



CITY OF FAITH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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CITY OF FAITH

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Faith
Faith, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of **CITY OF FAITH** (the City), Meade County, South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinions on Governmental Activities and General Fund

We did not observe physical chip inventory at December 31, 2012, stated at \$67,176. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinions paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the changes in financial position of the governmental activities and the General Fund for the year ended December 31, 2013 in conformity with the modified cash basis of accounting described in Note 1(c).

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund, of the City as of December 31, 2013, and the respective changes in financial position of the business-type activities and, where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1(c).

Emphasis of Matter Regarding 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis and budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The management's discussion and budgetary comparison schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 16, 2014 on our consideration of the City'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 16, 2014

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013

This section of the City of Faith's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended on December 31, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The total revenues for the City's governmental activities increased in 2013 from 2012 by \$18,668. The main reason for this change is due to an increase in sales tax and grant revenue by approximately \$16,500 and \$15,000, respectively, and a decrease in charges for goods by approximately \$13,000.

The City's business-type activities charges for services increased by one percent to \$1,855,904. Electric revenues increased by approximately \$48,000 due to more usage and rate increases and telephone revenue increased approximately \$17,000 due to rate increases. This was offset by a decrease in liquor sales of \$18,186, a decrease in water sales of \$26,995 due to usage decline.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements (including related notes), and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements.
 - The governmental funds financial statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds financial statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Liquor Fund, Water Fund, Electric Fund, Wastewater Fund, Telephone Fund, and Rubble Site Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

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 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. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-wide Statements

The two government-wide statements report the City's net position and how it has changed. Net position – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- Governmental Activities – This category includes most of the City's basic services, such as police, fire, public works, parks department, and general administration. Sales taxes, charges for services, state and federal grants, and interest earnings finance the majority of these activities.
- Business-Type Activities – The City charges a fee to customers to help cover the costs of certain services it provides. The City's liquor, water, electric, wastewater, telephone, and rubble site are included here.
- Component Units – The City does not have any component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that the City is properly using certain taxes and grants.

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements (Continued)

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the year-end balances available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view which helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds financial statements, or on the subsequent page, that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 3 percent between the fiscal year 2012 and 2013 – increasing \$156,832. (See Table A-1)

The Statement of Net Position – Modified Cash Basis reports all financial and capital resources. This statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The only long-term liability of the City, a capital lease, has been reported in this manner on the Statement of Net Position – Modified Cash Basis. The difference between the City's assets and liabilities is its net position.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Position - Modified Cash Basis for 2013 and 2012						
	Governmental Activities		Business-Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and Other Assets	\$ 77,804	\$ 68,490	\$ 1,212,089	\$ 1,145,708	\$ 1,289,893	\$ 1,214,198
Capital Assets	3,387,678	3,472,438	458,771	379,486	3,846,449	3,851,924
Total Assets	\$ 3,465,482	\$ 3,540,928	\$ 1,670,860	\$ 1,525,194	\$ 5,136,342	\$ 5,066,122
Current Liabilities	\$ 3,817	\$ 3,506	\$ 35,391	\$ 35,047	\$ 39,208	\$ 38,553
Long-Term Debt	339,657	426,924	-	-	339,657	426,924
Total Liabilities	\$ 343,474	\$ 430,430	\$ 35,391	\$ 35,047	\$ 378,865	\$ 465,477
<i>Net Position:</i>						
Net Investment in						
Capital Assets	\$ 3,048,021	\$ 3,045,514	\$ 458,771	\$ 379,486	\$ 3,506,792	\$ 3,425,000
Unrestricted	73,987	64,984	1,176,698	1,110,661	1,250,685	1,175,645
Total Net Assets	\$ 3,122,008	\$ 3,110,498	\$ 1,635,469	\$ 1,490,147	\$ 4,757,477	\$ 4,600,645
Beginning Net Position	3,110,498	3,045,516	1,490,147	1,249,836	4,600,645	4,295,352
Increase in Net Position	\$ 11,510	\$ 64,982	\$ 145,322	\$ 240,311	\$ 156,832	\$ 305,293
Percentage of Change in Net Position	0%	2%	10%	19%	3%	7%

