

CITY OF CANTON
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015

**CITY OF CANTON
MUNICIPAL OFFICIALS
DECEMBER 31, 2015**

Mayor

Chuck Smith

Governing Board

Farrell Anderson

John Devick

Michelle Eich

Richard Ekle

Karla Elrod

Jonathon Toso

Kristen Townsend

Steve Ziebarth

Finance Officer

Kyle Cwach

City Administrator

Sean Pederson

Attorney

Larry Nelson

**CITY OF CANTON
TABLE OF CONTENTS**

	<u>Page</u>
Independent Auditor's Report	1
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	4
Statement of Activities	5
Fund Financial Statements:	
Balance Sheet - Governmental Funds	6
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	10
Statement of Net Position - Proprietary Funds	11
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds	13
Statement of Cash Flows - Proprietary Funds	14
Notes to the Financial Statements	16
Required Supplementary Information	
Budgetary Comparison Schedules:	
General Fund	36
Special Revenue Fund-BBB Fund	38
Schedule of Funding Progress for Other Post-employment Benefits	39
Schedule of the City's Proportionate Share of the Net Pension Liability (Asset)	40
Schedule of the City's Contributions	41
Notes to the Required Supplementary Information	42
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 <i>Government Auditing Standards</i>	43
Schedule of Prior Audit Findings and Questioned Costs	45
Schedule of Current Audit Findings and Questioned Costs	46
Corrective Action Plan	47

QUAM, BERGLIN, & POST, P.C.

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Canton
Canton, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Canton Housing and Redevelopment Commission (HRC) (a discretely presented component unit), which statements represent 100% of the total assets at June 30, 2015 and 100% of the total revenue for the year then ended of the aggregate discretely presented component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion insofar as it related to the amounts included for the Canton Housing and Redevelopment Commission is based solely on the report of the other auditors.

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

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

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2015 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Standard

As described in the Notes to the Financial Statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. As discussed in the Notes to the Financial Statements, the City has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress, the Schedule of the Proportionate Share of the Net Pension Asset, the Schedule of the City's Contributions, and the Budgetary Comparison Schedules listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 21, 2016, on our consideration of the City of Canton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Quam, Berglin & Post P.C.

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

July 21, 2016

**CITY OF CANTON
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 3,152,181.03	\$ 1,946,735.71	\$ 5,098,916.74	\$ 73,387.68
Investments	511,750.12		511,750.12	184,666.73
Taxes Receivable	49,349.21		49,349.21	
Accounts Receivable, Net	40,302.25	197,229.65	237,531.90	10,754.81
Due From Government	48,689.61	23,007.65	71,697.26	
Interest Receivable	2,326.26		2,326.26	
Inventory	111,115.21	149,499.67	260,614.88	
Prepaid Expenses	30,243.88	4,327.12	34,571.00	1,531.00
Restricted Assets				
Deposits	67,416.39		67,416.39	
Net Pension Asset	234,828.54		234,828.54	19,767.23
Capital Assets:				
Land and Construction Work in Progress	294,766.00	141,062.94	435,828.94	25,811.20
Other Capital Assets, Net of Depreciation	4,998,938.43	10,005,967.18	15,004,905.61	154,718.05
TOTAL ASSETS	<u>9,541,906.93</u>	<u>12,467,829.92</u>	<u>22,009,736.85</u>	<u>470,636.70</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows	<u>413,284.06</u>		<u>413,284.06</u>	<u>2,968.45</u>
LIABILITIES:				
Accounts Payable	38,299.77	94,767.93	133,067.70	22,487.12
Accrued Wages Payable	32,772.78	5,399.93	38,172.71	5,578.82
Customer Deposits Payable	1,100.00	67,402.00	68,502.00	6,699.00
Noncurrent Liabilities:				
Due Within One Year	51,554.81	148,107.88	199,662.69	
Due in More than One Year	117,301.82	2,494,631.47	2,611,933.29	7,047.44
TOTAL LIABILITIES	<u>241,029.18</u>	<u>2,810,309.21</u>	<u>3,051,338.39</u>	<u>41,812.38</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows	<u>346,494.00</u>		<u>346,494.00</u>	<u>8,317.75</u>
NET POSITION:				
Net Investment in Capital Assets	5,287,977.45	7,517,379.47	12,805,356.92	180,529.25
Restricted for:				
Cumulative Reserve - SDPA	67,416.39		67,416.39	
Economic Development and Promotion	102,578.20		102,578.20	
Library	25,664.95		25,664.95	
HRC Purposes				8,000.46
SDRS Pension Purposes	301,618.60		301,618.60	14,417.93
Unrestricted	3,582,412.22	2,140,141.24	5,722,553.46	220,527.38
TOTAL NET POSITION	<u>\$ 9,367,667.81</u>	<u>\$ 9,657,520.71</u>	<u>\$ 19,025,188.52</u>	<u>\$ 423,475.02</u>

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

CITY OF CANTON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 526,784.32	\$ 293,107.61	\$	\$	\$ (233,676.71)	\$	\$ (233,676.71)	\$
Public Safety	566,572.84	12,023.99	6,127.80		(548,421.05)		(548,421.05)	
Public Works	844,411.66	27,463.71	4,145.50	432,164.90	(380,637.55)		(380,637.55)	
Health and Welfare	2,571.11	850.00			(1,721.11)		(1,721.11)	
Culture and Recreation	461,072.29	48,169.21			(412,903.08)		(412,903.08)	
Conservation & Development	54,010.00				(54,010.00)		(54,010.00)	
Total Governmental Activities	<u>2,455,422.22</u>	<u>381,614.52</u>	<u>10,273.30</u>	<u>432,164.90</u>	<u>(1,631,369.50)</u>		<u>(1,631,369.50)</u>	
Business-Type Activities:								
Liquor	806,997.15	821,812.41				14,815.26	14,815.26	
Water	599,237.39	544,197.20				(55,040.19)	(55,040.19)	
Sewer	668,307.52	698,701.01		41,158.97		71,552.46	71,552.46	
Airport	112,399.20	27,121.73		21,796.72		(63,480.75)	(63,480.75)	
Total Business-Type Activities	<u>2,186,941.26</u>	<u>2,091,832.35</u>		<u>62,955.69</u>		<u>(32,153.22)</u>	<u>(32,153.22)</u>	
Total Primary Government	<u>\$ 4,642,363.48</u>	<u>\$ 2,473,446.87</u>	<u>\$ 10,273.30</u>	<u>\$ 495,120.59</u>	<u>\$ (1,631,369.50)</u>	<u>(32,153.22)</u>	<u>(1,663,522.72)</u>	
Component Unit:								
Housing and Redevelopment	<u>\$ 427,632.09</u>	<u>\$ 79,530.59</u>	<u>\$ 315,750.98</u>					<u>(32,350.52)</u>
General Revenues:								
Taxes:								
Property Taxes					1,236,333.13		1,236,333.13	
Sales and Use Taxes					1,063,698.21		1,063,698.21	
State Shared Revenues					122,256.68		122,256.68	
Unrestricted Investment Earnings					18,473.10	3,809.94	22,283.04	
Miscellaneous Revenue					33,661.93	3,045.34	36,707.27	
Transfers					124,000.00	(124,000.00)		
Total General Revenues and Transfers					<u>2,598,423.05</u>	<u>(117,144.72)</u>	<u>2,481,278.33</u>	
Change in Net Position					<u>967,053.55</u>	<u>(149,297.94)</u>	<u>817,755.61</u>	<u>(32,350.52)</u>
Net Position - Beginning					8,191,889.57	9,806,818.65	17,998,708.22	444,592.47
Prior Period Adjustment					208,724.69		208,724.69	11,233.07
Adjusted Net Position - Beginning					<u>8,400,614.26</u>	<u>9,806,818.65</u>	<u>18,207,432.91</u>	<u>455,825.54</u>
Net Position - Ending					<u>\$ 9,367,667.81</u>	<u>\$ 9,657,520.71</u>	<u>\$ 19,025,188.52</u>	<u>\$ 423,475.02</u>

