

**MUNICIPALITY OF CANISTOTA  
CANISTOTA, SOUTH DAKOTA**

**AUDIT REPORT**

**FOR THE YEAR JANUARY 1, 2018 TO DECEMBER 31, 2018  
AND  
FOR THE YEAR JANUARY 1, 2019 TO DECEMBER 31, 2019**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF CANISTOTA

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2019

MAYOR:

Justin Engbarth

GOVERNING BOARD:

Jessica Kerher-Ligtenberg – President  
Jamie Miller – Vice-President  
Brad Miller  
Donavan O'Donnell

FINANCE OFFICER:

Kathy Townsend

ATTORNEY:

Kristi Laber

*Schoenfish & Co., Inc.*

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

Municipal Council  
Municipality of Canistota  
Canistota, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, business-type activities, and each major fund of the Municipality of Canistota, South Dakota, as of December 31, 2019 and December 31, 2018, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality of Canistota's basic financial statements and have issued our report thereon dated February 21, 2020.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings item 2019-001 to be a material weakness.

Compliance and Other Matters

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

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying Schedule of Current Audit Findings item 2019-002.

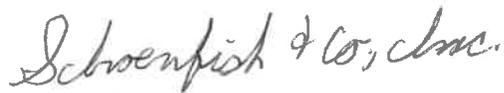
#### Municipality of Canistota's Response to Findings

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

We also noted certain additional matters that we have reported to the management of the Municipality of Canistota in a separate communication dated February 21, 2020.

#### Purpose of this Report

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

  
Schoenfish & Co., Inc.  
Certified Public Accountants  
February 21, 2020

SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR AUDIT FINDINGS:

Internal Control – Related Findings – Material Weaknesses:

Finding Number 2017-001:

Material weaknesses were noted in internal accounting control and record keeping resulting in diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment has not been corrected and is restated as current audit finding number 2019-001.

PRIOR OTHER AUDIT FINDINGS:

Compliance – Material Weakness:

Finding Number 2017-002:

Several budget departments were overdrawn in the General Fund in 2017 and 2016. This comment has not been corrected, and is restated as current audit finding number 2019-002.

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## SCHEDULE OF CURRENT AUDIT FINDINGS

### CURRENT AUDIT FINDINGS:

#### Internal Control – Related Findings – Material Weaknesses:

##### Finding Number 2019-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This has been a continuing audit comment since 2011.

##### Criteria:

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

##### Condition:

The Finance Officer has the ability to process all revenue transactions from beginning to end. The Finance Officer also has the ability to receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

##### Effect:

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

##### Recommendation:

1. We recommend that the Municipality of Canistota officials be cognizant of this lack of segregation of duties for revenues and attempt to develop policies and provide compensating internal controls whenever, and wherever, possible and practical.

##### Managements Response:

The Municipality of Canistota Mayor, Justin Engbarth is the contact person responsible for the corrective action plan for this finding. Because of the size of the Municipality of Canistota, the Municipality can't support hiring additional staff that would be sufficient to support the internal controls needed to properly segregate duties. The Mayor and City Council Members are aware of the problem. We will be working on some different policies and controls that will help minimize the future risk. This will be an ongoing process that will include input from the state auditor's Office, talking to other municipalities and utilizing the Mayor and the Council in some of the controls.

### CURRENT OTHER AUDIT FINDINGS:

#### Compliance – Related Item – Material Weakness:

##### Finding Number 2019-002:

Expenditures exceeded the amounts budgeted in the General Fund in 2019. This is a continuing audit comment since 2013.

##### Criteria:

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

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SCHEDULE OF CURRENT AUDIT FINDINGS  
(Continued)

pecially provided. Nor shall the amount spent for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided.”

Condition:

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

Effect:

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

Recommendation:

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

Corrective Action Plan:

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

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on March 12, 2020.

*Schoenfish & Co., Inc.*

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## INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Canistota  
Canistota, South Dakota

### Report on the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Canistota, South Dakota, as of December 31, 2019 and December 31, 2018, and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality of Canistota's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of the governmental activities, the business-type activities, and each major fund of the Municipality of Canistota as of December 31, 2019 and December 31, 2018, and the respective changes in financial position therefor for each of the years in the biennial period then ended in accordance with the 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 of Canistota's basic financial statements. The Budgetary Comparison Schedules and the Schedule of Long-Term Liabilities, listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Budgetary Comparison Schedules and the Long-Term Liabilities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information 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.

*Schoenfish & Co., Inc.*

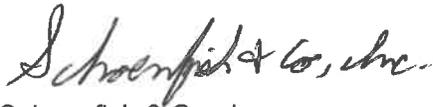
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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2020 on our consideration of the Municipality of Canistota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality of Canistota's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.  
Certified Public Accountants  
February 21, 2020

*Schoenfish & Co., Inc.*

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**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2019**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	937,089.53	421,137.93	1,358,227.46
Investments	<u>276,042.04</u>		<u>276,042.04</u>
<b>TOTAL ASSETS</b>	<u><u>1,213,131.57</u></u>	<u><u>421,137.93</u></u>	<u><u>1,634,269.50</u></u>
<b>NET POSITION:</b>			
Restricted for:			
City Promotion Purposes	82,423.16		82,423.16
Unrestricted	<u>1,130,708.41</u>	<u>421,137.93</u>	<u>1,551,846.34</u>
<b>TOTAL NET POSITION</b>	<u><u>1,213,131.57</u></u>	<u><u>421,137.93</u></u>	<u><u>1,634,269.50</u></u>

