

**CITY OF FAITH**

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2025**



**CITY OF FAITH**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Faith  
Faith, South Dakota

### **Report on the Financial Statements**

#### ***Opinions***

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Faith (the City), Meade County, South Dakota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2025, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.

#### ***Basis for Opinions***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

#### ***Emphasis of Matter Regarding Basis of Accounting***

We draw attention to Note 1 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 opinions are not modified with respect to this matter.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting as described in Note 1, and for 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 Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated May 5, 2026 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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

May 5, 2026

**CITY OF FAITH**

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS  
DECEMBER 31, 2025**

|   | <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |
|---|------------------------------------|-------------------------------------|----------------------|
| <b>ASSETS:</b>                            |                                    |                                     |                      |
| Cash and Investments                      | \$ 180,626                         | \$ 4,316,820                        | \$ 4,497,446         |
| Restricted Cash                           | 8,193                              | 8,627                               | 16,820               |
| Other Current Assets                      | 92,094                             | 40,223                              | 132,317              |
| Joint Venture Investment                  | -                                  | 62,058                              | 62,058               |
| Capital Assets:                           |                                    |                                     |                      |
| Land and Construction Work in Progress    | 276,723                            | 3,398,195                           | 3,674,918            |
| Other Capital Assets, Net of Depreciation | 3,745,862                          | 3,460,212                           | 7,206,074            |
| <b>TOTAL ASSETS</b>                       | <b>\$ 4,303,498</b>                | <b>\$ 11,286,135</b>                | <b>\$ 15,589,633</b> |
| <b>LIABILITIES:</b>                       |                                    |                                     |                      |
| Other Current Liabilities                 | \$ 27,137                          | \$ 38,651                           | \$ 65,788            |
| Non-Current Liability - Notes Payable:    |                                    |                                     |                      |
| Due Within One Year                       | 10,009                             | 36,365                              | 46,374               |
| Due in More Than One Year                 | 11,876                             | 2,049,267                           | 2,061,143            |
| <b>TOTAL LIABILITIES</b>                  | <b>49,022</b>                      | <b>2,124,283</b>                    | <b>2,173,305</b>     |
| <b>NET POSITION:</b>                      |                                    |                                     |                      |
| Net Investment in Capital Assets          | 4,000,700                          | 4,772,775                           | 8,773,475            |
| Restricted for Debt Service               | 8,193                              | 8,627                               | 16,820               |
| Unrestricted                              | 245,583                            | 4,380,450                           | 4,626,033            |
| <b>TOTAL NET POSITION</b>                 | <b>4,254,476</b>                   | <b>9,161,852</b>                    | <b>13,416,328</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b> | <b>\$ 4,303,498</b>                | <b>\$ 11,286,135</b>                | <b>\$ 15,589,633</b> |