Changes in Net Position

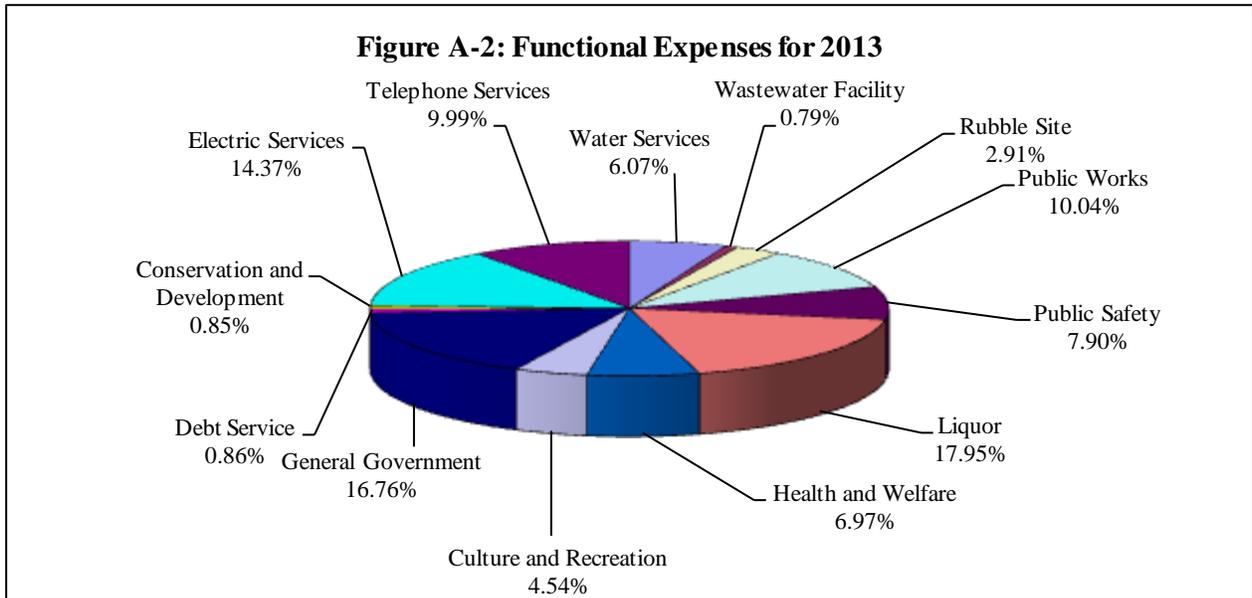
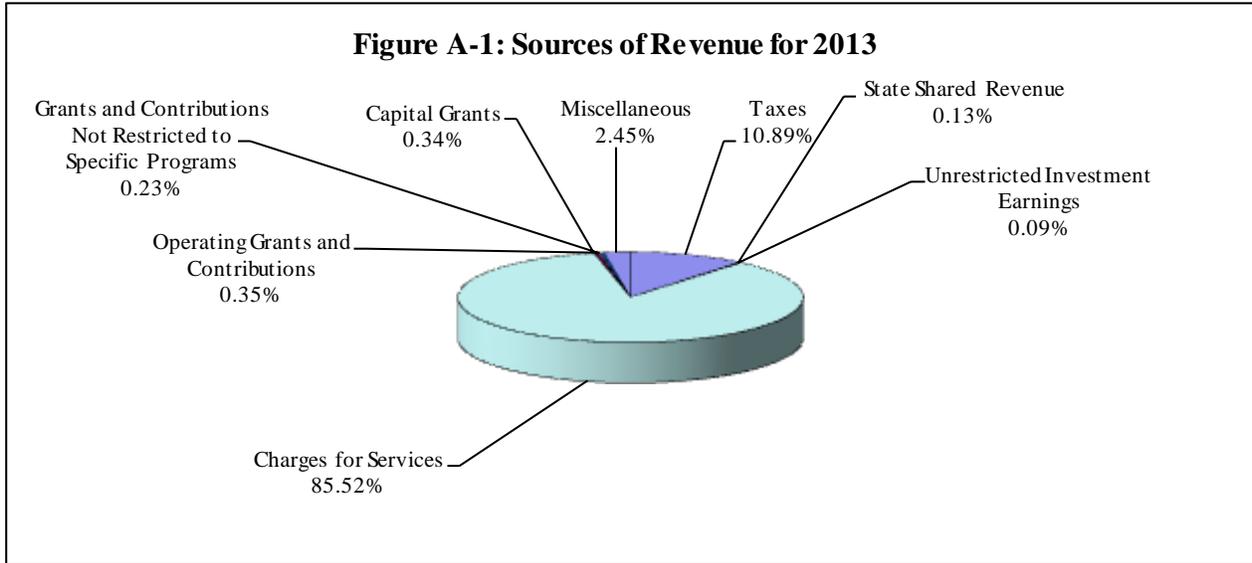
The City's revenues totaled \$2,373,671, and the total cost of all programs and services was \$2,216,839 for the year ended December 31, 2013. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Table A-2).

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)



CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

Table A-2						
Changes in Net Position						
	Governmental Activities		Business-Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program Revenues						
Charges for Services	\$ 173,905	\$ 186,679	\$ 1,855,904	\$ 1,841,491	\$ 2,029,809	\$ 2,028,170
Operating Grants and Contributions	8,350	1,383	-	-	8,350	1,383
General Revenues						
Taxes	258,419	242,009	-	-	258,419	242,009
Revenue State Sources	3,148	3,255	-	-	3,148	3,255
Capital Grants	8,051	-	-	184,175	8,051	184,175
Grants and Contributions not Program Specific	5,390	5,000	-	-	5,390	5,000
Unrestricted Investment Earnings	1,149	2,629	912	1,141	2,061	3,770
Miscellaneous	58,086	56,875	357	-	58,443	56,875
Total Revenues	516,498	497,830	1,857,173	2,026,807	2,373,671	2,524,637
Expenses						
General Government	371,618	420,705	-	-	371,618	420,705
Public Safety	175,073	176,303	-	-	175,073	176,303
Public Works	222,544	178,451	-	-	222,544	178,451
Health and Welfare	154,459	174,441	-	-	154,459	174,441
Culture and Recreation	100,514	81,137	-	-	100,514	81,137
Conservation and Development	18,807	37,272	-	-	18,807	37,272
Debt Service	19,173	23,160	-	-	19,173	23,160
Liquor	-	-	397,937	410,484	397,937	410,484
Water	-	-	134,639	119,894	134,639	119,894
Electric	-	-	318,508	333,144	318,508	333,144
Wastewater	-	-	17,570	8,240	17,570	8,240
Telephone	-	-	221,542	200,984	221,542	200,984
Rubble Site	-	-	64,455	55,129	64,455	55,129
Total Expenses	1,062,188	1,091,469	1,154,651	1,127,875	2,216,839	2,219,344
Excess (Deficiency) Before Transfers	(545,690)	(593,639)	702,522	898,932	156,832	305,293
Transfers	557,200	658,621	(557,200)	(658,621)	-	-
Increase in Net Position	\$ 11,510	\$ 64,982	\$ 145,322	\$ 240,311	\$ 156,832	\$ 305,293
Ending Net Position	\$ 3,122,008	\$ 3,110,498	\$ 1,635,469	\$ 1,490,147	\$ 4,757,477	\$ 4,600,645

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

The City experienced a decrease in expenses in 2013. General Government had a decrease of approximately \$49,000 due to buildings being repaired in 2012 due to the hail storm. Public Works increased approximately \$44,000 due to the purchase of a street sweeper. Health and Welfare decreased approximately \$20,000 due to 32 fewer ambulance runs therefore less salaries, gas, supplies and there was \$5,400 less in repairs. Culture and Recreation increased mainly due to a new cement boat ramp at the lake for \$5,974 and more salaries for mowing by \$3,950 which included the golf course. Conservation and Development decreased \$18,000 due to not having a carnival in 2013 and a smaller donation to the school in 2013.