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For the Year Ended December 31, 2019**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
<b>Primary Government:</b>							
Governmental Activities:							
General Government	93,557.74	8,630.00			(84,927.74)		(84,927.74)
Public Safety	80,147.09				(80,147.09)		(80,147.09)
Public Works	229,662.92	56,670.91	34,787.40	56,594.57	(81,610.04)		(81,610.04)
Health and Welfare	3,121.12		622.00		(2,499.12)		(2,499.12)
Culture and Recreation	55,241.84	10,839.93			(44,401.91)		(44,401.91)
Conservation and Development	14,411.00				(14,411.00)		(14,411.00)
Long-Term Debt Payments	144,497.88				(144,497.88)		(144,497.88)
<b>Total Governmental Activities</b>	<b>620,639.59</b>	<b>76,140.84</b>	<b>35,409.40</b>	<b>56,594.57</b>	<b>(452,494.78)</b>		<b>(452,494.78)</b>
<b>Business-type Activities:</b>							
Water	194,930.84	189,210.48				(5,720.36)	(5,720.36)
Sewer	133,356.70	154,070.85				20,714.15	20,714.15
<b>Total Business-Type Activities</b>	<b>328,287.54</b>	<b>343,281.33</b>	<b>0.00</b>	<b>0.00</b>		<b>14,993.79</b>	<b>14,993.79</b>
<b>Total Primary Government</b>	<b>948,927.13</b>	<b>419,422.17</b>	<b>35,409.40</b>	<b>56,594.57</b>	<b>(452,494.78)</b>	<b>14,993.79</b>	<b>(437,500.99)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes					257,147.51		257,147.51
Sales Taxes					194,980.34		194,980.34
State Shared Revenues					5,404.39		5,404.39
Unrestricted Investment Earnings					10,539.88		10,539.88
Debt Issued					0.00		0.00
Miscellaneous Revenue					18,034.99		18,034.99
<b>Total General Revenues</b>					<b>486,107.11</b>	<b>0.00</b>	<b>486,107.11</b>
Change in Net Position					33,612.33	14,993.79	48,606.12
Net Position - Beginning					1,179,519.24	406,144.14	1,585,663.38
<b>NET POSITION - ENDING</b>					<b>1,213,131.57</b>	<b>421,137.93</b>	<b>1,634,269.50</b>

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

**MUNICIPALITY OF CANISTOTA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2019**

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	<u>854,666.37</u>	<u>82,423.16</u>	<u>937,089.53</u>
Investments	<u>276,042.04</u>		<u>276,042.04</u>
<b>TOTAL ASSETS</b>	<u><u>1,130,708.41</u></u>	<u><u>82,423.16</u></u>	<u><u>1,213,131.57</u></u>
<b>FUND BALANCES:</b>			
Restricted for City Promotion Purposes		<u>82,423.16</u>	<u>82,423.16</u>
Assigned for Next Year's Budget	<u>50,425.00</u>		<u>50,425.00</u>
Unassigned	<u>1,080,283.41</u>		<u>1,080,283.41</u>
<b>TOTAL FUND BALANCES</b>	<u><u>1,130,708.41</u></u>	<u><u>82,423.16</u></u>	<u><u>1,213,131.57</u></u>

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2019**

	<b>General Fund</b>	<b>Third Penny Fund</b>	<b>Total Governmental Funds</b>
<b>Revenues:</b>			
Taxes:			
General Property Taxes	255,066.15		255,066.15
General Sales and Use Taxes	182,916.36	12,063.98	194,980.34
Amusement Taxes	36.00		36.00
Penalties & Interest on Delinquent Taxes	2,045.36		2,045.36
Total Taxes	440,063.87	12,063.98	452,127.85
Licenses and Permits	3,530.00	0.00	3,530.00
Intergovernmental Revenue:			
State Grants	1,822.00		1,822.00
State Shared Revenue:			
Bank Franchise Tax	1,129.17		1,129.17
Prorate License Fees	1,562.38		1,562.38
Liquor Tax Reversion	4,275.22		4,275.22
Motor Vehicle Licenses	8,512.87		8,512.87
Local Government Highway and Bridge Fund	20,519.83		20,519.83
County Shared Revenue:			
County Road Tax	1,019.22		1,019.22
County Wheel Tax	3,173.10		3,173.10
Total Intergovernmental Revenue	42,013.79	0.00	42,013.79
Charges for Goods and Services:			
Sanitation	56,670.91		56,670.91
Culture and Recreation	10,839.93		10,839.93
Total Charges for Goods and Services	67,510.84	0.00	67,510.84
Miscellaneous Revenue:			
Investment Earnings	10,539.88		10,539.88
Rentals	5,100.00		5,100.00
Special Assessments	55,394.57		55,394.57
Other	18,034.99		18,034.99
Total Miscellaneous Revenue	89,069.44	0.00	89,069.44
Total Revenue	642,187.94	12,063.98	654,251.92
<b>Expenditures:</b>			
General Government:			
Legislative	9,597.29		9,597.29
Elections	17.03		17.03
Financial Administration	44,929.85		44,929.85
Other	37,809.01	1,204.56	39,013.57
Total General Government	92,353.18	1,204.56	93,557.74

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2019

	General Fund	Third Penny Fund	Total Governmental Funds
<b>Expenditures: (continued)</b>			
Public Safety:			
Police	50,700.00		50,700.00
Fire	29,447.09		29,447.09
Total Public Safety	80,147.09	0.00	80,147.09
Public Works:			
Highways and Streets	173,653.16		173,653.16
Sanitation	56,009.76		56,009.76
Total Public Works	229,662.92	0.00	229,662.92
Health and Welfare:			
Health	3,121.12		3,121.12
Total Health and Welfare	3,121.12	0.00	3,121.12
Culture and Recreation:			
Recreation	46,694.69		46,694.69
Parks	8,547.15		8,547.15
Total Culture and Recreation	55,241.84	0.00	55,241.84
Conservation and Development:			
Economic Development and Assistance (Industrial Development)	14,411.00		14,411.00
Total Conservation and Development	14,411.00	0.00	14,411.00
Debt Service	144,497.88	0.00	144,497.88
Total Expenditures	619,435.03	1,204.56	620,639.59
Net Change in Fund Balance	22,752.91	10,859.42	33,612.33
Fund Balance - Beginning	1,107,955.50	71,563.74	1,179,519.24
FUND BALANCE - ENDING	1,130,708.41	82,423.16	1,213,131.57

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

**MUNICIPALITY OF CANISTOTA  
BALANCE SHEET - MODIFIED CASH BASIS  
PROPRIETARY FUNDS  
December 31, 2019**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	400,692.97	20,444.96	421,137.93
<b>TOTAL ASSETS</b>	<u>400,692.97</u>	<u>20,444.96</u>	<u>421,137.93</u>
<b>NET POSITION:</b>			
Unrestricted Net Position	400,692.97	20,444.96	421,137.93
<b>TOTAL NET POSITION</b>	<u>400,692.97</u>	<u>20,444.96</u>	<u>421,137.93</u>

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2019**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating Revenue:</b>			
Charges for Goods and Services	156,015.79	110,826.61	266,842.40
Revenue Dedicated to Servicing Debt	33,194.69	43,244.24	76,438.93
Total Operating Revenue	189,210.48	154,070.85	343,281.33
<b>Operating Expenses:</b>			
Personal Services	37,461.14	37,682.68	75,143.82
Other Current Expense	25,277.70	7,669.96	32,947.66
Materials	54,170.99		54,170.99
Total Operating Expenses	116,909.83	45,352.64	162,262.47
Operating Income (Loss)	72,300.65	108,718.21	181,018.86
<b>Nonoperating Revenue (Expense):</b>			
Debt Service	(41,959.79)	(51,930.24)	(93,890.03)
Interest Expense	(36,061.22)	(36,073.82)	(72,135.04)
Total Nonoperating Revenue (Expense)	(78,021.01)	(88,004.06)	(166,025.07)
Change in Net Position	(5,720.36)	20,714.15	14,993.79
Net Position - Beginning	406,413.33	(269.19)	406,144.14
<b>NET POSITION - ENDING</b>	400,692.97	20,444.96	421,137.93