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, 2025

|   | Program<br>---Revenues--- |                         |  | Net (Expense) Revenue and<br>-----Changes in Net Position----- |   |                      |
|---|---------------------------|-------------------------|--|--|---|----------------------|
|   | Expenses                  | Charges for<br>Services | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                                     | Primary Government<br>Business-Type<br>Activities | Total                |
| <b>Functions/Programs</b>                   |                           |                         |  |  |   |                      |
| <b>Primary Government:</b>                  |                           |                         |  |  |   |                      |
| <b>Governmental Activities:</b>             |                           |                         |  |  |   |                      |
| General Government                          | \$ 685,221                | \$ -                    | \$ -                                   | \$ (685,221)   | \$ -  | \$ (685,221)         |
| Public Safety                               | 238,741                   | 8                       | -                                      | (238,733)  | -   | (238,733)            |
| Public Works                                | 194,437                   | 51,010                  | 187,620                                | 44,193   | -   | 44,193               |
| Health and Welfare                          | 204,373                   | 163,867                 | -                                      | (40,506)   | -   | (40,506)             |
| Culture and Recreation                      | 122,895                   | 15,722                  | -                                      | (107,173)  | -   | (107,173)            |
| Conservation and Development                | 68,464                    | -                       | -                                      | (68,464)   | -   | (68,464)             |
| Interest on Long-Term Debt                  | 883                       | -                       | -                                      | (883)  | -   | (883)                |
| <b>Total Governmental Activities</b>        | <b>1,515,014</b>          | <b>230,607</b>          | <b>187,620</b>                         | <b>(1,096,787)</b>   | <b>-</b>  | <b>(1,096,787)</b>   |
| <b>Business-Type Activities:</b>            |                           |                         |  |  |   |                      |
| Liquor                                      | 263,630                   | 336,269                 | -                                      | -  | 72,639  | 72,639               |
| Water                                       | 146,250                   | 216,573                 | 749,414                                | -  | 819,737   | 819,737              |
| Electric                                    | 306,799                   | 663,604                 | -                                      | -  | 356,805   | 356,805              |
| Wastewater                                  | 63,730                    | 71,015                  | 116,836                                | -  | 124,121   | 124,121              |
| Telephone                                   | 319,553                   | 602,249                 | -                                      | -  | 282,696   | 282,696              |
| Rubble Site                                 | 101,681                   | 100,160                 | -                                      | -  | (1,521)   | (1,521)              |
| <b>Total Business-Type Activities</b>       | <b>1,201,643</b>          | <b>1,989,870</b>        | <b>866,250</b>                         | <b>-</b>   | <b>1,654,477</b>                                  | <b>1,654,477</b>     |
| <b>Total Primary Government</b>             | <b>\$ 2,716,657</b>       | <b>\$ 2,220,477</b>     | <b>\$ 1,053,870</b>                    | <b>(1,096,787)</b>   | <b>1,654,477</b>                                  | <b>557,690</b>       |
| <b>General Revenues and Transfers:</b>      |                           |                         |  |  |   |                      |
| <b>General Revenues:</b>                    |                           |                         |  |  |   |                      |
| <b>Taxes:</b>                               |                           |                         |  |  |   |                      |
| Sales Taxes                                 |                           |                         |  | 375,182  | -   | 375,182              |
| Gross Receipt Taxes                         |                           |                         |  | 27,489   | -   | 27,489               |
| State Shared Revenues                       |                           |                         |  | 2,451  | -   | 2,451                |
| Unrestricted Investment Earnings            |                           |                         |  | 587  | 139,782   | 140,369              |
| Gain on Sale of Capital Assets              |                           |                         |  | -  | 9,100   | 9,100                |
| Miscellaneous Revenue                       |                           |                         |  | 130,354  | 80,000  | 210,354              |
| Transfers                                   |                           |                         |  | 494,822  | (494,822)   | -                    |
| <b>Total General Revenues and Transfers</b> |                           |                         |  | <b>1,030,885</b>   | <b>(265,940)</b>                                  | <b>764,945</b>       |
| <b>Change in Net Position</b>               |                           |                         |  | <b>(65,902)</b>  | <b>1,388,537</b>                                  | <b>1,322,635</b>     |
| Net Position - December 31, 2024            |                           |                         |  | 4,320,378  | 7,773,315   | 12,093,693           |
| <b>Net Position - December 31, 2025</b>     |                           |                         |  | <b>\$ 4,254,476</b>  | <b>\$ 9,161,852</b>                               | <b>\$ 13,416,328</b> |

The accompanying notes are an integral part of this statement.

**CITY OF FAITH**

**BALANCE SHEET  
GOVERNMENTAL FUND - MODIFIED CASH BASIS  
DECEMBER 31, 2025**

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>ASSETS:</b>                            |                         |
| 101 Cash and Investments                  | \$ 180,626              |
| 107 Restricted Cash                       | 8,193                   |
| 115 Other Current Assets                  | 92,094                  |
| <b>TOTAL ASSETS</b>                       | <b>\$ 280,913</b>       |
| <br>                                      |                         |
| <b>LIABILITIES AND FUND BALANCE:</b>      |                         |
| <b>Liabilities:</b>                       |                         |
| 216 Other Current Liabilities             | \$ 27,137               |
| <b>Total Liabilities</b>                  | <b>27,137</b>           |
| <br>                                      |                         |
| <b>Fund Balance:</b>                      |                         |
| 263.01 Nonspendable - Inventory           | 88,403                  |
| 264.01 Restricted - Debt Service          | 8,193                   |
| 265 Committed - Capital Replacement       | 157,180                 |
| <b>Total Fund Balance</b>                 | <b>253,776</b>          |
| <b>TOTAL LIABILITIES AND FUND BALANCE</b> | <b>\$ 280,913</b>       |

