



CITY OF FAITH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2017



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, 2017, 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, 2017, 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 budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements 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 June 20, 2018 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 20, 2018

CITY OF FAITH

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2017**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments	\$ 46,338	\$ 1,885,787	\$ 1,932,125
Other Current Assets	54,290	23,354	77,644
Joint Venture Investment	-	62,058	62,058
Capital Assets:			
Land and Construction Work in Progress	214,741	4,673	219,414
Other Capital Assets, Net of Depreciation	3,083,792	386,468	3,470,260
TOTAL ASSETS	\$ 3,399,161	\$ 2,362,340	\$ 5,761,501
LIABILITIES:			
Other Current Liabilities	\$ 2,802	\$ 108,702	\$ 111,504
TOTAL LIABILITIES	2,802	108,702	111,504
NET POSITION:			
Net Investment in Capital Assets	3,298,533	391,141	3,689,674
Unrestricted	97,826	1,862,497	1,960,323
TOTAL NET POSITION	3,396,359	2,253,638	5,649,997
TOTAL LIABILITIES AND NET POSITION	\$ 3,399,161	\$ 2,362,340	\$ 5,761,501

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, 2017**

	Program ---Revenues---				Net (Expense) Revenue and -----Changes in Net Position-----		
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government	\$ 437,725	\$ -	\$ -	\$ -	\$ (437,725)	\$ -	\$ (437,725)
Public Safety	188,573	524	-	-	(188,049)	-	(188,049)
Public Works	222,702	53,818	248,193	1,729	81,038	-	81,038
Health and Welfare	127,404	90,832	38,462	-	1,890	-	1,890
Culture and Recreation	92,963	8,701	-	-	(84,262)	-	(84,262)
Conservation and Development	33,322	-	-	-	(33,322)	-	(33,322)
Interest on Long-Term Debt	1,230	-	-	-	(1,230)	-	(1,230)
Total Governmental Activities	1,103,919	153,875	286,655	1,729	(661,660)	-	(661,660)
Business-Type Activities:							
Liquor	223,005	282,882	-	-	-	59,877	59,877
Water	100,555	129,242	-	-	-	28,687	28,687
Electric	289,024	653,162	-	-	-	364,138	364,138
Wastewater	52,240	44,737	-	-	-	(7,503)	(7,503)
Telephone	216,191	448,609	-	-	-	232,418	232,418
Rubble Site	71,860	76,387	-	-	-	4,527	4,527
Total Business-Type Activities	952,875	1,635,019	-	-	-	682,144	682,144
Total Primary Government	\$ 2,056,794	\$ 1,788,894	\$ 286,655	\$ 1,729	(661,660)	682,144	20,484
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Sales Taxes					234,758	-	234,758
Gross Receipt Taxes					19,687	-	19,687
State Shared Revenues					2,614	-	2,614
Unrestricted Investment Earnings					1,693	1,109	2,802
Miscellaneous Revenue					83,244	-	83,244
Transfers					530,649	(530,649)	-
Total General Revenues and Transfers					872,645	(529,540)	343,105
Change in Net Position					210,985	152,604	363,589
Net Position - December 31, 2016					3,185,374	2,101,034	5,286,408
Net Position - December 31, 2017					\$ 3,396,359	\$ 2,253,638	\$ 5,649,997

The accompanying notes are an integral part of this statement.

CITY OF FAITH

BALANCE SHEET

GOVERNMENTAL FUND - MODIFIED CASH BASIS

DECEMBER 31, 2017

	<u>General Fund</u>
ASSETS:	
101 Cash and Investments	\$ 46,338
115 Other Current Assets	54,290
TOTAL ASSETS	\$ 100,628
LIABILITIES AND FUND BALANCE:	
Liabilities:	
216 Other Current Liabilities	\$ 2,802
Total Liabilities	2,802
Fund Balance:	
263.01 Nonspendable - Inventory	52,788
265 Committed - Capital Replacement	45,038
Total Fund Balance	97,826
 TOTAL LIABILITIES AND FUND BALANCE	 \$ 100,628