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

**CITY OF CANTON
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>BBB Sales Tax Fund</u>	<u>Other Governmental Fund</u>	
ASSETS:				
Cash and Cash Equivalents	\$ 3,037,151.01	\$ 101,124.77	\$ 13,905.25	3,152,181.03
Investments	500,000.00		11,750.12	511,750.12
Taxes Receivable - Delinquent	49,349.21			49,349.21
Accounts Receivable, Net	40,302.25			40,302.25
Due From Government	47,236.18	1,453.43		48,689.61
Interest Receivable	2,316.68		9.58	2,326.26
Inventory	111,115.21			111,115.21
Deposits	67,416.39			67,416.39
Prepaid Expenses	30,243.88			30,243.88
TOTAL ASSETS	<u>\$ 3,885,130.81</u>	<u>\$ 102,578.20</u>	<u>\$ 25,664.95</u>	<u>\$ 4,013,373.96</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Accounts Payable	\$ 38,299.77	\$	\$	\$ 38,299.77
Accrued Wages Payable	32,772.78			32,772.78
Customer Deposits	1,100.00			1,100.00
Total Liabilities	<u>72,172.55</u>			<u>72,172.55</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Property Taxes	49,349.21			49,349.21
Total Deferred Inflows of Resources	<u>49,349.21</u>			<u>49,349.21</u>
Fund Balances:				
Nonspendable	208,775.48			208,775.48
Restricted		102,578.20	25,664.95	128,243.15
Assigned	1,775,229.27			1,775,229.27
Unassigned	1,779,604.30			1,779,604.30
Total Fund Balances	<u>3,763,609.05</u>	<u>102,578.20</u>	<u>25,664.95</u>	<u>3,891,852.20</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 3,885,130.81</u>	<u>\$ 102,578.20</u>	<u>\$ 25,664.95</u>	<u>\$ 4,013,373.96</u>

The attached notes are an integral part of these financial statements

**CITY OF CANTON
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds \$ 3,891,852.20

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

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

Cost of Assets:	\$ 7,500,595.78	
(Less) Accumulated Depreciation	<u>(2,206,891.35)</u>	5,293,704.43

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

Capital Acquisition Lease Payable	\$ (5,726.98)	
Other Postemployment Benefits	(67,186.47)	
Accrued Leave Payable	<u>(95,943.18)</u>	(168,856.63)

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

49,349.21

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

234,828.54

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

413,284.06

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

(346,494.00)

Net Position - Governmental Funds

\$ 9,367,667.81

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

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Major Funds</u>		<u>Nonmajor</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
	<u>General</u> <u>Fund</u>	<u>BBB</u> <u>Sales Tax</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	
Revenues:				
Taxes:				
General Property Taxes	\$ 1,227,037.19	\$	\$	\$ 1,227,037.19
General Sales and Use Taxes	1,002,866.92	60,831.29		1,063,698.21
Penalties and Interest				
Licenses and Permits	27,263.71			27,263.71
Intergovernmental Revenue:				
Federal Grants	424,743.87		7,421.03	432,164.90
State Grants	4,145.50			4,145.50
State Shared Revenue:				
Bank Franchise Tax	11,094.83			11,094.83
Motor Vehicle Commercial Prorate	2,558.13			2,558.13
Liquor Tax Reversion	19,067.55			19,067.55
Motor Vehicle Licenses (5%)	19,923.59			19,923.59
Local Government Highway and Bridge Fund	69,408.58			69,408.58
Other	204.00			204.00
County Shared Revenue:				
County Highway and Bridge Tax	14,307.11			14,307.11
County Wheel Tax	4,909.62			4,909.62
Charge for Services:				
General Government	259,346.90			259,346.90
Public Safety	4,096.50			4,096.50
Highways and Streets	6,893.75			6,893.75
Sanitation	200.00			200.00
Health	850.00			850.00
Culture and Recreation	42,739.20			42,739.20
Fines and Forfeits:				
Court Fines and Costs	1,033.74			1,033.74
Library			5,430.01	5,430.01
Miscellaneous Revenue:				
Investment Earnings	18,473.10			18,473.10
Contributions and Donations	6,127.80			6,127.80
Other	13,304.50			13,304.50
Total Revenue	<u>3,180,596.09</u>	<u>60,831.29</u>	<u>12,851.04</u>	<u>3,254,278.42</u>
Expenditures:				
General Government:				
Legislative	17,647.19			17,647.19
Executive	171,985.86			171,985.86
Elections	9.75			9.75
Financial Administration	227,709.43			227,709.43
Other	58,194.58			58,194.58
Total General Government	<u>475,546.81</u>			<u>475,546.81</u>