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, 2025**

|  |                     |
|--|---------------------|
| Total Fund Balances - Governmental Funds   | \$ 253,776          |
| Amounts reported for governmental activities in the Statement of<br>Net Position are different because:                    |                     |
| Capital assets used in governmental activities are not financial<br>resources and therefore are not reported in the funds. | 4,022,585           |
| Long-term liabilities are not due and payable in the current period<br>and therefore are not reported in the funds.        | (21,885)            |
| <b>Total Net Position - Governmental Activities</b>  | <b>\$ 4,254,476</b> |

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, 2025

|   | <u>General<br/>Fund</u> |
|---|-------------------------|
| <b>Revenue:</b>                                 |                         |
| <i>Taxes:</i>                                   |                         |
| 313 Sales Taxes                                 | \$ 375,182              |
| 314 Gross Receipts Business Taxes               | 27,489                  |
| 320 Licenses and Permits                        | 3,095                   |
| <i>Intergovernmental Revenue:</i>               |                         |
| 331 Federal Grant                               | 181,626                 |
| 334 State Grant                                 | 5,994                   |
| 335.02 Motor Vehicle Commercial Prorate         | 2,300                   |
| 335.03 Liquor Tax Reversion                     | 2,451                   |
| 335.04 Motor Vehicle Licenses (5%)              | 16,126                  |
| 335.08 Local Government Highway and Bridge Fund | 13,766                  |
| 338.01 County Road Tax (25%)                    | 509                     |
| 338.99 Other                                    | 11,181                  |
| <i>Charges for Goods and Services:</i>          |                         |
| 342 Public Safety                               | 8                       |
| 343 Highways and Streets                        | 83                      |
| 346 Culture and Recreation                      | 15,722                  |
| 347 Ambulance                                   | 163,867                 |
| 348 Cemetery                                    | 1,000                   |
| 349 Other - Airport                             | 14,131                  |
| <i>Miscellaneous Revenue:</i>                   |                         |
| 361 Investment Earnings                         | 587                     |
| 362 Rentals                                     | 31,848                  |
| 367 Contributions and Donations                 | 46,465                  |
| 369 Other                                       | 24,493                  |
| <b>Total Revenue</b>                            | <b>937,923</b>          |

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2025

|  |   | <u>General<br/>Fund</u> |
|--|---|-------------------------|
| <b>Expenditures:</b>                   |   |                         |
| <i>General Government:</i>             |   |                         |
| 411                                    | Legislative                                       | 3,890                   |
| 412                                    | Executive   | 23,219                  |
| 413                                    | Elections   | 544                     |
| 414                                    | Financial Administration                          | 298,725                 |
| 419                                    | Other   | 255,657                 |
| <i>Public Safety:</i>                  |   |                         |
| 421                                    | Police  | 173,983                 |
| 422                                    | Fire  | 24,906                  |
| <i>Public Works:</i>                   |   |                         |
| 431                                    | Highway and Streets                               | 96,098                  |
| 432                                    | Sanitation  | 1,280                   |
| 435                                    | Airport   | 22,671                  |
| 437                                    | Cemeteries  | 8,351                   |
| <i>Health and Welfare:</i>             |   |                         |
| 441                                    | Health  | 3,054                   |
| 446                                    | Ambulance   | 186,949                 |
| <i>Culture and Recreation:</i>         |   |                         |
| 451                                    | Recreation  | 10,809                  |
| 452                                    | Parks   | 30,709                  |
| 454                                    | Swimming Pool                                     | 37,948                  |
| 455                                    | Library   | 22,189                  |
| <i>Conservation and Development:</i>   |   |                         |
| 465                                    | Economic Development and Assistance               | 56,007                  |
| 467                                    | Economic Development - Exhibit Area               | 12,457                  |
| 470                                    | Debt Service                                      | 10,572                  |
| 485                                    | Capital Outlay                                    | 210,690                 |
| <b>Total Expenditures</b>              |   | <b>1,490,708</b>        |
| <b>Other Financing Sources:</b>        |   |                         |
| 366                                    | Sale of Capital Assets                            | 4,700                   |
| 391.01                                 | Transfers In                                      | 494,822                 |
| 391.04                                 | Compensation for Loss or Damage To Capital Assets | 11,717                  |
| <b>Total Other Financing Sources</b>   |   | <b>511,239</b>          |
| <b>Net Change in Fund Balance</b>      |   | <b>(41,546)</b>         |
| Fund Balance, December 31, 2024        |   | 295,322                 |
| <b>Fund Balance, December 31, 2025</b> |   | <b>\$ 253,776</b>       |

