



CITY OF FAITH

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



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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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.

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, 2015, and the respective changes in financial position 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 analysis 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 August 4, 2015 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 27, 2016

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015

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, 2015. 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 decreased in 2015 from 2014 by \$85,020. The main reason for this change is due to a decrease in grant revenue by \$92,864.

The City's business-type activities charges for services decreased by four percent to \$1,743,004. Liquor revenues decreased by \$73,756 due to a change in the operating agreement structure. Electric revenue decreased by \$15,388 due to decreased usage. Telephone revenue decreased by \$23,076 due to a change in switch access fee revenue agreements. This was offset by an increase in water revenue and rubble site revenue by \$6,561 and \$16,551, respectively due to increased usage in both funds.

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, 2015

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.

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, 2015**

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 2 percent between the fiscal year 2014 and 2015 – increasing \$114,124. (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, 2015

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Position - Modified Cash Basis for 2015 and 2014						
	Governmental Activities		Business-Type Activities		Total	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and Other Assets	\$ 67,990	\$ 88,399	\$ 1,630,410	\$ 1,442,383	\$ 1,698,400	\$ 1,530,782
Capital Assets	3,139,781	3,279,466	443,014	447,567	3,582,795	3,727,033
Total Assets	\$ 3,207,771	\$ 3,367,865	\$ 2,073,424	\$ 1,889,950	\$ 5,281,195	\$ 5,257,815
Current Liabilities	\$ 3,429	\$ 3,625	\$ 40,412	\$ 35,141	\$ 43,841	\$ 38,766
Long-Term Debt	152,395	248,214	-	-	152,395	248,214
Total Liabilities	\$ 155,824	\$ 251,839	\$ 40,412	\$ 35,141	\$ 196,236	\$ 286,980
<i>Net Position:</i>						
Net Investment in						
Capital Assets	\$ 2,987,386	\$ 3,031,252	\$ 443,014	\$ 447,567	\$ 3,430,400	\$ 3,478,819
Unrestricted	64,561	84,774	1,589,998	1,407,242	1,654,559	1,492,016
Total Net Position	\$ 3,051,947	\$ 3,116,026	\$ 2,033,012	\$ 1,854,809	\$ 5,084,959	\$ 4,970,835
Beginning Net Position	3,116,026	3,122,008	1,854,809	1,635,469	4,970,835	4,757,477
Increase in Net Position	\$ (64,079)	\$ (5,982)	\$ 178,203	\$ 219,340	\$ 114,124	\$ 213,358
Percentage of Change in Net Position	-2%	0%	10%	13%	2%	4%

