

CITY OF CANTON
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2021

**CITY OF CANTON
MUNICIPAL OFFICIALS
DECEMBER 31, 2021**

Mayor

Sandra Lundstrom

Governing Board

Todd Baldwin

Jerry Chaon

Paul Garbers

Tyler Larson

Finance Officer

Kyle Cwach

Attorney

Larry Nelson

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QUAM, BERGLIN, & POST, P.C.

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Canton
Canton, South Dakota

Report on the Audit of the Financial Statements

Disclaimer of Opinion and Unmodified Opinions

We have audited the accompanying 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 and for the year ended December 31, 2021, and the related notes to the financial statements. We were not engaged to audit the financial statements of the aggregate discretely presented component units. These financial statements collectively comprise the City of Canton's basic financial statements as listed in the table of contents.

Disclaimer of Opinion on the Aggregate Discretely Presented Component Units

Because of the significance of the matter described in the Basis for Disclaimer of Opinion and Unmodified Opinions section of our report, 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 aggregate discretely presented component units of the City of Canton. Accordingly, we do not express opinions on those financial statements.

Unmodified Opinions on Governmental Activities, Business-type Activities, Each Major Fund, and Aggregate Remaining Fund Information

In our opinion, the accompanying modified cash basis of accounting 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 aggregate remaining fund information of the City of Canton, South Dakota as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis for Disclaimer of Opinion and Unmodified Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Canton, South Dakota, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

Matter Giving Rise to Disclaimer of Opinion on the Aggregate Discretely Presented Component Unit

The financial statements of the Canton Housing and Redevelopment Commission have not been audited, and we were not engaged to audit the Canton Housing and Redevelopment Commission's financial statements as part of the City's basic financial statements. The Canton Housing and Redevelopment Commission financial activities are included in the City's basic financial statements as a part of the discretely presented component units and represent the assets, net position, and revenues of the City's aggregate discretely presented component units.

Emphasis of Matter

As discussed in 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1.c.; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Canton's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the modified cash basis of accounting financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Because of the matter described in the Basis for Disclaimer of Opinion and Unmodified Opinions section, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the aggregate discretely presented component units. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks.

Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 City of Canton's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Canton's ability to continue as a going concern for a reasonable period of time.


We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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 City's basic financial statements. The Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), 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 Budgetary Comparison Schedules, the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of Long-Term Debt 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 June 28, 2022, on our consideration of the City of Canton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