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF NET POSITION - MODIFIED CASH BASIS**  
**December 31, 2018**

	<b>Primary Government</b>		<b>Total</b>
	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	
<b>ASSETS:</b>			
Cash and Cash Equivalents	957,703.18	406,144.14	1,363,847.32
Investments	221,816.06		221,816.06
<b>TOTAL ASSETS</b>	<b>1,179,519.24</b>	<b>406,144.14</b>	<b>1,585,663.38</b>
<b>NET POSITION:</b>			
Restricted for:			
City Promotion Purposes	71,563.74		71,563.74
Unrestricted	1,107,955.50	406,144.14	1,514,099.64
<b>TOTAL NET POSITION</b>	<b>1,179,519.24</b>	<b>406,144.14</b>	<b>1,585,663.38</b>

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For the Year Ended December 31, 2018**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
<b>Primary Government:</b>							
Governmental Activities:							
General Government	83,500.50	6,300.00			(77,200.50)		(77,200.50)
Public Safety	75,576.23				(75,576.23)		(75,576.23)
Public Works	250,060.06	58,040.98	34,170.82	55,142.07	(102,706.19)		(102,706.19)
Health and Welfare	3,019.49	1,787.00			(1,232.49)		(1,232.49)
Culture and Recreation	101,620.80	9,242.82		29,900.00	(62,477.98)		(62,477.98)
Conservation and Development	16,469.00				(16,469.00)		(16,469.00)
Long-Term Debt Payments	38,241.73				(38,241.73)		(38,241.73)
<b>Total Governmental Activities</b>	<b>568,487.81</b>	<b>75,370.80</b>	<b>34,170.82</b>	<b>85,042.07</b>	<b>(373,904.12)</b>		<b>(373,904.12)</b>
<b>Business-type Activities:</b>							
Water	216,325.35	194,554.21				(21,771.14)	(21,771.14)
Sewer	207,189.24	156,067.43				(51,121.81)	(51,121.81)
<b>Total Business-Type Activities</b>	<b>423,514.59</b>	<b>350,621.64</b>	<b>0.00</b>	<b>0.00</b>		<b>(72,892.95)</b>	<b>(72,892.95)</b>
<b>Total Primary Government</b>	<b>992,002.40</b>	<b>425,992.44</b>	<b>34,170.82</b>	<b>85,042.07</b>	<b>(373,904.12)</b>	<b>(72,892.95)</b>	<b>(446,797.07)</b>
<b>General Revenues:</b>							
Taxes:							
Property Taxes					248,040.95		248,040.95
Sales Taxes					185,377.20		185,377.20
State Shared Revenues					4,882.81		4,882.81
Unrestricted Investment Earnings					6,548.24		6,548.24
Debt Issued					16,087.50	16,649.00	32,736.50
Miscellaneous Revenue					23,780.56		23,780.56
<b>Total General Revenues</b>					<b>484,717.26</b>	<b>16,649.00</b>	<b>501,366.26</b>
<b>Change in Net Position</b>					<b>110,813.14</b>	<b>(56,243.95)</b>	<b>54,569.19</b>
<b>Net Position - Beginning</b>					<b>1,068,706.10</b>	<b>462,388.09</b>	<b>1,531,094.19</b>
<b>NET POSITION - ENDING</b>					<b>1,179,519.24</b>	<b>406,144.14</b>	<b>1,585,663.38</b>

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

**MUNICIPALITY OF CANISTOTA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
December 31, 2018**

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Cash and Cash Equivalents	<u>886,139.44</u>	<u>71,563.74</u>	<u>957,703.18</u>
Investments	<u>221,816.06</u>		<u>221,816.06</u>
<b>TOTAL ASSETS</b>	<u><u>1,107,955.50</u></u>	<u><u>71,563.74</u></u>	<u><u>1,179,519.24</u></u>
<b>FUND BALANCES:</b>			
Restricted for City Promotion Purposes		<u>71,563.74</u>	<u>71,563.74</u>
Unassigned	<u>1,107,955.50</u>		<u>1,107,955.50</u>
<b>TOTAL FUND BALANCES</b>	<u><u>1,107,955.50</u></u>	<u><u>71,563.74</u></u>	<u><u>1,179,519.24</u></u>

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2018

	General Fund	Third Penny Fund	Total Governmental Funds
<b>Revenues:</b>			
Taxes:			
General Property Taxes	245,608.08		245,608.08
General Sales and Use Taxes	173,435.44	11,941.76	185,377.20
Amusement Taxes	96.00		96.00
Penalties & Interest on Delinquent Taxes	2,336.87		2,336.87
Total Taxes	421,476.39	11,941.76	433,418.15
Licenses and Permits	4,200.00	0.00	4,200.00
Intergovernmental Revenue:			
State Grants	9,425.76		9,425.76
Bank Franchise Tax	756.82		756.82
Prorate License Fees	1,562.61		1,562.61
Liquor Tax Reversion	4,125.99		4,125.99
Motor Vehicle Licenses	8,543.17		8,543.17
Local Government Highway and Bridge Fund	19,971.98		19,971.98
County Shared Revenue:			
County Road Tax	1,019.22		1,019.22
County Wheel Tax	3,073.84		3,073.84
Total Intergovernmental Revenue	48,479.39	0.00	48,479.39
Charges for Goods and Services:			
Sanitation	58,040.98		58,040.98
Culture and Recreation	9,242.82		9,242.82
Total Charges for Goods and Services	67,283.80	0.00	67,283.80
Miscellaneous Revenue:			
Investment Earnings	6,548.24		6,548.24
Rentals	2,100.00		2,100.00
Special Assessments	47,503.31		47,503.31
Contributions & Donations from Private Sources	29,900.00		29,900.00
Other	23,780.56		23,780.56
Total Miscellaneous Revenue	109,832.11	0.00	109,832.11
Total Revenue	651,271.69	11,941.76	663,213.45
<b>Expenditures:</b>			
General Government:			
Legislative	7,093.42		7,093.42
Elections	65.90		65.90
Financial Administration	45,216.78		45,216.78
Other	29,891.94	1,232.46	31,124.40
Total General Government	82,268.04	1,232.46	83,500.50