Changes in Net Position

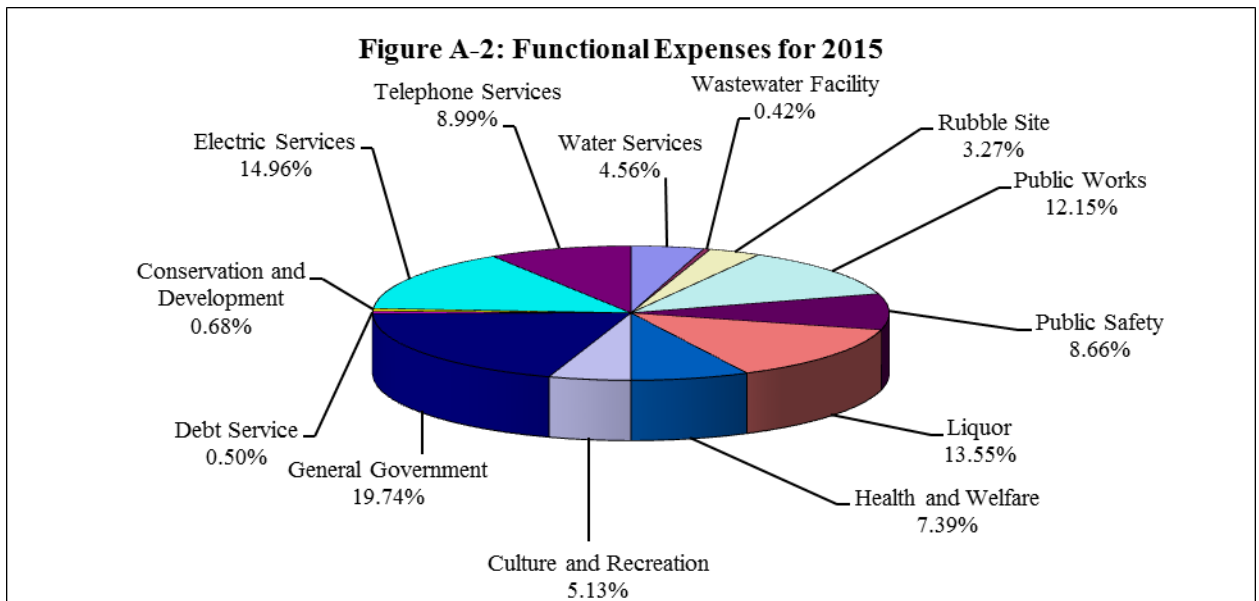
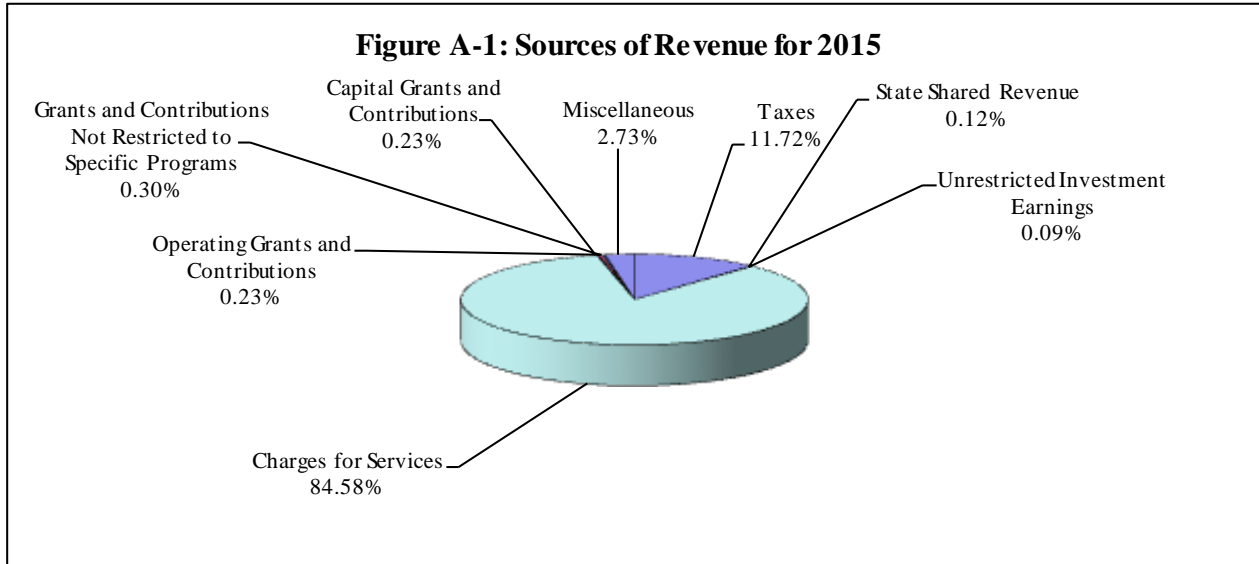
The City's revenues totaled \$2,231,198, and the total cost of all programs and services was \$2,117,074 for the year ended December 31, 2015. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Table A-2).

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015

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, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Concluded)

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>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues						
Program Revenues						
Charges for Services	\$ 144,314	\$ 143,261	\$ 1,743,004	\$ 1,826,759	\$ 1,887,318	\$ 1,970,020
Operating Grants and Contributions	5,185	69,584	-	10,000	5,185	79,584
Capital Grants and Contributions	5,034	33,499	-	-	5,034	33,499
General Revenues						
Taxes	261,473	252,953	-	-	261,473	252,953
Revenue State Sources	2,618	3,381	-	-	2,618	3,381
Grants and Contributions not Program Specific	6,598	4,043	-	-	6,598	4,043
Unrestricted Investment Earnings	1,319	1,076	753	594	2,072	1,670
Miscellaneous	56,906	59,210	3,994	3,592	60,900	62,802
Total Revenues	483,447	567,007	1,747,751	1,840,945	2,231,198	2,407,952
Expenses						
General Government	417,956	484,753	-	-	417,956	484,753
Public Safety	183,266	159,070	-	-	183,266	159,070
Public Works	257,165	223,721	-	-	257,165	223,721
Health and Welfare	156,450	136,509	-	-	156,450	136,509
Culture and Recreation	108,656	92,097	-	-	108,656	92,097
Conservation and Development	14,319	10,761	-	-	14,319	10,761
Debt Service	10,621	14,997	-	-	10,621	14,997
Liquor	-	-	286,786	383,512	286,786	383,512
Water	-	-	96,563	87,814	96,563	87,814
Electric	-	-	316,749	325,805	316,749	325,805
Wastewater	-	-	8,862	14,353	8,862	14,353
Telephone	-	-	190,417	205,525	190,417	205,525
Rubble Site	-	-	69,264	55,677	69,264	55,677
Total Expenses	1,148,433	1,121,908	968,641	1,072,686	2,117,074	2,194,594
Excess (Deficiency) Before Transfers	(664,986)	(554,901)	779,110	768,259	114,124	213,358
Transfers	600,907	548,919	(600,907)	(548,919)	-	-
Increase (Decrease) in Net Position	\$ (64,079)	\$ (5,982)	\$ 178,203	\$ 219,340	\$ 114,124	\$ 213,358
Ending Net Position	\$ 3,051,947	\$ 3,116,026	\$ 2,033,012	\$ 1,854,809	\$ 5,084,959	\$ 4,970,835