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, 2025**

Net Change in Fund Balance - Government Funds \$ (41,546)

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 | 210,690   |
| Depreciation Expense                | (244,685) |
|                                     | <hr/>     |
|                                     | (33,995)  |

In the Statement of Activities, gain/losses on disposal of capital assets are reported, whereas, in governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain/loss is recognized. (50)

Repayment of the notes payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 9,689

|  |             |
|--|-------------|
| <hr/>  |             |
| Change in Net Position - Governmental Activities | \$ (65,902) |
|  | <hr/>       |

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF NET POSITION  
 PROPRIETARY FUNDS - MODIFIED CASH BASIS  
 DECEMBER 31, 2025

|  | Liquor<br>Fund    | Water<br>Fund       | Electric<br>Fund    | Wastewater<br>Fund  |
|--|-------------------|---------------------|---------------------|---------------------|
| <b>ASSETS:</b>                                 |                   |                     |                     |                     |
| <b>Current Assets:</b>                         |                   |                     |                     |                     |
| 101 Cash and Cash Equivalents                  | \$ 448,521        | \$ 618,959          | \$ 2,137,007        | \$ 48,373           |
| 107 Restricted Cash                            | -                 | 3,493               | -                   | 5,134               |
| 115 Accounts Receivable                        | 827               | -                   | -                   | -                   |
| 142 Inventory of Supplies Purchased for Resale | 39,396            | -                   | -                   | -                   |
| <b>Total Current Assets</b>                    | <b>488,744</b>    | <b>622,452</b>      | <b>2,137,007</b>    | <b>53,507</b>       |
| <b>Noncurrent Assets:</b>                      |                   |                     |                     |                     |
| 151 Joint Venture Investment                   | -                 | -                   | -                   | -                   |
| <b>Capital Assets:</b>                         |                   |                     |                     |                     |
| 160 Land                                       | -                 | 375                 | -                   | 1,318               |
| 162 Buildings                                  | -                 | 165,000             | -                   | -                   |
| 164 Improvements Other Than Buildings          | -                 | 61,226              | 269,445             | 2,064,479           |
| 166 Machinery and Equipment                    | 43,125            | 109,924             | 230,267             | 12,844              |
| Less: Accumulated Depreciation                 | (32,770)          | (282,259)           | (161,184)           | (73,136)            |
| 168 Construction in Progress                   | -                 | 3,393,522           | -                   | -                   |
| <b>Total Noncurrent Assets</b>                 | <b>10,355</b>     | <b>3,447,788</b>    | <b>338,528</b>      | <b>2,005,505</b>    |
| <b>TOTAL ASSETS</b>                            | <b>\$ 499,099</b> | <b>\$ 4,070,240</b> | <b>\$ 2,475,535</b> | <b>\$ 2,059,012</b> |
| <b>LIABILITIES:</b>                            |                   |                     |                     |                     |
| <b>Current Liabilities:</b>                    |                   |                     |                     |                     |
| 205 Current Portion of Long-Term Debt          | \$ -              | \$ 24,307           | \$ -                | \$ 12,058           |
| 216 Other Current Liabilities                  | 1,855             | 221                 | 2,563               | 6                   |
| 220 Customer Deposits                          | -                 | 8,683               | 9,228               | -                   |
| <b>Total Current Liabilities</b>               | <b>1,855</b>      | <b>33,211</b>       | <b>11,791</b>       | <b>12,064</b>       |
| <b>Long-Term Liabilities:</b>                  |                   |                     |                     |                     |
| 237 Long-Term Debt, Net of Current Portion     | -                 | 1,250,031           | -                   | 799,236             |
| <b>Total Current Liabilities</b>               | <b>-</b>          | <b>1,250,031</b>    | <b>-</b>            | <b>799,236</b>      |
| <b>NET POSITION:</b>                           |                   |                     |                     |                     |
| 253.1 Net Investment in Capital Assets         | 10,355            | 2,173,450           | 338,528             | 1,194,211           |
| 253.2 Restricted for Debt Service              | -                 | 3,493               | -                   | 5,134               |
| 253.9 Unrestricted Net Position                | 486,889           | 610,055             | 2,125,216           | 48,367              |
| <b>Total Net Position</b>                      | <b>497,244</b>    | <b>2,786,998</b>    | <b>2,463,744</b>    | <b>1,247,712</b>    |
| <b>TOTAL LIABILITIES AND NET POSITION</b>      | <b>\$ 499,099</b> | <b>\$ 4,070,240</b> | <b>\$ 2,475,535</b> | <b>\$ 2,059,012</b> |