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

June 28, 2022

CITY OF CANTON
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2021

	Primary Government			Unaudited Accrual Basis Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 7,890,410.14	\$ 2,965,664.21	\$ 10,856,074.35	\$ 80,792.32
Investments-Certificates of Deposit	511,750.23		511,750.23	7,143.62
Accounts Receivable, Net				7,784.76
Interest				47.94
Prepaid Expenses				57.22
Deposits				1,360.00
Net Pension Asset				221.77
Capital Assets:				
Land and Construction Work in Progress				25,881.20
Other Capital Assets, Net of Depreciation				217,764.35
TOTAL ASSETS	<u>8,402,160.37</u>	<u>2,965,664.21</u>	<u>11,367,824.58</u>	<u>341,053.18</u>
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows				24,005.49
LIABILITIES:				
Accounts Payable				33,473.20
Accrued Wages Payable				14,187.64
Customer Deposits Payable				4,316.00
TOTAL LIABILITIES				<u>51,976.84</u>
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows				3,914.49
TOTAL DEFERRED INFLOWS OF RESOURCE				<u>3,914.49</u>
NET POSITION:				
Restricted for:				
Economic Development and Promotion	166,920.42		166,920.42	
Library	49,690.80		49,690.80	
HRC Purposes				309,167.34
Unrestricted	8,185,549.15	2,965,664.21	11,151,213.36	
TOTAL NET POSITION	<u>\$ 8,402,160.37</u>	<u>\$ 2,965,664.21</u>	<u>\$ 11,367,824.58</u>	<u>\$ 309,167.34</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, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Unaudited Accrual Basis Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	
Primary Government:								
Governmental Activities:								
General Government	\$ 461,319.36	\$ 299,129.32	\$	\$	\$ (162,190.04)	\$	\$ (162,190.04)	\$
Public Safety	702,784.93	21,440.70		164,355.00	(516,989.23)		(516,989.23)	
Public Works	1,411,767.50	118,553.52	2,171.00	371,401.86	(919,641.12)		(919,641.12)	
Health and Welfare	6,300.44	975.00			(5,325.44)		(5,325.44)	
Culture and Recreation	408,174.96	36,647.38			(371,527.58)		(371,527.58)	
Miscellaneous		40,096.52			40,096.52		40,096.52	
Conservation & Development	71,719.97				(71,719.97)		(71,719.97)	
Debt Service Expense	100,625.00				(100,625.00)		(100,625.00)	
*Interest on Long-term Debt	69,817.91				(69,817.91)		(69,817.91)	
Total Governmental Activities	3,232,510.07	516,842.44	2,171.00	535,756.86	(2,177,739.77)		(2,177,739.77)	
Business-Type Activities:								
Liquor	982,931.32	1,026,063.35				43,132.03	43,132.03	
Water	979,694.31	959,411.85				(20,282.46)	(20,282.46)	
Sewer	627,063.10	843,396.36				216,333.26	216,333.26	
Airport	131,016.00	33,346.01		44,807.46		(52,862.53)	(52,862.53)	
Total Business-Type Activities	2,720,704.73	2,862,217.57		44,807.46		186,320.30	186,320.30	
Total Primary Government	\$ 5,953,214.80	\$ 3,379,060.01	\$ 2,171.00	\$ 580,564.32	(2,177,739.77)	186,320.30	(1,991,419.47)	
Component Unit:								
Housing and Redevelopment	\$ 191,174.25	\$ 79,717.00	\$ 132,918.75					21,461.50
General Revenues:								
Taxes:								
Property Taxes					1,621,821.95		1,621,821.95	
Sales and Use Taxes					1,359,937.95		1,359,937.95	
State Shared Revenues					49,482.48		49,482.48	
Unrestricted Investment Earnings					19,586.98	5,868.63	25,455.61	
Miscellaneous Revenue					86,937.31		86,937.31	
Transfers					(26,000.00)	26,000.00		
Total General Revenues and Transfer:					3,111,766.67	31,868.63	3,143,635.30	
Change in Net Position					934,026.90	218,188.93	1,152,215.83	21,461.50
Net Position - Beginning					7,468,133.47	2,747,475.28	10,215,608.75	287,705.84
Net Position - Ending					\$ 8,402,160.37	\$ 2,965,664.21	\$ 11,367,824.58	\$ 309,167.34

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

**CITY OF CANTON
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2021**

	<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 Funds</u>	
ASSETS:				
Cash and Cash Equivalents	\$ 7,685,549.15	\$ 166,920.42	\$ 37,940.57	\$ 7,890,410.14
Investments-Certificates of Deposit	500,000.00		11,750.23	511,750.23
Due From Other Fund	<u>2,516.80</u>			<u>2,516.80</u>
TOTAL ASSETS	<u>8,188,065.95</u>	<u>166,920.42</u>	<u>49,690.80</u>	<u>8,404,677.17</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:				
Liabilities:				
Due to Other Funds			<u>2,516.80</u>	<u>2,516.80</u>
Total Liabilities			<u>2,516.80</u>	<u>2,516.80</u>
Fund Balances:				
Restricted		166,920.42	49,690.80	216,611.22
Assigned	4,596,543.55			4,596,543.55
Unassigned	<u>3,591,522.40</u>		<u>(2,516.80)</u>	<u>3,589,005.60</u>
Total Fund Balances	<u>8,188,065.95</u>	<u>166,920.42</u>	<u>47,174.00</u>	<u>8,402,160.37</u>
TOTAL FUND BALANCES & LIABILITIES	<u>\$ 8,188,065.95</u>	<u>\$ 166,920.42</u>	<u>\$ 49,690.80</u>	<u>\$ 8,404,677.17</u>