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

The City experienced an increase in expenses in 2015. General Government had a decrease of approximately \$66,797 due to \$44,640 of engineer fees for a multi-purpose room that didn't occur in 2014; painting the ice house in 2014 for \$10,770; and the City skipped maintenance of the gym floor in 2015 which was \$4,150 in 2014. Public Safety increased by \$24,196 due to donating \$10,000 to the fire department again in 2015, which the City did not donate in 2014. The City also had more auto repairs in 2015. Public Works expenditures increased approximately \$33,444 due to chip sealing project in 2015, but not 2014. Health and Welfare increased approximately \$19,941 due to 24 more ambulance runs and some overtime for the Ambulance Director as well as not having enough volunteers to help, therefore more expenditures for salaries and supplies. Culture and Recreation increased by \$16,559 due to purchasing a new bathroom at the Lake for \$9,960 and repairing the horseshoe pits at the Park in the amount of \$3,890 in supplies, and also creating more salaries. Conservation and Development increased \$3,558 due to more salaries at the Exhibit Building and a laptop and software was purchased for the Exhibit Building.

Business-Type Activities

Liquor expenses decreased approximately \$96,726, mainly in cost of goods sold, as the City changed the way bills were paid to the liquor vendors. Liquor License holders started paying their own bills to the liquor vendors at the beginning of 2015. The City only charged vendors the operating agreement fee rather than paying for the inventory purchases and charging the vendor for the inventory in addition to the operating agreement fee. Water expenses increased by \$8,749 which is mainly due to a repair to our frost cap on the water tower and a small increase in usage. Electric expenses decreased due to increase in salaries by \$6,000 because of new connection and some repairs in lines. Wastewater expenses decreased by \$5,491 due to a sewer study done in 2014, but not in 2015. Telephone expenses decreased approximately \$15,108 due mainly due to paying less for a circuit that was no longer needed through Golden West who the City leases our switch from. Rubble site expenses increased by approximately \$13,587 due to garbage hauling contract increasing by \$1,300 per month starting in March 2015.

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

Highway and Streets expenses exceeded the budgeted amount by approximately \$5,000 due to use of inventory on hand.

Charges for goods and services for Ambulance were below the budgeted amount by approximately \$140,000 due to budgeting \$80,000 for an ambulance and not purchasing one and \$48,000 less in salaries than budgeted as the Council was planning on hiring a full time EMT or paramedic.

Additionally, the City did not incur the amount of expenses with the Airport project that was initially planned, resulting in a positive budgetary variance of approximately \$81,000.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2015**

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the City had invested \$3,582,795 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	
	2015	2014	2015	2014
Land	\$ 66,033	\$ 66,033	\$ 4,673	\$ 4,673
Construction Work in Progress	90,752	90,752	-	-
Buildings	2,215,427	2,274,075	4,428	8,852
Improvements Other Than Buildings	551,897	611,261	267,754	271,065
Machinery and Equipment	215,672	237,345	166,159	162,977
Total Capital Assets	\$ 3,139,781	\$ 3,279,466	\$ 443,014	\$ 447,567

LONG-TERM DEBT

As of December 31, 2015, the City had \$152,395 in long-term debt (See Table A-4 below):

	Governmental Activities	
	2015	2014
Capital Acquisition Lease	\$ 152,395	\$ 248,214
Total Outstanding Debt and Obligations	\$ 152,395	\$ 248,214

