Council
Municipality of Canistota
Canistota, South Dakota

We have audited, in accordance with the 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, business-type activities, and each major fund of the Municipality of Canistota, South Dakota, as of December 31, 2015 and 2014, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality of Canistota's basic financial statements and have issued our report thereon dated March 8, 2016, which was adverse because of inadequate accounting records.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality of Canistota'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 Municipality of Canistota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality of Canistota's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality of Canistota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However,

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Current Audit Findings and Questioned Costs item 2015-002.

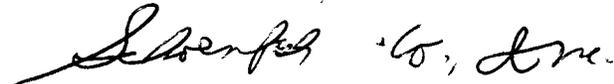
Municipality of Canistota's Response to Findings

The Municipality of Canistota's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Municipality of Canistota's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express not opinion on it.

We also noted certain additional matters that we have reported to the management of the Municipality of Canistota in a separate communication dated March 8, 2016.

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 Municipality of Canistota's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
March 8, 2016

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Governing Board
Municipality of Canistota
Canistota, South Dakota

Compliance

We have audited the Municipality of Canistota, South Dakota compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Municipality of Canistota's major federal programs for the biennial period ended December 31, 2015. The Municipality of Canistota's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Municipality's major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality of Canistota's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the Municipality of Canistota, South Dakota complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the biennial period ended December 31, 2015.

Report on Internal Control Over Compliance

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

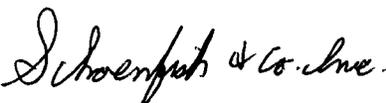
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2015-001, that we consider to be material weaknesses.

The Municipality of Canistota's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The Municipality of Canistota's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report and our report on compliance for each major federal program are matters of public record and their distribution is not limited.



Schoenfish & Co., Inc.
 Certified Public Accountants
 March 8, 2016

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR AUDIT FINDINGS:

Internal Control – Related Findings – Material Weaknesses:

Finding Number 2013-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment has not been corrected and is restated as current audit finding number 2015-001.

PRIOR OTHER AUDIT FINDINGS:

Compliance – Material Weakness:

Finding Number 2013-002:

Expenditures exceeded the amounts budgeted in the Third Penny Fund. This comment has not been corrected, and is restated as current audit finding number 2015-002.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTSSummary of the Independent Auditor's Results:Financial Statements

- a. An adverse opinion was issued on the financial statements of the governmental activities, business-type activities and each major fund opinion units because of errors and omissions in the financial statements.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for revenues and inadequate record keeping, as discussed in finding number 2015-001.
- c. Our audit disclosed noncompliance which was material to the financial statements for overspending the Third Penny Fund budget as discussed in finding number 2015-002.

Federal Awards

- d. A material weakness was disclosed for internal control over major federal programs for a lack of segregation of duties affecting the reporting compliance requirement category as discussed in finding number 2015-001.
- e. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit disclosed audit findings that are required to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510 (a). See finding number 2015-001.
- g. The federal awards tested as major programs were:
 - 1. Community Development Block Grants CFDA No. 14.228
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$750,000.
- i. The Municipality of Canistota did not qualify as a low-risk auditee.

CURRENT FEDERAL AUDIT FINDINGS:Internal Control – Related Findings – Material Weaknesses:Finding Number 2015-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment affects the reporting compliance requirement for Community Development Block Grants, CFDA No. 14.228. This is the third consecutive audit in which a similar comment has occurred.

Criteria:

Proper segregation of duties and municipal records results in increased reliability of reported financial data and decreased potential for the loss of public assets.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Condition:

The following deficiencies in internal accounting control and record keeping were noted:

- a. A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. AU-C Section 315 addresses the entity's control environment and the risk of material misstatement.
- b. The following records were not maintained by employees of the Municipality:
 1. General journal;
 2. General ledger;
 3. General capital asset records;
 4. Enterprise fund capital asset records;
 5. Inventories were not updated by the maintenance department; and
 6. Bank reconciliations were not done accurately or in a timely manner.
 7. Budgets recorded in the records did not match the budget ordinance.
 8. Water Deposits must be developed into a complete listing of outstanding deposits.
- c. The receipts were not all written for revenue received nor was it all receipted into the appropriate fund.
- d. Bank balances were not compared to the records for accuracy and cash balances could not be determined by fund type.
- e. Monthly financial reports were not provided to the governing board by fund type.

SDCL 9-14-18 states that the finance officer "shall keep regular books of account in which shall be entered all indebtedness of the Municipality, and which shall at all times show the financial condition of the Municipality, the amount of bonds, warrants, certificates, or other evidences of indebtedness issued by the governing body, and the amounts of all bonds, warrants, certificates, or other evidences of indebtedness which have been redeemed and the amount of each outstanding."

SDCL 9-14-19 states that the finance officer "shall supervise the accounting system for all departments and offices of the Municipality in accordance with the recommendations of the Department of Legislative Audit."

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties, and improper records were maintained for the Municipality of Canistota.

Recommendations:

1. We recommend that the municipal officials be cognizant of the lack of segregation of duties for the revenue, expenditure, and payroll functions and attempt to provide compensating internal controls whenever and wherever possible and practical.
2. We recommend that all necessary accounting records be established and properly maintained.

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SCHEDULE OF CURRENT AUDIT FINDINGS
(Continued)

Corrective Action Plan:

The Municipality of Canistota Mayor, Don Kom, is the contact person responsible for the response for this comment. This comment is due to the expertise of staff and the size of the Municipality of Canistota which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CURRENT OTHER AUDIT FINDINGS:

Compliance – Related Item – Material Weakness:

Finding Number 2015-002:

Expenditures exceeded the amounts budgeted in the Third Penny Fund in 2015. This is the second audit in which this comment has occurred.

Criteria:

SDCL 9-21-2 states in part, "The governing body of each municipality shall, no later than its first regular meeting in September of each year or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing fiscal year, in which it shall appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality." Also, SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition:

The Municipality expended money in excess of amounts budgeted without supplementing the budget as allowed by SDCL 9-21-7.

Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

3. We recommend that the expenditures be limited to amounts budgeted or budget supplements be made in accordance with SDCL 9-21-7 and SDCL 9-21-6.1 to allow for expenditures.