Business-Type Activities

Liquor expenses decreased approximately \$13,000, mainly in cost of goods sold, as sales declined due to construction workers not being in the area as in the prior year. Water expenses increased due to a water tower repair for approximately \$25,000. Electric expenses decreased due to less supplies purchased and a decline in labor because of the storm in 2012. Telephone expenses increased approximately \$20,000 for equipment purchases and labor to connect the bank and clinic's T1 in the fiber. Wastewater expenses increased due to a sewer study. Rubble site was increased due to digging a new pit and disposing of tires.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City's only governmental fund type is the General Fund. The City also maintains six business type funds – Liquor, Water, Electric, Wastewater, Telephone, and Rubble Site.

BUDGETARY HIGHLIGHTS

Library expenses exceeded the budgeted amount due to the purchase of a copier. In addition, the City donated \$10,000 for the purchase of a fire truck. These are the main changes to the budget.

CITY OF FAITH

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2013**

CAPITAL ASSET ADMINISTRATION

By the end of 2013, the City had invested \$3,846,449 in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3).

**Table A-3
Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities	
	2013	2012	2013	2012
Land	\$ 66,033	\$ 66,033	\$ 4,673	\$ 4,673
Construction Work in Progress	67,061	43,876	-	-
Buildings	2,332,723	2,391,371	13,276	17,700
Improvements Other Than Buildings	676,549	745,402	280,713	290,361
Machinery and Equipment	245,312	225,756	160,109	66,752
Total Capital Assets	\$ 3,387,678	\$ 3,472,438	\$ 458,771	\$ 379,486

LONG-TERM DEBT

As of December 31, 2013, the City had \$339,657 in long-term debt (See Table A-4 below):

Table A-4 Outstanding Debt and Obligations			
	Governmental Activities		
	2013	2012	
Capital Acquisition Lease	\$ 339,657	\$ 426,924	
Total Outstanding Debt and Obligations	\$ 339,657	\$ 426,924	

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The City expects business-type activities for 2014 to increase due to rate increases.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City’s finances and to demonstrate the City’s accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Faith’s Finance Office, P.O. Box 368, Faith, SD 57626.

CITY OF FAITH

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments	\$ 5,943	\$ 1,125,462	\$ 1,131,405
Other Current Assets	71,861	24,569	96,430
Joint Venture Investment	-	62,058	62,058
Capital Assets:			
Land and Construction Work in Progress	133,094	4,673	137,767
Other Capital Assets, Net of Depreciation	3,254,584	454,098	3,708,682
TOTAL ASSETS	\$ 3,465,482	\$ 1,670,860	\$ 5,136,342
LIABILITIES:			
Other Current Liabilities	\$ 3,817	\$ 35,391	\$ 39,208
Non-Current Liability:			
Due Within One Year	91,443	-	91,443
Due in More Than One Year	248,214	-	248,214
TOTAL LIABILITIES	343,474	35,391	378,865
NET POSITION:			
Net Investment in Capital Assets	3,048,021	458,771	3,506,792
Unrestricted	73,987	1,176,698	1,250,685
TOTAL NET POSITION	3,122,008	1,635,469	4,757,477
TOTAL LIABILITIES AND NET POSITION	\$ 3,465,482	\$ 1,670,860	\$ 5,136,342

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Program		Net (Expense) Revenue and		Changes in Net Position		Total
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government	\$ 371,618	\$ 23	\$ -	\$ 8,350	\$ (363,245)	\$ -	\$ (363,245)
Public Safety	175,073	305	-	-	(174,768)	-	(174,768)
Public Works	222,544	41,594	8,051	-	(172,899)	-	(172,899)
Health and Welfare	154,459	125,788	-	-	(28,671)	-	(28,671)
Culture and Recreation	100,514	6,195	-	-	(94,319)	-	(94,319)
Conservation and Development	18,807	-	-	-	(18,807)	-	(18,807)
Interest on Long-Term Debt	19,173	-	-	-	(19,173)	-	(19,173)
Total Governmental Activities	1,062,188	173,905	8,051	8,350	(871,882)	-	(871,882)
Business-Type Activities:							
Liquor	397,937	462,967	-	-	-	65,030	65,030
Water	134,639	124,601	-	-	-	(10,038)	(10,038)
Electric	318,508	667,797	-	-	-	349,289	349,289
Wastewater	17,570	31,332	-	-	-	13,762	13,762
Telephone	221,542	509,408	-	-	-	287,866	287,866
Rubble Site	64,455	59,799	-	-	-	(4,656)	(4,656)
Total Business-Type Activities	1,154,651	1,855,904	-	-	-	701,253	701,253
Total Primary Government	\$ 2,216,839	\$ 2,029,809	\$ 8,051	\$ 8,350	(871,882)	701,253	(170,629)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Sales Taxes					257,818	-	257,818
Gross Receipt Taxes					601	-	601
State Shared Revenues					3,148	-	3,148
Grants and Contributions not Restricted to Specific Programs					5,390	-	5,390
Unrestricted Investment Earnings					1,149	912	2,061
Miscellaneous Revenue					58,086	357	58,443
Transfers					557,200	(557,200)	-
Total General Revenues and Transfers					883,392	(555,931)	327,461
Change in Net Position					11,510	145,322	156,832
Net Position - December 31, 2012					3,110,498	1,490,147	4,600,645
Net Position - December 31, 2013					\$ 3,122,008	\$ 1,635,469	\$ 4,757,477

The accompanying notes are an integral part of this statement.

