



CITY OF FAITH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2016



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

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CITY OF FAITH

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-10
<i>Government-wide Financial Statements:</i>	
Statement of Net Position – Modified Cash Basis	11
Statement of Activities – Modified Cash Basis	12
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Fund – Modified Cash Basis	13
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position – Modified Cash Basis	14
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds - Modified Cash Basis.....	15-16
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-wide Statement of Activities – Modified Cash Basis	17
Statement of Net Position – Proprietary Funds – Modified Cash Basis	18
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis.....	19
Statement of Cash Flows – Proprietary Funds – Modified Cash Basis.....	20
Notes to Financial Statements	21-33
<i>Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund	34-35
Notes to Supplementary Information.....	36
<i>Other Reports:</i>	
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 <i>Government Auditing Standards</i>	37-38
Schedule of Findings	39-41
Corrective Action Plan	42



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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, 2016, 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, 2016, 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

June 26, 2017

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2016

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, 2016. 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 2016 from 2015 by \$98,005. The main reason for this change is due to an increase in grant revenue by \$86,944.

The City's business-type activities charges for services decreased by six percent to \$1,640,228. Liquor revenues decreased by \$103,764 due to a change in the operating agreement structure. Electric revenue decreased by \$43,608 due to decreased usage. This was offset by an increase in water revenue of \$21,322 due to a water rate increase in March 2016, and a small increase in wastewater and rubble site revenue of \$3,106 and \$1,513, respectively.

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, 2016

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, 2016

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 4 percent between the fiscal year 2015 and 2016 – increasing \$201,449. (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, 2016**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Position - Modified Cash Basis for 2016 and 2015						
	Governmental Activities		Business-Type Activities		Total	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Current and Other Assets	\$ 94,118	\$ 67,990	\$ 1,743,541	\$ 1,630,410	\$ 1,837,659	\$ 1,698,400
Capital Assets	3,146,441	3,139,781	416,981	443,014	3,563,422	3,582,795
Total Assets	\$ 3,240,559	\$ 3,207,771	\$ 2,160,522	\$ 2,073,424	\$ 5,401,081	\$ 5,281,195
Current Liabilities	\$ 3,195	\$ 3,429	\$ 59,488	\$ 40,412	\$ 62,683	\$ 43,841
Long-Term Debt	51,990	152,395	-	-	51,990	152,395
Total Liabilities	\$ 55,185	\$ 155,824	\$ 59,488	\$ 40,412	\$ 114,673	\$ 196,236
<i>Net Position:</i>						
Net Investment in						
Capital Assets	\$ 3,094,451	\$ 2,987,386	\$ 416,981	\$ 443,014	\$ 3,511,432	\$ 3,430,400
Unrestricted	90,923	64,561	1,684,053	1,589,998	1,774,976	1,654,559
Total Net Position	\$ 3,185,374	\$ 3,051,947	\$ 2,101,034	\$ 2,033,012	\$ 5,286,408	\$ 5,084,959
Beginning Net Position	3,051,947	3,116,026	2,033,012	1,854,809	5,084,959	4,970,835
Increase in Net Position	\$ 133,427	\$ (64,079)	\$ 68,022	\$ 178,203	\$ 201,449	\$ 114,124
Percentage of Change in Net Position	4%	-2%	3%	10%	4%	2%