Corrective Action Plan:

The Municipality of Canistota Mayor, Don Kom, is the contact person responsible for the response for this comment. The Municipality will be more careful to follow the budgetary guidelines prescribed by law.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on April 4, 2016.

Schoenfish & Co., Inc.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Canistota
Canistota, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Canistota, South Dakota, as of December 31, 2015 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality of Canistota's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Adverse Opinions

The Municipality does not record the amounts of interfund services provided and used. We were unable to determine if these amounts are material.

Several errors and omissions were noted in the financial statements. Some of the more serious items were improper recording of receipts, omission of several receipts and disbursements, and not being able to determine cash balances by fund type.

Opinions

In our opinion, because of the effects of the items reported in the above paragraphs, the financial statements referred to above do not present fairly the respective financial position, modified cash basis, of the governmental activities, business-type activities, and each major fund of the Municipality of Canistota as of December 31, 2015 and 2014, and the respective changes in financial position, modified cash basis, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America with the basis of accounting described in Note 1.c.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality of Canistota's basic financial statements. The Budgetary Comparison Schedules, the Long-Term Liabilities, and Schedule of Expenditures of State Awards, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The Budgetary Comparison Schedules, the Long-Term Liabilities, Schedule of Expenditures of Federal Awards, and Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the effects of the adverse opinion on the basic financial statements, we do not express an opinion on the supplementary information in relation to the basic financial statements taken as a whole.

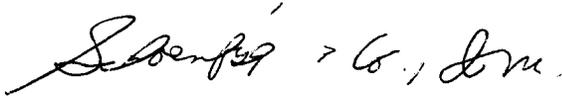
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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2016 on our consideration of the Municipality of Canistota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Municipality of Canistota's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
March 8, 2016

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MUNICIPALITY OF CANISTOTA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	396,711.80	318,643.80	715,355.60
Investments	214,666.69		214,666.69
TOTAL ASSETS	611,378.49	318,643.80	930,022.29
NET POSITION:			
Restricted for:			
City Promotion Purposes	49,666.95		49,666.95
Unrestricted	561,711.54	318,643.80	880,355.34
TOTAL NET POSITION	611,378.49	318,643.80	930,022.29

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	90,217.25	9,229.00			(80,988.25)		(80,988.25)
Public Safety	98,766.12				(98,766.12)		(98,766.12)
Public Works	189,181.03	55,615.85	33,668.83	31,316.97	(68,579.38)		(68,579.38)
Health and Welfare	2,643.49				(2,643.49)		(2,643.49)
Culture and Recreation	58,640.01	5,923.00			(52,717.01)		(52,717.01)
Conservation and Development	8,750.00				(8,750.00)		(8,750.00)
Total Governmental Activities	448,197.90	70,767.85	33,668.83	31,316.97	(312,444.25)		(312,444.25)
Business-type Activities:							
Water	1,984,879.55	184,701.34		832,478.12		(967,700.09)	(967,700.09)
Sewer	1,965,341.05	127,313.40		1,282,601.38		(555,426.27)	(555,426.27)
Total Business-Type Activities	3,950,220.60	312,014.74	0.00	2,115,079.50		(1,523,126.36)	(1,523,126.36)
Total Primary Government	4,398,418.50	382,782.59	33,668.83	2,146,396.47	(312,444.25)	(1,523,126.36)	(1,835,570.61)
General Revenues:							
Taxes:							
Property Taxes					146,431.71		146,431.71
Sales Taxes					223,275.31		223,275.31
State Shared Revenues					4,689.29		4,689.29
Unrestricted Investment Earnings					2,596.58		2,596.58
Debt Issued						1,443,258.00	1,443,258.00
Miscellaneous Revenue					11,638.75		11,638.75
Total General Revenues					388,631.64	1,443,258.00	1,831,889.64
Change in Net Position					76,187.39	(79,868.36)	(3,680.97)
Net Position - Beginning					535,191.10	398,512.16	933,703.26
NET POSITION - ENDING					611,378.49	318,643.80	930,022.29

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2015

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	<u>347,044.85</u>	<u>49,666.95</u>	<u>396,711.80</u>
Investments	<u>214,666.69</u>		<u>214,666.69</u>
TOTAL ASSETS	<u><u>561,711.54</u></u>	<u><u>49,666.95</u></u>	<u><u>611,378.49</u></u>
FUND BALANCES:			
Restricted		<u>49,666.95</u>	<u>49,666.95</u>
Unassigned	<u>561,711.54</u>		<u>561,711.54</u>
TOTAL FUND BALANCES	<u><u>561,711.54</u></u>	<u><u>49,666.95</u></u>	<u><u>611,378.49</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	General Fund	Third Penny Fund	Total Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	144,424.11		144,424.11
General Sales and Use Taxes	209,718.48	13,556.83	223,275.31
Amusement Taxes	24.00		24.00
Penalties & Interest on Delinquent Taxes	1,983.60		1,983.60
Total Taxes	356,150.19	13,556.83	369,707.02
Licenses and Permits	664.00	0.00	664.00
Intergovernmental Revenue:			
Federal Grants	16,154.00		16,154.00
State Shared Revenue:			
Bank Franchise Tax	610.07		610.07
Liquor Tax Reversion	4,079.22		4,079.22
Motor Vehicle Licenses	8,807.18		8,807.18
Local Government Highway and Bridge Fund	21,362.42		21,362.42
County Shared Revenue:			
County Road Tax	1,019.22		1,019.22
County Wheel Tax	2,480.01		2,480.01
Total Intergovernmental Revenue	54,512.12	0.00	54,512.12
Charges for Goods and Services:			
Sanitation	55,615.85		55,615.85
Culture and Recreation	5,923.00		5,923.00
Total Charges for Goods and Services	61,538.85	0.00	61,538.85
Miscellaneous Revenue:			
Investment Earnings	2,596.58		2,596.58
Rentals	8,565.00		8,565.00
Special Assessments	15,162.97		15,162.97
Liquor Operating Agreement Income	2,250.00		2,250.00
Other	7,437.75		7,437.75
Total Miscellaneous Revenue	36,012.30	0.00	36,012.30
Total Revenue	508,877.46	13,556.83	522,434.29
Expenditures:			
General Government:			
Legislative	9,069.19		9,069.19
Elections	12.25		12.25
Financial Administration	23,776.88		23,776.88
Other	22,888.10	34,470.83	57,358.93
Total General Government	55,746.42	34,470.83	90,217.25