CITY OF FAITH

BALANCE SHEET

GOVERNMENTAL FUND - MODIFIED CASH BASIS

DECEMBER 31, 2013

	<u>General Fund</u>
ASSETS:	
101 Cash and Investments	\$ 5,943
115 Other Current Assets	71,861
TOTAL ASSETS	\$ 77,804
LIABILITIES AND FUND BALANCE:	
Liabilities:	
216 Other Current Liabilities	3,817
Total Liabilities	3,817
Fund Balance:	
263.01 Nonspendable - Inventory	70,749
265 Committed - Capital Replacement	3,238
Total Fund Balance	73,987
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 77,804

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2013**

Total Fund Balances - Governmental Funds	\$	73,987
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		3,387,678
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.		(339,657)
Total Net Position - Governmental Activities	\$	3,122,008

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	<u>General Fund</u>
Revenue:	
<i>Taxes:</i>	
313 Sales Taxes	\$ 257,818
314 Gross Receipts Business Taxes	481
315 Amusement Taxes	120
320 Licenses and Permits	3,276
<i>Intergovernmental Revenue:</i>	
331 Federal Grant	8,051
334 State Grant	8,350
335.02 Motor Vehicle Commercial ProRate	1,856
335.03 Liquor Tax Reversion	3,148
335.04 Motor Vehicle Licenses (5%)	10,082
335.08 Local Government Highway and Bridge Fund	10,922
338.01 County Road Tax	509
338.99 Other	3,998
<i>Charges for Goods and Services:</i>	
341 General Government	23
342 Public Safety	305
343 Highways and Streets	131
346 Culture and Recreation	6,195
347 Ambulance	125,788
348 Cemetery	1,870
349 Other	12,948
<i>Miscellaneous Revenue:</i>	
361 Investment Earnings	1,149
362 Rentals	38,226
367 Contributions and Donations From Private Sources	5,390
369 Other	15,862
Total Revenue	516,498

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

		<u>General Fund</u>
Expenditures:		
<i>General Government:</i>		
411	Legislative	3,805
412	Executive	20,078
413	Elections	1,101
414	Financial Administration	170,639
419	Other	150,960
<i>Public Safety:</i>		
421	Police	111,465
422	Fire	34,642
<i>Public Works:</i>		
431	Highway and Streets	116,604
435	Airport	38,582
437	Cemeteries	4,814
<i>Health and Welfare:</i>		
441	Health	863
446	Ambulance	132,152
<i>Culture and Recreation:</i>		
451	Recreation	3,120
452	Parks	19,264
454	Swimming Pool	39,569
455	Library	26,741
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	12,383
465.3	Promoting the City	3,924
466	Economic Opportunity	2,500
470	Debt Service	106,440
485	Capital Outlay	77,849
Total Expenditures		1,077,495
Other Financing Sources:		
391.01	Transfers In	557,200
391.04	Compensation for Loss or Damage To Capital Assets	12,800
Total Other Financing Sources		570,000
Net Change in Fund Balance		9,003
Fund Balance, December 31, 2012		64,984
Fund Balance, December 31, 2013		\$ 73,987

The accompanying notes are an integral part of this statement.

CITY OF FAITH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS FOR THE YEAR ENDED DECEMBER 31, 2013

Net Change in Fund Balance - Government Funds \$ 9,003

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

Government funds report capital outlays as expenditures. However, in the Statement of Activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Asset Purchases Capitalized	77,849
Depreciation Expense	(162,609)
	<hr/>
	(84,760)

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

87,267

<hr/> Change in Net Position - Governmental Activities	\$ 11,510
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The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2013**

	Liquor Fund	Water Fund	Electric Fund
ASSETS:			
Current Assets:			
101 Cash and Cash Equivalents	\$ 162,310	\$ 92,013	\$ 220,415
115 Accounts Receivable	579	-	-
142 Inventory of Supplies Purchased for Resale	23,990	-	-
Total Current Assets	186,879	92,013	220,415
Noncurrent Assets:			
151 Joint Venture Investment (Note 8)	-	-	-
Capital Assets:			
160 Land	-	375	-
162 Buildings	-	146,000	-
164 Improvements Other Than Buildings	-	61,226	49,700
166 Machinery and Equipment	25,140	76,168	82,631
Less: Accumulated Depreciation	(17,672)	(226,908)	(69,082)
Total Noncurrent Assets	7,468	56,861	63,249
TOTAL ASSETS	\$ 194,347	\$ 148,874	\$ 283,664
LIABILITIES:			
Current Liabilities:			
216 Other Current Liabilities	\$ 1,599	\$ 105	\$ 2,777
220 Customer Deposits	-	8,123	8,613
Total Current Liabilities	1,599	8,228	11,390
NET POSITION:			
253.1 Invested in Capital Assets	7,468	56,861	63,249
253.9 Unrestricted Net Position	185,280	83,785	209,025
Total Net Position	192,748	140,646	272,274
TOTAL LIABILITIES AND NET POSITION	\$ 194,347	\$ 148,874	\$ 283,664

The accompanying notes are an integral part of this statement.

Wastewater Fund	Telephone Fund	Rubble Site Fund	Totals
\$ 233,837	\$ 373,549	\$ 43,338	\$ 1,125,462
-	-	-	579
-	-	-	23,990
233,837	373,549	43,338	1,150,031
-	62,058	-	62,058
1,318	-	2,980	4,673
-	-	-	146,000
31,100	239,817	-	381,843
6,700	118,606	7,071	316,316
(31,158)	(39,149)	(6,092)	(390,061)
7,960	381,332	3,959	520,829
\$ 241,797	\$ 754,881	\$ 47,297	\$ 1,670,860

\$ -	\$ 1,234	\$ 260	\$ 5,975
-	12,680	-	29,416
-	13,914	260	35,391

7,960	319,274	3,959	458,771
233,837	421,693	43,078	1,176,698
241,797	740,967	47,037	1,635,469
\$ 241,797	\$ 754,881	\$ 47,297	\$ 1,670,860

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Liquor Fund	Water Fund	Electric Fund
Operating Revenue:			
380 Charges for Goods and Services	\$ 438,679	\$ 124,601	\$ 667,797
380.5 Lottery Sales	24,288	-	-
Total Operating Revenue	462,967	124,601	667,797
Operating Expenses:			
410 Personal Services	58,707	11,089	33,885
420 Other Current Expense	23,042	37,120	17,333
426.2 Materials (Cost of Goods Sold)	313,360	79,309	263,484
457 Depreciation	2,828	7,121	3,806
Total Operating Expenses	397,937	134,639	318,508
Operating Income (Loss)	65,030	(10,038)	349,289
Nonoperating Revenue:			
361 Investment Earnings	37	115	446
Income (Loss) Before Transfers	65,067	(9,923)	349,735
391 Compensation for Loss or Damage to Capital Assets	-	-	357
511 Transfers Out	(24,325)	(115)	(266,946)
	40,742	(10,038)	83,146
Change in Net Position	40,742	(10,038)	83,146
Net Position - December 31, 2012	152,006	150,684	189,128
NET POSITION - DECEMBER 31, 2013	\$ 192,748	\$ 140,646	\$ 272,274

The accompanying notes are an integral part of this statement.