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - MODIFIED CASH BASIS**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2018

	<u>General Fund</u>	<u>Third Penny Fund</u>	<u>Total Governmental Funds</u>
<b>Expenditures: (continued)</b>			
Public Safety:			
Police	50,700.00		50,700.00
Fire	24,876.23		24,876.23
Total Public Safety	<u>75,576.23</u>	<u>0.00</u>	<u>75,576.23</u>
Public Works:			
Highways and Streets	192,695.08		192,695.08
Sanitation	57,364.98		57,364.98
Total Public Works	<u>250,060.06</u>	<u>0.00</u>	<u>250,060.06</u>
Health and Welfare:			
Health	3,019.49		3,019.49
Total Health and Welfare	<u>3,019.49</u>	<u>0.00</u>	<u>3,019.49</u>
Culture and Recreation:			
Recreation	77,166.12		77,166.12
Parks	24,454.68		24,454.68
Total Culture and Recreation	<u>101,620.80</u>	<u>0.00</u>	<u>101,620.80</u>
Conservation and Development:			
Economic Development and Assistance (Industrial Development)	16,469.00		16,469.00
Total Conservation and Development	<u>16,469.00</u>	<u>0.00</u>	<u>16,469.00</u>
Debt Service	<u>38,241.73</u>	<u>0.00</u>	<u>38,241.73</u>
Total Expenditures	<u>567,255.35</u>	<u>1,232.46</u>	<u>568,487.81</u>
Excess of Revenue Over (Under) Expenditures	<u>84,016.34</u>	<u>10,709.30</u>	<u>94,725.64</u>
<b>Other Financing Sources (Uses):</b>			
Long-Term Debt Issued	16,087.50		16,087.50
Total Other Financing Sources (Uses)	<u>16,087.50</u>	<u>0.00</u>	<u>16,087.50</u>
Net Change in Fund Balance	<u>100,103.84</u>	<u>10,709.30</u>	<u>110,813.14</u>
Fund Balance - Beginning	<u>1,007,851.66</u>	<u>60,854.44</u>	<u>1,068,706.10</u>
FUND BALANCE - ENDING	<u><u>1,107,955.50</u></u>	<u><u>71,563.74</u></u>	<u><u>1,179,519.24</u></u>

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

**MUNICIPALITY OF CANISTOTA**  
**BALANCE SHEET - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**December 31, 2018**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	406,144.14		406,144.14
Due from Sewer Fund	269.19		269.19
Total Current Assets	406,413.33	0.00	406,413.33
<b>TOTAL ASSETS</b>	406,413.33	0.00	406,413.33
<b>LIABILITIES:</b>			
Current Liabilities:			
Due to Water Fund		269.19	269.19
Total Current Liabilities	0.00	269.19	269.19
<b>TOTAL LIABILITIES</b>	0.00	269.19	269.19
<b>NET POSITION:</b>			
Unrestricted Net Position	406,413.33	(269.19)	406,144.14
<b>TOTAL NET POSITION</b>	406,413.33	(269.19)	406,144.14

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

**MUNICIPALITY OF CANISTOTA**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN**  
**NET POSITION - MODIFIED CASH BASIS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2018**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating Revenue:</b>			
Charges for Goods and Services	161,674.51	113,207.12	274,881.63
Revenue Dedicated to Servicing Debt	32,879.70	42,860.31	75,740.01
<b>Total Operating Revenue</b>	<b>194,554.21</b>	<b>156,067.43</b>	<b>350,621.64</b>
<b>Operating Expenses:</b>			
Personal Services	37,540.91	36,908.29	74,449.20
Other Current Expense	12,586.35	11,266.32	23,852.67
Materials	56,724.00		56,724.00
Capital Assets	24,845.86	46,845.88	71,691.74
<b>Total Operating Expenses</b>	<b>131,697.12</b>	<b>95,020.49</b>	<b>226,717.61</b>
<b>Operating Income (Loss)</b>	<b>62,857.09</b>	<b>61,046.94</b>	<b>123,904.03</b>
<b>Nonoperating Revenue (Expense):</b>			
Debt Service (Principal)	(22,515.04)	(32,175.77)	(54,690.81)
Interest Expense	(62,113.19)	(79,992.98)	(142,106.17)
<b>Total Nonoperating Revenue (Expense)</b>	<b>(84,628.23)</b>	<b>(112,168.75)</b>	<b>(196,796.98)</b>
<b>Income (Loss) Before Contributions</b>	<b>(21,771.14)</b>	<b>(51,121.81)</b>	<b>(72,892.95)</b>
Capital Contributions		16,649.00	16,649.00
<b>Change in Net Position</b>	<b>(21,771.14)</b>	<b>(34,472.81)</b>	<b>(56,243.95)</b>
Net Position - Beginning	428,184.47	34,203.62	462,388.09
<b>NET POSITION - ENDING</b>	<b>406,413.33</b>	<b>(269.19)</b>	<b>406,144.14</b>

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

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## NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### a. Financial Reporting Entity:

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

#### b. Basis of Presentation:

##### Government-wide Financial Statements:

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

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

##### Fund Financial Statements:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

**Governmental Funds:**

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

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

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

**Proprietary Funds:**

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

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
- c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

c. Measurement Focus and Basis of Accounting:

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

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

Measurement Focus:

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

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

Basis of Accounting:

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

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

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

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

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

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

e. Deposits and Investments:

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

Investments classified in the financial statements consist entirely 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.

f. Long-Term Liabilities:

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

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

g. Revenue Received in Advance:

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

h. Program Revenues:

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Equity Classifications:

Government-wide Statements:

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

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

Fund Financial Statements:

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

k. Application of Net Position:

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

l. Fund Balance Classification Policies and Procedures:

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

- Nonspendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

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

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund:</u>	<u>Revenue Source:</u>
Third Penny Fund	Sales Taxes

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

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

	<u>Year Ended</u> 12/31/2018	<u>Year Ended</u> 12/31/2019
General Fund:		
Highways and Streets	\$ 7,673.91	
Debt Service		\$ 80,597.88

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

3. DEFICIT FUND BALANCES/FUND NET ASSETS

As of December 31, 2018, the following funds had deficit fund balance/net position in the amount shown:

	<u>Year Ended</u> 12/31/18
Sewer	\$ 269.19

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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

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

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

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

Investments – In general, SDCL 4-5-6 permits municipal 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, 2019 and December 31, 2018, the Municipality 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 Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

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

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

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

5. PROPERTY TAXES

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

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

6. OPERATING LEASES

The Municipality entered into a maintenance lease for the copier. The minimum monthly payments are made one third from the General, Water, and Sewer funds.