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, 2017**

Total Fund Balances - Governmental Funds \$ 97,826

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. 3,298,533

Total Net Position - Governmental Activities \$ 3,396,359

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>General Fund</u>
Revenue:	
<i>Taxes:</i>	
313 Sales Taxes	\$ 234,758
314 Gross Receipts Business Taxes	19,603
315 Amusement Taxes	84
320 Licenses and Permits	2,655
<i>Intergovernmental Revenue:</i>	
331 Federal Grant	237,203
334 State Grant	12,719
335.02 Motor Vehicle Commercial ProRate	3,031
335.03 Liquor Tax Reversion	2,614
335.04 Motor Vehicle Licenses (5%)	13,008
335.08 Local Government Highway and Bridge Fund	11,227
338.01 County Road Tax (25%)	509
338.99 Other	4,132
<i>Charges for Goods and Services:</i>	
342 Public Safety	524
343 Highways and Streets	810
346 Culture and Recreation	8,701
347 Ambulance	90,832
348 Cemetery	2,473
349 Other - Airport	20,105
<i>Miscellaneous Revenue:</i>	
361 Investment Earnings	1,693
362 Rentals	38,273
369 Other	36,947
Total Revenue	741,901

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

		General Fund
Expenditures:		
<i>General Government:</i>		
411	Legislative	3,947
412	Executive	22,883
413	Elections	825
414	Financial Administration	188,431
419	Other	184,095
<i>Public Safety:</i>		
421	Police	138,915
422	Fire	14,911
<i>Public Works:</i>		
431	Highway and Streets	79,382
432	Sanitation	355
435	Airport	52,192
437	Cemeteries	10,312
<i>Health and Welfare:</i>		
441	Health	100
446	Ambulance	114,151
<i>Culture and Recreation:</i>		
451	Recreation	6,333
452	Parks	18,514
454	Swimming Pool	26,556
455	Library	21,817
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	24,301
466	Economic Opportunity	1,000
467	Economic Development - Exhibit Area	8,021
470	Debt Service	53,220
485	Capital Outlay	299,278
Total Expenditures		1,269,539
Other Financing Sources:		
391.01	Transfers In	530,649
391.04	Compensation for Loss or Damage To Capital Assets	3,892
Total Other Financing Sources		534,541
Net Change in Fund Balance		6,903
Fund Balance, December 31, 2016		90,923
Fund Balance, December 31, 2017		\$ 97,826

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, 2017

Net Change in Fund Balance - Government Funds \$ 6,903

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	299,278
Depreciation Expense	(185,648)
	<hr/> 113,630 <hr/>

Capital assets contributed to the City, which are included in the Statement of Activities. 38,462

Repayment of the capital lease payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 51,990

Change in Net Position - Governmental Activities \$ 210,985

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**STATEMENT OF NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2017**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
ASSETS:				
Current Assets:				
101 Cash and Cash Equivalents	\$ 322,498	\$ 224,515	\$ 523,427	\$ 300,998
115 Accounts Receivable	827	-	-	-
142 Inventory of Supplies Purchased for Resale	22,527	-	-	-
Total Current Assets	345,852	224,515	523,427	300,998
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	(24,136)	(251,501)	(101,291)	(31,806)
Total Noncurrent Assets	1,004	38,520	70,598	7,312
TOTAL ASSETS	\$ 346,856	\$ 263,035	\$ 594,025	\$ 308,310
LIABILITIES:				
Current Liabilities:				
202 Accounts Payable	\$ -	\$ -	\$ -	\$ -
216 Other Current Liabilities	1,671	30	3,102	3
220 Customer Deposits	-	8,060	8,605	-
Total Current Liabilities	1,671	8,090	11,707	3
NET POSITION:				
253.1 Invested in Capital Assets	1,004	38,520	70,598	7,312
253.9 Unrestricted Net Position	344,181	216,425	511,720	300,995
Total Net Position	345,185	254,945	582,318	308,307
TOTAL LIABILITIES AND NET POSITION	\$ 346,856	\$ 263,035	\$ 594,025	\$ 308,310

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 466,604	\$ 47,745	\$ 1,885,787
-	-	827
-	-	22,527
466,604	47,745	1,909,141
62,058	-	62,058
-	2,980	4,673
-	-	146,000
239,817	-	388,572
129,906	7,071	366,697
(99,192)	(6,875)	(514,801)
332,589	3,176	453,199
\$ 799,193	\$ 50,921	\$ 2,362,340

\$ 29,947	\$ -	\$ 29,947
45,140	389	50,335
11,755	-	28,420
86,842	389	108,702

270,531	3,176	391,141
441,820	47,356	1,862,497
712,351	50,532	2,253,638
\$ 799,193	\$ 50,921	\$ 2,362,340