The accompanying notes are an integral part of this statement.

| <b>Telephone<br/>Fund</b> | <b>Rubble Site<br/>Fund</b> | <b>Totals</b>        |
|---------------------------|-----------------------------|----------------------|
| \$ 1,038,891              | \$ 25,069                   | \$ 4,316,820         |
| -                         | -                           | 8,627                |
| -                         | -                           | 827                  |
| -                         | -                           | 39,396               |
| <u>1,038,891</u>          | <u>25,069</u>               | <u>4,365,670</u>     |
| 62,058                    | -                           | 62,058               |
| -                         | 2,980                       | 4,673                |
| -                         | -                           | 165,000              |
| 1,337,818                 | 22,059                      | 3,755,027            |
| 136,371                   | 7,071                       | 539,602              |
| (420,938)                 | (29,130)                    | (999,417)            |
| -                         | -                           | 3,393,522            |
| <u>1,115,309</u>          | <u>2,980</u>                | <u>6,920,465</u>     |
| <u>\$ 2,154,200</u>       | <u>\$ 28,049</u>            | <u>\$ 11,286,135</u> |
| \$ -                      | \$ -                        | \$ 36,365            |
| 1,989                     | 506                         | 7,140                |
| 13,600                    | -                           | 31,511               |
| <u>15,589</u>             | <u>506</u>                  | <u>75,016</u>        |
| -                         | -                           | 2,049,267            |
| -                         | -                           | 2,049,267            |
| 1,053,251                 | 2,980                       | 4,772,775            |
| -                         | -                           | 8,627                |
| 1,085,360                 | 24,563                      | 4,380,450            |
| <u>2,138,611</u>          | <u>27,543</u>               | <u>9,161,852</u>     |
| <u>\$ 2,154,200</u>       | <u>\$ 28,049</u>            | <u>\$ 11,286,135</u> |