Changes in Net Position

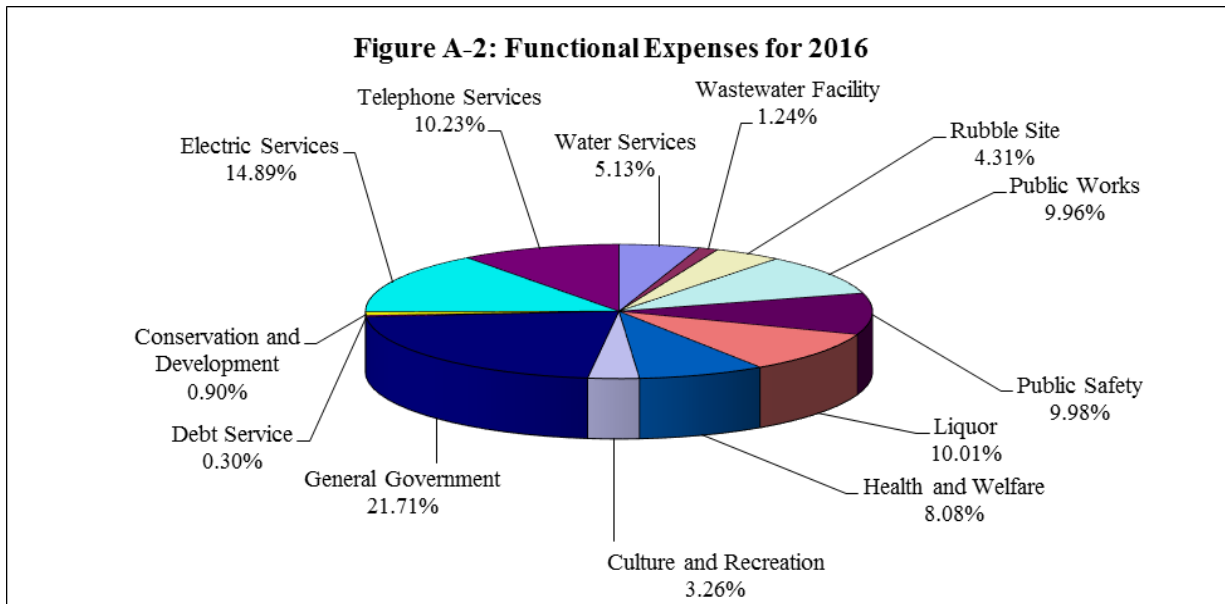
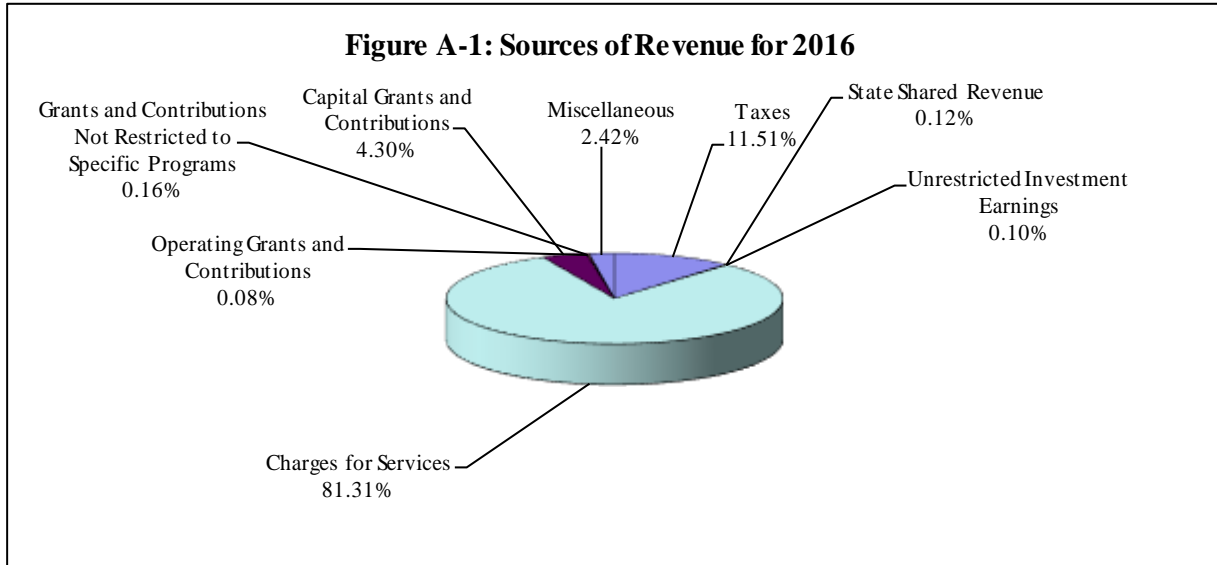
The City's revenues totaled \$2,222,486, and the total cost of all programs and services was \$2,021,037 for the year ended December 31, 2016. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Table A-2).

