

CITY OF CANTON
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020

**CITY OF CANTON
MUNICIPAL OFFICIALS
DECEMBER 31, 2020**

Mayor

Sandra Lundstrom

Governing Board

Todd Baldwin

Jerry Chaon

Moses Isais

Tyler Larson

Finance Officer

Kyle Cwach

Attorney

Larry Nelson

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QUAM, BERGLIN, & POST, P.C.

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

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT

City Council
City of Canton
Canton, South Dakota

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota as of and for the year ended December 31, 2020, 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 modified cash basis of accounting described in Note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Basis for Disclaimer of Opinion on the Discretely Presented Component Unit

The financial statements of the Housing and Redevelopment Commission (HRC) have not been audited, and we were not engaged to audit the HRC financial statements as part of the City's basic financial statements. HRC's financial activities are included in the City's basic financial statements as a discretely presented component unit on an accrual basis and represent the assets, net position, and revenues of the City's discretely presented component unit.

Disclaimer of Opinion

Because of the significance of the matter described in the "Basis for Disclaimer of Opinion on the Discretely Presented Component Unit" paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the discretely presented component unit of the City of Canton. Accordingly, we do not express an opinion on those financial statements.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2020 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis of Accounting

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

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's financial statements. The Budgetary Comparison Schedules and the Schedule of Long-Term Debt listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 23, 2021, 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

August 23, 2021

CITY OF CANTON
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2020

	Primary Government			Unaudited Accrual Basis Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 6,956,383.24	\$ 2,747,475.28	\$ 9,703,858.52	\$ 52,729.03
Investments-Certificates of Deposit	511,750.23		511,750.23	6,978.66
Accounts Receivable, Net				638.51
Prepaid Expenses				73.78
Restricted Assets				
Deposits				1,360.00
Net Pension Asset				221.77
Capital Assets:				
Land and Construction Work in Progress				25,811.20
Other Capital Assets, Net of Depreciation				208,659.89
TOTAL ASSETS	<u>7,468,133.47</u>	<u>2,747,475.28</u>	<u>10,215,608.75</u>	<u>296,472.84</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows				24,005.49
LIABILITIES:				
Accounts Payable				17,393.00
Accrued Wages Payable				5,672.77
Customer Deposits Payable				5,443.00
TOTAL LIABILITIES				<u>28,508.77</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows				4,263.72
TOTAL DEFERRED INFLOWS OF RESOURCE				<u>4,263.72</u>
NET POSITION:				
Restricted for:				
Economic Development and Promotion	130,427.97		130,427.97	
Library	44,258.36		44,258.36	
HRC Purposes				267,742.30
SDRS Pension Purposes				19,963.54
Unrestricted	<u>7,293,447.14</u>	<u>2,747,475.28</u>	<u>10,040,922.42</u>	
TOTAL NET POSITION	<u>\$ 7,468,133.47</u>	<u>\$ 2,747,475.28</u>	<u>\$ 10,215,608.75</u>	<u>\$ 287,705.84</u>