The attached notes are an integral part of these financial statements

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CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<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	\$ 1,453,895.84	\$	\$ 167,926.11	\$ 1,621,821.95
General Sales and Use Taxes	1,291,945.50	67,992.45		1,359,937.95
Penalties and Interest				
Licenses and Permits	40,096.52			40,096.52
Intergovernmental Revenue:				
Federal Grants	371,401.86			371,401.86
State Grants	2,171.00			2,171.00
State Shared Revenue:				
Bank Franchise Tax	27,065.26			27,065.26
Liquor Tax Reversion	22,417.22			22,417.22
Motor Vehicle Licenses (5%)	35,804.12			35,804.12
Local Government Highway and Bridge Fund	69,777.15			69,777.15
County Shared Revenue:				
County Highway and Bridge Tax	4,810.93			4,810.93
County Wheel Tax	7,911.32			7,911.32
Charge for Services:				
General Government	299,129.32			299,129.32
Public Safety	3,742.36			3,742.36
Highways and Streets	16,460.75			16,460.75
Sanitation	250.00			250.00
Health	975.00			975.00
Culture and Recreation	22,040.00		8,607.38	30,647.38
Fines and Forfeits:				
Court Fines and Costs	1,237.59			1,237.59
Library			6,000.00	6,000.00
Miscellaneous Revenue:				
Investment Earnings	19,586.98			19,586.98
Contributions and Donations	164,355.00			164,355.00
Other	49,854.17			49,854.17
Total Revenue	<u>3,904,927.89</u>	<u>67,992.45</u>	<u>182,533.49</u>	<u>4,155,453.83</u>
Expenditures:				
General Government:				
Legislative	20,103.15			20,103.15
Financial Administration	369,124.24			369,124.24
Other	72,091.97			72,091.97
Total General Government	<u>461,319.36</u>			<u>461,319.36</u>
Public Safety:				
Police	583,196.07			583,196.07
Fire	119,588.86			119,588.86
Total Public Safety	<u>702,784.93</u>			<u>702,784.93</u>

CITY OF CANTON
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
MODIFIED CASH BASES - (continued)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	<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 Works:				
Highways and Streets	1,302,213.55			1,302,213.55
Sanitation	<u>109,553.95</u>			<u>109,553.95</u>
Total Public Works	<u>1,411,767.50</u>			<u>1,411,767.50</u>
Health and Welfare:				
Health	<u>6,300.44</u>			<u>6,300.44</u>
Total Health and Welfare	<u>6,300.44</u>			<u>6,300.44</u>
Culture and Recreation:				
Recreation	52,114.48			52,114.48
Parks	182,964.55			182,964.55
Libraries	<u>163,920.99</u>		9,174.94	<u>173,095.93</u>
Total Culture and Recreation	<u>399,000.02</u>		<u>9,174.94</u>	<u>408,174.96</u>
Conservation and Development:				
Economic Development and Assistance	40,219.97			40,219.97
Economic Opportunity		<u>31,500.00</u>		<u>31,500.00</u>
Total Conservation and Development	<u>40,219.97</u>	<u>31,500.00</u>		<u>71,719.97</u>
Debt Service			<u>170,442.91</u>	<u>170,442.91</u>
Total Expenditures	<u>3,021,392.22</u>	<u>31,500.00</u>	<u>179,617.85</u>	<u>3,232,510.07</u>
Excess of Revenue Over (Under)				
Expenditures	<u>883,535.67</u>	<u>36,492.45</u>	<u>2,915.64</u>	<u>922,943.76</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	16,655.00			16,655.00
Compensation for Loss/Damage to Capital Assets	20,428.14			20,428.14
Transfer (Out)	<u>(26,000.00)</u>			<u>(26,000.00)</u>
Total Other Financing Sources (Uses)	<u>11,083.14</u>			<u>11,083.14</u>
Net Change in Fund Balances	894,618.81	36,492.45	2,915.64	934,026.90
Fund Balance - Beginning	<u>7,293,447.14</u>	<u>130,427.97</u>	<u>44,258.36</u>	<u>7,468,133.47</u>
FUND BALANCE - ENDING	<u>\$ 8,188,065.95</u>	<u>\$ 166,920.42</u>	<u>\$ 47,174.00</u>	<u>\$ 8,402,160.37</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, 2021