Wastewater Fund	Telephone Fund	Rubble Site Fund	Totals
\$ 31,332	\$ 509,408	\$ 59,799	\$ 1,831,616
-	-	-	24,288
31,332	509,408	59,799	1,855,904
973	29,199	6,123	139,976
16,435	180,527	58,136	332,593
-	-	-	656,153
162	11,816	196	25,929
17,570	221,542	64,455	1,154,651
13,762	287,866	(4,656)	701,253
242	64	8	912
14,004	287,930	(4,648)	702,165
-	-	-	357
(242)	(265,564)	(8)	(557,200)
13,762	22,366	(4,656)	145,322
13,762	22,366	(4,656)	145,322
228,035	718,601	51,693	1,490,147
\$ 241,797	\$ 740,967	\$ 47,037	\$ 1,635,469

CITY OF FAITH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Liquor Fund	Water Fund	Electric Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 462,967	\$ 124,836	\$ 668,032
Payments to Suppliers	(339,504)	(116,429)	(280,817)
Payments to Employees	(58,623)	(11,008)	(33,635)
Net Cash Flows Provided by (Used In) Operating Activities	64,840	(2,601)	353,580
Cash Flows From Noncapital Financing Activities:			
Transfers to Other Funds	(24,325)	(115)	(266,946)
Net Cash Used in Noncapital Financing Activities:	(24,325)	(115)	(266,946)
Cash Flows From Capital and Related Financing Activities:			
Purchases of Capital Assets	-	-	(38,950)
Compensation for Loss or Damage to Capital Assets	-	-	357
Net Cash Used In Capital and Related Financing Activities	-	-	(38,593)
Cash Flows From Investing Activities:			
Interest Earnings	37	115	446
Net Cash Provided by Investing Activities	37	115	446
Net Increase (Decrease) in Cash and Investments	40,552	(2,601)	48,487
Cash and Investments, December 31, 2012	121,758	94,614	171,928
Cash and Investments, December 31, 2013	162,310	92,013	220,415
Cash Flows From Operating Activities:			
Operating Income (Loss)	\$ 65,030	\$ (10,038)	\$ 349,289
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities:			
Depreciation Expense	2,828	7,121	3,806
Change in Assets and Liabilities:			
Inventories	(3,102)	-	-
Customer Deposits	-	235	235
Other Current Liabilities	84	81	250
Net Cash Flows Provided by (Used In) Operating Activities	\$ 64,840	\$ (2,601)	\$ 353,580

The accompanying notes are an integral part of this statement.

Wastewater Fund	Telephone Fund	Rubble Site Fund	Totals
\$ 31,332	\$ 508,983	\$ 59,799	\$ 1,855,949
(16,435)	(180,527)	(58,136)	(991,848)
(973)	(29,301)	(6,137)	(139,677)
13,924	299,155	(4,474)	724,424
(242)	(265,564)	(8)	(557,200)
(242)	(265,564)	(8)	(557,200)
-	(66,264)	-	(105,214)
-	-	-	357
-	(66,264)	-	(104,857)
242	64	8	912
242	64	8	912
13,924	(32,609)	(4,474)	63,279
219,913	406,158	47,812	1,062,183
233,837	373,549	43,338	1,125,462
\$ 13,762	\$ 287,866	\$ (4,656)	\$ 701,253
162	11,816	196	25,929
-	-	-	(3,102)
-	(425)	-	45
-	(102)	(14)	299
\$ 13,924	\$ 299,155	\$ (4,474)	\$ 724,424

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

(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). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Reporting Entity

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into 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 City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten 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 five 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.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements: (Continued)

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

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary Funds include:

Liquor Fund – financed primarily by the sale of liquor; this fund accounts for construction and operation of the City liquor store. This is a major fund.

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

Electric Fund – financed primarily by user charges; this fund accounts for the construction and operation of the City electricity system and related facilities. This is a major fund.

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

Telephone Fund – financed primarily by user charges; this fund accounts for the construction and operation of the City telephone system and related facilities. This is a major fund.

Rubble Site Fund – financed primarily by user charges; this fund accounts for the construction and operation of the City rubble site and collection and disposal of solid waste. This is a major fund.

c. Measurement Focus and Basis of Accounting

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

All financial statements are presented using the 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 cash basis of accounting, the statement of financial position reports only cash and cash equivalents. 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 City in these financial statements are:

1. Recording of capital assets arising from cash transactions and depreciating those assets where appropriate.
2. Recording of long-term debt arising from cash transactions.
3. Recording both capital assets and related long-term debt used to finance the capital asset acquisition.
4. Recording inventory resulting from payment of cash to vendors.
5. Recording of investments arising from cash transactions.
6. Recording of customer's deposits arising from cash transactions.
7. Recording checks returned as non-sufficient funds as accounts receivable.

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

If the City applied GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and fund financial statements for proprietary fund types would use the accrual basis of accounting.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Transfers

The City transfers unrestricted revenues collected in the enterprise funds to the General Fund and other enterprise funds to balance the budgets in those funds.

e. Capital Assets

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

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash.

Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

All capital assets are valued at cost or estimated historical cost, if actual historical cost is not available.