CITY OF FAITH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2025

|   | <b>Liquor<br/>Fund</b> | <b>Water<br/>Fund</b> | <b>Electric<br/>Fund</b> | <b>Wastewater<br/>Fund</b> |
|---|------------------------|-----------------------|--------------------------|----------------------------|
| <b>Operating Revenue:</b>                   |                        |                       |                          |                            |
| 380 Charges for Goods and Services          | \$ 281,228             | \$ 216,573            | \$ 663,604               | \$ 71,015                  |
| 380.5 Lottery Sales                         | 55,041                 | -                     | -                        | -                          |
| <b>Total Operating Revenue</b>              | <b>336,269</b>         | <b>216,573</b>        | <b>663,604</b>           | <b>71,015</b>              |
| <b>Operating Expenses:</b>                  |                        |                       |                          |                            |
| 410 Personal Services                       | 96,339                 | 37,671                | 56,613                   | 2,453                      |
| 420 Other Current Expense                   | 27,238                 | 43,982                | 24,704                   | 26,304                     |
| 426.2 Materials (Cost of Goods Sold)        | 138,390                | 59,928                | 204,848                  | -                          |
| 457 Depreciation                            | 1,663                  | 4,669                 | 20,634                   | 34,973                     |
| <b>Total Operating Expenses</b>             | <b>263,630</b>         | <b>146,250</b>        | <b>306,799</b>           | <b>63,730</b>              |
| <b>Operating Income (Loss)</b>              | <b>72,639</b>          | <b>70,323</b>         | <b>356,805</b>           | <b>7,285</b>               |
| <b>Nonoperating Revenue:</b>                |                        |                       |                          |                            |
| 361 Investment Earnings                     | 14,255                 | 18,335                | 72,173                   | 2,800                      |
| 391.3 Gain on Sale of Capital Assets        | -                      | -                     | 9,100                    | -                          |
| 391 Settlement Proceeds                     | -                      | -                     | -                        | 80,000                     |
| 331 Federal Grant Revenue                   | -                      | -                     | -                        | 116,836                    |
| <b>Total Nonoperating Revenue</b>           | <b>14,255</b>          | <b>18,335</b>         | <b>81,273</b>            | <b>199,636</b>             |
| <b>Income (Loss) Before Transfers</b>       | <b>86,894</b>          | <b>88,658</b>         | <b>438,078</b>           | <b>206,921</b>             |
| <b>Other Financing Sources (Uses)</b>       |                        |                       |                          |                            |
| 391.5 Forgiveness of Long-Term Debt         | -                      | 749,414               | -                        | -                          |
| 511 Transfers Out                           | (69,295)               | (18,335)              | (222,173)                | (2,800)                    |
| <b>Total Other Financing Sources (Uses)</b> | <b>(69,295)</b>        | <b>731,079</b>        | <b>(222,173)</b>         | <b>(2,800)</b>             |
| <b>Change in Net Position</b>               | <b>17,599</b>          | <b>819,737</b>        | <b>215,905</b>           | <b>204,121</b>             |
| Net Position - December 31, 2024            | 479,645                | 1,967,261             | 2,247,839                | 1,043,591                  |
| <b>NET POSITION - DECEMBER 31, 2025</b>     | <b>\$ 497,244</b>      | <b>\$ 2,786,998</b>   | <b>\$ 2,463,744</b>      | <b>\$ 1,247,712</b>        |

The accompanying notes are an integral part of this statement.

| <b>Telephone<br/>Fund</b> | <b>Rubble Site<br/>Fund</b> | <b>Totals</b>       |
|---------------------------|-----------------------------|---------------------|
| \$ 602,249                | \$ 100,160                  | \$ 1,934,829        |
| -                         | -                           | 55,041              |
| <u>602,249</u>            | <u>100,160</u>              | <u>1,989,870</u>    |
| 41,820                    | 7,310                       | 242,206             |
| 211,946                   | 88,243                      | 422,417             |
| -                         | -                           | 403,166             |
| 65,787                    | 6,128                       | 133,854             |
| <u>319,553</u>            | <u>101,681</u>              | <u>1,201,643</u>    |
| 282,696                   | (1,521)                     | 788,227             |
| 31,351                    | 868                         | 139,782             |
| -                         | -                           | 9,100               |
| -                         | -                           | 80,000              |
| -                         | -                           | 116,836             |
| <u>31,351</u>             | <u>868</u>                  | <u>345,718</u>      |
| 314,047                   | (653)                       | 1,133,945           |
| -                         | -                           | 749,414             |
| <u>(181,351)</u>          | <u>(868)</u>                | <u>(494,822)</u>    |
| <u>(181,351)</u>          | <u>(868)</u>                | <u>254,592</u>      |
| 132,696                   | (1,521)                     | 1,388,537           |
| 2,005,915                 | 29,064                      | 7,773,315           |
| <u>\$ 2,138,611</u>       | <u>\$ 27,543</u>            | <u>\$ 9,161,852</u> |