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

CITY OF CANTON
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Position			Unaudited Accrual Basis Component Unit	
	Expenses	Operating		Capital		Governmental Activities	Primary Government Business-Type Activities			Total
		Charges for Services	Grants and Contributions	Grants and Contributions	Grants and Contributions		Governmental Activities	Business-Type Activities		
Primary Government:										
Governmental Activities:										
General Government	\$ 499,583.71	\$ 287,816.04	\$	\$	\$ (211,767.67)	\$	\$	\$ (211,767.67)	\$	
Public Safety	723,344.80	42,346.49		34,098.50	(646,899.81)			(646,899.81)		
Public Works	1,044,272.35	114,376.29	14,026.00	414,150.90	(501,719.16)			(501,719.16)		
Health and Welfare	5,475.98	235.00			(5,240.98)			(5,240.98)		
Culture and Recreation	488,471.47	42,705.74			(445,765.73)			(445,765.73)		
Miscellaneous		34,756.05			34,756.05			34,756.05		
Conservation & Development	140,005.75				(140,005.75)			(140,005.75)		
Total Governmental Activities	2,901,154.06	522,235.61	14,026.00	448,249.40	(1,916,643.05)			(1,916,643.05)		
Business-Type Activities:										
Liquor	896,292.75	893,223.30				(3,069.45)		(3,069.45)		
Water	1,298,124.92	737,425.15				(560,699.77)		(560,699.77)		
Sewer	583,251.24	811,758.79				228,507.55		228,507.55		
Airport	266,211.63	37,714.42		207,683.02		(20,814.19)		(20,814.19)		
Total Business-Type Activities	3,043,880.54	2,480,121.66		207,683.02		(356,075.86)		(356,075.86)		
Total Primary Government	\$ 5,945,034.60	\$ 3,002,357.27	\$ 14,026.00	\$ 655,932.42	(1,916,643.05)			(2,272,778.91)		
Component Unit:										
Housing and Redevelopment	\$ 145,025.42	\$ 69,532.00	\$ 94,147.37						18,653.95	
General Revenues:										
Taxes:										
Property Taxes					1,389,793.45			1,389,793.45		
Sales and Use Taxes					1,191,149.63			1,191,149.63		
State Shared Revenues					37,098.94			37,098.94		
Unrestricted Investment Earnings					25,517.44	6,386.32		31,903.76		
Miscellaneous Revenue					33,475.98			33,475.98		
New Debt Issued					2,738,048.40	502,041.00		3,240,089.40		
Transfers					(25,000.00)	25,000.00				
Total General Revenues and Transfer:					5,390,083.84	533,427.32		5,923,511.16		
Change in Net Position					3,473,440.79	177,351.46		3,650,792.25	18,653.95	
Net Position - Beginning					3,994,692.68	2,570,123.82		6,564,816.50	269,051.89	
Net Position - Ending					\$ 7,468,133.47	\$ 2,747,475.28		\$ 10,215,608.75	\$ 287,705.84	

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

**CITY OF CANTON
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2020**

	<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	\$ 6,793,447.14	\$ 130,427.97	\$ 32,508.13	\$ 6,956,383.24
Investments-Certificates of Deposit	500,000.00		11,750.23	511,750.23
TOTAL ASSETS	<u>7,293,447.14</u>	<u>130,427.97</u>	<u>44,258.36</u>	<u>7,468,133.47</u>
Fund Balances:				
Restricted		130,427.97	44,258.36	174,686.33
Assigned	4,352,596.90			4,352,596.90
Unassigned	2,940,850.24			2,940,850.24
Total Fund Balances	<u>7,293,447.14</u>	<u>130,427.97</u>	<u>44,258.36</u>	<u>7,468,133.47</u>
TOTAL FUND BALANCES	<u>\$ 7,293,447.14</u>	<u>\$ 130,427.97</u>	<u>\$ 44,258.36</u>	<u>\$ 7,468,133.47</u>