	Enterprise Funds					Totals
	Major Funds					
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund		
ASSETS:						
Current Assets:						
Cash and Cash Equivalents	\$ 159,606.93	\$ 933,276.06	\$ 1,845,923.43	\$ 26,857.79	\$ 2,965,664.21	
Total Current Assets	<u>159,606.93</u>	<u>933,276.06</u>	<u>1,845,923.43</u>	<u>26,857.79</u>	<u>2,965,664.21</u>	
TOTAL ASSETS	<u>159,606.93</u>	<u>933,276.06</u>	<u>1,845,923.43</u>	<u>26,857.79</u>	<u>2,965,664.21</u>	
NET POSITION:						
Unrestricted Net Position	<u>159,606.93</u>	<u>933,276.06</u>	<u>1,845,923.43</u>	<u>26,857.79</u>	<u>2,965,664.21</u>	
TOTAL NET POSITION	<u>\$ 159,606.93</u>	<u>\$ 933,276.06</u>	<u>\$ 1,845,923.43</u>	<u>\$ 26,857.79</u>	<u>\$ 2,965,664.21</u>	

CITY OF CANTON
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2021

	Enterprise Funds				Totals
	Major Funds				
	Liquor Fund	Water Fund	Sewer Fund	Airport Fund	
<u>Operating Revenue:</u>					
Charges for Goods and Services	\$ 1,026,063.35	\$ 822,210.61	\$ 827,096.86	\$ 33,346.01	\$ 2,708,716.83
Other		137,201.24	16,299.50		153,500.74
Total Operating Revenue	<u>1,026,063.35</u>	<u>959,411.85</u>	<u>843,396.36</u>	<u>33,346.01</u>	<u>2,862,217.57</u>
<u>Operating Expenses:</u>					
Personal Services		90,118.18	87,279.61		177,397.79
Other Current Expense		889,576.13	266,975.25	131,016.00	1,287,567.38
Cost Of Goods Sold	982,931.32				982,931.32
Total Operating Expenses	<u>982,931.32</u>	<u>979,694.31</u>	<u>354,254.86</u>	<u>131,016.00</u>	<u>2,447,896.49</u>
Operating Income (Loss)	<u>43,132.03</u>	<u>(20,282.46)</u>	<u>489,141.50</u>	<u>(97,669.99)</u>	<u>414,321.08</u>
<u>Nonoperating Revenue (Expense):</u>					
Federal Grants				44,807.46	44,807.46
Interest Income		5,856.49	12.14		5,868.63
Interest Expense and Fiscal Charges			(272,808.24)		(272,808.24)
Total Nonoperating Revenue (Expense)		<u>5,856.49</u>	<u>(272,796.10)</u>	<u>44,807.46</u>	<u>(222,132.15)</u>
Income (Loss) Before Transfers	43,132.03	(14,425.97)	216,345.40	(52,862.53)	192,188.93
Transfer In				26,000.00	26,000.00
Change in Net Position	43,132.03	(14,425.97)	216,345.40	(26,862.53)	218,188.93
Net Position - Beginning	116,474.90	947,702.03	1,629,578.03	53,720.32	2,747,475.28
NET POSITION - ENDING	<u>\$ 159,606.93</u>	<u>\$ 933,276.06</u>	<u>\$ 1,845,923.43</u>	<u>\$ 26,857.79</u>	<u>\$ 2,965,664.21</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 note 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.

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

Series 2020 Debt Service Fund – to account for property taxes which may be used only for the payment of the debt principal, interest, and related costs. 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 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.
- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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

If the 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/amortization 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, and Financing (Capital Acquisition) Leases.

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

	General <u>Fund</u>	BBB Sales Tax <u>Fund</u>	Other Non-Major Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<i>Fund Balances:</i>				
<i>Restricted for:</i>				
Liquor/Lodging	\$	\$ 166,920.42	\$	\$ 166,920.42
Library			49,690.80	49,690.80
<i>Assigned:</i>				
Swimming Pool	3,053,043.55			3,053,043.55
Capital Improvement	509,000.00			509,000.00
Library Building	86,000.00			86,000.00
Equipment	448,500.00			448,500.00
Street Sweeper	180,000.00			180,000.00
Fire Truck	320,000.00			320,000.00
<i>Unassigned</i>	<u>3,591,522.40</u>		<u>(2,516.80)</u>	<u>3,589,005.60</u>
Total Fund Balances	<u>\$ 8,188,065.95</u>	<u>\$ 166,920.42</u>	<u>\$ 47,174.00</u>	<u>\$ 8,402,160.37</u>

2. DEFICIT FUND BALANCES/NET POSITION OF INDIVIDUAL NONMAJOR FUNDS

As of December 31, 2021, the Debt Service Nonmajor Fund had a deficit fund balance/net position of (\$2,516.80). The City plans to transfer in funds to cover this deficit during the year 2022.