The following are the minimum payments on this operating lease:

2020	\$	309.48
2021	\$	232.11

7. WATER PURCHASE AGREEMENT

In 1986, the Municipality of Canistota entered into a 40-year agreement with T-M Rural Water to provide water to the Municipality. A charge of \$3.00 per 1,000 gallons of water consumed is paid by the Municipality to T-M Rural Water. The Municipality will not acquire ownership of any of these water facilities through these payments. Payments are made from the Municipality's Water Fund.

8. RESTRICTED NET POSITION

Restricted net position for the year ended December 31, 2019 and 2018 was as follows:

	<u>Year Ended</u> <u>12/31/2018</u>	<u>Year Ended</u> <u>12/31/2019</u>
Major Funds:		
Third Penny - City Promotion	\$ 71,563.74	\$ 82,423.16

These balances are restricted due to statutory requirements.

9. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2018 were:

	<u>Interfund</u> <u>Receivables</u>	<u>Interfund</u> <u>Payables</u>
Enterprise Funds:		
Water Fund	\$ 269.19	
Sewer Fund		\$269.19

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

10. 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

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.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 safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits 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 the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3<sup>rd</sup> quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017, were \$7,091.17, \$6,902.31, and \$4,740.80, respectively, equal to the required contributions each year.

Pension Liabilities (Assets):

At June 30, 2019, SDRS is 100.09% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2019 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 685,682.84
Less proportionate share of total pension liability	<u>\$ 686,265.91</u>
Proportionate share of net pension liability (asset)	<u>\$ (583.07)</u>

At June 30, 2018, SDRS is 100.02% funded and accordingly has net pension asset. The proportionate shares of the components of the net pension asset of the South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2018 are as follows:

Proportionate share of net position restricted for pension benefits	\$ 649,751.89
Less proportionate share of total pension liability	<u>\$ 649,875.76</u>
Proportionate share of net pension liability (asset)	<u>\$ (123.87)</u>

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2019 and June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent net of plan investment expense
Future COLAs	1.88 percent

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

The actuarial assumptions used in the June 30, 2019 and June 30, 2018, 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-

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

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 for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

As of June 30, 2019, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 96,778.53	\$(583.07)	\$(79,915.18)

As of June 30, 2018, the following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 93,557.95	\$(123.87)	\$(76,328.95)

See Independent Auditor's Report.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS  
(Continued)

Pension Plan Fiduciary Net Position:

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

11. SIGNIFICANT CONTINGENCIES - LITIGATION

The Municipality has pending litigation against a contractor and engineer. A mediation is scheduled for March 5, 2020. The Municipality believes it is likely that the case will settle at mediation or shortly after. Due to this matter still being pending litigation, no opinion on outcome or loss can be determined

12. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2019, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality does not provide health insurance for its employees.

Liability Insurance:

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a 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 Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

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

13. Related Party Transaction

The Municipality gives a yearly donation and has had real-estate transactions with the Canistota Development Corporation. Municipality board member Jessica Kerher-Ligtenberg and Municipal employee Darin Nugteren both serve on the board of the Canistota Development Corporation.

See Independent Auditor's Report.

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
<b>Revenues:</b>				
Taxes:				
General Property Taxes	274,500.00	274,500.00	255,066.15	(19,433.85)
General Sales and Use Taxes	129,949.00	129,949.00	182,916.36	52,967.36
Amusement Taxes	100.00	100.00	36.00	(64.00)
Penalties and Interest on Delinquent Taxes	1,600.00	1,600.00	2,045.36	445.36
Total Taxes	<u>406,149.00</u>	<u>406,149.00</u>	<u>440,063.87</u>	<u>33,914.87</u>
Licenses and Permits	<u>2,000.00</u>	<u>2,000.00</u>	<u>3,530.00</u>	<u>1,530.00</u>
Intergovernmental Revenue:				
State Grants	0.00	0.00	1,822.00	1,822.00
State Shared Revenue:				
Bank Franchise Tax	900.00	900.00	1,129.17	229.17
Proate License Fee	0.00	0.00	1,562.38	1,562.38
Liquor Tax Reversion	4,000.00	4,000.00	4,275.22	275.22
Motor Vehicle Licenses	5,000.00	5,000.00	8,512.87	3,512.87
Local Government Highway and Bridge Fund	14,000.00	14,000.00	20,519.83	6,519.83
County Shared Revenue:				
County Road Tax	1,500.00	1,500.00	1,019.22	(480.78)
County Wheel Tax	2,000.00	2,000.00	3,173.10	1,173.10
Total Intergovernmental Revenue	<u>27,400.00</u>	<u>27,400.00</u>	<u>42,013.79</u>	<u>14,613.79</u>
Charges for Goods and Services:				
Sanitation	60,000.00	60,000.00	56,670.91	(3,329.09)
Culture and Recreation	5,000.00	5,000.00	10,839.93	5,839.93
Total Charges for Goods and Services	<u>65,000.00</u>	<u>65,000.00</u>	<u>67,510.84</u>	<u>2,510.84</u>
Miscellaneous Revenue:				
Investment Earnings	2,000.00	2,000.00	10,539.88	8,539.88
Rentals	3,500.00	3,500.00	5,100.00	1,600.00
Special Assessments	40,500.00	40,500.00	55,394.57	14,894.57
Liquor Operating Agreement Income	1,500.00	1,500.00	0.00	(1,500.00)
Other	2,100.00	2,100.00	18,034.99	15,934.99
Total Miscellaneous Revenue	<u>49,600.00</u>	<u>49,600.00</u>	<u>89,069.44</u>	<u>39,469.44</u>
Total Revenue	<u>550,149.00</u>	<u>550,149.00</u>	<u>642,187.94</u>	<u>92,038.94</u>
<b>Expenditures:</b>				
General Government:				
Legislative	9,300.00	9,800.00	9,597.29	202.71
Contingency	15,000.00	15,000.00		
Amount Transferred		(15,000.00)		0.00
Elections	500.00	500.00	17.03	482.97
Financial Administration	41,810.00	46,810.00	44,929.85	1,880.15
Other	48,600.00	50,600.00	37,809.01	12,790.99
Total General Government	<u>115,210.00</u>	<u>107,710.00</u>	<u>92,353.18</u>	<u>15,356.82</u>