CITY OF FAITH

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS - MODIFIED CASH BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2025

|   | Liquor<br>Fund    | Water<br>Fund     | Electric<br>Fund    | Wastewater<br>Fund |
|---|-------------------|-------------------|---------------------|--------------------|
| <b>Cash Flows from Operating Activities:</b>  |                   |                   |                     |                    |
| Receipts from Customers   | \$ 336,269        | \$ 216,666        | \$ 663,697          | \$ 71,015          |
| Payments to Suppliers   | (165,057)         | (103,910)         | (229,818)           | (26,304)           |
| Payments to Employees   | (96,416)          | (37,591)          | (56,613)            | (2,517)            |
| <b>Net Cash Flows Provided by Operating Activities</b>  | <b>74,796</b>     | <b>75,165</b>     | <b>377,266</b>      | <b>42,194</b>      |
| <b>Cash Flows Used in Noncapital Financing Activities:</b>  |                   |                   |                     |                    |
| Transfers to Other Funds  | (69,295)          | (18,335)          | (222,173)           | (2,800)            |
| <b>Cash Flows from Capital and Related Financing Activities:</b>                                  |                   |                   |                     |                    |
| Purchases of Capital Assets   | (3,828)           | (1,288,107)       | (126,307)           | (175,495)          |
| Principal Paid on Capital Debt  | -                 | (11,984)          | -                   | (11,739)           |
| Proceeds from Borrowings on Long-Term Debt  | -                 | 1,277,276         | -                   | -                  |
| Proceeds on Sale of Capital Assets  | -                 | -                 | 9,100               | -                  |
| Settlement Proceeds   | -                 | -                 | -                   | 80,000             |
| Federal Grant   | -                 | -                 | -                   | 116,836            |
| <b>Net Cash Provided by (Used in) Capital and Related Financing Activities</b>                    | <b>(3,828)</b>    | <b>(22,815)</b>   | <b>(117,207)</b>    | <b>9,602</b>       |
| <b>Cash Flows Provided by Investing Activities:</b>   |                   |                   |                     |                    |
| Cash Received for Interest  | 14,255            | 18,335            | 72,173              | 2,800              |
| <b>Net Change in Cash, Investments, and Restricted Cash</b>                                       | <b>15,928</b>     | <b>52,350</b>     | <b>110,059</b>      | <b>51,796</b>      |
| Cash, Investments, and Restricted Cash, December 31, 2024   | 432,593           | 570,102           | 2,026,948           | 1,711              |
| <b>Cash, Investments, and Restricted Cash, December 31, 2025</b>                                  | <b>\$ 448,521</b> | <b>\$ 622,452</b> | <b>\$ 2,137,007</b> | <b>\$ 53,507</b>   |
| <b>Cash Flows From Operating Activities:</b>  |                   |                   |                     |                    |
| Operating Income (Loss)   | \$ 72,639         | \$ 70,323         | \$ 356,805          | \$ 7,285           |
| Adjustments to Reconcile Operating Income (Loss) to<br>Net Cash Provided by Operating Activities: |                   |                   |                     |                    |
| Depreciation Expense  | 1,663             | 4,669             | 20,634              | 34,973             |
| Change in Assets and Liabilities:   |                   |                   |                     |                    |
| Inventories   | 571               | -                 | -                   | -                  |
| Customer Deposits   | -                 | 93                | 93                  | -                  |
| Other Current Liabilities   | (77)              | 80                | (266)               | (64)               |
| <b>Net Cash Flows Provided by Operating Activities</b>  | <b>\$ 74,796</b>  | <b>\$ 75,165</b>  | <b>\$ 377,266</b>   | <b>\$ 42,194</b>   |
| <b>Reconciliation of Cash and Cash Equivalents and Restricted Cash</b>                            |                   |                   |                     |                    |
| Cash and Cash Equivalents   | 448,521           | 618,959           | 2,137,007           | 48,373             |
| Restricted Cash   | -                 | 3,493             | -                   | 5,134              |
| <b>Total Cash and Cash Equivalents and Restricted Cash</b>  | <b>\$ 448,521</b> | <b>\$ 622,452</b> | <b>\$ 2,137,007</b> | <b>\$ 53,507</b>   |
| <b>Noncash Capital and Related Financing Activities:</b>  |                   |                   |                     |                    |
| Principal Forgiveness of Long-Term Debt   | \$ -              | \$ 749,414        | \$ -                | \$ -               |

The accompanying notes are an integral part of this statement.