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, 2021, 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, 2021, 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>\$ 272,366.90</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. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2021, was as follows:

<u>Other Purposes:</u>	<u>Amount</u>
Economic Development	\$ 166,920.42
Special Revenue-Library	49,690.80
Total Restricted Net Position	<u><u>\$ 216,611.22</u></u>

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

6. INDIVIDUAL FUND INTERFUND RECEIVABLES AND PAYABLES

Interfund receivable and payable balances at December 31, 2021 were:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 2,615.80	\$
Debt Service Nonmajor Fund		2,615.80
Total	\$ 2,615.80	\$ 2,615.80

The General Fund loaned monies to the Debt Service Fund to cover temporary cash shortages. The City Council plans to transfer funds to cover these shortages before December 31, 2022

7. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2021, were as follows:

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

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

8. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2021, the City was not involved in any litigation.

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

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members

where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

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

Legislation enacted in 2017 established the current COLA process. At each valuation date:

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the calendar years ended December 31, 2021, 2020, and 2019 were \$66,862.57, \$67,936.61, and \$82,439.74, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2021, SDRS is 105.53% funded and accordingly has a net pension asset as shown in the Schedule of the City's Proportionate Share of the Net Pension Asset included in the Supplementary information. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2021 and, which could be recorded by the City as of December 31, 2021 are as follows:

Proportionate share of pension benefits	\$ 6,654,887.04
Less proportionate share of net pension restricted for pension benefits	7,022,431.28
	(367,544.24)
Proportionate share of net pension benefits	\$ (367,544.24)

At December 31, 2021, the City's asset of \$367,544.24 for its proportionate share of the net pension asset is shown in the supplementary information due to the City's reporting on the modified cash basis.

The net pension asset was measured as of June 30, 2021 and the total pension asset used to calculate the net pension 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, 2021, the City's proportion was .04799300%, which is an increase (decrease) of (.0025943%) from its proportion measured as of June 30, 2020.

Actuarial Assumptions:

The total pension asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%
Future COLAs	2.25%

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

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011, to June 30, 2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
Total	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions 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 asset.

Sensitivity of liability (asset) to changes in the discount rate:

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

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 595,145.57	\$ (367,544.24)	\$ (1,149,024.27)

Pension Plan Fiduciary Net Position:

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

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 period ended December 31, 2021, 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 October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

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.

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**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<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	\$ 1,459,500.00	\$ 1,459,500.00	\$ 1,453,895.84	\$ (5,604.16)
General Sales and Use Taxes	955,000.00	955,000.00	1,291,945.50	336,945.50
Penalties on Delinquent Taxes				
Licenses and Permits	29,200.00	29,200.00	40,096.52	10,896.52
Intergovernmental Revenue:				
Federal Grants			371,401.86	371,401.86
State Shared Revenue:				
Other State Grants			2,171.00	2,171.00
Bank Franchise Tax	25,000.00	25,000.00	27,065.26	2,065.26
Motor Vehicle Commercial Prorate	2,000.00	2,000.00		(2,000.00)
Liquor Tax Reversion	20,000.00	20,000.00	22,417.22	2,417.22
Motor Vehicle Licenses (5%)	20,000.00	20,000.00	35,804.12	15,804.12
Local Government Highway and Bridge Fund	62,000.00	62,000.00	69,777.15	7,777.15
Other	500.00	500.00		(500.00)
County Shared Revenue:				
County Highway and Bridge Tax			4,810.93	4,810.93
County Wheel Tax	15,000.00	15,000.00	7,911.32	(7,088.68)
Charge for Services:				
General Government	300,200.00	300,200.00	299,129.32	(1,070.68)
Public Safety	4,200.00	4,200.00	3,742.36	(457.64)
Highways and Streets	20,650.00	20,650.00	16,460.75	(4,189.25)
Sanitation	300.00	300.00	250.00	(50.00)
Health	500.00	500.00	975.00	475.00
Culture and Recreation	54,500.00	54,500.00	22,040.00	(32,460.00)
Fines and Forfeits:				
Court Fines and Costs	1,000.00	1,000.00	1,237.59	237.59
Miscellaneous Revenue:				
Investment Earnings	26,000.00	26,000.00	19,586.98	(6,413.02)
Contribution and Donations	3,000.00	3,000.00	164,355.00	161,355.00
Other	14,000.00	14,000.00	49,854.17	35,854.17
Total Revenue	<u>3,012,550.00</u>	<u>3,012,550.00</u>	<u>3,904,927.89</u>	<u>892,377.89</u>
<u>Expenditures:</u>				
General Government:				
Legislative	26,000.00	26,000.00	20,103.15	5,896.85
Elections	4,550.00	4,550.00		4,550.00
Financial Administration	424,450.00	424,450.00	369,124.24	55,325.76
Other	106,350.00	111,350.00	72,091.97	39,258.03
Total General Government	<u>561,350.00</u>	<u>566,350.00</u>	<u>461,319.36</u>	<u>105,030.64</u>