CITY OF FAITH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2017**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Operating Revenue:				
380 Charges for Goods and Services	\$ 257,342	\$ 129,242	\$ 653,162	\$ 44,737
380.5 Lottery Sales	25,540	-	-	-
Total Operating Revenue	282,882	129,242	653,162	44,737
Operating Expenses:				
410 Personal Services	64,175	7,973	37,085	1,234
420 Other Current Expense	26,165	8,935	13,963	50,844
426.2 Materials (Cost of Goods Sold)	132,297	81,022	229,824	-
457 Depreciation	368	2,625	8,152	162
Total Operating Expenses	223,005	100,555	289,024	52,240
Operating Income (Loss)	59,877	28,687	364,138	(7,503)
Nonoperating Revenue:				
361 Investment Earnings	46	30	492	469
Income (Loss) Before Transfers	59,923	28,717	364,630	(7,034)
511 Transfers Out	(25,586)	(30)	(252,492)	(469)
Change in Net Position	34,337	28,687	112,138	(7,503)
Net Position - December 31, 2016	310,848	226,258	470,180	315,810
NET POSITION - DECEMBER 31, 2017	\$ 345,185	\$ 254,945	\$ 582,318	\$ 308,307

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 448,609	\$ 76,387	\$ 1,609,479
-	-	25,540
448,609	76,387	1,635,019
35,212	6,356	152,035
166,642	65,308	331,857
-	-	443,143
14,337	196	25,840
216,191	71,860	952,875
232,418	4,527	682,144
66	6	1,109
232,484	4,533	683,253
(252,066)	(6)	(530,649)
(19,582)	4,527	152,604
731,933	46,005	2,101,034
\$ 712,351	\$ 50,532	\$ 2,253,638

CITY OF FAITH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 282,932	\$ 129,399	\$ 653,424	\$ 44,737
Payments to Suppliers	(156,727)	(89,957)	(243,787)	(50,844)
Payments to Employees	(64,063)	(7,966)	(36,486)	(1,234)
Net Cash Flows Provided by (Used in) Operating Activities	62,142	31,476	373,151	(7,341)
Cash Flows Used in Noncapital Financing Activities:				
Transfers to Other Funds	(25,586)	(30)	(252,492)	(469)
Cash Flows Provided by Investing Activities:				
Interest Earnings	46	30	492	469
Net Increase (Decrease) in Cash and Investments	36,602	31,476	121,151	(7,341)
Cash and Investments, December 31, 2016	285,896	193,039	402,276	308,339
Cash and Investments, December 31, 2017	\$ 322,498	\$ 224,515	\$ 523,427	\$ 300,998
Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 59,877	\$ 28,687	\$ 364,138	\$ (7,503)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities:				
Depreciation Expense	368	2,625	8,152	162
Change in Assets and Liabilities:				
Accounts Receivable	50	-	-	-
Inventories	1,735	-	-	-
Accounts Payable	-	-	-	-
Customer Deposits	-	157	262	-
Other Current Liabilities	112	7	599	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 62,142	\$ 31,476	\$ 373,151	\$ (7,341)

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 477,836	\$ 76,387	\$ 1,664,715
(166,642)	(65,308)	(773,265)
(16,360)	(6,358)	(132,467)
294,834	4,721	758,983

(252,066)	(6)	(530,649)
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66	6	1,109
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42,834	4,721	229,443
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423,770	43,024	1,656,344
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\$ 466,604	\$ 47,745	\$ 1,885,787
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\$ 232,418	\$ 4,527	\$ 682,144
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14,337	196	25,840
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-	-	50
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-	-	1,735
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29,947	-	29,947
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(720)	-	(301)
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18,852	(2)	19,568
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\$ 294,834	\$ 4,721	\$ 758,983
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CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2017

(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, 2017**

(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, 2017**

(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.
8. Recording accounts payable for refunds owed to suppliers.

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, 2017**

(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, 2017**

(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.

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, 2017.