The attached notes are an integral part of these financial statements

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<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>
Revenues:				
Taxes:				
General Property Taxes	\$ 1,389,652.84	\$	\$	\$ 1,389,652.84
General Sales and Use Taxes	1,131,215.89	59,933.74		1,191,149.63
Penalties and Interest	140.61			140.61
Licenses and Permits	34,756.05			34,756.05
Intergovernmental Revenue:				
Federal Grants	414,150.90			414,150.90
State Grants	14,026.00			14,026.00
State Shared Revenue:				
Bank Franchise Tax	15,687.16			15,687.16
Motor Vehicle Commercial Prorate	2,614.71			2,614.71
Liquor Tax Reversion	21,159.78			21,159.78
Motor Vehicle Licenses (5%)	31,629.94			31,629.94
Local Government Highway and Bridge Fund	66,967.74			66,967.74
Other	252.00			252.00
County Shared Revenue:				
County Highway and Bridge Tax	4,810.93			4,810.93
County Wheel Tax	7,102.97			7,102.97
Other Intergovernmental Revenues	1,964.26			1,964.26
Charge for Services:				
General Government	287,816.04			287,816.04
Public Safety	3,427.00			3,427.00
Highways and Streets	37,316.36			37,316.36
Sanitation	1,250.00			1,250.00
Health	235.00			235.00
Culture and Recreation	29,445.00		7,260.74	36,705.74
Fines and Forfeits:				
Court Fines and Costs	1,603.13			1,603.13
Library			6,000.00	6,000.00
Miscellaneous Revenue:				
Investment Earnings	25,517.44			25,517.44
Contributions and Donations	34,098.50			34,098.50
Other	30,417.59			30,417.59
Total Revenue	3,587,257.84	59,933.74	13,260.74	3,660,452.32
Expenditures:				
General Government:				
Legislative	23,360.72			23,360.72
Financial Administration	393,855.51			393,855.51
Other	68,867.48			68,867.48
Total General Government	486,083.71			486,083.71
Public Safety:				
Police	567,094.13			567,094.13
Fire	112,575.09			112,575.09
Total Public Safety	679,669.22			679,669.22

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASES - (continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	<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>	
Public Works:				
Highways and Streets	875,955.07			875,955.07
Sanitation	<u>125,683.78</u>			<u>125,683.78</u>
Total Public Works	<u>1,001,638.85</u>			<u>1,001,638.85</u>
Health and Welfare:				
Health	<u>5,475.98</u>			<u>5,475.98</u>
Total Health and Welfare	<u>5,475.98</u>			<u>5,475.98</u>
Culture and Recreation:				
Recreation	75,548.83			75,548.83
Parks	185,968.70			185,968.70
Libraries	<u>140,010.15</u>		6,194.39	<u>146,204.54</u>
Total Culture and Recreation	<u>401,527.68</u>		<u>6,194.39</u>	<u>407,722.07</u>
Conservation and Development:				
Economic Development and Assistance	32,143.25			32,143.25
Economic Opportunity		<u>107,862.50</u>		<u>107,862.50</u>
Total Conservation and Development	<u>32,143.25</u>	<u>107,862.50</u>		<u>140,005.75</u>
Capital Outlay	<u>180,558.48</u>			<u>180,558.48</u>
Total Expenditures	<u>2,787,097.17</u>	<u>107,862.50</u>	<u>6,194.39</u>	<u>2,901,154.06</u>
Excess of Revenue Over (Under)				
Expenditures	<u>800,160.67</u>	<u>(47,928.76)</u>	<u>7,066.35</u>	<u>759,298.26</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	1,094.13			1,094.13
Long Term Debt Proceeds	2,738,048.40			2,738,048.40
Transfer (Out)	<u>(25,000.00)</u>			<u>(25,000.00)</u>
Total Other Financing Sources (Uses)	<u>2,714,142.53</u>			<u>2,714,142.53</u>
Net Change in Fund Balances	3,514,303.20	(47,928.76)	7,066.35	3,473,440.79
Fund Balance - Beginning	<u>3,779,143.94</u>	<u>178,356.73</u>	<u>37,192.01</u>	<u>3,994,692.68</u>
FUND BALANCE - ENDING	<u>\$ 7,293,447.14</u>	<u>\$ 130,427.97</u>	<u>\$ 44,258.36</u>	<u>\$ 7,468,133.47</u>