**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Public Safety:				
Police	636,000.00	646,000.00	583,196.07	62,803.93
Fire	<u>163,880.00</u>	<u>174,880.00</u>	<u>119,588.86</u>	<u>55,291.14</u>
Total Public Safety	<u>799,880.00</u>	<u>820,880.00</u>	<u>702,784.93</u>	<u>118,095.07</u>
Public Works:				
Highways and Streets	989,500.00	1,414,500.00	1,302,213.55	112,286.45
Sanitation	<u>139,500.00</u>	<u>139,500.00</u>	<u>109,553.95</u>	<u>29,946.05</u>
Total Public Works	<u>1,129,000.00</u>	<u>1,554,000.00</u>	<u>1,411,767.50</u>	<u>142,232.50</u>
Health and Welfare:				
Health	<u>15,650.00</u>	<u>15,650.00</u>	<u>6,300.44</u>	<u>9,349.56</u>
Total Health and Welfare	<u>15,650.00</u>	<u>15,650.00</u>	<u>6,300.44</u>	<u>9,349.56</u>
Culture and Recreation:				
Recreation	181,050.00	206,050.00	52,114.48	153,935.52
Parks	239,950.00	315,950.00	182,964.55	132,985.45
Libraries	<u>204,100.00</u>	<u>204,100.00</u>	<u>163,920.99</u>	<u>40,179.01</u>
Total Culture and Recreation	<u>625,100.00</u>	<u>726,100.00</u>	<u>399,000.02</u>	<u>327,099.98</u>
Conservation and Development:				
Economic Development & Assistance	<u>35,650.00</u>	<u>48,650.00</u>	<u>40,219.97</u>	<u>8,430.03</u>
Total Conservation and Development	<u>35,650.00</u>	<u>48,650.00</u>	<u>40,219.97</u>	<u>8,430.03</u>
Total Expenditures	<u>3,166,630.00</u>	<u>3,731,630.00</u>	<u>3,021,392.22</u>	<u>710,237.78</u>
Excess of Revenue Over (Under)				
Expenditures	<u>(154,080.00)</u>	<u>(719,080.00)</u>	<u>883,535.67</u>	<u>1,602,615.67</u>
Other Financing Sources (Uses):				
Sale of Municipal Property			16,655.00	16,655.00
Compensation for Loss/Damage to Capital Assets			20,428.14	20,428.14
Transfers Out	<u>(26,000.00)</u>	<u>(26,000.00)</u>	<u>(26,000.00)</u>	
Total Other Financing Sources (Uses)	<u>(26,000.00)</u>	<u>(26,000.00)</u>	<u>11,083.14</u>	<u>37,083.14</u>
Net Change in Fund Balances	(180,080.00)	(745,080.00)	894,618.81	1,639,698.81
Fund Balance - Beginning	<u>7,293,447.14</u>	<u>7,293,447.14</u>	<u>7,293,447.14</u>	
FUND BALANCE - ENDING	<u>\$ 7,113,367.14</u>	<u>\$ 6,548,367.14</u>	<u>\$ 8,188,065.95</u>	<u>\$ 1,639,698.81</u>