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2016**

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, 2016**

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>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenues						
Program Revenues						
Charges for Services	\$ 166,941	\$ 144,314	\$ 1,640,228	\$ 1,743,004	\$ 1,807,169	\$ 1,887,318
Operating Grants and Contributions	1,694	5,185	-	-	1,694	5,185
Capital Grants and Contributions	95,469	5,034	-	-	95,469	5,034
General Revenues						
Taxes	255,702	261,473	-	-	255,702	261,473
Revenue State Sources	2,747	2,618	-	-	2,747	2,618
Grants and Contributions not Program Specific	3,550	6,598	-	-	3,550	6,598
Unrestricted Investment Earnings	1,506	1,319	806	753	2,312	2,072
Miscellaneous	53,843	56,906	-	3,994	53,843	60,900
Total Revenues	581,452	483,447	1,641,034	1,747,751	2,222,486	2,231,198
Expenses						
General Government	438,757	417,956	-	-	438,757	417,956
Public Safety	201,602	183,266	-	-	201,602	183,266
Public Works	201,352	257,165	-	-	201,352	257,165
Health and Welfare	163,329	156,450	-	-	163,329	156,450
Culture and Recreation	65,789	108,656	-	-	65,789	108,656
Conservation and Development	18,244	14,319	-	-	18,244	14,319
Debt Service	6,035	10,621	-	-	6,035	10,621
Liquor	-	-	202,358	286,786	202,358	286,786
Water	-	-	103,728	96,563	103,728	96,563
Electric	-	-	300,842	316,749	300,842	316,749
Wastewater	-	-	25,104	8,862	25,104	8,862
Telephone	-	-	206,755	190,417	206,755	190,417
Rubble Site	-	-	87,142	69,264	87,142	69,264
Total Expenses	1,095,108	1,148,433	925,929	968,641	2,021,037	2,117,074
Excess (Deficiency) Before Transfers	(513,656)	(664,986)	715,105	779,110	201,449	114,124
Transfers	647,083	600,907	(647,083)	(600,907)	-	-
Increase (Decrease) in Net Position	\$ 133,427	\$ (64,079)	\$ 68,022	\$ 178,203	\$ 201,449	\$ 114,124
Ending Net Position	\$ 3,185,374	\$ 3,051,947	\$ 2,101,034	\$ 2,033,012	\$ 5,286,408	\$ 5,084,959

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2016

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

The City experienced an increase in expenses in 2016. General Government had an increase of approximately \$21,000 due to engineering fees for the Public Safety Building and Community Center. The gym floor was redone in 2016, and repair and painting of the roof in 2016 also attributed to the increase. There were also new garage doors put on the shot for approximately \$6,500. Public Safety increased by approximately \$18,000 due to an increase in county dispatch costs of \$9,300 and also the purchase of a new police car. Public works expenditures decreased by approximately \$56,000 because more expenditures were for capital assets. Health and welfare increased approximately \$7,000 due to more repairs on the ambulance than in 2015. Culture and Recreation decreased by \$42,000 due to purchasing a new bathroom at the lake and repairing the horseshoe pits at the park and increased salaries due to more mowing and repairs in 2015. The swimming pool was not open in 2016 so there was a decrease in expenses of \$26,600 as a result. Conservation and Development increased \$4,000 as the Chamber of Commerce expenses are now going through the City. Debt service decreased due to less interest.

Business-Type Activities

Liquor expenses decreased approximately \$84,000, mainly in cost of goods sold, as the City changed the way the liquor operating agreements are paid to the vendors. Liquor license holders now pay their own bills to the liquor vendors, starting in 2015, and the City charges the license holder only a percentage. Water expenses increased by \$7,000 which is due to more water usage. Electric expenses decreased by \$16,000 due to purchasing LED lights and a pickup in 2015, but not in 2016. Wastewater expenses increased due to lining ten manholes in 2016. Telephone expenses increased approximately \$16,338 due mainly to paying USAC, which was not required in previous years because of a reporting change. Rubble site expenses increased by approximately \$18,000 due to digging of a new pit costing about \$8,000 and approximately \$5,000 more in salaries due to more clean up at the pit. The garbage hauling contract also increased by \$1,300 resulting in more garbage expenses.

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

Ambulance was below the budgeted amount by approximately \$113,000 due to budgeting \$80,000 for a new ambulance but not purchasing one. There was also \$33,000 less in salaries than budgeted as Council was planning on hiring a full-time EMT, but did not hire anybody in 2016.

Additionally, the City did not do the project that was expected in 2016 with the card troll system at the airport, as the system was not installed until 2017.

CITY OF FAITH

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2016**

CAPITAL ASSET ADMINISTRATION

By the end of 2016, the City had invested \$3,563,422 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	
	2016	2015	2016	2015
Land	\$ 66,033	\$ 66,033	\$ 4,673	\$ 4,673
Construction Work in Progress	204,458	90,752	-	-
Buildings	2,156,779	2,215,427	4	4,428
Improvements Other Than Buildings	482,366	551,897	257,433	267,754
Machinery and Equipment	236,805	215,672	154,871	166,159
Total Capital Assets	\$ 3,146,441	\$ 3,139,781	\$ 416,981	\$ 443,014

LONG-TERM DEBT

As of December 31, 2016, the City had \$51,990 in long-term debt (See Table A-4 below):