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Expenditures: (continued)</b>				
Public Safety:				
Police	50,700.00	50,700.00	50,700.00	0.00
Fire	35,200.00	35,200.00	29,447.09	5,752.91
Total Public Safety	<u>85,900.00</u>	<u>85,900.00</u>	<u>80,147.09</u>	<u>5,752.91</u>
Public Works:				
Highways and Streets	134,288.00	176,288.00	173,653.16	2,634.84
Sanitation	61,850.00	61,850.00	56,009.76	5,840.24
Total Public Works	<u>196,138.00</u>	<u>238,138.00</u>	<u>229,662.92</u>	<u>8,475.08</u>
Health and Welfare:				
Health	6,000.00	6,000.00	3,121.12	2,878.88
Total Health and Welfare	<u>6,000.00</u>	<u>6,000.00</u>	<u>3,121.12</u>	<u>2,878.88</u>
Culture and Recreation:				
Recreation	57,700.00	57,700.00	46,694.69	11,005.31
Parks	26,201.00	26,201.00	8,547.15	17,653.85
Total Culture and Recreation	<u>83,901.00</u>	<u>83,901.00</u>	<u>55,241.84</u>	<u>28,659.16</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	17,000.00	17,000.00	14,411.00	2,589.00
Total Conservation and Development	<u>17,000.00</u>	<u>17,000.00</u>	<u>14,411.00</u>	<u>2,589.00</u>
Debt Service	<u>46,000.00</u>	<u>63,900.00</u>	<u>144,497.88</u>	<u>(80,597.88)</u>
Total Expenditures	<u>550,149.00</u>	<u>602,549.00</u>	<u>619,435.03</u>	<u>(16,886.03)</u>
Net Change in Fund Balances	<u>0.00</u>	<u>(52,400.00)</u>	<u>22,752.91</u>	<u>75,152.91</u>
Fund Balance - Beginning	<u>1,107,955.50</u>	<u>1,107,955.50</u>	<u>1,107,955.50</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>1,107,955.50</u>	<u>1,055,555.50</u>	<u>1,130,708.41</u>	<u>75,152.91</u>

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**THIRD PENNY FUND**  
**For the Year Ended December 31, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
General Sales and Use Taxes	10,000.00	10,000.00	12,063.98	2,063.98
Total Taxes	<u>10,000.00</u>	<u>10,000.00</u>	<u>12,063.98</u>	<u>2,063.98</u>
Total Revenue	<u>10,000.00</u>	<u>10,000.00</u>	<u>12,063.98</u>	<u>2,063.98</u>
<b>Expenditures:</b>				
General Government:				
Other	10,000.00	10,000.00	1,204.56	8,795.44
Total General Government	<u>10,000.00</u>	<u>10,000.00</u>	<u>1,204.56</u>	<u>8,795.44</u>
Total Expenditures	<u>10,000.00</u>	<u>10,000.00</u>	<u>1,204.56</u>	<u>8,795.44</u>
Net Change in Fund Balances	<u>0.00</u>	<u>0.00</u>	<u>10,859.42</u>	<u>10,859.42</u>
Fund Balance - Beginning	<u>71,563.74</u>	<u>71,563.74</u>	<u>71,563.74</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>71,563.74</u></u>	<u><u>71,563.74</u></u>	<u><u>82,423.16</u></u>	<u><u>10,859.42</u></u>

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenue</b>				
Taxes:				
General Property Taxes	249,500.00	249,500.00	245,608.08	(3,891.92)
General Sales and Use Taxes	127,500.00	127,500.00	173,435.44	45,935.44
Amusement Taxes	100.00	100.00	96.00	(4.00)
Penalties and Interest on Delinquent Taxes	1,500.00	1,500.00	2,336.87	836.87
Total Taxes	378,600.00	378,600.00	421,476.39	42,876.39
Licenses and Permits	1,500.00	1,500.00	4,200.00	2,700.00
Intergovernmental Revenue:				
State Grants	0.00	0.00	9,425.76	9,425.76
State Shared Revenue:				
Bank Franchise Tax	850.00	850.00	756.82	(93.18)
Prorate License Fees	0.00	0.00	1,562.91	1,562.91
Liquor Tax Reversion	3,900.00	3,900.00	4,125.99	225.99
Motor Vehicle Licenses	4,600.00	4,600.00	8,543.17	3,943.17
Local Government Highway and Bridge Fund	13,500.00	13,500.00	19,971.98	6,471.98
County Shared Revenue:				
County Road Tax	1,500.00	1,500.00	1,019.22	(480.78)
County Wheel Tax	2,000.00	2,000.00	3,073.84	1,073.84
Total Intergovernmental Revenue	26,350.00	26,350.00	48,479.69	22,129.69
Charges for Goods and Services:				
Sanitation	60,000.00	60,000.00	58,040.98	(1,959.02)
Culture and Recreation	5,000.00	5,000.00	9,242.82	4,242.82
Total Charges for Goods and Services	65,000.00	65,000.00	67,283.80	2,283.80
Miscellaneous Revenue:				
Investment Earnings	1,500.00	1,500.00	6,548.24	5,048.24
Rentals	3,500.00	3,500.00	2,100.00	(1,400.00)
Special Assessments	41,229.00	41,229.00	47,503.31	6,274.31
Contributions and Donations from Private Sources	0.00	0.00	29,900.00	29,900.00
Liquor Operating Agreement Income	1,700.00	1,700.00	0.00	(1,700.00)
Other	2,000.00	2,000.00	23,780.56	21,780.56
Total Miscellaneous Revenue	49,929.00	49,929.00	109,832.11	59,903.11
Total Revenue	521,379.00	521,379.00	651,271.99	129,892.99
<b>Expenditures:</b>				
General Government:				
Legislative	8,625.00	8,625.00	7,093.42	1,531.58
Contingency	15,000.00	15,000.00		
Amount Transferred		(15,000.00)		0.00
Elections	500.00	500.00	65.90	434.10
Financial Administration	39,398.00	49,398.00	45,216.78	4,181.22
Other	48,100.00	48,100.00	29,891.94	18,208.06
Total General Government	111,623.00	106,623.00	82,268.04	24,354.96