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

CITY OF CANTON
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2020

	Enterprise Funds					Totals
	Major Funds				Airport Fund	
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund		
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	\$ 116,474.90	\$ 947,702.03	\$ 1,629,578.03	\$ 53,720.32	\$ 2,747,475.28	
Total Current Assets	<u>116,474.90</u>	<u>947,702.03</u>	<u>1,629,578.03</u>	<u>53,720.32</u>	<u>2,747,475.28</u>	
TOTAL ASSETS	<u>116,474.90</u>	<u>947,702.03</u>	<u>1,629,578.03</u>	<u>53,720.32</u>	<u>2,747,475.28</u>	
NET POSITION:						
Unrestricted Net Position	116,474.90	947,702.03	1,629,578.03	53,720.32	2,747,475.28	
TOTAL NET POSITION	<u>\$ 116,474.90</u>	<u>\$ 947,702.03</u>	<u>\$ 1,629,578.03</u>	<u>\$ 53,720.32</u>	<u>\$ 2,747,475.28</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 - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Enterprise Funds				Totals
	Major Funds				
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	
<u>Operating Revenue:</u>					
Charges for Goods and Services	\$ 893,223.30	\$ 603,960.45	\$ 799,484.29	\$ 37,714.42	\$ 2,334,382.46
Other		133,464.70	12,274.50		145,739.20
Total Operating Revenue	<u>893,223.30</u>	<u>737,425.15</u>	<u>811,758.79</u>	<u>37,714.42</u>	<u>2,480,121.66</u>
<u>Operating Expenses:</u>					
Personal Services		103,980.80	100,013.61		203,994.41
Other Current Expense		1,194,144.12	211,895.39	266,211.63	1,672,251.14
Cost Of Goods Sold	896,292.75				896,292.75
Total Operating Expenses	<u>896,292.75</u>	<u>1,298,124.92</u>	<u>311,909.00</u>	<u>266,211.63</u>	<u>2,772,538.30</u>
Operating Income (Loss)	<u>(3,069.45)</u>	<u>(560,699.77)</u>	<u>499,849.79</u>	<u>(228,497.21)</u>	<u>(292,416.64)</u>
<u>Nonoperating Revenue (Expense):</u>					
Federal Grants				207,683.02	207,683.02
Long Term Debt Issued		502,041.00			502,041.00
Interest Income		5,928.31	458.01		6,386.32
Interest Expense and Fiscal Charges			(272,808.24)		(272,808.24)
Gain (Loss) on Disposition of Assets			1,466.00		1,466.00
Total Nonoperating Revenue (Expense)		<u>507,969.31</u>	<u>(270,884.23)</u>	<u>207,683.02</u>	<u>444,768.10</u>
Income (Loss) Before Transfers	<u>(3,069.45)</u>	<u>(52,730.46)</u>	<u>228,965.56</u>	<u>(20,814.19)</u>	<u>152,351.46</u>
Transfer In				25,000.00	25,000.00
Change in Net Position	<u>(3,069.45)</u>	<u>(52,730.46)</u>	<u>228,965.56</u>	<u>4,185.81</u>	<u>177,351.46</u>
Net Position - Beginning	<u>119,544.35</u>	<u>1,000,432.49</u>	<u>1,400,612.47</u>	<u>49,534.51</u>	<u>2,570,123.82</u>
NET POSITION - ENDING	<u>\$ 116,474.90</u>	<u>\$ 947,702.03</u>	<u>\$ 1,629,578.03</u>	<u>\$ 53,720.32</u>	<u>\$ 2,747,475.28</u>

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

CITY OF CANTON
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity:

The reporting entity of the 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 the City 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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in not 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

The funds of the 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 the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.*

BBB Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This fund may be established at the direction of the governing body through local ordinance. This is a major fund.

Library Fund – to account for the receipt and expenditure of resources received from the Library contributions. This 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 principal revenue sources.*

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

debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)

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

Liquor Fund – A fund used to record financial transactions related to liquor operations. 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.

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

Measurement Focus:

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 within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements:

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

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting,

transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the City in these financial statements is:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

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

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

- d. Deposits and Investments:

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

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

- e. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions, and are depreciated, where appropriate. The accounting treatment for property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund and similar discretely presented component unit operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net Position. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary to match the cost with the program that benefits from the use of the capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the City and the related depreciation are not reported on the financial statements of the City.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, General Obligation Bonds, Revenue Bonds, Certificates of Participation, Financing (Capital Acquisition) Leases, and Compensated Absences.