The attached notes are an integral part of these financial statements

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (Continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Major Funds</u>		<u>Nonmajor</u>	
	<u>General Fund</u>	<u>BBB Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Public Safety:				
Police	439,871.01			439,871.01
Fire	72,073.31			72,073.31
Total Public Safety	<u>511,944.32</u>			<u>511,944.32</u>
Public Works:				
Highways and Streets	698,798.47			698,798.47
Sanitation	53,708.84			53,708.84
Total Public Works	<u>752,507.31</u>			<u>752,507.31</u>
Health and Welfare:				
Health	2,571.11			2,571.11
Total Health and Welfare	<u>2,571.11</u>			<u>2,571.11</u>
Culture and Recreation:				
Recreation	104,866.55			104,866.55
Parks	157,218.75			157,218.75
Libraries	147,137.56		9,717.46	156,855.02
Total Culture and Recreation	<u>409,222.86</u>		<u>9,717.46</u>	<u>418,940.32</u>
Conservation and Development:				
Economic Opportunity	12,000.00	42,010.00		54,010.00
Total Conservation and Development	<u>12,000.00</u>	<u>42,010.00</u>		<u>54,010.00</u>
Debt Service	3,554.91			3,554.91
Capital Outlay	709,951.29			709,951.29
Total Expenditures	<u>2,877,298.61</u>	<u>42,010.00</u>	<u>9,717.46</u>	<u>2,929,026.07</u>
Excess of Revenue Over (Under) Expenditures	<u>303,297.48</u>	<u>18,821.29</u>	<u>3,133.58</u>	<u>325,252.35</u>
Other Financing Sources (Uses):				
Compensation for Loss/Damage to Capital Assets	1,140.70			1,140.70
Transfer In	150,000.00			150,000.00
Transfer Out	(26,000.00)			(26,000.00)
Total Other Financing Sources (Uses)	<u>125,140.70</u>			<u>125,140.70</u>
Net Change in Fund Balances	428,438.18	18,821.29	3,133.58	450,393.05
Fund Balance - Beginning	3,335,170.87	83,756.91	22,531.37	3,441,459.15
FUND BALANCE - ENDING	<u>\$ 3,763,609.05</u>	<u>\$ 102,578.20</u>	<u>\$ 25,664.95</u>	<u>\$ 3,891,852.20</u>

The attached notes are an integral part of these financial statements

**CITY OF CANTON
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balances - Total Governmental Funds \$ 450,393.05

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

Governmental funds report capital outlays as expenditures, however, in
the Statement of Activities the cost of those assets is allocated over
their estimated useful lives and reported as depreciation expense. This
is the amount by which capital outlay exceeded depreciation in the
current period. 487,101.23

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

Compensated Absences Payable	(8,999.02)
Other Postemployment Benefits	(8,870.88)

Repayment of debt is an expenditure in the governmental funds, but the
repayment reduces long-term liabilities in the Statement of Net Position. 3,554.91

Governmental funds report property taxes and certain receivables as
revenue when cash is received, but the Statement of Activities includes
these items as revenues when earned. 9,295.94

Changes in the pension related deferred outflows/inflows are direct
components of pension liability(asset) and are not reflected in the
governmental funds. 34,578.32

Change in Net Position of Governmental Activities \$ 967,053.55

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

CITY OF CANTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015

	Enterprise Funds				Totals
	Major Funds				
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 159,921.39	\$ 871,365.15	\$ 831,598.16	\$ 83,851.01	\$ 1,946,735.71
Accounts Receivable, Net	67,848.12	53,974.18	74,636.95	770.40	197,229.65
Due from Other Governments				23,007.65	23,007.65
Inventory of Supplies		116,158.78	26,952.89	6,388.00	149,499.67
Prepaid Expenses		2,653.29	1,673.83		4,327.12
Total Current Assets	<u>227,769.51</u>	<u>1,044,151.40</u>	<u>934,861.83</u>	<u>114,017.06</u>	<u>2,320,799.80</u>
Noncurrent Assets:					
Capital Assets:					
Land		10,000.00	37,990.11	68,854.25	116,844.36
Buildings		20,602.52	363,592.58		384,195.10
Improvement other than Buildings		3,579,197.24	6,317,511.76	2,688,106.00	12,584,815.00
Machinery and Equipment		286,452.94	309,392.23	65,914.00	661,759.17
Less: Accumulated Depreciation		(1,527,648.20)	(1,855,877.69)	(241,276.20)	(3,624,802.09)
Construction Work in Process				24,218.58	24,218.58
Total Noncurrent Assets		<u>2,368,604.50</u>	<u>5,172,608.99</u>	<u>2,605,816.63</u>	<u>10,147,030.12</u>
TOTAL ASSETS	<u>227,769.51</u>	<u>3,412,755.90</u>	<u>6,107,470.82</u>	<u>2,719,833.69</u>	<u>12,467,829.92</u>

**CITY OF CANTON
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Enterprise Funds				
	Major Funds				
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	Totals
LIABILITIES:					
Current Liabilities:					
Accounts Payable	69,693.92	8,773.77	9,877.15	6,423.09	94,767.93
Accrued Wages Payable		2,713.33	2,686.60		5,399.93
Customer Deposits		67,402.00			67,402.00
Accrued Leave Payable - Current		3,272.18	3,272.17		6,544.35
Other Long-Term Debt - Current		25,832.59	115,730.94		141,563.53
Total Current Liabilities	<u>69,693.92</u>	<u>107,993.87</u>	<u>131,566.86</u>	<u>6,423.09</u>	<u>315,677.74</u>
Noncurrent Liabilities:					
Accrued Leave Payable		3,272.17	3,272.18		6,544.35
Other Long-Term Debt		242,518.33	2,245,568.79		2,488,087.12
Total Noncurrent Liabilities		<u>245,790.50</u>	<u>2,248,840.97</u>		<u>2,494,631.47</u>
NET POSITION:					
Net Investment in Capital Assets		2,100,253.58	2,811,309.26	2,605,816.63	7,517,379.47
Unrestricted Net Position	158,075.59	958,717.95	915,753.73	107,593.97	2,140,141.24
TOTAL NET POSITION	<u>\$ 158,075.59</u>	<u>\$ 3,058,971.53</u>	<u>\$ 3,727,062.99</u>	<u>\$ 2,713,410.60</u>	<u>\$ 9,657,520.71</u>