Table A-4 Outstanding Debt and Obligations		
	Governmental Activities	
	2016	2015
Capital Acquisition Lease	\$ 51,990	\$ 152,395
Total Outstanding Debt and Obligations	\$ 51,990	\$ 152,395

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The City expects business-type activities for 2017 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, 2016**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments	\$ 57,976	\$ 1,656,344	\$ 1,714,320
Other Current Assets	36,142	25,139	61,281
Joint Venture Investment	-	62,058	62,058
Capital Assets:			
Land and Construction Work in Progress	270,491	4,673	275,164
Other Capital Assets, Net of Depreciation	2,875,950	412,308	3,288,258
TOTAL ASSETS	\$ 3,240,559	\$ 2,160,522	\$ 5,401,081
LIABILITIES:			
Other Current Liabilities	\$ 3,195	\$ 59,488	\$ 62,683
Non-Current Liability - Capital Lease Obligation:			
Due Within One Year	51,990	-	51,990
Due in More Than One Year	-	-	-
TOTAL LIABILITIES	55,185	59,488	114,673
NET POSITION:			
Net Investment in Capital Assets	3,094,451	416,981	3,511,432
Unrestricted	90,923	1,684,053	1,774,976
TOTAL NET POSITION	3,185,374	2,101,034	5,286,408
TOTAL LIABILITIES AND NET POSITION	\$ 3,240,559	\$ 2,160,522	\$ 5,401,081

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, 2016**

Functions/Programs	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
Primary Government:							
Governmental Activities:							
General Government	\$ 438,757	\$ -	\$ -	\$ -	\$ (438,757)	\$ -	\$ (438,757)
Public Safety	201,602	639	-	-	(200,963)	-	(200,963)
Public Works	201,352	44,930	95,469	1,694	(59,259)	-	(59,259)
Health and Welfare	163,329	118,399	-	-	(44,930)	-	(44,930)
Culture and Recreation	65,789	2,973	-	-	(62,816)	-	(62,816)
Conservation and Development	18,244	-	-	-	(18,244)	-	(18,244)
Interest on Long-Term Debt	6,035	-	-	-	(6,035)	-	(6,035)
Total Governmental Activities	1,095,108	166,941	95,469	1,694	(831,004)	-	(831,004)
Business-Type Activities:							
Liquor	202,358	274,111	-	-	-	71,753	71,753
Water	103,728	139,517	-	-	-	35,789	35,789
Electric	300,842	626,184	-	-	-	325,342	325,342
Wastewater	25,104	41,299	-	-	-	16,195	16,195
Telephone	206,755	482,241	-	-	-	275,486	275,486
Rubble Site	87,142	76,876	-	-	-	(10,266)	(10,266)
Total Business-Type Activities	925,929	1,640,228	-	-	-	714,299	714,299
Total Primary Government	\$ 2,021,037	\$ 1,807,169	\$ 95,469	\$ 1,694	(831,004)	714,299	(116,705)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Sales Taxes					237,097	-	237,097
Gross Receipt Taxes					18,605	-	18,605
State Shared Revenues					2,747	-	2,747
Grants and Contributions not Restricted to Specific Programs					3,550	-	3,550
Unrestricted Investment Earnings					1,506	806	2,312
Miscellaneous Revenue					53,843	-	53,843
Transfers					647,083	(647,083)	-
Total General Revenues and Transfers					964,431	(646,277)	318,154
Change in Net Position					133,427	68,022	201,449
Net Position - December 31, 2015					3,051,947	2,033,012	5,084,959
Net Position - December 31, 2016					\$ 3,185,374	\$ 2,101,034	\$ 5,286,408

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2016**

	<u>General Fund</u>
ASSETS:	
101 Cash and Investments	\$ 57,976
115 Other Current Assets	36,142
TOTAL ASSETS	\$ 94,118
LIABILITIES AND FUND BALANCE:	
Liabilities:	
216 Other Current Liabilities	\$ 3,195
Total Liabilities	3,195
Fund Balance:	
263.01 Nonspendable - Inventory	34,639
265 Committed - Capital Replacement	56,284
Total Fund Balance	90,923
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 94,118

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, 2016**

Total Fund Balances - Governmental Funds	\$	90,923
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.		3,146,441
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.		(51,990)
<hr/> Total Net Position - Governmental Activities		\$ 3,185,374