As discussed in Note 1.c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The City has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

g. 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.

h. 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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

i. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in two components:

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

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.

j. 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 position are available.

k. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the 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 Commission.
- 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.

A schedule of fund balances is provided as follows:

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

	<u>General Fund</u>	<u>BBB Sales Tax Fund</u>	<u>Other Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:				
<i>Restricted for:</i>				
Liquor/Lodging	\$	\$ 130,427.97	\$	\$ 130,427.97
Library			44,258.36	44,258.36
<i>Assigned:</i>				
Swimming Pool	2,894,096.90			2,894,096.90
Capital Improvement	509,000.00			509,000.00
Library Building	81,000.00			81,000.00
Equipment	408,500.00			408,500.00
Street Sweeper	180,000.00			180,000.00
Fire Truck	280,000.00			280,000.00
<i>Unassigned</i>	<u>2,940,850.24</u>			<u>2,940,850.24</u>
Total Fund Balances	\$ 7,293,447.14	\$ 130,427.97	\$ 44,258.36	\$ 7,468,133.47

2. IMPLEMENTATION OF NEW ACCOUNTING STANDARD

In 2020, the City implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. This statement improves accounting and financial reporting for leases; enhances the comparability of financial statements between governments; and also enhances the relevance, reliability, and consistency of information about the leasing activities of governments. The County prepared and presented the financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; therefore, the implementation of this standard did not affect beginning net position or beginning fund balances.

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

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

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested only 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.

As of December 31, 2020, the City did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Credit Risk – State law 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, 2020, the City had the following investments.

<u>Investments</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
External Investment Pools:			
SDFIT	Unrated	N/A	<u>\$ 272,337.74</u>

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.

Custodial Credit Risk – Investments – The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

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

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.

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.

4. PROPERTY TAXES

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

The 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.

5. OPERATING LEASES

The City has the following operating leases:

- a. Lease with Marco for a copier, payments in the amount of \$184.17 per month are made out of the General Fund.
- b. Lease with Marco for a copier, payments in the amount of \$129.36 per month are made out of the General Fund.
- c. Lease with CapFirst for a street sweeper, payments in the amount of \$34,991.00 yearly are made out of the General Fund.

The following are the minimum payments on existing operating leases:

<u>Year</u>	<u>General Fund</u>
2021	\$ 37,201.04
2022	35,359.34
2023	34,991.00
2024	70,000.00
Total	\$ 177,551.38

6. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2020, was as follows:

<u>Other Purposes:</u>	<u>Amount</u>
Economic Development	\$ 130,427.97
Special Revenue-Library	44,258.36
Total Restricted Net Position	\$ 174,686.33

These balances are restricted due to federal grant and statutory requirements.

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2020, were as follows:

	<u>Transfers To:</u>
<u>Transfers From:</u>	<u>Airport</u>
Major Funds:	<u>Fund</u>
General Fund	\$ 25,000.00

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

8. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2020, the City was not involved in any litigation.

9. 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 period ended December 31, 2020, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

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

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

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

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

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$134,944.00, which was an increase of \$620.00 from the previous year. The deposit is not recorded in the City's financial statements due to the modified cash basis of accounting elected by the City.

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

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

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (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 \$650,000 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 \$2,000,000 per incident.

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

Unemployment Benefits:

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

**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues:</u>				
Taxes:				
General Property Taxes	\$ 1,408,150.00	\$ 1,408,150.00	\$ 1,389,652.84	\$ (18,497.16)
General Sales and Use Taxes	950,000.00	950,000.00	1,131,215.89	181,215.89
Penalties on Delinquent Taxes			140.61	140.61
Licenses and Permits	25,200.00	25,200.00	34,756.05	9,556.05
Intergovernmental Revenue:				
Federal Grants			414,150.90	414,150.90
State Shared Revenue:				
Other State Grants			14,026.00	14,026.00
Bank Franchise Tax	25,000.00	25,000.00	15,687.16	(9,312.84)
Motor Vehicle Commercial Prorate	2,000.00	2,000.00	2,614.71	614.71
Liquor Tax Reversion	20,000.00	20,000.00	21,159.78	1,159.78
Motor Vehicle Licenses (5%)	20,000.00	20,000.00	31,629.94	11,629.94
Local Government Highway and Bridge Fund	62,000.00	62,000.00	66,967.74	4,967.74
Other	500.00	500.00	252.00	(248.00)
County Shared Revenue:				
County Highway and Bridge Tax			4,810.93	4,810.93
County Wheel Tax	15,000.00	15,000.00	7,102.97	(7,897.03)
Other Intergovernmental Revenues			1,964.26	1,964.26
Charge for Services:				
General Government	291,200.00	291,200.00	287,816.04	(3,383.96)
Public Safety	3,650.00	3,650.00	3,427.00	(223.00)
Highways and Streets	21,650.00	21,650.00	37,316.36	15,666.36
Sanitation	200.00	200.00	1,250.00	1,050.00
Health	500.00	500.00	235.00	(265.00)
Culture and Recreation	54,500.00	54,500.00	29,445.00	(25,055.00)
Fines and Forfeits:				
Court Fines and Costs	1,000.00	1,000.00	1,603.13	603.13
Miscellaneous Revenue:				
Investment Earnings	26,000.00	26,000.00	25,517.44	(482.56)
Contribution and Donations	3,000.00	3,000.00	34,098.50	31,098.50
Other	15,500.00	15,500.00	30,417.59	14,917.59
Total Revenue	<u>2,945,050.00</u>	<u>2,945,050.00</u>	<u>3,587,257.84</u>	<u>642,207.84</u>
<u>Expenditures:</u>				
General Government:				
Legislative	28,000.00	28,000.00	23,360.72	4,639.28
Elections	4,550.00	4,550.00		4,550.00
Financial Administration	418,000.00	425,000.00	407,355.51	17,644.49
Other	101,950.00	101,950.00	68,867.48	33,082.52
Total General Government	<u>552,500.00</u>	<u>559,500.00</u>	<u>499,583.71</u>	<u>59,916.29</u>

**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<u>Budgeted Amounts</u>		Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Public Safety:				
Police	643,000.00	673,000.00	601,603.47	71,396.53
Fire	<u>164,180.00</u>	<u>164,180.00</u>	<u>121,741.33</u>	<u>42,438.67</u>
Total Public Safety	<u>807,180.00</u>	<u>837,180.00</u>	<u>723,344.80</u>	<u>113,835.20</u>
Public Works:				
Highways and Streets	797,750.00	1,167,750.00	918,588.57	249,161.43
Sanitation	<u>140,400.00</u>	<u>140,400.00</u>	<u>125,683.78</u>	<u>14,716.22</u>
Total Public Works	<u>938,150.00</u>	<u>1,308,150.00</u>	<u>1,044,272.35</u>	<u>263,877.65</u>
Health and Welfare:				
Health	<u>18,150.00</u>	<u>18,150.00</u>	<u>5,475.98</u>	<u>12,674.02</u>
Total Health and Welfare	<u>18,150.00</u>	<u>18,150.00</u>	<u>5,475.98</u>	<u>12,674.02</u>
Culture and Recreation:				
Recreation	181,500.00	181,500.00	75,548.83	105,951.17
Parks	278,400.00	312,400.00	246,548.20	65,851.80
Libraries	<u>198,950.00</u>	<u>198,950.00</u>	<u>160,180.05</u>	<u>38,769.95</u>
Total Culture and Recreation	<u>658,850.00</u>	<u>692,850.00</u>	<u>482,277.08</u>	<u>210,572.92</u>
Conservation and Development:				
Economic Development & Assistance	<u>25,150.00</u>	<u>25,150.00</u>	<u>32,143.25</u>	<u>(6,993.25)</u>
Total Conservation and Development	<u>25,150.00</u>	<u>25,150.00</u>	<u>32,143.25</u>	<u>(6,993.25)</u>
Total Expenditures	<u>2,999,980.00</u>	<u>3,440,980.00</u>	<u>2,787,097.17</u>	<u>653,882.83</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(54,930.00)</u>	<u>(495,930.00)</u>	<u>800,160.67</u>	<u>1,296,090.67</u>
Other Financing Sources (Uses):				
Sale of Municipal Property			1,094.13	1,094.13
Long Term Debt Proceeds			2,738,048.40	2,738,048.40
Transfers Out	<u>(25,000.00)</u>	<u>(25,000.00)</u>	<u>(25,000.00)</u>	
Total Other Financing Sources (Uses)	<u>(25,000.00)</u>	<u>(25,000.00)</u>	<u>2,714,142.53</u>	<u>2,739,142.53</u>
Net Change in Fund Balances	(79,930.00)	(520,930.00)	3,514,303.20	4,035,233.20
Fund Balance - Beginning	<u>3,779,143.94</u>	<u>3,779,143.94</u>	<u>3,779,143.94</u>	
FUND BALANCE - ENDING	<u>\$ 3,699,213.94</u>	<u>\$ 3,258,213.94</u>	<u>\$ 7,293,447.14</u>	<u>\$ 4,035,233.20</u>