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

CITY OF CANTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015

	Enterprise Funds Major Funds				Totals
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	
<u>Operating Revenue:</u>					
Charges for Goods and Services	\$ 821,812.41	\$ 523,691.29	\$ 679,501.92	\$ 27,121.73	\$ 2,052,127.35
Other		20,505.91	19,199.09	1,834.41	41,539.41
Total Operating Revenue	<u>821,812.41</u>	<u>544,197.20</u>	<u>698,701.01</u>	<u>28,956.14</u>	<u>2,093,666.76</u>
<u>Operating Expenses:</u>					
Personal Services		122,555.80	106,082.29		228,638.09
Other Current Expense	30,540.92	368,087.82	343,428.46	54,868.81	796,926.01
Cost Of Goods Sold	776,456.23				776,456.23
Depreciation		98,653.38	143,073.94	57,530.39	299,257.71
Total Operating Expenses	<u>806,997.15</u>	<u>589,297.00</u>	<u>592,584.69</u>	<u>112,399.20</u>	<u>2,101,278.04</u>
Operating Income (Loss)	<u>14,815.26</u>	<u>(45,099.80)</u>	<u>106,116.32</u>	<u>(83,443.06)</u>	<u>(7,611.28)</u>
<u>Nonoperating Revenue (Expense):</u>					
Federal Grants			41,158.97	21,796.72	62,955.69
State Grants				1,210.93	1,210.93
Interest Income		3,796.85	13.09		3,809.94
Interest Expense and Fiscal Charges		(9,940.39)	(75,722.83)		(85,663.22)
Total Nonoperating Revenue (Expense)		<u>(6,143.54)</u>	<u>(34,550.77)</u>	<u>23,007.65</u>	<u>(17,686.66)</u>
Income (Loss) Before Transfers	14,815.26	(51,243.34)	71,565.55	(60,435.41)	(25,297.94)
Transfer In				26,000.00	26,000.00
Transfer (Out)	(150,000.00)				(150,000.00)
Change in Net Position	(135,184.74)	(51,243.34)	71,565.55	(34,435.41)	(149,297.94)
Net Position - Beginning	<u>293,260.33</u>	<u>3,110,214.87</u>	<u>3,655,497.44</u>	<u>2,747,846.01</u>	<u>9,806,818.65</u>
NET POSITION - ENDING	<u>\$ 158,075.59</u>	<u>\$ 3,058,971.53</u>	<u>\$ 3,727,062.99</u>	<u>\$ 2,713,410.60</u>	<u>\$ 9,657,520.71</u>

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

**CITY OF CANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Enterprise Funds				Totals
	Major Funds				
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>					
Cash Receipts from Customers	\$ 824,158.94	\$ 545,701.52	\$ 732,376.52	\$ 3,343.68	2,105,580.66
Other Cash Receipts				1,834.41	1,834.41
Cash Payments to Employees for Services		(125,012.11)	(105,893.29)		(230,905.40)
Cash Payments to Suppliers for Goods and Services	<u>(809,300.31)</u>	<u>(356,485.23)</u>	<u>(421,302.92)</u>	<u>(49,831.41)</u>	<u>(1,636,919.87)</u>
Net Cash Provided (Used) by Operating Activities	<u>14,858.63</u>	<u>64,204.18</u>	<u>205,180.31</u>	<u>(44,653.32)</u>	<u>239,589.80</u>
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>					
Operating Subsidies			41,158.97	23,007.65	64,166.62
Transfers In				26,000.00	26,000.00
Transfers Out	<u>(150,000.00)</u>				<u>(150,000.00)</u>
Net Cash Provided (Used) By Noncapital Financing Activities	<u>(150,000.00)</u>		<u>41,158.97</u>	<u>49,007.65</u>	<u>(59,833.38)</u>
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>					
Purchase of Capital Assets		(6,938.17)	(129,037.28)	(24,218.58)	(160,194.03)
Principal Paid on Capital Debt		(24,947.89)	(108,448.80)		(133,396.69)
Interest Paid on Capital Debt		<u>(9,940.39)</u>	<u>(75,722.83)</u>		<u>(85,663.22)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		<u>(41,826.45)</u>	<u>(313,208.91)</u>	<u>(24,218.58)</u>	<u>(379,253.94)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>					
Interest Earnings		3,796.85	13.09		3,809.94
Net Cash Provided (Used) by Investing Activities		<u>3,796.85</u>	<u>13.09</u>		<u>3,809.94</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (135,141.37)</u>	<u>\$ 26,174.58</u>	<u>\$ (66,856.54)</u>	<u>\$ (19,864.25)</u>	<u>\$ (195,687.58)</u>
Cash and Cash Equivalents at Beginning of Year	\$ 295,062.76	\$ 845,190.57	\$ 898,454.70	\$ 103,715.26	\$ 2,142,423.29
Cash and Cash Equivalents at End of Year	<u>159,921.39</u>	<u>871,365.15</u>	<u>831,598.16</u>	<u>83,851.01</u>	<u>1,946,735.71</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ (135,141.37)</u>	<u>\$ 26,174.58</u>	<u>\$ (66,856.54)</u>	<u>\$ (19,864.25)</u>	<u>\$ (195,687.58)</u>

**CITY OF CANTON
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

Operating Income (Loss)	\$ 14,815.26	\$ (45,099.80)	\$ 106,116.32	\$ (83,443.06)	\$ (7,611.28)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense		98,653.38	143,073.94	57,530.39	299,257.71
Change in Assets and Liabilities:					
Receivables	2,346.53	(1,602.88)	33,675.51	(770.40)	33,648.76
Due From Government				(23,007.65)	(23,007.65)
Inventories		6,053.95	(6,841.46)	3,361.75	2,574.24
Prepaid Expenses		306.20	737.45		1,043.65
Accounts and Other Payables	(2,303.16)	5,242.44	(71,770.45)	1,675.65	(67,155.52)
Accrued Wages Payable		(634.05)	(634.80)		(1,268.85)
Accrued Leave Payable		(1,822.26)	823.80		(998.46)
Customer Deposits		3,107.20			3,107.20
Net Cash Provided (Used) by Operating Activities	<u>\$ 14,858.63</u>	<u>\$ 64,204.18</u>	<u>\$ 205,180.31</u>	<u>\$ (44,653.32)</u>	<u>\$ 239,589.80</u>

15

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

CITY OF CANTON
NOTES TO THE FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

a. Financial Reporting Entity:

The reporting entity of the City of Canton consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

The funds of the City financial reporting entity are described below:

Governmental Funds:

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

Special Revenue Funds – Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

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

Proprietary Funds:

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

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

by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

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

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

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

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

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

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental fund types are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Canton, the length of that cycle is 30 days. The revenues which were accrued at December 31, 2015, are taxes receivable, amounts due from other governments for grants, and other receivables due within 30 days.