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, 2016**

	General Fund
Revenue:	
<i>Taxes:</i>	
313 Sales Taxes	\$ 237,097
314 Gross Receipts Business Taxes	18,521
315 Amusement Taxes	84
320 Licenses and Permits	3,416
<i>Intergovernmental Revenue:</i>	
331 Federal Grant	90,434
334 State Grant	6,729
335.02 Motor Vehicle Commercial ProRate	2,949
335.03 Liquor Tax Reversion	2,747
335.04 Motor Vehicle Licenses (5%)	12,668
335.08 Local Government Highway and Bridge Fund	12,510
338.01 County Road Tax (25%)	509
338.99 Other	4,064
<i>Charges for Goods and Services:</i>	
342 Public Safety	639
343 Highways and Streets	110
346 Culture and Recreation	2,973
347 Ambulance	118,399
348 Cemetery	480
349 Other - Airport	12,288
<i>Miscellaneous Revenue:</i>	
361 Investment Earnings	1,506
362 Rentals	36,776
367 Contributions and Donations From Private Sources	3,550
369 Other	11,222
Total Revenue	579,671

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

		General Fund
Expenditures:		
<i>General Government:</i>		
411	Legislative	3,739
412	Executive	20,237
413	Elections	1,578
414	Financial Administration	193,629
419	Other	181,534
<i>Public Safety:</i>		
421	Police	145,478
422	Fire	25,800
<i>Public Works:</i>		
431	Highway and Streets	101,690
432	Sanitation	5,606
435	Airport	20,815
437	Cemeteries	6,021
<i>Health and Welfare:</i>		
441	Health	1,742
446	Ambulance	149,211
<i>Culture and Recreation:</i>		
451	Recreation	2,093
452	Parks	12,628
454	Swimming Pool	9,544
455	Library	22,000
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	9,985
466	Economic Opportunity	1,000
467	Economic Development - Exhibit Area	7,259
470	Debt Service	106,440
485	Capital Outlay	174,144
Total Expenditures		1,202,173
Other Financing Sources:		
391.01	Transfers In	647,083
391.03	Sale of Municipal Property	800
391.04	Compensation for Loss or Damage To Capital Assets	981
Total Other Financing Sources		648,864
Net Change in Fund Balance		26,362
Fund Balance, December 31, 2015		64,561
Fund Balance, December 31, 2016		\$ 90,923

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, 2016

Net Change in Fund Balance - Government Funds \$ 26,362

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	174,144
Depreciation Expense	(167,484)
	<hr/>
	6,660

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 100,405

<hr/> Change in Net Position - Governmental Activities	<hr/> \$ 133,427
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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, 2016**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
ASSETS:				
Current Assets:				
101 Cash and Cash Equivalents	\$ 285,896	\$ 193,039	\$ 402,276	\$ 308,339
115 Accounts Receivable	877	-	-	-
142 Inventory of Supplies Purchased for Resale	24,262	-	-	-
Total Current Assets	311,035	193,039	402,276	308,339
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	115,460	6,700
Less: Accumulated Depreciation	(23,768)	(248,876)	(93,139)	(31,644)
Total Noncurrent Assets	1,372	41,145	78,750	7,474
TOTAL ASSETS	\$ 312,407	\$ 234,184	\$ 481,026	\$ 315,813
LIABILITIES:				
Current Liabilities:				
216 Other Current Liabilities	\$ 1,559	\$ 23	\$ 2,503	\$ 3
220 Customer Deposits	-	7,903	8,343	-
Total Current Liabilities	1,559	7,926	10,846	3
NET POSITION:				
253.1 Invested in Capital Assets	1,372	41,145	78,750	7,474
253.9 Unrestricted Net Position	309,476	185,113	391,430	308,336
Total Net Position	310,848	226,258	470,180	315,810
TOTAL LIABILITIES AND NET POSITION	\$ 312,407	\$ 234,184	\$ 481,026	\$ 315,813

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 423,770	\$ 43,024	\$ 1,656,344
-	-	877
-	-	24,262
423,770	43,024	1,681,483

62,058	-	62,058
-	2,980	4,673
-	-	146,000
239,817	-	388,572
129,906	7,071	366,697
(84,855)	(6,679)	(488,961)
346,926	3,372	479,039

\$ 770,696	\$ 46,396	\$ 2,160,522
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\$ 26,288	\$ 391	\$ 30,767
12,475	-	28,721
38,763	391	59,488