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The City expects business-type activities for 2016 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, 2015**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments	\$ 49,371	\$ 1,545,208	\$ 1,594,579
Other Current Assets	18,619	23,144	41,763
Joint Venture Investment	-	62,058	62,058
Capital Assets:			
Land and Construction Work in Progress	156,785	4,673	161,458
Other Capital Assets, Net of Depreciation	2,982,996	438,341	3,421,337
TOTAL ASSETS	\$ 3,207,771	\$ 2,073,424	\$ 5,281,195
LIABILITIES:			
Other Current Liabilities	\$ 3,429	\$ 40,412	\$ 43,841
Non-Current Liability - Capital Lease Obligation:			
Due Within One Year	100,405	-	100,405
Due in More Than One Year	51,990	-	51,990
TOTAL LIABILITIES	155,824	40,412	196,236
NET POSITION:			
Net Investment in Capital Assets	2,987,386	443,014	3,430,400
Unrestricted	64,561	1,589,998	1,654,559
TOTAL NET POSITION	3,051,947	2,033,012	5,084,959
TOTAL LIABILITIES AND NET POSITION	\$ 3,207,771	\$ 2,073,424	\$ 5,281,195

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, 2015**

	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government	\$ 417,956	\$ 34	\$ -	\$ -	\$ (417,922)	\$ -	\$ (417,922)
Public Safety	183,266	605	-	3,500	(179,161)	-	(179,161)
Public Works	257,165	39,490	5,034	1,685	(210,956)	-	(210,956)
Health and Welfare	156,450	93,132	-	-	(63,318)	-	(63,318)
Culture and Recreation	108,656	7,203	-	-	(101,453)	-	(101,453)
Conservation and Development	14,319	3,850	-	-	(10,469)	-	(10,469)
Interest on Long-Term Debt	10,621	-	-	-	(10,621)	-	(10,621)
Total Governmental Activities	1,148,433	144,314	5,034	5,185	(993,900)	-	(993,900)
Business-Type Activities:							
Liquor	286,786	375,753	-	-	-	88,967	88,967
Water	96,563	118,195	-	-	-	21,632	21,632
Electric	316,749	669,792	-	-	-	353,043	353,043
Wastewater	8,862	38,193	-	-	-	29,331	29,331
Telephone	190,417	465,708	-	-	-	275,291	275,291
Rubble Site	69,264	75,363	-	-	-	6,099	6,099
Total Business-Type Activities	968,641	1,743,004	-	-	-	774,363	774,363
Total Primary Government	\$ 2,117,074	\$ 1,887,318	\$ 5,034	\$ 5,185	(993,900)	774,363	(219,537)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Sales Taxes					236,115	-	236,115
Gross Receipt Taxes					25,358	-	25,358
State Shared Revenues					2,618	-	2,618
Grants and Contributions not Restricted to Specific Programs					6,598	-	6,598
Unrestricted Investment Earnings					1,319	753	2,072
Miscellaneous Revenue					56,906	3,994	60,900
Transfers					600,907	(600,907)	-
Total General Revenues and Transfers					929,821	(596,160)	333,661
Change in Net Position					(64,079)	178,203	114,124
Net Position - December 31, 2014					3,116,026	1,854,809	4,970,835
Net Position - December 31, 2015					\$ 3,051,947	\$ 2,033,012	\$ 5,084,959

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2015**

	<u>General Fund</u>
ASSETS:	
101 Cash and Investments	\$ 49,371
115 Other Current Assets	18,619
TOTAL ASSETS	\$ 67,990
LIABILITIES AND FUND BALANCE:	
Liabilities:	
216 Other Current Liabilities	\$ 3,429
Total Liabilities	3,429
Fund Balance:	
263.01 Nonspendable - Inventory	17,375
265 Committed - Capital Replacement	47,186
Total Fund Balance	64,561
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 67,990

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, 2015**

Total Fund Balances - Governmental Funds	\$ 64,561
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.	3,139,781
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.	(152,395)
Total Net Position - Governmental Activities	\$ 3,051,947

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

		General Fund
Revenue:		
<i>Taxes:</i>		
313	Sales Taxes	\$ 236,115
314	Gross Receipts Business Taxes	25,274
315	Amusement Taxes	84
320	Licenses and Permits	2,170
<i>Intergovernmental Revenue:</i>		
331	Federal Grant	4,434
334	State Grant	5,785
335.02	Motor Vehicle Commercial ProRate	701
335.03	Liquor Tax Reversion	2,618
335.04	Motor Vehicle Licenses (5%)	11,712
335.08	Local Government Highway and Bridge Fund	12,618
338.01	County Road Tax (25%)	509
338.99	Other	3,724
<i>Charges for Goods and Services:</i>		
341	General Government	34
342	Public Safety	605
343	Highways and Streets	495
346	Culture and Recreation	7,203
347	Ambulance	93,132
348	Cemetery	520
349	Other - Airport	10,765
349	Other - Economic Development	3,850
<i>Miscellaneous Revenue:</i>		
361	Investment Earnings	1,319
362	Rentals	37,845
367	Contributions and Donations From Private Sources	6,598
369	Other	7,110
Total Revenue		475,220