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

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

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

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including an administrative overhead component, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund, so that expenses are reported only in the function to which they relate.

e. Deposits and Investments

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

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

f. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or

intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

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

Government-Wide Statements:

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

The total December 31, 2015 balance of governmental activities capital assets includes approximately 8.6% for which the costs were determined by estimates of the original costs. The total December 31, 2015 balance of capital assets for business-type activities are valued at original costs. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

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

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	All	NA	NA
Improvements other than Buildings	\$ 50,000	Straight Line	25-75 years
Buildings	50,000	Straight Line	10-30 years
Machinery and Equipment	5,000	Straight Line	5-50 years
Infrastructure	All	Straight Line	25-75 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon

acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide financial statements.

g. Long-Term Liabilities:

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

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

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

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

i. Deferred Inflows and Deferred Outflows of Resources

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

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

j. Proprietary Funds Revenue and Expense Classifications:

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

k. Cash and Cash Equivalents:

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

l. Equity Classifications:

Government-wide Statements:

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

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

Fund Financial Statements:

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

m. Application of Net Position:

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

n. Fund Balance Classification Policies and Procedures:

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

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

other governmental funds.

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

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

A schedule of fund balances is provided as follows:

CITY OF CANTON
DISCLOSURE OF FUND BALANCES REPORTED ON BALANCE SHEET
GOVERNMENTAL FUNDS
12/31/15

	General	BBB Sales Tax	Other Non-Major Governmental	Total Governmental
Fund Balances:	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
<i>Nonspendable:</i>				
Inventory	\$ 111,115.21	\$	\$	\$ 111,115.21
Prepaid Expenses	30,243.88			30,243.88
SDPAA (Deposit)	67,416.39			67,416.39
<i>Restricted for:</i>				
Liquor/Lodging		102,578.20		102,578.20
Library			25,664.95	25,664.95
<i>Assigned:</i>				
Swimming Pool	113,400.00			113,400.00
Capital Improvement	574,000.00			574,000.00
Dakota Street	500,000.00			500,000.00
Library Building	53,500.00			53,500.00
Equipment	310,500.00			310,500.00
Street Sweeper	125,000.00			125,000.00
Fire Truck	90,000.00			90,000.00
Bike Trail	8,829.27			8,829.27
<i>Unassigned</i>	<u>1,779,604.30</u>	<u> </u>	<u> </u>	<u>1,779,604.30</u>
Total Fund Balances	<u>\$ 3,763,609.05</u>	<u>\$ 102,578.20</u>	<u>\$ 25,664.95</u>	<u>\$ 3,891,852.20</u>

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

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

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit

rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also SDCL § 4-5-9, requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of December 31, 2015, the City had the following investments:

External Investment Pool:

SDFIT	Unrated	\$ 261,738.76
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The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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

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

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

3. Receivables and Payables

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

4. Inventory

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

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

Government-wide Financial Statements:

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

Fund Financial Statements:

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

5. Property Taxes

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

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

6. Changes In General Capital Assets

A summary of changes in capital assets for the year ended December 31, 2015 is as follows:

	Balance <u>01/01/15</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/15</u>
Governmental Activities:				
Land	\$ 290,166.00	\$	\$	290,166.00
Construction in Progress	<u>246,600.97</u>	<u>526,337.96</u>	<u>768,338.93</u>	<u>4,600.00</u>
Total Capital Assets, not being Depreciated	<u>536,766.97</u>	<u>526,337.96</u>	<u>768,338.93</u>	<u>294,766.00</u>
Capital Assets, being Depreciated:				
Buildings	2,409,706.09	24,841.67		2,434,547.76
Improvements, other than Buildings	1,718,535.11	797,543.43	18,802.00	2,497,276.54
Machinery and Equipment	<u>2,144,438.32</u>	<u>129,567.16</u>		<u>2,274,005.48</u>
Total Capital Assets, being Depreciated	<u>6,272,679.52</u>	<u>951,952.26</u>	<u>18,802.00</u>	<u>7,205,829.78</u>
Less Accumulated Depreciation for:				
Buildings	753,415.84	56,190.53		809,606.37
Improvements, other than Buildings	374,166.49	61,080.04	18,802.00	416,444.53
Machinery and Equipment	<u>875,260.96</u>	<u>105,579.49</u>		<u>980,840.45</u>
Total Accumulated Depreciation	<u>2,002,843.29</u>	<u>222,850.06</u>	<u>18,802.00</u>	<u>2,206,891.35</u>
Total Governmental Activities Capital Assets, being Depreciated, Net	<u>4,269,836.23</u>	<u>729,102.20</u>		<u>4,998,938.43</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 4,806,603.20</u>	<u>\$ 1,255,440.16</u>	<u>\$ 768,338.93</u>	<u>\$ 5,293,704.43</u>

Depreciation expenses were charged to functions as follows:

General Government	\$ 34,185.22
Public Safety	54,628.52
Public Works	91,904.35
Culture and Recreation	<u>42,131.97</u>
Total Depreciation Expense, Governmental Activities	<u>\$ 222,850.06</u>

	Balance <u>1/1/2015</u>	Increases	Decreases	Balance <u>12/31/2015</u>
Business-Type Activities:				
Capital Assets, not being Depreciated				
Land	\$ 116,844.36	\$	\$	\$ 116,844.36
Construction in Progress	<u>819,262.15</u>	<u>138,761.19</u>	<u>933,804.76</u>	<u>24,218.58</u>
Total Capital Assets, not being Depreciated	<u>936,106.51</u>	<u>138,761.19</u>	<u>933,804.76</u>	<u>141,062.94</u>
Capital Assets, being Depreciated:				
Buildings	384,195.10			384,195.10
Machinery and Equipment	652,882.83	8,876.34		661,759.17
Improvements Other than Building	<u>11,639,555.02</u>	<u>946,361.26</u>	<u>1,101.28</u>	<u>12,584,815.00</u>
Total	<u>12,676,632.95</u>	<u>955,237.60</u>	<u>1,101.28</u>	<u>13,630,769.27</u>
Less Accumulated Depreciation for:				
Buildings	48,180.74	8,050.56		56,231.30
Machinery and Equipment	295,994.37	39,271.86		335,266.23
Improvements Other than Building	<u>2,982,470.55</u>	<u>251,935.29</u>	<u>1,101.28</u>	<u>3,233,304.56</u>
Total Accumulated Depreciation	<u>3,326,645.66</u>	<u>299,257.71</u>	<u>1,101.28</u>	<u>3,624,802.09</u>
Total Business-Type Activities Capital Assets, being depreciated, net	<u>9,349,987.29</u>	<u>655,979.89</u>		<u>10,005,967.18</u>
Business-Type Activity, Capital Assets, net	<u>\$ 10,286,093.80</u>	<u>\$ 794,741.08</u>	<u>\$ 933,804.76</u>	<u>\$ 10,147,030.12</u>