284,868	3,372	416,981
447,065	42,633	1,684,053
731,933	46,005	2,101,034

\$ 770,696	\$ 46,396	\$ 2,160,522
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CITY OF FAITH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Operating Revenue:				
380 Charges for Goods and Services	\$ 234,835	\$ 139,517	\$ 626,184	\$ 41,299
380.5 Lottery Sales	39,276	-	-	-
Total Operating Revenue	274,111	139,517	626,184	41,299
Operating Expenses:				
410 Personal Services	61,935	7,362	33,140	2,084
420 Other Current Expense	20,619	7,732	18,679	22,858
426.2 Materials (Cost of Goods Sold)	118,234	81,263	239,732	-
457 Depreciation	1,570	7,371	9,291	162
Total Operating Expenses	202,358	103,728	300,842	25,104
Operating Income	71,753	35,789	325,342	16,195
Nonoperating Revenue:				
361 Investment Earnings	33	18	255	449
Income Before Transfers	71,786	35,807	325,597	16,644
511 Transfers Out	(39,309)	(18)	(303,755)	(450)
Change in Net Position	32,477	35,789	21,842	16,194
Net Position - December 31, 2015	278,371	190,469	448,338	299,616
NET POSITION - DECEMBER 31, 2016	\$ 310,848	\$ 226,258	\$ 470,180	\$ 315,810

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 482,241	\$ 76,876	\$ 1,600,952
-	-	39,276
482,241	76,876	1,640,228
32,952	11,982	149,455
158,191	74,964	303,043
-	-	439,229
15,612	196	34,202
206,755	87,142	925,929
275,486	(10,266)	714,299
46	5	806
275,532	(10,261)	715,105
(303,546)	(5)	(647,083)
(28,014)	(10,266)	68,022
759,947	56,271	2,033,012
\$ 731,933	\$ 46,005	\$ 2,101,034

CITY OF FAITH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 273,855	\$ 139,607	\$ 626,274	\$ 41,299
Payments to Suppliers	(140,592)	(88,995)	(258,411)	(22,858)
Payments to Employees	(61,989)	(7,350)	(33,199)	(2,081)
Net Cash Flows Provided by Operating Activities	71,274	43,262	334,664	16,360
Cash Flows Used in Noncapital Financing Activities:				
Transfers to Other Funds	(39,309)	(18)	(303,755)	(450)
Cash Flows Used in Capital and Related Financing Activities:				
Purchases of Capital Assets	-	-	(8,169)	-
Cash Flows Provided by Investing Activities:				
Interest Earnings	33	18	255	449
Net Increase in Cash and Investments	31,998	43,262	22,995	16,359
Cash and Investments, December 31, 2015	253,898	149,777	379,281	291,980
Cash and Investments, December 31, 2016	\$ 285,896	\$ 193,039	\$ 402,276	\$ 308,339
Cash Flows From Operating Activities:				
Operating Income	\$ 71,753	\$ 35,789	\$ 325,342	\$ 16,195
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	1,570	7,371	9,291	162
Change in Assets and Liabilities:				
Accounts Receivable	(256)	-	-	-
Inventories	(1,739)	-	-	-
Customer Deposits	-	90	90	-
Other Current Liabilities	(54)	12	(59)	3
Net Cash Flows Provided by Operating Activities	\$ 71,274	\$ 43,262	\$ 334,664	\$ 16,360

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 482,091	\$ 76,876	\$ 1,640,002
(158,191)	(74,964)	(744,011)
(13,846)	(11,944)	(130,409)
310,054	(10,032)	765,582
(303,546)	(5)	(647,083)
-	-	(8,169)
46	5	806
6,554	(10,032)	111,136
417,216	53,056	1,545,208
\$ 423,770	\$ 43,024	\$ 1,656,344
\$ 275,486	\$ (10,266)	\$ 714,299
15,612	196	34,202
-	-	(256)
-	-	(1,739)
(150)	-	30
19,106	38	19,046
\$ 310,054	\$ (10,032)	\$ 765,582

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

(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, 2016**

(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, 2016**

(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, 2016**

(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, 2016**

(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, 2016**

(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, 2016**

(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.

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.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

(2) Deposits and Investments (Continued)

As of December 31, 2016, the City’s cash and investments consisted of checking and savings accounts, and non-negotiable certificates of deposit. The actual bank balances at December 31, 2016 were as follows:

Primary Government	Bank Balance
Insured - FDIC	\$ 292,657
Uninsured, collateral jointly held by State's/City agent in the name of the State and the pledging financial institution	1,458,000
Total Deposits	\$ 1,750,657

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, 2016, 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, 2016**

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31 2016, is as follows:

	Balance 12/31/2015	Additions	Transfers/ Deletions	Balance 12/31/2016
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress	90,752	113,706	-	204,458
Total Capital Assets, not being Depreciated	156,785	113,706	-	270,491
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	1,287,796	-	-	1,287,796
Machinery and Equipment	631,946	60,438	-	692,384
Total Capital Assets Being Depreciated	4,895,073	60,438	-	4,955,511
Less Accumulated Depreciation for:				
Buildings	759,904	58,648	-	818,552
Improvements Other Than Buildings	735,899	69,531	-	805,430
Machinery and Equipment	416,274	39,305	-	455,579
Total Accumulated Depreciation	1,912,077	167,484	-	2,079,561
Total Governmental Activities Capital Assets, being Depreciated, Net				
	2,982,996	(107,046)	-	2,875,950
Total Governmental Capital Assets, Net				
	\$ 3,139,781	\$ 6,660	\$ -	\$ 3,146,441

*Construction Work in Progress at December 31, 2016 is composed of engineering costs for a land acquisition, wild land fence, runway safety area grading project, and installation of a credit card fuel station for the Faith Airport. The City received \$36,477 of federal grant funds for the land acquisition, fencing, and runway project in 2014. Expenditures in excess of the Federal grant will be paid with the General Fund's balance.

The City received \$95,459 of state and federal grants in 2016 for the credit card fuel station project. Expenditures in 2016 were related to project costs for installation of a credit card reader fuel station at the Faith Airport. The project has a total estimated cost of approximately \$323,000, of which approximately \$114,000 was spent during 2016. Remaining costs to complete the project are approximately \$209,000, which will be covered by additional grant proceeds and general fund. The project was completed in April 2017.

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

Public Works	\$ 67,220
General Government	38,040
Public Safety	30,324
Culture and Recreation	19,524
Health and Welfare	12,376
Total Depreciation Expense - Governmental	\$ 167,484

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

(4) Changes in Capital Assets (Continued)

A summary of changes in business-type activities capital assets for the year ended December 31, 2016 is as follows:

	Balance 12/31/2015	Additions	Transfers/ Deletions	Balance 12/31/2016
<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	388,572	-	-	388,572
Machinery and Equipment	358,528	8,169	-	366,697
Total Capital Assets Being Depreciated	893,100	8,169	-	901,269
Less Accumulated Depreciation for:				
Buildings	141,572	4,424	-	145,996
Improvements Other Than Buildings	120,818	10,321	-	131,139
Machinery and Equipment	192,369	19,457	-	211,826
Total Accumulated Depreciation	454,759	34,202	-	488,961
Total Business-Type Activities Capital Assets, being Depreciated, Net	438,341	(26,033)	-	412,308
Total Business-Type Capital Assets, Net	\$ 443,014	\$ (26,033)	\$ -	\$ 416,981

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

<i>Business-Type Activities:</i>	
Telephone	\$ 15,612
Electric	9,291
Water	7,371
Liquor	1,570
Rubble Site	196
Wastewater	162
Total Depreciation Expense - Business-Type	\$ 34,202

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016**

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2016, is as follows:

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Lease	\$ 152,395	\$ -	\$ 100,405	\$ 51,990	\$ 51,990
Total Governmental Activities	152,395	-	100,405	51,990	51,990
Total Primary Government	\$ 152,395	\$ -	\$ 100,405	\$ 51,990	\$ 51,990

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

Cost	\$ 1,666,791
Accumulated Depreciation	433,366
Total	\$ 1,233,425

Debt payable at December 31, 2016, 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.	\$ 51,990
---	------------------

The annual requirements to amortize long-term debt outstanding as of December 31, 2016, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2017	\$ 1,230	\$ 51,990
Total	\$ 1,230	\$ 51,990

Interest cost paid and charged to interest expense in the current period totaled **\$6,035**.

(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, 2016. Future rental revenues expected under this lease are as follows as of December 31, 2016:

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.

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016

(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, 2016, 2015, and 2014 were **\$23,664**, \$24,091, and \$23,274, 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, 2016, SDRS is 96.89 percent funded and accordingly has a net pension liability based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The City's share of the net pension liability at June 30, 2016 was .021 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 liability totaling approximately (\$71,000) would have been recorded along with deferred outflows of resources totaling approximately \$146,000 for a net increase in assets at December 31, 2016 of \$75,000. In addition, a reduction to pension costs of approximately \$26,000 would have been recorded for the year ending December 31, 2016.

(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, 2016, 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, 2016, this joint venture had total equity of \$74,665,432 (unaudited), total liabilities of \$24,000,505 (unaudited), and total assets of \$98,665,937 (unaudited).