**SUPPLEMENTARY INFORMATION
CITY OF CANTON
BUDGETARY BASIS COMPARISON SCHEDULE
SPECIAL REVENUE FUND - BBB SALES TAX FUND
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<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	\$ 67,992.45	\$ 7,992.45
Total Revenue	<u>60,000.00</u>	<u>60,000.00</u>	<u>67,992.45</u>	<u>7,992.45</u>
<u>Expenditures:</u>				
Economic Developmet and Assistance	<u>47,500.00</u>	<u>47,500.00</u>	<u>31,500.00</u>	<u>16,000.00</u>
Total Expenditures	<u>47,500.00</u>	<u>47,500.00</u>	<u>31,500.00</u>	<u>16,000.00</u>
Net Change in Fund Balances	12,500.00	12,500.00	36,492.45	23,992.45
Fund Balance - Beginning	<u>130,427.97</u>	<u>130,427.97</u>	<u>130,427.97</u>	<u></u>
FUND BALANCE - ENDING	<u>\$ 142,927.97</u>	<u>\$ 142,927.97</u>	<u>\$ 166,920.42</u>	<u>\$ 23,992.45</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.

Schedule of Supplementary Information
CITY OF CANTON

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	2019	2020	2021
City's proportion of the net pension liability (asset)	0.0567131%	0.0553673%	0.0547918%	0.0532674%	0.0543459%	0.0522170%	0.0505873%	0.0479930%
City's proportionate share of net pension liability (asset)	\$ (408,595)	\$ (234,829)	\$ 185,081	\$ (4,834)	\$ (1,267)	\$ (5,534)	\$ (2,197)	\$ (367,544)
City's covered-employee payroll	\$ 915,271	\$ 934,277	\$ 952,510	\$ 1,036,928	\$ 992,689	\$ 1,009,608	\$ 1,000,858	\$ 982,586
City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	-44.64%	-25.13%	19.43%	-0.47%	-0.13%	0.55%	0.22%	37.41%
Plan fiduciary net position as a percentage of the total pension liability (asset)	107.3%	104.1%	96.9%	100.1%	100.0%	100.09%	100.04%	105.53%

* 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. This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

CITY OF CANTON
NOTES TO THE SUPPLEMENTARY INFORMATION
Schedules of the Proportional Share of the Net Pension Liability (Asset)

CHANGES FROM PRIOR VALUATION

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

The details of the changes since the last valuation are as follows:

BENEFIT PROVISION CHANGES

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

ACTUARIAL ASSUMPTION CHANGES

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. That condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.41%. For this June 30, 2021 Actuarial Valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the Actuarial Accrued Liability by \$1,135 million, or 8.9% of the Actuarial Accrued Liability based on the 1.41% restricted maximum COLA.

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

ACTUARIAL METHOD CHANGES

No changes in actuarial methods were made since the prior valuation.

**CITY OF CANTON
SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2021**

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	\$ 2,514.75	\$	\$ (2,148.56)	\$ 366.19	\$ 366.19
GO Bond Series 2020	<u>2,700,000.00</u>	<u></u>	<u>(100,000.00)</u>	<u>2,600,000.00</u>	<u>115,000.00</u>
Total Governmental Activities	<u>2,702,514.75</u>	<u></u>	<u>(102,148.56)</u>	<u>2,600,366.19</u>	<u>115,366.19</u>
Business-Type Activities:					
State Revolving Loan	<u>5,687,936.39</u>	<u></u>	<u>(250,561.99)</u>	<u>5,437,374.40</u>	<u>258,643.45</u>
Total Business - Type Activites	<u>5,687,936.39</u>	<u></u>	<u>(250,561.99)</u>	<u>5,437,374.40</u>	<u>258,643.45</u>
Total Primary Government	<u>\$ 8,390,451.14</u>	<u>\$</u>	<u>\$ (352,710.55)</u>	<u>\$ 8,037,740.59</u>	<u>\$ 374,009.64</u>

Annual requirement to amortize long-term debt outstanding, at December 31, 2021, 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>
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	149,558.48	125,000.00	51,857.50
2025			206,730.50	141,668.38	125,000.00	48,107.50
2026			213,154.01	135,244.87	130,000.00	44,357.50
2027-2031			1,087,649.05	573,262.82	705,000.00	174,587.50
2032-2036			768,686.48	432,757.91	775,000.00	101,387.50
2037-2041			898,333.16	303,111.21	505,000.00	21,822.50
2042-2047			960,056.71	154,438.16		
2047-2052			<u>501,534.41</u>	<u>22,796.48</u>		
TOTAL	<u>\$ 366.19</u>	<u>\$ 2.15</u>	<u>\$ 5,437,374.40</u>	<u>\$ 2,237,505.20</u>	<u>\$ 2,600,000.00</u>	<u>\$ 556,485.00</u>