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2015

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
Expenditures: (continued)			
Public Safety:			
Police	69,590.00		69,590.00
Fire	29,176.12		29,176.12
Total Public Safety	<u>98,766.12</u>	<u>0.00</u>	<u>98,766.12</u>
Public Works:			
Highways and Streets	131,095.49		131,095.49
Sanitation	58,085.54		58,085.54
Total Public Works	<u>189,181.03</u>	<u>0.00</u>	<u>189,181.03</u>
Health and Welfare:			
Health	2,643.49		2,643.49
Total Health and Welfare	<u>2,643.49</u>	<u>0.00</u>	<u>2,643.49</u>
Culture and Recreation:			
Recreation	42,019.09		42,019.09
Parks	16,620.92		16,620.92
Total Culture and Recreation	<u>58,640.01</u>	<u>0.00</u>	<u>58,640.01</u>
Conservation and Development:			
Economic Development and Assistance (Industrial Development)	8,750.00		8,750.00
Total Conservation and Development	<u>8,750.00</u>	<u>0.00</u>	<u>8,750.00</u>
Total Expenditures	<u>413,727.07</u>	<u>34,470.83</u>	<u>448,197.90</u>
Excess of Revenue Over (Under) Expenditures	<u>95,150.39</u>	<u>(20,914.00)</u>	<u>74,236.39</u>
Other Financing Sources (Uses):			
Sale of Municipal Property	1,951.00		1,951.00
Total Other Financing Sources (Uses)	<u>1,951.00</u>	<u>0.00</u>	<u>1,951.00</u>
Net Change in Fund Balance	<u>97,101.39</u>	<u>(20,914.00)</u>	<u>76,187.39</u>
Fund Balance - Beginning	<u>464,610.15</u>	<u>70,580.95</u>	<u>535,191.10</u>
FUND BALANCE - ENDING	<u>561,711.54</u>	<u>49,666.95</u>	<u>611,378.49</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2015

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	318,643.80		318,643.80
Due from Sewer Fund	18,610.52		18,610.52
TOTAL ASSETS	<u>337,254.32</u>	<u>0.00</u>	<u>337,254.32</u>
LIABILITIES:			
Current Liabilities:			
Due to Water Fund		18,610.52	18,610.52
TOTAL LIABILITIES	<u>0.00</u>	<u>18,610.52</u>	<u>18,610.52</u>
NET POSITION:			
Unrestricted Net Position	337,254.32	(18,610.52)	318,643.80
TOTAL NET POSITION	<u>337,254.32</u>	<u>(18,610.52)</u>	<u>318,643.80</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	156,273.06	104,611.33	260,884.39
Revenue Dedicated to Servicing Debt	28,428.28	22,702.07	51,130.35
Total Operating Revenue	184,701.34	127,313.40	312,014.74
Operating Expenses:			
Personal Services	22,141.93	22,325.98	44,467.91
Other Current Expense	48,105.02	19,689.66	67,794.68
Materials	59,672.60		59,672.60
Capital Assets	1,235,267.48	1,870,749.61	3,106,017.09
Total Operating Expenses	1,365,187.03	1,912,765.25	3,277,952.28
Operating Income (Loss)	(1,180,485.69)	(1,785,451.85)	(2,965,937.54)
Nonoperating Revenue (Expense):			
Debt Service	(607,654.71)	(27,365.60)	(635,020.31)
Interest Expense	(12,037.81)	(25,210.20)	(37,248.01)
Long-Term Debt Issued	1,069,320.00	373,938.00	1,443,258.00
Total Nonoperating Revenue (Expense)	449,627.48	321,362.20	770,989.68
Income (Loss) Before Contributions	(730,858.21)	(1,464,089.65)	(2,194,947.86)
Capital Contributions	832,478.12	1,282,601.38	2,115,079.50
Change in Net Position	101,619.91	(181,488.27)	(79,868.36)
Net Position - Beginning	235,634.41	162,877.75	398,512.16
NET POSITION - ENDING	337,254.32	(18,610.52)	318,643.80

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
December 31, 2014

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	322,383.33	398,512.16	720,895.49
Investments	212,807.77		212,807.77
TOTAL ASSETS	535,191.10	398,512.16	933,703.26
NET POSITION:			
Restricted for:			
City Promotion Purposes	70,580.95		70,580.95
Unrestricted	464,610.15	398,512.16	863,122.31
TOTAL NET POSITION	535,191.10	398,512.16	933,703.26

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2014

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	69,383.83	4,700.00	4,400.00		(60,283.83)		(60,283.83)
Public Safety	77,864.72				(77,864.72)		(77,864.72)
Public Works	135,200.06	53,830.86	32,401.99	22,572.11	(26,395.10)		(26,395.10)
Health and Welfare	1,045.09				(1,045.09)		(1,045.09)
Culture and Recreation	59,946.61	6,476.60			(53,470.01)		(53,470.01)
Conservation and Development	5,000.00				(5,000.00)		(5,000.00)
Total Governmental Activities	348,440.31	65,007.46	36,801.99	22,572.11	(224,058.75)		(224,058.75)
Business-type Activities:							
Water	123,242.18	164,708.60		23,766.00		65,232.42	65,232.42
Sewer	88,416.70	108,861.25		9,309.00		29,753.55	29,753.55
Total Business-Type Activities	211,658.88	273,569.85	0.00	33,075.00		94,985.97	94,985.97
Total Primary Government	560,099.19	338,577.31	36,801.99	55,647.11	(224,058.75)	94,985.97	(129,072.78)
General Revenues:							
Taxes:							
Property Taxes					141,145.80		141,145.80
Sales Taxes					166,199.63		166,199.63
State Shared Revenues					5,588.38		5,588.38
Debt Issued						32,742.00	32,742.00
Miscellaneous Revenue					10,382.99		10,382.99
Total General Revenues					323,316.80	32,742.00	356,058.80
Change in Net Position					99,258.05	127,727.97	226,986.02
Net Position - Beginning					435,933.05	270,784.19	706,717.24
NET POSITION - ENDING					535,191.10	398,512.16	933,703.26