Depreciation expense was charged to functions as follows:

Water	\$ 98,653.38
Sewer	143,073.94
Airports	<u>57,530.39</u>
Total Depreciation Expense, Business-Type Activities	<u>\$ 299,257.71</u>

Construction Work in Progress at December 31, 2015 is composed of the following:

Project Name	Amount <u>Authorized</u>	Expended thru <u>12/31/15</u>	<u>Committed</u>
<i>Governmental</i>			
City Hall Residing	\$ 30,623.00	\$ 4,600.00	\$ 26,023.00
<i>Enterprise</i>			
Airport Wildlife Fence	<u>348,500.00</u>	<u>24,218.58</u>	<u>324,281.42</u>
Total Enterprise	<u>348,500.00</u>	<u>24,218.58</u>	<u>324,281.42</u>
Total Governmental and Enterprise	<u>\$ 379,123.00</u>	<u>\$ 28,818.58</u>	<u>\$ 350,304.42</u>

7. Long-Term Liabilities

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Retired	Ending Balance	Due within One Year
Primary Government:					
Governmental Activities:					
Capital Lease Payable	\$ 9,281.89	\$	\$ (3,554.91)	\$ 5,726.98	\$ 3,583.22
OPEB(restated)	58,315.59	8,870.88		67,186.47	
Accrued Compensated Absences-					
Governmental Funds	<u>86,944.16</u>	<u>95,943.18</u>	<u>(86,944.16)</u>	<u>\$ 95,943.18</u>	<u>47,971.59</u>
Total Governmental Activities	<u>154,541.64</u>	<u>104,814.06</u>	<u>(90,499.07)</u>	<u>168,856.63</u>	<u>51,554.81</u>
Business-Type Activities:					
Certificates of Participation					
State Revolving Loan	2,763,047.64		(133,397.01)	2,629,650.63	141,563.53
Accrued Compensated Absences -					
Business-Type Funds	<u>14,087.16</u>	<u>13,088.70</u>	<u>(14,087.16)</u>	<u>13,088.70</u>	<u>6,544.35</u>
Total Business - Type Activites	<u>2,777,134.80</u>	<u>13,088.70</u>	<u>(147,484.17)</u>	<u>2,642,739.33</u>	<u>148,107.88</u>
Total Primary Government	<u>\$ 2,931,676.44</u>	<u>\$ 117,902.76</u>	<u>\$ (237,983.24)</u>	<u>\$ 2,811,595.96</u>	<u>\$ 199,662.69</u>

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

State Revolving Loans

Drinking Water #1, maturing in 2024 with an interest rate of 3.5%. The payments are made from the Water Fund	\$ 268,350.92
Clean Water #2, maturing in 2024 with an interest rate of 3.50%. The payments are made from the Sewer Fund.	321,986.36
Clean Water #3, maturing in 2031 with an interest rate of 3.00%. The payments are made from the Sewer Fund.	1,319,140.11
Clean Water #4, maturing in 2044 with and interest rate of 3.25%. The payments are made from the Sewer Fund.	720,173.24

Capital Lease:

Copier lease, maturing in 2017, with a payment of \$276.43 per month. Payments to be made from the General Fund	3,502.37
Copier lease, maturing in 2019, with a payment of \$56.61 per month. Payments to be made from the General Fund.	2,224.61

Compensated Absences:

Vested sick leave, payable as used or on termination. Payments to be made from the General, Liquor, Water, and Sewer Funds.	109,031.88
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Other Postemployment Benefits:

See Note 10 for a complete description of the liability for other postemployment benefits. Payments to be made from the General Fund.	67,186.47
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Annual requirement to amortize long-term debt, excluding compensated absences and other postemployment benefits, at December 31, 2015 were:

Governmental Activities

Year Ending December 31,	Copier Capital Lease		State Revolving Loan		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2016	\$ 3,583.22	\$ 363.27	\$ 141,563.53	\$ 81,939.59	\$ 145,146.75
2017	1,111.48	120.70	146,189.03	77,314.09	147,300.51	77,434.79
2018	642.29	37.03	150,966.53	72,536.59	151,608.82	72,573.62
2019	389.99	6.53	155,900.97	67,602.15	156,290.96	67,608.68
2020-2024			859,387.97	258,127.63	859,387.97	258,127.63
2025-2029			697,427.01	144,450.19	697,427.01	144,450.19
2030-2034			156,412.41	63,832.29	156,412.41	63,832.29
2035-Beyond			321,803.18	54,968.57	321,803.18	54,968.57
TOTAL	\$ 5,726.98	\$ 527.53	\$ 2,629,650.63	\$ 820,771.10	\$ 2,635,377.61	\$ 821,298.63

8. Restricted Net Position:

Restricted Net Position for the year ended December 31, 2015 was as follows:

Other Purpose	Amount
Cumulative Reserve-SDPAA	\$ 67,416.39
Economic Development	102,578.20
SDRS Pension Purposes	301,618.60
Special Revenue-Library	25,664.95
Total	\$ 497,278.14

9. Other Post Employment Benefits - Healthcare Plan:

Plan Description. Retiree Healthcare Plan is a single-employer defined benefit healthcare plan administered by the City. The Retiree Healthcare Plan provides medical insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended by governing board. The health plan does not issue separately stated stand-alone financial statements.

Funding Policy. The contribution requirements of plan members and the City are established and may be amended by the governing board. An employee or spouse, who retires from the City on or after the age of 55 and with are eligible for full retirement benefits through the South Dakota Retirement System, may be eligible for retiree health insurance coverage. Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single or family coverage. (pay-as-you-go basis).

Annual OPEB Cost and Net OPEB Obligation. The City's annual other postemployment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the financial components of the plan:

Annual required contribution	\$ 8,748.00
Interest on net OPEB obligation	1,749.00
Adjustment to annual required contribution	(1,626.12)
Annual OPEB cost (expense)	8,870.88
Contributions made	0.00
Increase in net OPEB obligation	8,870.88
Net OPEB obligation - beginning of year	58,315.59
Net OPEB obligation - end of year	<u>\$ 67,186.47</u>

The City's annual OPEB cost data and net OPEB obligation was as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/15	\$ 8,870.88	0%	\$ 67,186.47
12/31/14	11,758.16	0%	58,315.59

Funded Status and Funding Progress: As of December 31, 2015, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits was \$56,398.00, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$56,398.00.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the alternative measure method, actuarial valuation, the entry age method was used. The actuarial assumptions included a 5.0% rate of return and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent after 10 years. Both rates include a 3 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at 2015 was 30 years.