**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - BBB SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2020**

	<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	\$ 60,000.00	\$ 60,000.00	\$ 59,933.74	\$ (66.26)
Total Revenue	<u>60,000.00</u>	<u>60,000.00</u>	<u>59,933.74</u>	<u>(66.26)</u>
<u>Expenditures:</u>				
Economic Developmet and Assistance	<u>48,000.00</u>	<u>124,400.00</u>	<u>107,862.50</u>	<u>16,537.50</u>
Total Expenditures	<u>48,000.00</u>	<u>124,400.00</u>	<u>107,862.50</u>	<u>16,537.50</u>
Net Change in Fund Balances	12,000.00	(64,400.00)	(47,928.76)	16,471.24
Fund Balance - Beginning	<u>178,356.73</u>	<u>178,356.73</u>	<u>178,356.73</u>	<u> </u>
FUND BALANCE - ENDING	<u>\$ 190,356.73</u>	<u>\$ 113,956.73</u>	<u>\$ 130,427.97</u>	<u>\$ 16,471.24</u>

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

Note 1: Budgets and Budgetary Accounting:

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

Note 2: GAAP/ Budgetary Accounting Basis Differences

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

**CITY OF CANTON
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2020**

A summary of changes in long-term liabilities follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Primary Government:					
Governmental Activities:					
Capital Lease Payable	\$ 4,579.20	\$	\$ (2,064.45)	\$ 2,514.75	\$ 2,148.56
GO Bond Series 2020	<u>4,579.20</u>	<u>2,700,000.00</u>	<u>(2,064.45)</u>	<u>2,700,000.00</u>	<u>100,000.00</u>
Total Governmental Activities	<u>4,579.20</u>	<u>2,700,000.00</u>	<u>(2,064.45)</u>	<u>2,702,514.75</u>	<u>102,148.56</u>
Business-Type Activities:					
State Revolving Loan	<u>5,420,663.52</u>	<u>502,041.00</u>	<u>(234,768.13)</u>	<u>5,687,936.39</u>	<u>250,561.99</u>
Total Business - Type Activities	<u>5,420,663.52</u>	<u>502,041.00</u>	<u>(234,768.13)</u>	<u>5,687,936.39</u>	<u>250,561.99</u>
Total Primary Government	<u>\$ 5,425,242.72</u>	<u>\$ 3,202,041.00</u>	<u>\$ (236,832.58)</u>	<u>\$ 8,390,451.14</u>	<u>\$ 352,710.55</u>

Annual requirement to amortize long-term debt outstanding, at December 31, 2020, including interest payments were:

Year Ending December 31,	<u>Copier Capital Lease</u>		<u>State Revolving Loan</u>		<u>GO Bond 2020</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 2,148.56	\$ 61.48	\$ 250,561.99	\$ 174,586.59	\$ 100,000.00	\$ 69,817.90
2022	366.19	2.15	258,643.45	166,505.11	115,000.00	58,907.50
2023			266,986.78	158,161.78	120,000.00	55,457.50
2024			275,599.85	149,558.68	125,000.00	51,857.50
2025			206,730.50	141,668.38	125,000.00	48,107.50
2026-2030			1,134,097.51	607,896.89	690,000.00	189,687.50
2031-2035			771,925.11	532,846.78	760,000.00	116,587.50
2036-2040			870,760.00	330,684.36	665,000.00	35,880.00
2041-2046			968,556.16	184,582.15		
2046-2050			<u>684,075.04</u>	<u>41,901.03</u>		
TOTAL	<u>\$ 2,514.75</u>	<u>\$ 63.63</u>	<u>\$ 5,687,936.39</u>	<u>\$ 2,488,391.75</u>	<u>\$ 2,700,000.00</u>	<u>\$ 626,302.90</u>

<u>Total</u>	
<u>Principal</u>	<u>Interest</u>
\$ 352,710.55	\$ 244,465.97
374,009.64	225,414.76
386,986.78	213,619.28
400,599.85	201,416.18
331,730.50	189,775.88
1,824,097.51	797,584.39
1,531,925.11	649,434.28
1,535,760.00	366,564.36
968,556.16	184,582.15
684,075.04	41,901.03
<u>\$ 8,390,451.14</u>	<u>\$ 3,114,758.28</u>

QUAM, BERGLIN, & POST, P.C.

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

(605) 356-3374

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

City Council
The City of Canton
Canton, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Canton, South Dakota, as of December 31, 2020, 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 August 23, 2021. A disclaimer of opinion was issued on the aggregate discretely presented component unit because the financial data of this component unit was not audited.

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 2020-001 to be a significant deficiency.

Compliance and Other Matters

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

City of Canton, South Dakota's Response to Finding

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

Purpose of this Report

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



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

August 23, 2021

**CITY OF CANTON
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2020**

PRIOR OTHER AUDIT FINDING NUMBER 2019-001:

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

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Finding – Significant Deficiency:

FINDING NUMBER 2020-001

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

Criteria:

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

Condition, Cause and Effect:

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

Recommendation:

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

Corrective Action Plan:

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

Compliance Related Finding:

FINDING NUMBER 2020-002

Expenditures were paid in excess of appropriations for one department.

Criteria:

SDCL 9-21-9 requires that the governing body shall not add to the expenditures any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specially provided.

Condition Found:

In 2020, the expenditures paid from the General Fund exceeded amounts budgeted in one function.

Recommendation:

We recommend that when such a situation occurs in the future, a supplemental budget be adopted to utilize unobligated fund balances.

Corrective Action Plan:

Kyle Cwach, Finance Officer for the City of Canton, is the contact person responsible for the corrective action plan for these comments. The City of Canton has prepared a response to the finding which is on the following page.

FINDING NUMBER 2020-003

Supplemental Budget was not published in accordance to SDCL 9-21-7.

Criteria:

SDCL 9-21-7 requires that the governing body shall adopt supplemental appropriation ordinances in the same manner as the annual appropriation ordinance.

Condition Found:

In 2020, the supplemental budget changes passed on November 23rd, 2020 were not published

Recommendation:

We recommend that when a supplemental budget is approved in the future that publication of the supplemental budget is done as soon as possible.

Corrective Action Plan:


Kyle Cwach, Finance Officer for the City of Canton, is the contact person responsible for the corrective action plan for these comments. The City of Canton has prepared a response to the finding which is on the following page.

Corrective Action Plan
For the year ended December 31, 2020

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.

The City of Canton has considered the finding for spending in excess of appropriated amounts one function in the General Fund. The city will monitor the budgets of each fund more closely to ensure that overspending does not occur and will adopt supplemental budgets as needed and ensure that they are published as required.



Mayor



Finance Officer/City Administrator