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

Under the modified cash basis, depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities – Modified Cash Basis, with accumulated depreciation reflected in the Statement of Net Position – Modified Cash Basis. Depreciation has been provided over the estimated useful lives using the straight-line method.

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A-----	----N/A-----
Construction Work in Progress	\$ -0-	----N/A-----	----N/A-----
Buildings	\$ 3,000	Straight-line	10-100 yrs.
Improvements Other Than Buildings	\$ 3,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$ 3,000	Straight-line	5-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

f. Long-Term Liabilities

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

All long-term liabilities, arising from cash transactions, to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements. The long-term liability consists of a capital acquisition lease.

Long-term liabilities 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 debt of the proprietary fund 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 City's providing a good or service to a customer, resulting in unearned revenue. There was no unearned revenue at December 31, 2013.

h. Program Revenues

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

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

i. Proprietary Funds Revenue and Expense Classification

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

j. Inventory

Inventory in the enterprise liquor fund, acquired for resale, is valued at the lower of cost or market on the weighted average cost basis. Inventory in the general fund for chip inventory is valued at the lower of cost or market on the weighted average cost basis.

k. Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all unrestricted and restricted demand and savings accounts and certificates of deposit with a term to maturity at date of acquisition of three months or less.

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

l. Equity Classifications

Government-wide Financial Statements:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Concluded)

I. Equity Classifications (Continued)

Fund Financial Statements (Continued):

2. 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.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Council and does not lapse at year-end.
4. Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.
5. 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.

Proprietary fund equity is classified the same as in the government-wide financial statements.

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

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

(2) Deposits and Investments

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

Deposits – The 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.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(2) Deposits and Investments (Continued)

Investments – In general, SDCL 4-5-6 permits Municipality 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, 2013, the City's cash and investments consisted of checking and savings accounts, and certificates of deposit. All of these accounts are insured or collateralized in the City's name.

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the General Fund. GAAP, on the other hand, requires income from deposits and investments to be reported in the fund whose assets generated that income except where legal or contractual requirements require investment income to be credited to a fund other than the one associated with the assets. Where the governing board has discretion to credit investment income to a fund other than the fund that provided the resources for investment, a transfer to the designated fund is reported. Accordingly, in the fund financial statements, interfund transfers of investment earnings are reported, while in the government-wide financial statements, they have been eliminated, except for the net amounts transferred between governmental activities and business-type activities.

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

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

Custodial Credit Risk: This is the risk that in the event of a deposit failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2013, none of the City's deposits were exposed to custodial credit risk.

Concentration of Credit Risk: The City's places no limits on the amount that may be invested in any one issuer.

(3) Property Taxes

The City does not levy property taxes.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2013, is as follows:

	Balance 12/31/2012	Additions	Transfers/ Deletions	Balance 12/31/2013
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress*	43,876	23,185	-	67,061
Total Capital Assets, not being Depreciated	109,909	23,185	-	133,094
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	1,274,240	-	-	1,274,240
Machinery and Equipment	555,776	54,664	21,216	589,224
Total Capital Assets Being Depreciated	4,805,347	54,664	21,216	4,838,795
Less Accumulated Depreciation for:				
Buildings	583,960	58,648	-	642,608
Improvements Other Than Buildings	528,838	68,853	-	597,691
Machinery and Equipment	330,020	35,108	21,216	343,912
Total Accumulated Depreciation	1,442,818	162,609	21,216	1,584,211
Total Governmental Activities Capital Assets, being Depreciated, Net				
	3,362,529	(107,945)	-	3,254,584
Total Governmental Capital Assets, Net				
	\$ 3,472,438	\$ (84,760)	\$ -	\$ 3,387,678

* Construction in Progress at December 31, 2013 is composed of engineering costs for a land acquisition, wild land fence, and runway safety area grading project for the Faith Airport, which upon completion will total approximately \$83,900. The City was granted a \$60,388 federal grant for this project, to be received in 2014. Expenditures in excess of the Federal grant will be paid with the General Fund's balance.

Depreciation expense for governmental activities was charged to functions as follows:

Public Works	\$ 62,544
General Government	37,835
Public Safety	28,966
Culture and Recreation	21,444
Health and Welfare	11,820
Total Depreciation Expense - Governmental	\$ 162,609

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(4) Changes in Capital Assets (Continued)

A summary of changes in business-type activities capital assets for the year ended December 31, 2013 is as follows:

	Balance 12/31/2012	Additions	Transfers/ Deletions	Balance 12/31/2013
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 4,673	\$ -	\$ -	\$ 4,673
Total Capital Assets, not being Depreciated	4,673	-	-	4,673
Capital Assets, being Depreciated:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	381,843	-	-	381,843
Machinery and Equipment	211,102	105,214	-	316,316
Total Capital Assets Being Depreciated	738,945	105,214	-	844,159
Less Accumulated Depreciation for:				
Buildings	128,300	4,424	-	132,724
Improvements Other Than Buildings	91,482	9,648	-	101,130
Machinery and Equipment	144,350	11,857	-	156,207
Total Accumulated Depreciation	364,132	25,929	-	390,061
Total Business-Type Activities Capital Assets, being Depreciated, Net	374,813	79,285	-	454,098
Total Business-Type Capital Assets, Net	\$ 379,486	\$ 79,285	\$ -	\$ 458,771

Depreciation expense for business-type activities was charged to functions as follows:

<i>Business-Type Activities:</i>	
Telephone	\$ 11,816
Water	7,121
Electric	3,806
Liquor	2,828
Rubble Site	196
Wastewater	162
Total Depreciation Expense - Business-Type	\$ 25,929

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2013, is as follows:

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Leases	\$ 426,924	\$ -	\$ 87,267	\$ 339,657	\$ 91,443
Total Governmental Activities	426,924	-	87,267	339,657	91,443
Total Primary Government	\$ 426,924	\$ -	\$ 87,267	\$ 339,657	\$ 91,443

The principal amount, above, was included in the appropriate classification of capital assets, and is being depreciated over the estimated useful-life of the asset. The asset as of December 31, 2013 is \$1,666,791 with \$333,359 in accumulated depreciation for a net book value of \$1,333,432.