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF CANISTOTA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2014**

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	<u>251,802.38</u>	<u>70,580.95</u>	<u>322,383.33</u>
Investments	<u>212,807.77</u>		<u>212,807.77</u>
TOTAL ASSETS	<u><u>464,610.15</u></u>	<u><u>70,580.95</u></u>	<u><u>535,191.10</u></u>
FUND BALANCES:			
Restricted		<u>70,580.95</u>	<u>70,580.95</u>
Unassigned	<u>464,610.15</u>		<u>464,610.15</u>
TOTAL FUND BALANCES	<u><u>464,610.15</u></u>	<u><u>70,580.95</u></u>	<u><u>535,191.10</u></u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
Taxes:			
General Property Taxes	139,612.40		139,612.40
General Sales and Use Taxes	153,335.78	12,863.85	166,199.63
Amusement Taxes	72.00		72.00
Penalties & Interest on Delinquent Taxes	1,461.40		1,461.40
Total Taxes	<u>294,481.58</u>	<u>12,863.85</u>	<u>307,345.43</u>
Licenses and Permits	<u>1,500.00</u>	<u>0.00</u>	<u>1,500.00</u>
Intergovernmental Revenue:			
State Shared Revenue:			
Bank Franchise Tax	750.38		750.38
Liquor Tax Reversion	4,838.00		4,838.00
Motor Vehicle Licenses	7,938.45		7,938.45
Local Government Highway and Bridge Fund	21,031.98		21,031.98
County Shared Revenue:			
County Road Tax	1,019.22		1,019.22
County Wheel Tax	2,412.34		2,412.34
Total Intergovernmental Revenue	<u>37,990.37</u>	<u>0.00</u>	<u>37,990.37</u>
Charges for Goods and Services:			
Sanitation	53,830.86		53,830.86
Culture and Recreation	6,476.60		6,476.60
Total Charges for Goods and Services	<u>60,307.46</u>	<u>0.00</u>	<u>60,307.46</u>
Miscellaneous Revenue:			
Rentals	3,200.00		3,200.00
Special Assessments	15,072.11		15,072.11
Maintenance Assessments	7,500.00		7,500.00
Contributions & Donations from Private Sources	4,400.00		4,400.00
Liquor Operating Agreement Income	1,800.00		1,800.00
Other	8,582.99		8,582.99
Total Miscellaneous Revenue	<u>40,555.10</u>	<u>0.00</u>	<u>40,555.10</u>
Total Revenue	<u>434,834.51</u>	<u>12,863.85</u>	<u>447,698.36</u>
Expenditures:			
General Government:			
Legislative	10,778.85		10,778.85
Elections	172.44		172.44
Financial Administration	30,398.03		30,398.03
Other	28,034.51		28,034.51
Total General Government	<u>69,383.83</u>	<u>0.00</u>	<u>69,383.83</u>

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2014

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
Expenditures: (continued)			
Public Safety:			
Police	48,468.00		48,468.00
Fire	29,396.72		29,396.72
Total Public Safety	77,864.72	0.00	77,864.72
Public Works:			
Highways and Streets	79,956.39		79,956.39
Sanitation	55,243.67		55,243.67
Total Public Works	135,200.06	0.00	135,200.06
Health and Welfare:			
Health	1,045.09		1,045.09
Total Health and Welfare	1,045.09	0.00	1,045.09
Culture and Recreation:			
Recreation	26,827.29		26,827.29
Parks	33,119.32		33,119.32
Total Culture and Recreation	59,946.61	0.00	59,946.61
Conservation and Development:			
Economic Development and Assistance (Industrial Development)	5,000.00		5,000.00
Total Conservation and Development	5,000.00	0.00	5,000.00
Total Expenditures	348,440.31	0.00	348,440.31
Net Change in Fund Balance	86,394.20	12,863.85	99,258.05
Fund Balance - Beginning	378,215.95	57,717.10	435,933.05
FUND BALANCE - ENDING	464,610.15	70,580.95	535,191.10

The notes to the financial statements are an integral part of this statement.

**MUNICIPALITY OF CANISTOTA
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2014**

	<u>Enterprise Funds</u>		<u>Totals</u>
	<u>Water Fund</u>	<u>Sewer Fund</u>	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	235,634.41	162,877.75	398,512.16
Total Current Assets	235,634.41	162,877.75	398,512.16
 TOTAL ASSETS	235,634.41	162,877.75	398,512.16
 NET POSITION:			
Unrestricted Net Position	235,634.41	162,877.75	398,512.16
 TOTAL NET POSITION	235,634.41	162,877.75	398,512.16

The notes to the financial statements are an integral part of this statement.

MUNICIPALITY OF CANISTOTA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Revenue Dedicated to Servicing Debt	164,708.60	108,861.25	273,569.85
Total Operating Revenue	164,708.60	108,861.25	273,569.85
Operating Expenses:			
Personal Services	19,099.90	19,001.01	38,100.91
Other Current Expense	14,821.02	16,813.79	31,634.81
Materials	56,714.75		56,714.75
Total Operating Expenses	90,635.67	35,814.80	126,450.47
Operating Income (Loss)	74,072.93	73,046.45	147,119.38
Nonoperating Revenue (Expense):			
Debt Service (Principal)	(20,329.74)	(26,063.20)	(46,392.94)
Interest Expense	(12,276.77)	(26,538.70)	(38,815.47)
Long-Term Debt Issued	25,680.00	7,062.00	32,742.00
Total Nonoperating Revenue (Expense)	(6,926.51)	(45,539.90)	(52,466.41)
Income (Loss) Before Contributions	67,146.42	27,506.55	94,652.97
Capital Contributions	23,766.00	9,309.00	33,075.00
Change in Net Position	90,912.42	36,815.55	127,727.97
Net Position - Beginning	144,721.99	126,062.20	270,784.19
NET POSITION - ENDING	235,634.41	162,877.75	398,512.16

The notes to the financial statements are an integral part of this statement.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the Municipality of Canistota (Municipality) 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.

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 Municipality and for each function of the Municipality'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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

1. Total assets, liabilities, 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, liabilities, 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 Municipality financial reporting entity are described below:

Governmental Funds:

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

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

Third Penny Liquor, Lodging and Dining Gross Receipts Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This is 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 principal 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).