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

		General Fund
Expenditures:		
<i>General Government:</i>		
411	Legislative	3,385
412	Executive	22,236
413	Elections	54
414	Financial Administration	191,959
419	Other	162,237
<i>Public Safety:</i>		
421	Police	130,232
422	Fire	24,034
<i>Public Works:</i>		
431	Highway and Streets	163,770
432	Sanitation	3,281
435	Airport	19,050
437	Cemeteries	3,947
<i>Health and Welfare:</i>		
441	Health	1,653
446	Ambulance	142,977
<i>Culture and Recreation:</i>		
451	Recreation	2,598
452	Parks	24,084
454	Swimming Pool	36,137
455	Library	26,520
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	5,149
466	Economic Opportunity	1,000
467	Economic Development - Exhibit Area	8,170
470	Debt Service	106,440
485	Capital Outlay	25,654
Total Expenditures		1,104,567
Other Financing Sources:		
391.01	Transfers In	600,907
391.03	Sale of Municipal Property	5,639
391.04	Compensation for Loss or Damage To Capital Assets	2,588
Total Other Financing Sources		609,134
Net Change in Fund Balance		(20,213)
Fund Balance, December 31, 2014		84,774
Fund Balance, December 31, 2015		\$ 64,561

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, 2015

Net Change in Fund Balance - Government Funds \$ (20,213)

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	25,654
Depreciation Expense	(165,339)
	<hr/>
	(139,685)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	95,819
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<hr/> Change in Net Position - Governmental Activities	<hr/> \$ (64,079)
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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, 2015**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
ASSETS:				
Current Assets:				
101 Cash and Cash Equivalents	\$ 253,898	\$ 149,777	\$ 379,281	\$ 291,980
115 Accounts Receivable	621	-	-	-
142 Inventory of Supplies Purchased for Resale	22,523	-	-	-
Total Current Assets	277,042	149,777	379,281	291,980
Noncurrent Assets:				
151 Joint Venture Investment	-	-	-	-
Capital Assets:				
160 Land	-	375	-	1,318
162 Buildings	-	146,000	-	-
164 Improvements Other Than Buildings	-	61,226	56,429	31,100
166 Machinery and Equipment	25,140	82,420	107,291	6,700
Less: Accumulated Depreciation	(22,198)	(241,505)	(83,848)	(31,482)
Total Noncurrent Assets	2,942	48,516	79,872	7,636
TOTAL ASSETS	\$ 279,984	\$ 198,293	\$ 459,153	\$ 299,616
LIABILITIES:				
Current Liabilities:				
216 Other Current Liabilities	\$ 1,613	\$ 11	\$ 2,562	\$ -
220 Customer Deposits	-	7,813	8,253	-
Total Current Liabilities	1,613	7,824	10,815	-
NET POSITION:				
253.1 Invested in Capital Assets	2,942	48,516	79,872	7,636
253.9 Unrestricted Net Position	275,429	141,953	368,466	291,980
Total Net Position	278,371	190,469	448,338	299,616
TOTAL LIABILITIES AND NET POSITION	\$ 279,984	\$ 198,293	\$ 459,153	\$ 299,616

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 417,216	\$ 53,056	\$ 1,545,208
-	-	621
-	-	22,523
417,216	53,056	1,568,352
62,058	-	62,058
-	2,980	4,673
-	-	146,000
239,817	-	388,572
129,906	7,071	358,528
(69,243)	(6,483)	(454,759)
362,538	3,568	505,072
\$ 779,754	\$ 56,624	\$ 2,073,424

\$ 7,182	\$ 353	\$ 11,721
12,625	-	28,691
19,807	353	40,412

300,480	3,568	443,014
459,467	52,703	1,589,998
759,947	56,271	2,033,012
\$ 779,754	\$ 56,624	\$ 2,073,424

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Operating Revenue:				
380 Charges for Goods and Services	\$ 338,599	\$ 118,195	\$ 669,792	\$ 38,193
380.5 Lottery Sales	37,154	-	-	-
Total Operating Revenue	375,753	118,195	669,792	38,193
Operating Expenses:				
410 Personal Services	60,779	7,860	38,732	1,200
420 Other Current Expense	21,013	12,112	21,633	7,500
426.2 Materials (Cost of Goods Sold)	202,782	69,220	248,054	-
457 Depreciation	2,212	7,371	8,330	162
Total Operating Expenses	286,786	96,563	316,749	8,862
Operating Income	88,967	21,632	353,043	29,331
Nonoperating Revenue:				
361 Investment Earnings	34	15	226	427
391 Compensation for Loss or Damage to Capital Assets	-	778	3,216	-
Total Nonoperating Revenue	34	793	3,442	427
Income Before Transfers	89,001	22,425	356,485	29,758
511 Transfers Out	(37,188)	(15)	(281,726)	(427)
Change in Net Position	51,813	22,410	74,759	29,331
Net Position - December 31, 2014	226,558	168,059	373,579	270,285
NET POSITION - DECEMBER 31, 2015	\$ 278,371	\$ 190,469	\$ 448,338	\$ 299,616