10. Risk Management

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

Employee Health Insurance:

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

Liability Insurance:

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

The agreement with the South Dakota Public Assurance Alliance provides that the above coverage will be provided up to a \$5,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year and Thereafter	100%

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

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

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per

individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$1,675,000 per individual incident.

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

Unemployment Benefits:

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

11. Interfund Transfers

Interfund transfers for the year ended December 31, 2015 were as follows:

	<u>Transfers to:</u>		
	<u>General Fund</u>	<u>Airport Fund</u>	<u>Total</u>
<u>Transfers From:</u>			
<u>Major Funds:</u>			
General Fund	\$	\$ 26,000.00	\$ 26,000.00
Liquor	150,000.00		150,000.00
	<u>\$ 150,000.00</u>	<u>\$ 26,000.00</u>	<u>\$ 176,000.00</u>

The City typically budgets transfers of money to conduct the indispensable functions of the City and to close out old debt service and capital project funds.

12. Significant Contingencies-Litigation

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

13. Pension Plan

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

The annual increase in the amount of the SDRS benefits payable on each July 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 contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were \$61,468.64, \$60,268.54, and \$56,201.12, respectively, equal to the required contributions each year.

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

At June 30, 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 City as of this measurement period and reported by the City as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 5,966,675.70
Less proportionate share of total pension assets	<u>5,731,847.16</u>
Proportionate share of net pension asset	<u><u>\$ 234,828.54</u></u>

At December 31, 2015, the City reported a liability (asset) of \$ (234,828.54) for its proportionate share of the net pension liability (asset). 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 City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City’s proportion was

.0553673%, which is a decrease of .0013458% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense (revenue) of (\$33,760.71). At December 31, 2015 the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 48,082.21	\$
Changes in assumption	186,204.25	
Net difference between projected and actual earnings on pension plan investments	143,452.77	346,494.00
Changes in proportion and difference between City contributions and proportionate share of contributions	4,351.16	
City contributions subsequent to the measurement date	<u>31,193.66</u>	
TOTAL	<u><u>\$ 413,284.06</u></u>	<u><u>\$ 346,494.00</u></u>

\$31,193.66 reported as deferred outflow of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:

2016	\$ 42,824.24
2017	42,824.24
2018	42,824.24
2019	<u>38,926.05</u>
TOTAL	<u><u>\$ 167,398.77</u></u>

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 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	64.0%	4.7%
Fixed Income	26.0%	1.8%
Real Estate	8.0%	5.5%
Cash	<u>2.0%</u>	0.8%
Total	<u>100.0%</u>	

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 City'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 City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (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>
City's proportionate share of the net pension liability (asset)	\$ 591,060.80	\$ (234,828.54)	\$ (908,270.18)

Pension Plan Fiduciary Net Position:

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

14. Prior Period Adjustment

The City implemented GASB Statement No. 45 in previous years. A corresponding entry was made to record \$58,315.59 for OPEB costs which had been accrued during prior years.

The City implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions-An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

	<u>Governmental</u> <u>Activities</u>	<u>Component</u> <u>Unit</u>
Net Position January 1, 2015, as previously reported	\$ 8,191,889.57	\$ 444,592.47
Restatement for OPEB	(58,315.59)	
Restatement for pension accounting:		
Net Pension Asset	408,594.69	7,735.74
Pension related Deferred Inflows of Resources	(473,221.53)	
Pension related Deferred Outflows of Resources	<u>331,667.12</u>	<u>3,497.33</u>
Net Position January 1, 2015, as restated	<u>\$ 8,400,614.26</u>	<u>\$ 455,825.54</u>