<u>Total</u>	
<u>Principal</u>	<u>Interest</u>
\$ 374,009.64	\$ 225,414.76
386,986.78	213,619.28
400,599.85	201,415.98
331,730.50	189,775.88
343,154.01	179,602.37
1,792,649.05	747,850.32
1,543,686.48	534,145.41
1,403,333.16	324,933.71
960,056.71	154,438.16
<u>501,534.41</u>	<u>22,796.48</u>
<u>\$ 8,037,740.59</u>	<u>\$ 2,793,992.35</u>

**CITY OF CANTON
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
FOR YEAR END DECEMBER 31, 2021**

	Library Revenue Nonmajor Governmental Funds	Debt Service Nonmajor Governmental Funds	Total Nonmajor Governmental Funds
	<u> </u>	<u> </u>	<u> </u>
ASSETS:			
Cash and Cash Equivalents	\$ 37,940.57	\$	\$ 37,940.57
Investments-Certificates of Deposit	<u>11,750.23</u>	<u> </u>	<u>11,750.23</u>
TOTAL ASSETS	<u>49,690.80</u>	<u> </u>	<u>49,690.80</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:			
Liabilities:			
Due to Other Fund	<u> </u>	<u>2,516.80</u>	<u>2,516.80</u>
Total Liabilities	<u> </u>	<u>2,516.80</u>	<u>2,516.80</u>
Fund Balances:			
Restricted	49,690.80		49,690.80
Unrestricted	<u> </u>	<u>(2,516.80)</u>	<u>(2,516.80)</u>
Total Fund Balances	<u>49,690.80</u>	<u>(2,516.80)</u>	<u>47,174.00</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 49,690.80</u>	<u>\$</u>	<u>\$ 49,690.80</u>

**CITY OF CANTON
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCES-NONMAJOR GOVERNMENTAL FUNDS
 FOR YEAR END DECEMBER 31, 2021**

	Library Revenue Nonmajor Governmental Funds	Debt Service Nonmajor Governmental Funds	Total Nonmajor Governmental Funds
Revenues:			
Taxes:			
General Property Taxes	\$	\$ 167,926.11	\$ 167,926.11
Fines and Forfeits:			
Library	6,000.00		6,000.00
Miscellaneous Revenue:			
Special Assessments	<u>8,607.38</u>		<u>8,607.38</u>
Total Revenue	<u>14,607.38</u>	<u>167,926.11</u>	<u>182,533.49</u>
Expenditures:			
Public Works:			
Library	9,174.94		9,174.94
Debt Service		<u>170,442.91</u>	<u>170,442.91</u>
Total Expenditures	<u>9,174.94</u>	<u>170,442.91</u>	<u>179,617.85</u>
Net Change in Fund Balances	5,432.44	(2,516.80)	2,915.64
Fund Balance - January 1, 2021	<u>44,258.36</u>		<u>44,258.36</u>
FUND BALANCE - December 31, 2021	<u>\$ 49,690.80</u>	<u>\$ (2,516.80)</u>	<u>\$ 47,174.00</u>

QUAM, BERGLIN, & POST, P.C.

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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 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, 2021, 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 June 28, 2022. 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) as a basis for designing 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. Accordingly, we do not express an opinion on the effectiveness of the City of Canton's internal control.

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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Current Audit Findings as

finding 2021-001 that we consider to be a significant deficiency.

Report on 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

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the finding identified in our audit. 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

June 28, 2022

**CITY OF CANTON
SCHEDULE OF AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021**

PRIOR OTHER AUDIT FINDING NUMBER 2020-001:

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. This audit finding has not been resolved and will be restated in finding number 2021-001.

Compliance Related Finding:

FINDING NUMBER 2020-002

Expenditures were paid in excess of appropriations for one department. This audit finding has been resolved and will not be restated for fiscal year 2021.

FINDING NUMBER 2020-003

Supplemental Budget was not published in accordance to SDCL 9-21-7. This audit finding has been resolved and will not be restated for fiscal year 2021.

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Finding – Significant Deficiency:

FINDING NUMBER 2021-001

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

Criteria:

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

Condition, Cause and Effect:

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

Recommendation:

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

Corrective Action Plan:


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



Corrective Action Plan
For the year ended December 31, 2021

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