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.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

Measurement Focus:

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

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

Basis of Accounting:

In the Government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.
- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

d. Deposits and Investments:

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

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

e. Long-Term Liabilities:

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

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

f. Revenue Received in Advance:

Under the modified cash basis of accounting, cash may have been received in advance of the Municipality's providing a good or service to a customer. These amounts are reported in the financial statements, in the year the cash is received.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality'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.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues and expenses.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net position and is displayed in two components.

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance and is distinguished between Nonspendable, Restricted, Committed, Assigned, or Unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Position:

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

k. 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 Municipality 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 Finance Officer.
- 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 Municipality 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 Municipality would first use committed, then assigned, and lastly unassigned amounts for unrestricted fund balance when expenditures are made.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS:

The Municipality is prohibited by statute from spending in excess of appropriated amounts at the department level. The following represents the significant overdrafts of the expenditures compared to appropriations:

	<u>Year Ended 12/31/2015</u>	<u>Year Ended 12/31/2014</u>
General Fund:		
General Government		
Legislative	\$ 167.19	\$ 778.85
Third Penny Fund:		
General Government		
Other	\$ 10,299.83	

The Municipality plans to take the following actions to address these violations: use contingency transfers and supplemental budgets when legal authority exists.

3. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality 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 Municipality'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.

Deposits are reported at cost plus interest, if the account is of the add-on type.

Investments - In general, SDCL 4-5-6 permits Municipality funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government, provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) above and meeting the requirements of Section 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940,

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

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

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

Interest Rate Risk – The Municipality 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.

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

4. PROPERTY TAXES

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

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

5. WATER PURCHASE AGREEMENT

In 1986, the Municipality of Canistota entered into a 40-year agreement with T-M Rural Water to provide water to the Municipality. A charge of \$2.95 per 1,000 gallons of water consumed is paid by the Municipality to T-M Rural Water. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality's Water Fund.

6. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2015 and 2014 was as follows:

	<u>Year Ended</u> <u>12/31/2015</u>	<u>Year Ended</u> <u>12/31/2014</u>
Major Funds:		
Third Penny - City Promotion	\$ 49,666.95	\$ 70,580.95

These balances are restricted due to statutory requirements.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

7. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2015 were:

	Interfund Receivables	Interfund Payables
Enterprise Funds:		
Water Fund	\$ 18,610.52	
Sewer Fund		\$18,610.52

The purpose for the interfund receivable and payable balances is to supplement deficits cash balances at year end. The Municipality expects all interfund receivables and payables to be paid within one year.

8. RETIREMENT 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://sdrs.sd.gov/publications.aspx> 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 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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 Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$3,728.08, \$4,369.84, and \$3,564.70, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

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

Proportionate share of net position restricted for pension benefits	\$395,865.19
Less proportionate share of total pension liability	<u>\$380,285.25</u>
Proportionate share of net pension liability (asset)	<u>\$ (15,579.94)</u>

The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was .0001829%, which is a decrease of 0.0036734% from its proportion measured as of June 30, 2014.

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

asset class included in the pension plan’s target asset allocation as of June 30, 2015 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.0%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50% thereafter. 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 Municipality’s proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality’s proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality’s proportionate share of the net pension liability (asset)	\$39,214.53	\$(15,579.94)	\$(60,260.11)

Pension Plan Fiduciary Net Position:

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

9. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2015, the Municipality was not involved in any significant litigation.

10. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2015, the Municipality managed its risks as follows:

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Employee Health Insurance:

The Municipality does not provide health insurance for its employees.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft of or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality'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 Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual and has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The Municipality 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.

Unemployment Benefits:

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

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
Revenues:				
Taxes:				
General Property Taxes	144,100.00	144,100.00	144,424.11	324.11
General Sales and Use Taxes	147,000.00	147,000.00	209,718.48	62,718.48
Amusement Taxes	0.00	0.00	24.00	24.00
Penalties and Interest on Delinquent Taxes	700.00	700.00	1,983.60	1,283.60
Total Taxes	<u>291,800.00</u>	<u>291,800.00</u>	<u>356,150.19</u>	<u>64,350.19</u>
Licenses and Permits	<u>1,000.00</u>	<u>1,000.00</u>	<u>664.00</u>	<u>(336.00)</u>
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	16,154.00	16,154.00
State Shared Revenue:				
Bank Franchise Tax	700.00	700.00	610.07	(89.93)
Liquor Tax Reversion	3,900.00	3,900.00	4,079.22	179.22
Motor Vehicle Licenses	4,200.00	4,200.00	8,807.18	4,607.18
Local Government Highway and Bridge Fund	13,000.00	13,000.00	21,362.42	8,362.42
County Shared Revenue:				
County Road Tax	1,000.00	1,000.00	1,019.22	19.22
County Wheel Tax	1,300.00	1,300.00	2,480.01	1,180.01
Total Intergovernmental Revenue	<u>24,100.00</u>	<u>24,100.00</u>	<u>54,512.12</u>	<u>30,412.12</u>
Charges for Goods and Services:				
Sanitation	52,500.00	52,500.00	55,615.85	3,115.85
Culture and Recreation	5,000.00	5,000.00	5,923.00	923.00
Total Charges for Goods and Services	<u>57,500.00</u>	<u>57,500.00</u>	<u>61,538.85</u>	<u>4,038.85</u>
Miscellaneous Revenue:				
Investment Earnings	1,750.00	1,750.00	2,596.58	846.58
Rentals	1,000.00	1,000.00	8,565.00	7,565.00
Special Assessments	14,000.00	14,000.00	15,162.97	1,162.97
Liquor Operating Agreement Income	1,500.00	1,500.00	2,250.00	750.00
Other	2,000.00	2,000.00	7,437.75	5,437.75
Total Miscellaneous Revenue	<u>20,250.00</u>	<u>20,250.00</u>	<u>36,012.30</u>	<u>15,762.30</u>
Total Revenue	<u>394,650.00</u>	<u>394,650.00</u>	<u>508,877.46</u>	<u>114,227.46</u>
Expenditures:				
General Government:				
Legislative	7,700.00	8,902.00	9,069.19	(167.19)
Contingency	10,000.00	10,000.00		
Amount Transferred		(10,000.00)		0.00
Elections	300.00	300.00	12.25	287.75
Financial Administration	22,922.00	25,822.00	23,776.88	2,045.12
Other	39,900.00	39,900.00	22,888.10	17,011.90
Total General Government	<u>80,822.00</u>	<u>74,924.00</u>	<u>55,746.42</u>	<u>19,177.58</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget - Positive (Negative)</u>
Expenditures: (continued)				
Public Safety:				
Police	48,860.00	69,590.00	69,590.00	0.00
Fire	32,000.00	32,000.00	29,176.12	2,823.88
Total Public Safety	<u>80,860.00</u>	<u>101,590.00</u>	<u>98,766.12</u>	<u>2,823.88</u>
Public Works:				
Highways and Streets	105,300.00	132,800.00	131,095.49	1,704.51
Sanitation	55,000.00	58,406.00	58,085.54	320.46
Total Public Works	<u>160,300.00</u>	<u>191,206.00</u>	<u>189,181.03</u>	<u>2,024.97</u>
Health and Welfare:				
Health	1,200.00	2,750.00	2,643.49	106.51
Total Health and Welfare	<u>1,200.00</u>	<u>2,750.00</u>	<u>2,643.49</u>	<u>106.51</u>
Culture and Recreation:				
Recreation	46,363.00	46,363.00	42,019.09	4,343.91
Parks	26,355.00	33,752.00	16,620.92	17,131.08
Total Culture and Recreation	<u>72,718.00</u>	<u>80,115.00</u>	<u>58,640.01</u>	<u>21,474.99</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	8,750.00	8,750.00	8,750.00	0.00
Total Conservation and Development	<u>8,750.00</u>	<u>8,750.00</u>	<u>8,750.00</u>	<u>0.00</u>
Total Expenditures	<u>404,650.00</u>	<u>459,335.00</u>	<u>413,727.07</u>	<u>45,607.93</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(10,000.00)</u>	<u>(64,685.00)</u>	<u>95,150.39</u>	<u>159,835.39</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	1,951.00	1,951.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>1,951.00</u>	<u>1,951.00</u>
Net Change in Fund Balances	<u>(10,000.00)</u>	<u>(64,685.00)</u>	<u>97,101.39</u>	<u>161,786.39</u>
Fund Balance - Beginning	464,610.15	464,610.15	464,610.15	0.00
FUND BALANCE - ENDING	<u>454,610.15</u>	<u>399,925.15</u>	<u>561,711.54</u>	<u>161,786.39</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
THIRD PENNY FUND
For the Year Ended December 31, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	10,000.00	10,000.00	13,556.83	3,556.83
Total Taxes	<u>10,000.00</u>	<u>10,000.00</u>	<u>13,556.83</u>	<u>3,556.83</u>
Total Revenue	<u>10,000.00</u>	<u>10,000.00</u>	<u>13,556.83</u>	<u>3,556.83</u>
Expenditures:				
General Government:				
Other	0.00	24,171.00	34,470.83	(10,299.83)
Total General Government	<u>0.00</u>	<u>24,171.00</u>	<u>34,470.83</u>	<u>(10,299.83)</u>
Total Expenditures	<u>0.00</u>	<u>24,171.00</u>	<u>34,470.83</u>	<u>(10,299.83)</u>
Net Change in Fund Balances	<u>10,000.00</u>	<u>(14,171.00)</u>	<u>(20,914.00)</u>	<u>(6,743.00)</u>
Fund Balance - Beginning	<u>70,580.95</u>	<u>70,580.95</u>	<u>70,580.95</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>80,580.95</u>	<u>56,409.95</u>	<u>49,666.95</u>	<u>(6,743.00)</u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Property Taxes	141,772.00	141,772.00	139,612.40	(2,159.60)
General Sales and Use Taxes	125,963.00	125,963.00	153,335.78	27,372.78
Amusement Taxes	100.00	100.00	72.00	(28.00)
Penalties and Interest on Delinquent Taxes	700.00	700.00	1,461.40	761.40
Total Taxes	268,535.00	268,535.00	294,481.58	25,946.58
Licenses and Permits	1,000.00	1,000.00	1,500.00	500.00
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	550.00	550.00	750.38	200.38
Liquor Tax Reversion	3,900.00	3,900.00	4,838.00	938.00
Motor Vehicle Licenses	4,200.00	4,200.00	7,938.45	3,738.45
Local Government Highway and Bridge Fund	12,000.00	12,000.00	21,031.98	9,031.98
County Shared Revenue:				
County Road Tax	1,000.00	1,000.00	1,019.22	19.22
County Wheel Tax	1,030.00	1,030.00	2,412.34	1,382.34
Total Intergovernmental Revenue	22,680.00	22,680.00	37,990.37	15,310.37
Charges for Goods and Services:				
Sanitation	52,000.00	52,000.00	53,830.86	1,830.86
Culture and Recreation	5,400.00	5,400.00	6,476.60	1,076.60
Total Charges for Goods and Services	57,400.00	57,400.00	60,307.46	2,907.46
Miscellaneous Revenue:				
Investment Earnings	1,744.00	1,744.00	0.00	(1,744.00)
Rentals	1,000.00	1,000.00	3,200.00	2,200.00
Special Assessments	15,000.00	15,000.00	15,072.11	72.11
Maintenance Assessments	0.00	0.00	7,500.00	7,500.00
Contributions & Donations from Private Sources	0.00	0.00	4,400.00	4,400.00
Liquor Operating Agreement Income	1,500.00	1,500.00	1,800.00	300.00
Other	2,000.00	2,000.00	8,582.99	6,582.99
Total Miscellaneous Revenue	21,244.00	21,244.00	40,555.10	19,311.10
Total Revenue	370,859.00	370,859.00	434,834.51	63,975.51
Expenditures:				
General Government:				
Legislative	7,700.00	10,000.00	10,778.85	(778.85)
Contingency	10,000.00	10,000.00		
Amount Transferred		(10,000.00)		0.00
Elections	300.00	300.00	172.44	127.56
Financial Administration	28,512.00	30,512.00	30,398.03	113.97
Other	28,600.00	30,600.00	28,034.51	2,565.49
Total General Government	75,112.00	71,412.00	69,383.83	2,028.17