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONCLUDED) DECEMBER 31, 2016

(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, 2016, 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, 2016. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:				
<i>Taxes:</i>				
313	\$ 212,000	\$ 212,000	\$ 237,097	\$ 25,097
314	600	600	18,521	17,921
315	100	100	84	(16)
320	2,100	2,100	3,416	1,316
<i>Intergovernmental Revenue:</i>				
331	-	243,675	90,434	(153,241)
334	-	-	6,729	6,729
335.02	700	700	2,949	2,249
335.03	2,800	2,800	2,747	(53)
335.04	7,500	7,500	12,668	5,168
335.08	9,000	9,000	12,510	3,510
338.01	500	500	509	9
338.99	3,200	3,200	4,064	864
<i>Charges for Goods and Services:</i>				
342	1,750	1,750	639	(1,111)
343	-	-	110	110
346	2,800	2,800	2,973	173
347	100,000	100,000	118,399	18,399
348	-	-	480	480
349	88,000	88,000	12,288	(75,712)
<i>Miscellaneous Revenue:</i>				
361	1,000	1,000	1,506	506
362	37,167	37,167	36,776	(391)
367	5,390	2,000	3,550	1,550
369	6,500	10,400	11,222	822
Total Revenue	481,107	725,292	579,671	(145,621)

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2016**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411	3,000	4,000	3,739	261
411.5	25,000	25,000		
		Amount Transferred	-	24,353
412	22,671	22,671	20,237	2,434
413	1,350	1,850	1,578	272
414	190,792	193,792	193,629	163
419	199,592	208,489	181,534	26,955
<i>Public Safety:</i>				
421	135,896	187,946	185,916	2,030
422	25,000	25,800	25,800	-
<i>Public Works:</i>				
431	98,421	120,621	101,690	18,931
432	2,600	5,610	5,606	4
435	104,292	360,792	134,521	226,271
437	6,000	6,300	6,021	279
<i>Health and Welfare:</i>				
441	2,000	2,000	1,742	258
446	282,965	282,965	169,211	113,754
<i>Culture and Recreation:</i>				
451	5,341	5,341	2,093	3,248
452	17,970	17,970	12,628	5,342
454	32,775	32,775	9,544	23,231
455	25,390	22,000	22,000	-
<i>Conservation and Development:</i>				
465	4,355	10,005	9,985	20
466	1,000	1,000	1,000	-
467	6,890	7,260	7,259	1
470	106,440	106,440	106,440	-
Total Expenditures	1,299,740	1,649,980	1,202,173	447,807
391.01	517,800	623,055	647,083	24,028
391.03	-	800	800	-
391.04	-	-	981	981
511	(30,200)	(30,200)	-	30,200
Total Other Financing Sources	487,600	593,655	648,864	55,209
Net Change in Fund Balance	(331,033)	(331,033)	26,362	357,395
Fund Balance, December 31, 2015	64,561	64,561	64,561	-
Fund Balance, December 31, 2016	\$ (266,472)	\$ (266,472)	\$ 90,923	\$ 357,395

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO SUPPLEMENTARY INFORMATION
DECEMBER 31, 2016**

(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, 2016 or 2015.
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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 26, 2017.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2016-001 and #2016-002, that we consider 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.

A handwritten signature in black ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

June 26, 2017

CITY OF FAITH

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2016**

A. Status of Prior Audit Findings and Recommendations

Finding No. 2015-001: Financial Statement Preparation and Year-End Adjustments

The City has accepted the risk associated with Finding #2015-001 regarding the preparation of the financial statements and year-end adjustments. The finding, originally issued years ago, is partially repeated as Finding #2016-001 on the next page.

Finding No. 2015-002: 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 #2016-002 on the next page.

CITY OF FAITH

**SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2016**

B. Current Year Audit Findings and Recommendations

MATERIAL WEAKNESSES

2016-001 FINDING: Financial Statement Preparation

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. 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: 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: 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: See City's Corrective Action Plan.

2016-002 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.
- 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, 2016**

B. Current Year Audit Findings and Recommendations (Continued)

MATERIAL WEAKNESSES (Continued)

2016-002 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: See City's Corrective Action Plan.

CITY OF FAITH

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2016**

Finding 2016-001: Financial Statement Preparation

The City has accepted the risk associated with Finding #2016-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements.

Finding 2016-002: Segregation of Duties

The City attempts to maintain proper segregation of duties with the staff that are available. The City will continually monitor internal control and segregate duties to the best of their ability. Debbie Brown, Finance Officer, is responsible for this corrective action plan.