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, 2017**

(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, 2017

(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, 2017**

(2) Deposits and Investments (Continued)

As of December 31, 2017, 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, 2017 were as follows:

Primary Government	Bank Balance
Insured - FDIC	\$ 292,743
Uninsured, collateral jointly held by State's/City agent in the name of the State and the pledging financial institution	1,627,238
Total Deposits	\$ 1,919,981

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, 2017, 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, 2017**

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31 2017, is as follows:

	Balance 12/31/2016	Additions	Transfers/ Deletions	Balance 12/31/2017
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress*	204,458	57,956	113,706	148,708
Total Capital Assets, not being Depreciated	270,491	57,956	113,706	214,741
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	1,287,796	22,457	-	1,310,253
Machinery and Equipment	692,384	371,033	-	1,063,417
Total Capital Assets, being Depreciated	4,955,511	393,490	-	5,349,001
Less Accumulated Depreciation for:				
Buildings	818,552	58,648	-	877,200
Improvements Other Than Buildings	805,430	69,750	-	875,180
Machinery and Equipment	455,579	57,250	-	512,829
Total Accumulated Depreciation	2,079,561	185,648	-	2,265,209
Total Governmental Activities Capital Assets, being Depreciated, Net	2,875,950	207,842	-	3,083,792
Total Governmental Capital Assets, Net	\$ 3,146,441	\$ 265,798	\$ 113,706	\$ 3,298,533

*Construction Work in Progress at December 31, 2017 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 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.

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

Public Works	\$ 80,461
General Government	37,544
Public Safety	34,747
Culture and Recreation	19,743
Health and Welfare	13,153
Total Depreciation Expense - Governmental	\$ 185,648

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017**

(4) Changes in Capital Assets (Continued)

A summary of changes in business-type activities capital assets for the year ended December 31, 2017 is as follows:

	Balance 12/31/2016	Additions	Transfers/ Deletions	Balance 12/31/2017
<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	366,697	-	-	366,697
Total Capital Assets Being Depreciated	901,269	-	-	901,269
Less Accumulated Depreciation for:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	131,137	10,321	-	141,458
Machinery and Equipment	211,824	15,519	-	227,343
Total Accumulated Depreciation	488,961	25,840	-	514,801
Total Business-Type Activities Capital Assets, being Depreciated, Net	412,308	(25,840)	-	386,468
Total Business-Type Capital Assets, Net	\$ 416,981	\$ (25,840)	\$ -	\$ 391,141

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

<i>Business-Type Activities:</i>	
Telephone	\$ 14,337
Electric	8,152
Water	2,625
Liquor	368
Rubble Site	196
Wastewater	162
Total Depreciation Expense - Business-Type	\$ 25,840

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017**

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2017, is as follows:

	Balance 12/31/2016	Additions	Deletions	Balance 12/31/2017	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Lease	\$ 51,990	\$ -	\$ 51,990	\$ -	\$ -
Total Governmental Activities	51,990	-	51,990	-	-
Total Primary Government	\$ 51,990	\$ -	\$ 51,990	\$ -	\$ -

Interest cost paid and charged to interest expense in the current period totaled **\$1,230**.

(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. The original lease expired in 2018, however, the lease includes an automatic renewal option unless either party notifies of cancellation. The lease was renewed in the ordinary course of business. Sublease rental income was \$36,167 for the year ended December 31, 2017. Future rental revenues expected under this lease are as follows as of December 31:

2018	\$ 36,167
2019	36,167
2020	36,167
2021	36,167
2022	36,167

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, 2017, 2016, and 2015 were **\$23,189**, \$23,664, and \$24,091, respectively, equal to the required contributions each year.

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2017

(7) Retirement Plan – South Dakota Retirement System (Continued)

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. Under GAAP, 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, 2017, SDRS is 100.1 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, 2017 was .020 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 \$1,772 would have been recorded along with deferred outflows of resources totaling \$131,877 for a net increase in assets at December 31, 2017 of \$133,649. In addition, an addition to pension revenue of approximately \$64,000 would have been recorded for the year ending December 31, 2017.

(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, 2017, 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, 2017, this joint venture had total equity of \$76,208,402 (audited), total liabilities of \$25,448,769 (audited), and total assets of \$101,657,171 (audited).