**REQUIRED SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	\$ 1,229,832.00	\$ 1,229,832.00	\$ 1,227,037.19	\$ (2,794.81)
General Sales and Use Taxes	875,000.00	875,000.00	1,002,866.92	127,866.92
Penalties on Delinquent Taxes				
Licenses and Permits	18,550.00	18,550.00	27,263.71	8,713.71
Intergovernmental Revenue:				
Federal Grants			424,743.87	424,743.87
State Grants			4,145.50	4,145.50
State Shared Revenue:				
Bank Franchise Tax			11,094.83	11,094.83
Motor Vehicle Commercial Prorate			2,558.13	2,558.13
Liquor Tax Reversion	20,000.00	20,000.00	19,067.55	(932.45)
Motor Vehicle Licenses (5%)	8,000.00	8,000.00	19,923.59	11,923.59
Local Government Highway and Bridge Fund	60,000.00	60,000.00	69,408.58	9,408.58
Other			204.00	204.00
County Shared Revenue:				
County Highway and Bridge Tax	6,000.00	6,000.00	14,307.11	8,307.11
County Wheel Tax	5,000.00	5,000.00	4,909.62	(90.38)
Charge for Services:				
General Government	229,000.00	229,000.00	259,346.90	30,346.90
Public Safety	4,800.00	4,800.00	4,096.50	(703.50)
Highways and Streets	14,150.00	14,150.00	6,893.75	(7,256.25)
Sanitation	23,000.00	23,000.00	200.00	(22,800.00)
Health	500.00	500.00	850.00	350.00
Culture and Recreation	48,500.00	48,500.00	42,739.20	(5,760.80)
Fines and Forfeits:				
Court Fines and Costs	1,000.00	1,000.00	1,033.74	33.74
Miscellaneous Revenue:				
Investment Earnings	26,000.00	26,000.00	18,473.10	(7,526.90)
Contribution and Donations	3,000.00	3,000.00	6,127.80	3,127.80
Other			13,304.50	13,304.50
Total Revenue	<u>2,572,332.00</u>	<u>2,572,332.00</u>	<u>3,180,596.09</u>	<u>608,264.09</u>
Expenditures:				
General Government:				
Legislative	39,850.00	39,850.00	17,647.19	22,202.81
Executive	189,350.00	219,350.00	171,985.86	47,364.14
Elections	4,100.00	4,100.00	9.75	4,090.25
Financial Administration	285,550.00	290,550.00	227,709.43	62,840.57
Other	105,700.00	105,700.00	74,785.84	30,914.16
Total General Government	<u>624,550.00</u>	<u>659,550.00</u>	<u>492,138.07</u>	<u>167,411.93</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	Original	Final		
Public Safety:				
Police	489,800.00	489,800.00	439,871.01	49,928.99
Fire	127,800.00	127,800.00	105,573.31	22,226.69
Total Public Safety	<u>617,600.00</u>	<u>617,600.00</u>	<u>545,444.32</u>	<u>72,155.68</u>
Public Works:				
Highways and Streets	1,187,200.00	1,862,200.00	1,303,159.09	559,040.91
Sanitation	62,500.00	62,500.00	53,708.84	8,791.16
Total Public Works	<u>1,249,700.00</u>	<u>1,924,700.00</u>	<u>1,356,867.93</u>	<u>567,832.07</u>
Health and Welfare:				
Health	45,000.00	45,000.00	9,916.11	35,083.89
Total Health and Welfare	<u>45,000.00</u>	<u>45,000.00</u>	<u>9,916.11</u>	<u>35,083.89</u>
Culture and Recreation:				
Recreation	159,500.00	160,500.00	117,716.96	42,783.04
Parks	157,750.00	165,750.00	163,318.75	2,431.25
Libraries	205,695.00	205,695.00	176,341.56	29,353.44
Total Culture and Recreation	<u>522,945.00</u>	<u>531,945.00</u>	<u>457,377.27</u>	<u>74,567.73</u>
Conservation and Development:				
Economic Development and Assistance	17,650.00	17,650.00	12,000.00	5,650.00
Total Conservation and Development	<u>17,650.00</u>	<u>17,650.00</u>	<u>12,000.00</u>	<u>5,650.00</u>
Debt Service			3,554.91	(3,554.91)
Total Expenditures	<u>3,077,445.00</u>	<u>3,796,445.00</u>	<u>2,877,298.61</u>	<u>919,146.39</u>
Excess of Revenue Over (Under) Expenditures	<u>(505,113.00)</u>	<u>(1,224,113.00)</u>	<u>303,297.48</u>	<u>1,527,410.48</u>
Other Financing Sources (Uses):				
Compensation for Loss/Damage to Capital Assets		12,000.00	1,140.70	(10,859.30)
Transfers In	150,000.00	150,000.00	150,000.00	
Transfers Out	(26,000.00)	(26,000.00)	(26,000.00)	
Total Other Financing Sources (Uses)	<u>124,000.00</u>	<u>136,000.00</u>	<u>125,140.70</u>	<u>(10,859.30)</u>
Net Change in Fund Balances	(381,113.00)	(1,088,113.00)	428,438.18	1,516,551.18
Fund Balance - Beginning	<u>3,335,170.87</u>	<u>3,335,170.87</u>	<u>3,335,170.87</u>	
FUND BALANCE - ENDING	<u>\$ 2,954,057.87</u>	<u>\$ 2,247,057.87</u>	<u>\$ 3,763,609.05</u>	<u>\$ 1,516,551.18</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - BBB FUND
FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes:				
General Sales and Use Taxes	\$ 40,000.00	\$ 40,000.00	\$ 60,831.29	\$ 20,831.29
Total Revenue	<u>40,000.00</u>	<u>40,000.00</u>	<u>60,831.29</u>	<u>20,831.29</u>
<u>Expenditures:</u>				
Economic Developmet and Assistance	<u>40,000.00</u>	<u>48,500.00</u>	<u>42,010.00</u>	<u>6,490.00</u>
Total Expenditures	<u>40,000.00</u>	<u>48,500.00</u>	<u>42,010.00</u>	<u>6,490.00</u>
Net Change in Fund Balances		(8,500.00)	18,821.29	27,321.29
Fund Balance - Beginning	<u>83,756.91</u>	<u>83,756.91</u>	<u>83,756.91</u>	<u> </u>
FUND BALANCE - ENDING	<u>\$ 83,756.91</u>	<u>\$ 75,256.91</u>	<u>\$ 102,578.20</u>	<u>\$ 27,321.29</u>

REQUIRED SUPPLEMENTARY INFORMATION
CITY OF CANTON
SCHEDULE OF FUNDING PROGRESS FOR OTHER POST-EMPLOYMENT BENEFITS
DECEMBER 31, 2015

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AL) - Unit Credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)
12/31/14	0	\$ 53,194	\$ 53,194	0.0%
12/31/15	0	56,398	56,398	0.0%

Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
\$ 1,317,002	4.0%
1,110,070	5.1%

Schedule of Required Supplementary Information
CITY OF CANTON
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
(ASSET)
South Dakota Retirement System

	2014	2015
City's proportion of the net pension liability (asset)	0.0567131%	0.0553673%
City's proportionate share of net pension liability (asset)	\$ (408,595)	\$ (234,829)
City's covered-employee payroll	\$ 1,075,154	\$ 1,110,070
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-38.00%	-21.15%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%

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

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

	<u>2015</u>
Contractually required contribution	<u>\$ 60,651</u>
Contributions in relation to the contractually required contribution	<u>\$ 60,651</u>
Contribution deficiency (excess)	<u>\$ _____</u>
City's covered-employee payroll	\$1,110,070
Contributions as a percentage of covered-employee payroll	5.46%

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

Note 1: Budgets and Budgetary Accounting:

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

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

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

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

Note 2: GAAP/ Budgetary Accounting Basis Differences

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

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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*

City Council
The City of Canton
Canton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2015, and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Canton's basic financial statements and have issued our report thereon dated July 21, 2016. Our report includes a reference to other auditors who audited the financial statements of the Canton Housing and Redevelopment Commission as described in our report on the City of Canton's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

City of Canton, South Dakota's Response to Finding

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

Purpose of this Report

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

Quam, Berglin, & Post, P.C.

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

July 21, 2016

**CITY OF CANTON
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015**

PRIOR FEDERAL AUDIT FINDING:

The prior audit report contained no written federal audit findings.

PRIOR OTHER AUDIT FINDING NUMBER 2014-001:

A material weakness in internal controls was reported due to a lack of proper segregation of duties for revenues.

Corrective Action Plan:

This audit finding has not been corrected and is restated as finding number 2015-001 on the Schedule of Current Audit Findings.

**CITY OF CANTON
SCHEDULE OF CURRENT AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015**

CURRENT FEDERAL AUDIT FINDINGS:

There are no written current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Finding – Significant Deficiency:

FINDING NUMBER 2015-001

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

Criteria:

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

Condition, Cause and Effect:

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

Recommendation:

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

Corrective Action Plan:

Kyle Cwach, Finance Officer for the City of Canton, is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the entity, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Canton has prepared a response to the finding which is on page 47.

Corrective Action Plan
For the year ended December 31, 2015

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

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



Mayor



Finance Officer/City Administrator