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures: (continued)				
Public Safety:				
Police	48,860.00	48,860.00	48,468.00	392.00
Fire	31,000.00	31,000.00	29,396.72	1,603.28
Total Public Safety	<u>79,860.00</u>	<u>79,860.00</u>	<u>77,864.72</u>	<u>1,995.28</u>
Public Works:				
Highways and Streets	100,879.00	100,879.00	79,956.39	20,922.61
Sanitation	54,339.00	55,437.00	55,243.67	193.33
Total Public Works	<u>155,218.00</u>	<u>156,316.00</u>	<u>135,200.06</u>	<u>21,115.94</u>
Health and Welfare:				
Health	1,050.00	1,050.00	1,045.09	4.91
Total Health and Welfare	<u>1,050.00</u>	<u>1,050.00</u>	<u>1,045.09</u>	<u>4.91</u>
Culture and Recreation:				
Recreation	40,094.00	40,094.00	26,827.29	13,266.71
Parks	24,525.00	39,525.00	33,119.32	6,405.68
Total Culture and Recreation	<u>64,619.00</u>	<u>79,619.00</u>	<u>59,946.61</u>	<u>19,672.39</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	5,000.00	5,000.00	5,000.00	0.00
Total Conservation and Development	<u>5,000.00</u>	<u>5,000.00</u>	<u>5,000.00</u>	<u>0.00</u>
Total Expenditures	<u>380,859.00</u>	<u>393,257.00</u>	<u>348,440.31</u>	<u>44,816.69</u>
Net Change in Fund Balances	<u>(10,000.00)</u>	<u>(22,398.00)</u>	<u>86,394.20</u>	<u>108,792.20</u>
Fund Balance - Beginning	<u>378,215.95</u>	<u>378,215.95</u>	<u>378,215.95</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>368,215.95</u></u>	<u><u>355,817.95</u></u>	<u><u>464,610.15</u></u>	<u><u>108,792.20</u></u>

SUPPLEMENTARY INFORMATION
MUNICIPALITY OF CANISTOTA
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
THIRD PENNY FUND
For the Year Ended December 31, 2014

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	10,000.00	10,000.00	12,863.85	2,863.85
Total Taxes	<u>10,000.00</u>	<u>10,000.00</u>	<u>12,863.85</u>	<u>2,863.85</u>
 Total Revenue	<u>10,000.00</u>	<u>10,000.00</u>	<u>12,863.85</u>	<u>2,863.85</u>
 Expenditures:				
Total Expenditures	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
 Net Change in Fund Balances	<u>10,000.00</u>	<u>10,000.00</u>	<u>12,863.85</u>	<u>2,863.85</u>
 Fund Balance - Beginning	<u>57,717.10</u>	<u>57,717.10</u>	<u>57,717.10</u>	<u>0.00</u>
 FUND BALANCE - ENDING	<u><u>67,717.10</u></u>	<u><u>67,717.10</u></u>	<u><u>70,580.95</u></u>	<u><u>2,863.85</u></u>

NOTES TO THE 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 Municipality followed 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 introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, 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 resolution of the Governing Board 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. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

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

The Municipality did not encumber any amounts at December 31, 2015 and 2014.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the modified cash basis of accounting.

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The Municipality's budgetary process accounts for certain transactions on a basis other than GAAP. The major differences between the budgetary basis and the GAAP basis lie in the manner in which revenues and expenditures are recorded. Under the budgetary basis, revenue and expenditures are recognized on a modified cash basis. Utilizing the modified cash basis, revenues are recorded when received in cash and expenditures are recorded when paid. Under the GAAP basis, revenues and expenditures are recorded on the modified accrual basis of accounting on the governmental fund statements and on the full accrual basis on the government-wide statements.

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 1/1/2014	Additions	Deletions	Ending Balance 12/31/2015	Due Within One Year
Primary Government:					
Business-Type Activities:					
Bonds Payable:					
Sewer Revenue, Series 2000	101,111.97		29,861.10	71,250.87	16,287.34
Sewer & Water Revenue, Series 2002	386,648.84		13,678.46	372,970.38	7,344.75
Water System Revenue, Series 2009-1	106,486.31		5,145.16	101,341.15	2,690.24
Wastewater System Rev., Series 2009-2	185,492.03		8,761.88	176,730.15	4,598.34
Wastewater System Rev., Series 2010-1	180,537.50		7,966.55	172,570.95	4,180.94
Water System Rev., Series 2014	0.00	1,095,000.00	616,000.00	479,000.00	7,481.65
Wastewater System Rev., Series 2014	0.00	381,000.00	0.00	381,000.00	5,706.30
Total Business-Type Activities	<u>960,276.65</u>	<u>1,476,000.00</u>	<u>681,413.15</u>	<u>1,754,863.50</u>	<u>48,289.56</u>
TOTAL PRIMARY GOVERNMENT	<u>960,276.65</u>	<u>1,476,000.00</u>	<u>681,413.15</u>	<u>1,754,863.50</u>	<u>48,289.56</u>

Debt payable at December 31, 2015 is comprised of the following:

Revenue Bonds:

Sewer Revenue Bonds - Series 2000; Interest Rate 6.0%; Maturity Date 1-7-19; Paid by Sewer Fund	\$ 71,250.87
Sewer and Water Revenue Bonds - Series 2002; Interest Rate 4.75%; Maturity Date 3-17-42; Paid by Water and Sewer Funds (1/2 each)	\$ 372,970.38
Sewer and Water Revenue Bonds - Series 2009-1; Interest Rate 3.0%; Maturity Date 4-15-41; Paid by Water Fund	\$ 101,341.15
Wastewater System Revenue Bonds - Series 2009-2; Interest Rate 3.25%; Maturity Date 1-15-41; Paid by Sewer Fund	\$ 176,730.15
Wastewater System Revenue Bonds - Series 2010-1; Interest Rate 3.25%; Maturity Date 4-15-42; Paid by Sewer Fund	\$ 172,570.95
Drinking Water Surcharge Revenue Bonds - Series 2014; Interest Rate 3%; Maturity Date 1-15-46; Paid by Water Fund	\$ 479,000.00
Wastewater System Revenue Bonds - Series 2014; Interest Rate 3.25%; Maturity Date 1-15-46; Paid by Sewer Fund	\$ 381,000.00