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 465,708	\$ 75,363	\$ 1,705,850
-	-	37,154
465,708	75,363	1,743,004
30,336	6,152	145,059
144,469	62,917	269,644
-	-	520,056
15,612	195	33,882
190,417	69,264	968,641
275,291	6,099	774,363
46	5	753
-	-	3,994
46	5	4,747
275,337	6,104	779,110
(281,546)	(5)	(600,907)
(6,209)	6,099	178,203
766,156	50,172	1,854,809
\$ 759,947	\$ 56,271	\$ 2,033,012

CITY OF FAITH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 375,711	\$ 118,145	\$ 669,742	\$ 38,193
Payments to Suppliers	(223,815)	(81,332)	(269,687)	(7,500)
Payments to Employees	(60,866)	(7,883)	(39,094)	(1,222)
Net Cash Flows Provided by Operating Activities	91,030	28,930	360,961	29,471
Cash Flows from Noncapital Financing Activities:				
Transfers to Other Funds	(37,188)	(15)	(281,726)	(427)
Net Cash Used in Noncapital Financing Activities	(37,188)	(15)	(281,726)	(427)
Cash Flows from Capital and Related Financing Activities:				
Purchases of Capital Assets	-	-	(18,029)	-
Compensation for Loss or Damage to Capital Assets	-	778	3,216	-
Net Cash Provided by (Used in) Capital and Related Financing Activities	-	778	(14,813)	-
Cash Flows Provided by Investing Activities:				
Interest Earnings	34	15	226	427
Net Increase in Cash and Investments	53,876	29,708	64,648	29,471
Cash and Investments, December 31, 2014	200,022	120,069	314,633	262,509
Cash and Investments, December 31, 2015	\$ 253,898	\$ 149,777	\$ 379,281	\$ 291,980
Cash Flows From Operating Activities:				
Operating Income	\$ 88,967	\$ 21,632	\$ 353,043	\$ 29,331
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	2,212	7,371	8,330	162
Change in Assets and Liabilities:				
Accounts Receivable	(42)	-	-	-
Inventories	(20)	-	-	-
Customer Deposits	-	(50)	(50)	-
Other Current Liabilities	(87)	(23)	(362)	(22)
Net Cash Flows Provided by Operating Activities	\$ 91,030	\$ 28,930	\$ 360,961	\$ 29,471

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 465,693	\$ 75,363	\$ 1,742,847
(144,469)	(62,917)	(789,720)
(24,537)	(6,071)	(139,673)
296,687	6,375	813,454
(281,546)	(5)	(600,907)
(281,546)	(5)	(600,907)
(11,300)	-	(29,329)
-	-	3,994
(11,300)	-	(25,335)
46	5	753
3,887	6,375	187,965
413,329	46,681	1,357,243
\$ 417,216	\$ 53,056	\$ 1,545,208
\$ 275,291	\$ 6,099	\$ 774,363
15,612	195	33,882
-	-	(42)
-	-	(20)
(15)	-	(115)
5,799	81	5,386
\$ 296,687	\$ 6,375	\$ 813,454

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

(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, 2015**

(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, 2015**

(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, 2015**

(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. Also, as part of the City’s policy, any interest earnings on deposits and investments are transferred to the General Fund (Note 2).

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, 2015**

(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, 2015.

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, 2015

(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, 2015**

(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, 2015**

(2) Deposits and Investments (Continued)

The actual bank balances at December 31, 2015 were as follows:

Primary Government	Bank Balance
Insured - FDIC	\$ 292,571
Uninsured, collateral jointly held by State's/City agent in the name of the State and the pledging financial institution	1,301,208
Total Deposits	\$ 1,593,779

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, 2015, the City's cash and investments consisted of checking and savings accounts, and certificates of deposit.