Debt payable at December 31, 2013, is comprised of the following:

Capital Acquisition Lease

Capital Lease for recreation center that bears interest at 4.73 percent with semi-annual payments of \$53,220, matures January 2017 at which time the full balance is due. Financed through the General Fund.

\$ 339,657

The annual requirements to amortize long-term debt outstanding as of December 31, 2013, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2014	\$ 14,997	\$ 91,443
2015	10,621	95,819
2016	6,035	100,405
2017	1,229	51,990
Total	\$ 32,882	\$ 339,657

Interest cost paid and charged to interest expense in the current period totaled **\$19,173**.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(6) Operating Leases

During the year ended December 31, 2003, the City began subleasing a portion of the community center to the Faith School District. This is a fifteen year operating lease that requires annual lease payments of \$36,167. Sublease rental income was \$36,167 for the year ended December 31, 2013. Future rental revenues expected under this lease are as follows as of December 31, 2013:

2014	\$	36,167
2015		36,167
2016		36,167
2017		36,167
2018		18,083

The City has a lease agreement with Golden West Telecommunications for host and remote switching services, through 2015. The lease requires minimum monthly charges of \$1,475, plus variable fees based on service levels. Lease payments were \$20,854 for the year ended December 31, 2013. Future minimum lease payments are as follows as of December 31, 2013:

2014	\$	17,700
2015		17,700

(7) Retirement Plan – South Dakota Retirement System

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were **\$21,791**, \$21,463, and \$20,522, respectively, equal to the required contributions each year.

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(8) Joint Ventures

The City participates in the South Dakota Network, Inc. (the Network), a network formed for the purpose of receiving and delivering phone traffic for its members. For the year ended December 31, 2013, the City's interest in the voting and non-voting common stock is **\$62,058**, which is recorded as an investment (using the cost method) within the telephone fund. The stock will be maintained by the City as long as it participates in the Network.

Ownership in the Network consists of 40 entities, none of which have significant ownership percentages. The City has less than two percent ownership. Separate financial statements for this joint venture are available from South Dakota Network, Inc., Sioux Falls, South Dakota.

At December 31, 2013, this joint venture had total equity of \$64,124,135 (unaudited), total liabilities of \$31,659,532 (unaudited), and total assets of \$95,783,667 (unaudited).

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2013, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City purchases property and liability insurance for risks related to torts; theft 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 City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to the Fund to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The Fund pays the first \$650,000 of any claim per individual. The Fund has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The City has elected to be a noncontributing member of the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. As a result, the City retains all risks for liabilities resulting from claims for unemployment benefits. Claims filed and paid for unemployment benefits were **\$-0-** during the year ended December 31, 2013. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2013**

(10) Emerging Accounting Standards

In June 2012, GASB issued Statement Nos. 67 and 68. Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68, *Accounting and Reporting for Pensions*, replace the requirements of Statement No. 50, *Pension Disclosures* and will require additional note disclosures for the City's cost-sharing multiple employer, defined benefit pension plan. These statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial statements. The standards describe the change from the funding-based approach to an accounting-based approach in order to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

The City will recognize its share of a collective net position liability, as well as pension expense and deferred outflows or inflows of resources for its proportionate share. Within the governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the City to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Note disclosures will include descriptive information about the plan and its terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

The guidance related to the new standards is effective for the City's year ending December 31, 2014 for GASB 67 and December 31, 2015 for GASB 68. The City will be evaluating the impact the standards will have on the financial statements.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:				
<i>Taxes:</i>				
313	\$ 201,000	\$ 201,000	\$ 257,818	\$ 56,818
314	600	600	481	(119)
315	100	100	120	20
320	2,100	2,100	3,276	1,176
<i>Intergovernmental Revenue:</i>				
331	-	-	8,051	8,051
334	-	-	8,350	8,350
335	1,000	1,000	-	(1,000)
335.02	-	-	1,856	1,856
335.03	2,800	2,800	3,148	348
335.04	7,500	7,500	10,082	2,582
335.08	7,000	7,000	10,922	3,922
338.01	500	500	509	9
338.99	3,200	3,200	3,998	798
<i>Charges for Goods and Services:</i>				
341	200	200	23	(177)
342	2,100	2,100	305	(1,795)
343	-	-	131	131
346	3,700	3,700	6,195	2,495
347	115,000	115,000	125,788	10,788
348	-	-	1,870	1,870
349	64,250	64,250	12,948	(51,302)
<i>Miscellaneous Revenue:</i>				
361	3,000	3,000	1,149	(1,851)
362	38,667	38,667	38,226	(441)
367	5,000	5,000	5,390	390
369	10,000	10,000	15,862	5,862
Total Revenue	467,717	467,717	516,498	48,781

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411	3,000	3,825	3,805	20
411.5	25,000	25,000		
	Amount Transferred	-	(7,701)	17,299
412	23,445	23,445	20,078	3,367
413	770	1,270	1,101	169
414	172,808	178,533	170,639	7,894
419	154,189	182,919	179,145	3,774
<i>Public Safety:</i>				
421	115,533	121,333	111,465	9,868
422	25,000	25,000	34,642	(9,642)
<i>Public Works:</i>				
431	175,040	175,040	161,604	13,436
435	84,336	84,336	38,582	45,754
437	6,000	6,000	4,814	1,186
<i>Health and Welfare:</i>				
441	2,000	2,000	863	1,137
446	159,237	159,237	132,152	27,085
<i>Culture and Recreation:</i>				
451	8,153	8,153	3,120	5,033
452	20,843	23,043	19,264	3,779
454	25,225	46,225	44,233	1,992
455	25,000	26,171	26,741	(570)
<i>Conservation and Development:</i>				
465	19,000	19,000	12,383	6,617
465.3	10,775	10,775	3,924	6,851
466	2,500	2,500	2,500	-
470	106,440	106,440	106,440	-
Total Expenditures	1,164,294	1,222,544	1,077,495	145,049
391.1	489,900	548,150	557,200	9,050
391.4	-	-	12,800	12,800
Total Other Financing Sources	489,900	548,150	570,000	21,850
Net Change in Fund Balance	(206,677)	(206,677)	9,003	(74,418)
Fund Balance, December 31, 2012	64,984	64,984	64,984	-
Fund Balance, December 31, 2013	\$ (141,693)	\$ (141,693)	\$ 73,987	\$ (74,418)

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013**

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year, or within ten days thereafter, the governing board 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 disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five 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. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2013.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.