(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, 2017, 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.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2017**

(9) Risk Management (Continued)

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, 2017. 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, 2017**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:				
<i>Taxes:</i>				
313	\$ 212,000	\$ 212,000	\$ 234,758	\$ 22,758
314	600	600	19,603	19,003
315	100	100	84	(16)
320	2,100	2,100	2,655	555
<i>Intergovernmental Revenue:</i>				
331	-	168,000	237,203	69,203
334	-	-	12,719	12,719
335.02	700	700	3,031	2,331
335.03	2,800	2,800	2,614	(186)
335.04	7,500	7,500	13,008	5,508
335.08	9,000	9,000	11,227	2,227
338.01	500	500	509	9
338.99	3,200	3,200	4,132	932
<i>Charges for Goods and Services:</i>				
342	1,750	1,750	524	(1,226)
343	-	-	810	810
346	2,800	2,800	8,701	5,901
347	100,000	100,000	90,832	(9,168)
348	-	-	2,473	2,473
349	88,000	88,000	20,105	(67,895)
<i>Miscellaneous Revenue:</i>				
361	1,000	1,000	1,693	693
362	37,167	37,167	38,273	1,106
367	-	900	-	(900)
369	6,500	8,500	36,947	28,447
Total Revenue	475,717	646,617	741,901	95,284

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2017**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411	3,400	4,330	3,947	383
411.5	25,000	24,887	-	24,887
412	22,671	22,671	22,883	(212)
413	1,350	1,350	825	525
414	204,320	204,320	188,431	15,889
416	-	100	-	100
419	219,042	219,042	200,153	18,889
<i>Public Safety:</i>				
421	133,498	188,998	165,474	23,524
422	25,000	25,900	25,488	412
<i>Public Works:</i>				
431	188,421	188,421	79,382	109,039
432	2,600	2,600	355	2,245
435	104,292	236,292	232,345	3,947
437	6,000	10,313	10,312	1
439	-	2,000	-	2,000
<i>Health and Welfare:</i>				
441	2,000	2,000	100	1,900
446	233,865	233,865	173,682	60,183
<i>Culture and Recreation:</i>				
451	11,712	11,712	6,333	5,379
452	18,170	25,520	24,914	606
454	60,928	60,928	26,556	34,372
455	20,000	22,000	21,817	183
<i>Conservation and Development:</i>				
465	4,355	24,355	24,301	54
466	1,000	1,000	1,000	-
467	8,429	8,429	8,021	408
470	53,220	53,220	53,220	-
Total Expenditures	1,349,273	1,574,253	1,269,539	304,714
391.01	548,750	602,830	530,649	(72,181)
391.04	-	-	3,892	3,892
Total Other Financing Sources	548,750	602,830	534,541	(68,289)
Net Change in Fund Balance	(324,806)	(324,806)	6,903	331,709
Fund Balance, December 31, 2016	90,923	90,923	90,923	-
Fund Balance, December 31, 2017	\$ (233,883)	\$ (233,883)	\$ 97,826	\$ 331,709

The accompanying notes to supplementary information are an integral part of this statement.

CITY OF FAITH

NOTES TO SUPPLEMENTARY INFORMATION DECEMBER 31, 2017

(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, 2017 or 2016.
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, 2017, 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 20, 2018.

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 #2017-001 and #2017-002, 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 Schedule of Findings 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.

City Council
Page Two

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

June 20, 2018

CITY OF FAITH

SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2017

MATERIAL WEAKNESSES

2017-001 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. We also made adjustments to reclassify operating expenses to cost of sales in the wastewater fund and to reclassify an expense to accounts payable in the telephone fund. 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 for 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 and audit adjustments 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.

2017-002 FINDING: Segregation of Duties

Condition and Cause: The City has a general lack of segregation of duties in the finance office. 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 a second person.
- 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, 2017**

MATERIAL WEAKNESSES (Continued)

2017-002 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 continue to be performed by the Finance Officer. 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.

MANAGEMENT RESPONSE

CITY OF FAITH

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2017**

The City of Faith respectfully submits the following summary schedule of prior audit findings from December 31, 2016 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2016 Schedule of Findings.

Finding No. 2016-001: Financial Statement Preparation and Year-End Adjustments

The City has accepted the risk associated with Finding #2016-001 regarding the preparation of the financial statements and year-end adjustments. The finding, originally issued years ago, is repeated as Finding #2017-001 on the previous page.

Finding No. 2016-002: Segregation of Duties

The City has implemented several 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. The finding, originally issued years ago, is repeated as Finding #2017-002 on the previous page.

CITY OF FAITH

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2017**

The City respectfully submits the following corrective action plan from December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding 2017-001: Financial Statement Preparation and Year-End Adjustments

Responsible Official: Debbie Brown, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2017-001 regarding the preparation of the financial statements as well as year-end adjustments and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

Finding 2017-002: Segregation of Duties

Responsible Official: Debbie Brown, Finance Officer

Corrective Action Plan: 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.

Anticipated Completion Date: Ongoing