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, 2015, 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, 2015

(4) Changes in Capital Assets

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

	Balance 12/31/2014	Additions	Transfers/ Deletions	Balance 12/31/2015
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress	90,752	-	-	90,752
Total Capital Assets, not being Depreciated	156,785	-	-	156,785
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	1,277,836	9,960	-	1,287,796
Machinery and Equipment	616,252	15,694	-	631,946
Total Capital Assets Being Depreciated	4,869,419	25,654	-	4,895,073
Less Accumulated Depreciation for:				
Buildings	701,256	58,648	-	759,904
Improvements Other Than Buildings	666,575	69,324	-	735,899
Machinery and Equipment	378,907	37,367	-	416,274
Total Accumulated Depreciation	1,746,738	165,339	-	1,912,077
Total Governmental Activities Capital				
Assets, being Depreciated, Net	3,122,681	(139,685)	-	2,982,996
Total Governmental Capital Assets, Net	\$ 3,279,466	\$ (139,685)	\$ -	\$ 3,139,781

*Construction Work in Progress at December 31, 2015 is composed of engineering costs for a land acquisition, wild land fence, and runway safety area grading project for the Faith Airport. The City received \$36,477 of federal grant funds for this project in 2014. Expenditures in excess of the Federal grant will be paid with the General Fund's balance. There was no activity related to this project in 2015, and no commitments at December 31, 2015.

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

Public Works	\$ 67,117
General Government	38,085
Public Safety	29,000
Culture and Recreation	19,317
Health and Welfare	11,820
Total Depreciation Expense - Governmental	\$ 165,339

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

(4) Changes in Capital Assets (Continued)

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

	Balance 12/31/2014	Additions	Transfers/ Deletions	Balance 12/31/2015
<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	6,729	-	388,572
Machinery and Equipment	335,928	22,600	-	358,528
Total Capital Assets Being Depreciated	863,771	29,329	-	893,100
Less Accumulated Depreciation for:				
Buildings	137,148	4,424	-	141,572
Improvements Other Than Buildings	110,778	10,040	-	120,818
Machinery and Equipment	172,951	19,418	-	192,369
Total Accumulated Depreciation	420,877	33,882	-	454,759
Total Business-Type Activities Capital Assets, being Depreciated, Net	442,894	(4,553)	-	438,341
Total Business-Type Capital Assets, Net	\$ 447,567	\$ (4,553)	\$ -	\$ 443,014

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

<i>Business-Type Activities:</i>	
Telephone	\$ 15,612
Water	7,371
Electric	8,330
Liquor	2,212
Rubble Site	195
Wastewater	162
Total Depreciation Expense - Business-Type	\$ 33,882

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2015, is as follows:

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Lease	\$ 248,214	\$ -	\$ 95,819	\$ 152,395	\$ 100,405
Total Governmental Activities	248,214	-	95,819	152,395	100,405
Total Primary Government	\$ 248,214	\$ -	\$ 95,819	\$ 152,395	\$ 100,405

The purchase price at the commencement of the capital acquisition was:

Cost	\$ 1,666,791
Accumulated Depreciation	400,030
Net Book Value	<u>\$ 1,266,761</u>

Debt payable at December 31, 2015, 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.	\$ 152,395
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The annual requirements to amortize long-term debt outstanding as of December 31, 2015, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2016	\$ 6,035	\$ 100,405
2017	1,229	51,990
Total	\$ 7,264	\$ 152,395

Interest cost paid and charged to interest expense in the current period totaled **\$10,621**.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(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, 2015. Future rental revenues expected under this lease are as follows as of December 31, 2015:

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

The City has a month-to-month lease agreement with Golden West Telecommunications for host and remote switching services. The lease requires minimum monthly charges of \$2,865, plus variable fees based on service levels.

(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, 2015, 2014, and 2013 were **\$24,091**, \$23,274, and \$21,791, respectively, equal to the required contributions each year.

In 2015, the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68* became effective. The new standards require the City to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2015, SDRS is 104.1 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The City's share of the net pension asset at June 30, 2015 was .022 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity. If the City was on a full accrual basis, a net pension asset totaling approximately \$92,000 would have been recorded along with deferred outflows of resources totaling approximately \$148,000, and deferred inflows of resources totaling approximately (\$136,000) for a net increase in assets at December 31, 2015 of \$104,000. In addition, a reduction to pension costs of approximately \$16,000 would have been recorded for the year ending December 31, 2015.

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(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, 2015, 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, 2015, this joint venture had total equity of \$70,759,811 (unaudited), total liabilities of \$27,248,052 (unaudited), and total assets of \$98,007,863 (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, 2015, 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, 2015. 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, 2015**