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Expenditures: (continued)</b>				
Public Safety:				
Police	50,700.00	50,700.00	50,700.00	0.00
Fire	35,500.00	35,500.00	24,876.23	10,623.77
Total Public Safety	86,200.00	86,200.00	75,576.23	10,623.77
Public Works:				
Highways and Streets	132,521.17	185,021.17	192,695.08	(7,673.91)
Transit	61,850.00	61,850.00	57,364.98	4,485.02
Total Public Works	194,371.17	246,871.17	250,060.06	(3,188.89)
Health and Welfare:				
Health	4,000.00	4,000.00	3,019.49	980.51
Total Health and Welfare	4,000.00	4,000.00	3,019.49	980.51
Culture and Recreation:				
Recreation	43,600.00	77,800.00	77,166.12	633.88
Parks	26,301.00	26,301.00	24,454.68	1,846.32
Total Culture and Recreation	69,901.00	104,101.00	101,620.80	2,480.20
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	17,000.00	17,000.00	16,469.00	531.00
Total Conservation and Development	17,000.00	17,000.00	16,469.00	531.00
Debt Service	38,283.83	38,283.83	38,241.73	42.10
Total Expenditures	521,379.00	603,079.00	567,255.35	35,823.65
Excess of Revenue Over (Under) Expenditures	0.00	(81,700.00)	84,016.64	165,716.64
<b>Other Financing Sources (Uses):</b>				
General Long-Term Debt Issued	0.00	0.00	16,087.50	16,087.50
Total Other Financing Sources (Uses)	0.00	0.00	16,087.50	16,087.50
Net Change in Fund Balances	0.00	(81,700.00)	100,104.14	181,804.14
Fund Balance - Beginning	1,007,851.66	1,007,851.66	1,007,851.66	0.00
Adjusted Fund Balance - Beginning	1,007,851.66	1,007,851.66	1,007,851.66	0.00
FUND BALANCE - ENDING	1,007,851.66	926,151.66	1,107,955.80	181,804.14

**SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF CANISTOTA**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**THIRD PENNY FUND**  
**For the Year Ended December 31, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes:				
General Sales and Use Taxes	10,000.00	10,000.00	11,941.76	1,941.76
Total Taxes	10,000.00	10,000.00	11,941.76	1,941.76
Total Revenue	10,000.00	10,000.00	11,941.76	1,941.76
<b>Expenditures:</b>				
General Government:				
Other	10,000.00	10,000.00	1,232.46	8,767.54
Total General Government	10,000.00	10,000.00	1,232.46	8,767.54
Total Expenditures	10,000.00	10,000.00	1,232.46	8,767.54
Net Change in Fund Balances	0.00	0.00	10,709.30	10,709.30
Fund Balance - Beginning	60,854.44	60,854.44	60,854.44	0.00
FUND BALANCE - ENDING	60,854.44	60,854.44	71,563.74	10,709.30

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NOTES TO THE SUPPLEMENTARY INFORMATIONSchedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

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

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

The Municipality did not encumber any amounts at December 31, 2019 and 2018.

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

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

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

SUPPLEMENTARY INFORMATION

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

South Dakota Retirement System

	2019	2018	2017	2016	2015
Municipality's proportion of the net pension liability/asset	0.0055021%	0.0053113%	0.0042385%	0.0039947%	0.0036734%
Municipality's proportionate share of net pension liability (asset)	\$ (583)	\$ (124)	\$ (385)	\$ 13,494	\$ 15,580
Municipality's covered-employee payroll	\$ 116,985	\$ 95,846	\$ 92,594	\$ 83,057	\$ 67,067
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.50%	0.13%	0.42%	16.25%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.09%	100.02%	100.10%	96.89%	104.10%

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30. Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

	2019	2018	2017	2016	2015
Contractually required contribution	\$ 7,091	\$ 6,902	\$ 4,741	\$ 5,982	\$ 4,370
Contributions in relation to the contractually required contribution	\$ 7,091	\$ 6,902	\$ 4,741	\$ 5,982	\$ 4,370
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Municipality's covered-employee payroll	\$ 118,187	\$ 114,038	\$ 79,018	\$ 99,693	\$ 72,831
Contributions as a percentage of covered-employee payroll	6.00%	6.05%	6.00%	6.00%	6.00%

Until a full 10-year trend is compiled, the Municipality will present information for those years for which information is available.

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**Notes to Required Supplementary Information  
for the Year Ended December 31, 2019**  
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and  
Schedule of Pension Contributions.

**Changes of benefit terms:**

No significant changes.

**Changes of assumptions:**

Legislation enacted in 2017 modified the SDRS COLA. For COLAs first applicable in 2018, the SDRS COLA will equal the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.5% 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, 2018 and exists again this year as of June 30, 2019. Future COLAs are assumed to equal the current restricted maximum COLA which was 2.03% as of June 30, 2018 and is 1.88% as of June 30, 2019.

The changes in actuarial assumptions decreased the Actuarial Accrued Liability by 1.5% of the Actuarial Accrued Liability based on the 2.03% COLA, reflecting the current and assumed future restricted maximum COLA of 1.88%.

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

SUPPLEMENTARY INFORMATION

LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance 1/1/2018	Additions	Deletions	Ending Balance 12/31/2019	Due Within One Year
Primary Government:					
Governmental Activities:					
Bonds Payable:					
Financing (Capital Acquisition) Lease - Payloader	26,935.66		26,935.66	0.00	0.00
Financing (Capital Acquisition) Lease - Main St.	266,666.66	533,333.34	122,530.22	677,469.78	75,441.76
Total Governmental Activities	<u>293,602.32</u>	<u>533,333.34</u>	<u>149,465.88</u>	<u>677,469.78</u>	<u>75,441.76</u>
Business-Type Activities:					
Bonds Payable:					
Sewer & Water Revenue, Series 2002	357,931.42		16,534.59	341,396.83	8,878.30
Water System Revenue, Series 2009-1	95,879.05		5,798.56	90,080.49	3,031.89
Wastewater System Rev., Series 2009-2	167,382.25		9,973.13	157,409.12	5,233.97
Wastewater System Rev., Series 2010-1	164,071.56		9,067.85	155,003.71	4,758.87
Water System Rev., Series 2014	461,278.31		21,421.52	439,856.79	11,200.63
Wastewater System Rev., Series 2014	367,466.57		16,435.22	351,031.35	8,625.31
Drinking Water Surcharge Rev., Series 2016	96,045.00		2,051.79	93,993.21	2,067.68
Wastewater Surcharge Rev., Series 2016	361,351.00	16,649.00	13,426.84	364,573.16	8,020.91
Financing (Capital Acquisition) Lease - Payloader	53,871.34		53,871.34	0.00	0.00
Financing (Capital Acquisition) Lease - Main St.	533,333.34	(533,333.34)		0.00	0.00
Total Business-Type Activities	<u>2,658,609.84</u>	<u>(516,684.34)</u>	<u>148,580.84</u>	<u>1,993,344.66</u>	<u>51,817.56</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><u>2,952,212.16</u></u>	<u><u>16,649.00</u></u>	<u><u>298,046.72</u></u>	<u><u>2,670,814.44</u></u>	<u><u>127,259.32</u></u>

Debt payable at December 31, 2019 is comprised of the following:

Revenue Bonds:

Sewer and Water Revenue Bonds - Series 2002; Interest Rate 4.75%; Maturity Date 3-17-42; Paid by Water and Sewer Funds (1/2 each)	\$ 341,396.83
Sewer and Water Revenue Bonds - Series 2009-1; Interest Rate 3.0%; Maturity Date 4-15-41; Paid by Water Fund	\$ 90,080.49
Wastewater System Revenue Bonds - Series 2009-2; Interest Rate 3.25%; Maturity Date 1-15-41; Paid by Sewer Fund	\$ 157,409.12
Wastewater System Revenue Bonds - Series 2010-1; Interest Rate 3.25%; Maturity Date 4-15-42; Paid by Sewer Fund	\$ 155,003.71

SUPPLEMENTARY INFORMATION (Cont.)