(2) GAAP Budgetary Accounting Basis Differences

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

OTHER REPORTS



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

City Council
City of Faith
Faith, 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, the business-type activities, and each major fund of the **CITY OF FAITH** (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 16, 2014. Our report was modified for the physical chip inventory at December 31, 2012.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 Auditor's Comments and Closing Conference, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as 2013-001 and 2013-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Auditor's Comments and Closing Conference as 2013-003 to be a significant deficiency.

In addition, we have another comment and suggestion for your consideration that is described in the accompanying Auditor's Comments and Closing Conference as 2013-004. This matter is offered as a constructive suggestion for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Auditor's Comments and Closing Conference as 2013-003.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City'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.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 16, 2014

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2013**

A. Status of Prior Audit Findings and Recommendations

<u>Prior Year</u>	<u>Description</u>	<u>Current Year</u>
2012-1	Financial Statement Preparation	Substantially Repeated as 2013-001
2012-2	Segregation of Duties	Substantially Repeated as 2013-002
2012-3	Approval of Disbursements	Resolved and Not Repeated

CITY OF FAITH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2013

B. Current Year Audit Findings and Recommendations

MATERIAL WEAKNESSES

2013-001 FINDING: Financial Statement Preparation and Year End Adjustments

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During this process, we proposed a material audit adjustment to record construction in progress and reclassify an expense between funds. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do with municipalities of your size.

Criteria and Effect: Adjustments noted above would not have been identified as a result of the City's existing internal controls. These deficiencies could result in material misstatements to the financial statements that would not have been prevented or detected by the City's management.

Recommendation: We recommend management review expense accounts to ensure transactions are recorded within the appropriate fund and construction in progress is recorded. As in prior years, we have instructed management to review a draft of the auditor prepared financial statements in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The City will review expenses for proper fund recording and for construction transactions. The City evaluates its risk associated with this condition on an annual basis. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

2013-002 FINDING: Segregation of Duties

Condition and Cause: The City has a general lack of segregation of duties in the finance office, more specifically:

- a. All finance personnel have access to the general ledger, open mail, receive unopened bank statements, and mail the signed checks.
- b. The Finance Officer and Deputy Finance Officer receive customer payments, have access to write-off and adjust customer accounts, and the customer adjustments or write-off reports are not reviewed. In addition, the Finance Officer prepares the revenue portion of the financial statements given to the City Council for review. The Finance Officer is preparing a listing of adjustments, but the listing is not currently being reviewed by someone other than herself.
- c. There is lack of controls at the bar. The Bar Manager orders inventory, receives inventory, and performs quarterly spot-check inventory counts. During the current year, the count documentation was reviewed by the Finance Officer for reasonableness and accuracy. Margin analysis on the bar inventory, bar sales and operating agreements was not performed periodically throughout the year.
- d. The bar maintains signed checks (with one signature) on hand for larger lottery payouts. The risk of misappropriation is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

CITY OF FAITH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED) FOR THE YEAR ENDED DECEMBER 31, 2013

B. Current Year Audit Findings and Recommendations (Continued)

MATERIAL WEAKNESSES (Continued)

2013-002 FINDING: Segregation of Duties (Continued)

Criteria and Effect: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Proper segregation of duties and functions assures adequate control over safeguarding of assets and the reliability of financial records and reporting. The effectiveness of the internal control system relies on enforcement by management.

Recommendations:

- a. The overall lack of segregation of duties over the disbursement process is due to the limited number of accounting personnel, which is typical in a city of this size. However, the risk of misappropriation is mitigated by the Mayor reviewing the unopened bank statement.
- b. The listing of account adjustments and write-offs from the accounting software should be reviewed monthly by a City Council Member.
- c. The Finance Officer should continue to review the periodic inventory count paperwork and perform random count checks. Additionally, margin analysis (direct cost of sales as a percentage of sales) should be performed at least monthly by the Finance Officer and reviewed for reasonableness based on gross margin percentages of liquor, malt beverages and operating agreements. The results should be reviewed with a City Council member.
- d. Signed checks should not be maintained on hand, as it creates the potential for misappropriation of cash. As noted above, the risk is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

Response/Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff available. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

SIGNIFICANT DEFICIENCY

2013-003 FINDING: Budgetary Overdrafts

Condition: The City had budgetary overdrafts of \$9,642 in the Public Safety-Fire and \$570 in Culture and Recreation-Library, of the General Fund during the year ended December 31, 2013.

Criteria and Effect: Budgetary overdrafts are a violation of South Dakota Codified Law 9-21-9.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures, and complete transfers to cover each fund's expenses.

Response/Corrective Action Plan: The City makes every effort to supplement the budget when needed and will continue to be more diligent in this process. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2013**

B. Current Year Audit Findings and Recommendations (Concluded)

BUSINESS ADVISORY

2013-004 FINDING: Payroll Processes

Condition and Cause: Through discussions with management we noted a pool manager was issued a 1099 for swimming classes in addition to wages reported on a W-2. During our payroll testing we noted one bartender tested did not have tips reported and payroll taxes deducted for the tips.

Criteria and Effect: All wages and tips for employees should be processed through payroll, and the related payroll taxes calculated and deducted from the earnings, otherwise the City is not in compliance Department of Labor guidance.

Recommendations: All earnings, including tips, should be processed through payroll with the related payroll taxes deducted.

Response/Corrective Action Plan: All payments to employees and bartenders' tips will be processed through payroll. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.