(10) Emerging Accounting Standards

In February 2015, the Governmental Accounting Standards Board (GASB) issued statement No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining fair value measurement according to a three level hierarchy for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. Management has not yet determined the impact of this statement on the financial statements. This statement is effective for the City's year ending December 31, 2016.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:					
<i>Taxes:</i>					
313	Sales Taxes	\$ 212,000	\$ 212,000	\$ 236,115	\$ 24,115
314	Gross Receipts Business Taxes	600	600	25,274	24,674
315	Amusement Taxes	100	100	84	(16)
320	Licenses and Permits	2,100	2,100	2,170	70
<i>Intergovernmental Revenue:</i>					
331	Federal Grant	-	-	4,434	4,434
334	State Grant	-	-	5,785	5,785
335	Port of Entry	1,000	1,000	-	(1,000)
335.02	Motor Vehicle Commercial Prorate	-	-	701	701
335.03	Liquor Tax Reversion	2,800	2,800	2,618	(182)
335.04	Motor Vehicle Licenses (5%)	7,500	7,500	11,712	4,212
335.08	Local Government Highway and Bridge Fund	7,000	7,000	12,618	5,618
338.01	County Road Tax (25%)	500	500	509	9
338.99	Other	3,200	4,408	3,724	(684)
<i>Charges for Goods and Services:</i>					
341	General Government	-	-	34	34
342	Public Safety	1,750	1,750	605	(1,145)
343	Highways and Streets	-	-	495	495
346	Culture and Recreation	2,800	2,800	7,203	4,403
347	Ambulance	115,000	115,000	93,132	(21,868)
348	Cemetery	-	-	520	520
349	Other - Airport	88,000	88,000	10,765	(77,235)
349	Other - Economic Development	-	-	3,850	3,850
<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	1,500	1,500	1,319	(181)
362	Rentals	37,167	37,167	37,845	678
367	Contributions and Donations From Private Sources	5,390	5,390	6,598	1,208
369	Other	6,500	6,500	7,110	610
Total Revenue		494,907	496,115	475,220	(20,895)

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411	3,000	3,390	3,385	5
411.5	25,000	25,000	-	-
	Amount Transferred	(3,125)	-	21,875
412	21,595	22,240	22,236	4
413	1,350	1,350	54	1,296
414	189,192	194,192	191,959	2,233
419	194,793	200,333	162,237	38,096
<i>Public Safety:</i>				
421	139,239	141,039	138,297	2,742
422	25,000	35,000	27,518	7,482
<i>Public Works:</i>				
431	158,421	158,421	163,770	(5,349)
432	-	3,300	3,281	19
435	104,292	104,292	23,195	81,097
437	6,000	6,000	3,947	2,053
<i>Health and Welfare:</i>				
441	2,000	2,000	1,653	347
446	282,965	282,965	142,977	139,988
<i>Culture and Recreation:</i>				
451	5,341	5,341	2,598	2,743
452	27,470	34,445	34,044	401
454	32,775	36,140	36,137	3
455	25,390	26,798	26,520	278
<i>Conservation and Development:</i>				
465	4,355	4,655	5,149	(494)
466	1,000	1,000	1,000	-
467	9,890	9,890	8,170	1,720
470	106,440	106,440	106,440	-
Total Expenditures	1,365,508	1,401,106	1,104,567	296,539
391.01	506,550	540,940	600,907	59,967
391.03	-	-	5,639	5,639
391.04	-	-	2,588	2,588
511	(35,200)	(35,200)	-	35,200
Total Other Financing Sources	471,350	505,740	609,134	103,394
Net Change in Fund Balance	(399,251)	(399,251)	(20,213)	379,038
Fund Balance, December 31, 2014	84,774	84,774	84,774	-
Fund Balance, December 31, 2015	\$ (314,477)	\$ (314,477)	\$ 64,561	\$ 379,038

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

(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, 2015 or 2014.
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 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, 2015, 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 27, 2016.

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 Schedule of 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 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 Schedule of Findings as 2015-001 and 2015-002 to be material weaknesses.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 27, 2016

CITY OF FAITH

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2015**

A. Status of Prior Audit Findings and Recommendations

Finding No. 2014-001: Financial Statement Preparation and Year-End Adjustments

The City has accepted the risk associated with Finding #2014-001 regarding the preparation of the financial statements and year-end adjustments. The finding, originally issued years ago, is repeated as Finding #2015-001 below.

Finding No. 2014-002: Segregation of Duties

The City has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office, and has accepted the risk involved with such, due to the small size of the office. The finding, originally issued years ago, is repeated as Finding #2015-002 below.

CITY OF FAITH

**SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

B. Current Year Audit Findings and Recommendations

MATERIAL WEAKNESSES

2015-001 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 an audit adjustment to record activity for the Community Commerce and Development bank account. 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 records all activity in all bank accounts to ensure transactions are recorded correctly and completely. 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 record all Community Commerce and Development activity. 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.

2015-002 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

**SCHEDULE OF FINDINGS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

B. Current Year Audit Findings and Recommendations (Continued)

MATERIAL WEAKNESSES (Continued)

2015-002 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.