Drinking Water Surcharge Revenue Bonds - Series 2014;  
Interest Rate 3%; Maturity Date 1-15-46;  
Paid by Water Fund \$ 439,856.79

Wastewater System Revenue Bonds - Series 2014;  
Interest Rate 3.25%; Maturity Date 1-15-46;  
Paid by Sewer Fund \$ 351,031.35

Drinking Water Surcharge Revenue Bonds - Series 2016;  
Interest Rate 3.25%; Maturity Date 2-15-48;  
Paid by Water Fund \$ 93,993.21

Wastewater Surcharge Revenue Bonds - Series 2016;  
Interest Rate 3.25%; Maturity Date 2-15-48;  
Paid by Sewer Fund \$ 364,573.16

Lease Purchase Agreement:

Lease Purchase for Main Street Project  
Maturity Date: December 1, 2027  
Interest Rate: 3.25%  
Payable from one third General, Water, Sewer Funds \$ 677,469.78

The purchase price at the commencement of the financing (capital acquisition) leases were:

	<u>Main Street Project</u>
Principal	<u>\$ 800,000.00</u>
Interest	<u>\$ 168,515.06</u>
TOTAL	<u>\$ 968,515.06</u>

The annual requirements to amortize all debt outstanding as of December 31, 2019, including interest payments of \$1,286,666.61, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2019

Year Ending December 31,	Sewer and Water Revenue Bonds, Series 2002		Water System Revenue Bond, Series 2009-1		Wastewater System Revenue Bond, Series 2009-2	
	Principal	Interest	Principal	Interest	Principal	Interest
2020	8,878.30	16,019.90	3,031.89	2,668.54	5,233.97	5,052.43
2021	9,309.31	15,588.89	3,123.86	2,576.54	5,406.15	4,880.25
2022	9,761.27	15,136.93	3,218.65	2,481.75	5,584.01	4,702.39
2023	10,235.16	14,663.04	3,316.29	2,384.11	5,767.71	4,518.69
2024	10,732.06	14,166.14	3,416.91	2,283.49	5,957.46	4,328.94
2025-2029	62,000.24	62,490.76	18,703.88	9,798.12	32,859.33	18,572.67
2030-2034	78,584.11	45,906.89	21,718.65	6,783.35	38,631.93	12,800.07
2035-2039	99,603.76	24,887.24	25,219.35	3,282.65	45,418.63	6,013.37
2040-2044	52,292.62	3,728.33	8,331.01	219.59	12,549.93	308.07
Totals	<u>341,396.83</u>	<u>212,588.12</u>	<u>90,080.49</u>	<u>32,478.14</u>	<u>157,409.12</u>	<u>61,176.88</u>

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SUPPLEMENTARY INFORMATION (Cont.)

Year Ending December 31,	Wastewater System Revenue Bond, Series 2010-1		Water System Revenue Bond, Series 2014		Water System Revenue Bond, Series 2014	
	Principal	Interest	Principal	Interest	Principal	Interest
	2020	4,758.87	4,980.01	11,200.63	13,070.49	8,625.31
2021	4,915.43	4,823.45	11,540.44	12,730.68	8,909.08	11,020.36
2022	5,077.14	4,661.74	11,890.56	12,380.56	9,202.16	10,727.28
2023	5,244.17	4,494.71	12,251.32	12,019.80	9,504.90	10,424.54
2024	5,416.69	4,322.19	12,623.00	11,648.12	9,817.60	10,111.84
2025-2029	29,876.62	18,817.78	69,097.36	52,258.24	54,150.53	45,496.67
2030-2034	35,125.24	13,569.16	80,234.74	41,120.86	63,663.47	35,983.73
2035-2039	41,295.90	7,398.50	93,167.31	28,188.29	74,847.61	24,799.59
2040-2044	23,293.65	1,053.75	108,184.38	13,171.22	87,996.55	11,650.65
2045-2049			29,667.05	671.85	24,314.14	597.66
Totals	155,003.71	64,121.29	439,856.79	197,260.11	351,031.35	172,116.45

Year Ending December 31,	Wastewater System Revenue Bond, Series 2016		Wastewater System Revenue Bond, Series 2016	
	Principal	Interest	Principal	Interest
	2020	2,067.68	2,796.68	8,020.91
2021	2,130.42	2,733.94	8,284.82	11,487.66
2022	2,195.06	2,669.30	8,557.38	11,215.10
2023	2,261.64	2,602.72	8,838.90	10,933.58
2024	2,330.26	2,534.10	9,129.68	10,642.87
2025-2029	12,755.67	11,566.13	50,356.26	48,506.14
2030-2034	14,811.69	9,510.11	59,202.64	39,659.76
2035-2039	17,199.08	7,122.72	69,603.13	29,259.27
2040-2044	19,971.30	4,350.50	81,830.73	17,031.67
2045-2049	18,270.41	1,187.01	60,748.71	3,511.85
Totals	93,993.21	47,073.21	364,573.16	193,999.47

Year Ending December 31,	Main Street Project Financing Cap. Acq. Lease		Totals	
	Principal	Interest	Principal	Interest
	2020	75,441.76	21,409.74	127,259.32
2021	77,913.54	18,937.97	131,533.05	84,779.74
2022	80,466.30	16,385.20	135,952.53	80,360.25
2023	83,102.71	13,748.80	140,522.80	75,789.99
2024	85,825.49	11,026.01	145,249.15	71,063.70
2025-2029	274,719.98	15,834.55	604,519.87	283,341.06
2030-2034			391,972.47	205,333.93
2035-2039			466,354.77	130,951.63
2040-2044			394,450.17	51,513.78
2045-2049			133,000.31	5,968.37
Totals	677,469.78	97,342.27	2,670,814.44	1,078,155.94