SUPPLEMENTARY INFORMATION
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2015, including interest payments of \$967,085.20, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2015

Year Ending December 31,	Sewer Revenue Bonds, Series 2000 - Interceptor		Sewer and Water Revenue Bonds, Series 2002		Water System Revenue Bond, Series 2009-1	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	16,287.34	3,786.42	7,344.75	17,553.45	2,690.24	3,010.16
2017	17,264.58	2,779.86	7,701.32	17,196.88	2,771.86	2,928.54
2018	18,300.46	1,720.91	8,075.23	16,822.97	2,855.96	2,844.44
2019	19,398.49	581.95	8,467.23	16,430.97	2,942.60	2,757.80
2020			8,878.30	16,019.90	3,031.89	2,668.51
2021-2025			51,290.88	73,200.12	16,596.28	11,905.72
2026-2030			65,010.21	59,480.79	19,271.34	9,230.66
2031-2035			82,399.19	42,091.81	22,377.58	6,124.42
2036-2040			104,439.32	20,051.68	25,984.48	2,517.52
2041-2045			29,363.95	823.62	2,818.92	31.28
2046						
Totals	<u>71,250.87</u>	<u>8,869.14</u>	<u>372,970.38</u>	<u>279,672.19</u>	<u>101,341.15</u>	<u>44,019.05</u>

Year Ending December 31,	Wastewater System Revenue Bond, Series 2009-2		Wastewater System Revenue Bond, Series 2010-1		Water System Revenue Bond, Series 2014	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	4,598.34	5,688.06	4,180.94	5,557.94	7,481.65	10,721.69
2017	4,749.61	5,536.79	4,318.48	5,420.40	10,240.03	14,031.09
2018	4,905.87	5,380.53	4,460.55	5,278.33	10,550.71	13,720.41
2019	5,067.26	5,219.14	4,607.30	5,131.58	10,870.81	13,400.31
2020	5,233.97	5,052.43	4,758.87	4,980.01	11,200.63	13,070.49
2021-2025	28,868.78	22,563.22	26,248.32	22,446.08	61,311.30	60,044.30
2026-2030	33,940.34	17,491.66	30,859.51	17,834.89	71,193.71	50,161.89
2031-2035	39,902.85	11,529.15	36,280.80	12,413.60	82,669.01	38,686.59
2036-2040	46,912.83	4,519.17	42,654.46	6,039.94	95,993.92	25,361.68
2041-2045	2,550.30	21.30	14,201.72	406.60	111,466.61	9,888.99
2046					6,021.62	45.16
Totals	<u>176,730.15</u>	<u>83,001.45</u>	<u>172,570.95</u>	<u>85,509.37</u>	<u>479,000.00</u>	<u>249,132.60</u>

Year Ending December 31,	Wastewater System Revenue Bond, Series 2014		Totals	
	Principal	Interest	Principal	Interest
2016	5,706.30	9,240.78	48,289.56	55,558.50
2017	7,827.12	12,102.32	54,873.00	59,995.88
2018	8,084.62	11,844.82	57,233.40	57,612.41
2019	8,350.60	11,578.84	59,704.29	55,100.59
2020	8,625.31	11,304.13	41,728.97	53,095.47
2021-2025	47,574.31	52,072.89	231,889.87	242,232.33
2026-2030	55,931.99	43,715.21	276,207.10	197,915.10
2031-2035	65,757.88	33,889.32	329,387.31	144,734.89
2036-2040	77,309.97	22,337.23	393,294.98	80,827.22
2041-2045	90,891.48	8,755.72	251,292.98	19,927.51
2046	4,940.42	40.14	10,962.04	85.30
Totals	<u>381,000.00</u>	<u>216,881.40</u>	<u>1,754,863.50</u>	<u>967,085.20</u>

MUNICIPALITY OF CANISTOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Years Ended December 31, 2014 and 2015

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal CFDA Number	Expenditures	
		2014	2015
US Department of Housing and Urban Development - Pass Through Programs:			
SD Governor's Office of Economic Development, Community Development Block Grant/State's Program and Non-Entitlement Grants in Hawaii (Note3)	14.228	0.00	512,500.00
Total US Department of Housing and Urban Development		0.00	512,500.00
US General Services Administration - Pass Through Programs:			
SD Federal Property Agency, Donation of Federal Surplus Property (Note 5)	39.003	44.29	0.00
Total US General Services Administration		44.29	0.00
Drinking Water State Revolving Fund Cluster:			
US Environmental Protection Agency - Pass Through Programs:			
SD Department of Environment and Natural Resources, Capitalization Grants for Drinking Water State Revolving Funds (Federal Portion)	66.458	7,190.00	299,410.00
Total Drinking Water State Revolving Fund Cluster		7,190.00	299,410.00
US Department of Homeland Security - Pass Through Programs:			
SD Department of Public Safety - Office of Emergency Management Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	0.00	16,154.00
Total US Department of Homeland Security		0.00	16,154.00
GRAND TOTAL		7,234.29	828,064.00

Note 1: Basis of Presentation

This accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the Municipality under programs of the federal government for the year ended December 31, 2014 and 2015. The information in this Schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations for (OMB Circular A-133). Because the Schedule presents only a selected portion of the operations of the Municipality, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Municipality.

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified cash basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-133, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The Municipality has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

Note 4: Federal Loan Program

The Municipality had the following loan balances outstanding at December 31, 2015. These loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the Schedule.

Cluster/Program Title	Federal CFDA Number	Amount Outstanding
Drinking Water State Revolving Fund Loan	66.458	479,000.00

Note 5: Federal Surplus Property

The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the Municipality.

SCHEDULE OF EXPENDITURES OF STATE AWARDS
December 31, 2014 and 2015

	<u>TOTAL</u> <u>GRANT AWARD</u>	<u>EXPENDED</u> <u>2014</u>	<u>EXPENDED</u> <u>2015</u>
<u>South Dakota Consolidated</u> <u>Water Facilities Construction</u>	<u>\$ 1,000,000.00</u>	<u>\$18,618.00</u>	<u>\$981,382.00</u>
<u>Program-Grant No. 2015G-104</u>			