| <b>Telephone<br/>Fund</b> | <b>Rubble Site<br/>Fund</b> | <b>Totals</b>       |
|---------------------------|-----------------------------|---------------------|
| \$ 602,879                | \$ 100,160                  | \$ 1,990,686        |
| (211,946)                 | (88,243)                    | (825,278)           |
| (41,454)                  | (7,359)                     | (241,950)           |
| <u>349,479</u>            | <u>4,558</u>                | <u>923,458</u>      |
| <br>                      |                             |                     |
| <u>(181,351)</u>          | <u>(868)</u>                | <u>(494,822)</u>    |
| <br>                      |                             |                     |
| -                         | -                           | (1,593,737)         |
| -                         | -                           | (23,723)            |
| -                         | -                           | 1,277,276           |
| -                         | -                           | 9,100               |
| -                         | -                           | 80,000              |
| -                         | -                           | <u>116,836</u>      |
| <br>                      |                             |                     |
| <u>-</u>                  | <u>-</u>                    | <u>(134,248)</u>    |
| <br>                      |                             |                     |
| <u>31,351</u>             | <u>868</u>                  | <u>139,782</u>      |
| <br>                      |                             |                     |
| <u>199,479</u>            | <u>4,558</u>                | <u>434,170</u>      |
| <br>                      |                             |                     |
| <u>839,412</u>            | <u>20,511</u>               | <u>3,891,277</u>    |
| <br>                      |                             |                     |
| <u>\$ 1,038,891</u>       | <u>\$ 25,069</u>            | <u>\$ 4,325,447</u> |
| <br>                      |                             |                     |
| \$ 282,696                | \$ (1,521)                  | \$ 788,227          |
| <br>                      |                             |                     |
| 65,787                    | 6,128                       | 133,854             |
| -                         | -                           | 571                 |
| 630                       | -                           | 816                 |
| 366                       | (49)                        | (10)                |
| <u>\$ 349,479</u>         | <u>\$ 4,558</u>             | <u>\$ 923,458</u>   |
| <br>                      |                             |                     |
| 1,038,891                 | 25,069                      | 4,316,820           |
| -                         | -                           | 8,627               |
| <u>\$ 1,038,891</u>       | <u>\$ 25,069</u>            | <u>\$ 4,325,447</u> |
| <br>                      |                             |                     |
| \$ -                      | \$ -                        | \$ 749,414          |

## CITY OF FAITH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025

#### **(1) Summary of Significant Accounting Policies**

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.

#### **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.

#### **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  
DECEMBER 31, 2025**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

Fund Financial Statements:

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

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

Proprietary Funds include:

Liquor Fund – Financed primarily by the sale of liquor; this fund accounts for construction and operation of the City liquor store and bar. 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.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

**(1) Summary of Significant Accounting Policies**

**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.

*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 as defined below.

*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 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  
DECEMBER 31, 2025**

**(1) Summary of Significant Accounting Policies**

**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).

**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.

**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 asphalt chip, gravel, and fuel inventory is valued at the lower of cost or market on the weighted average cost basis.

**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.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

**(1) Summary of Significant Accounting Policies**

**Capital Assets**

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<br/>Threshold</u> | <u>Depreciation<br/>Method</u> | <u>Estimated<br/>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.

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.

**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.

**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 DECEMBER 31, 2025

#### (1) Summary of Significant Accounting Policies

##### 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.

##### 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.
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.

## CITY OF FAITH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025

#### (1) Summary of Significant Accounting Policies

##### Equity Classifications

###### Fund Financial Statements:

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

##### Subsequent Events

The City has assessed subsequent events through May 5, 2026, the date which the financial statements were available to be issued.

##### Emerging Accounting Standards

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, Financial Reporting Model Improvements, which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the City's year ending December 31, 2026.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, Subsequent Events, which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the City's year ending December 31, 2027.

The City is currently evaluating the impact these statements will have on the financial statements.

#### (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 City's cash deposits are made in qualified public depositories as defined by South Dakota Codified Laws (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 Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (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 City 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  
DECEMBER 31, 2025**

**(2) Deposits and Investments**

As of December 31, 2025, 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, 2025 were as follows:

| <b>Primary Government</b>                                | <b>Bank Balance</b> |
|--|---------------------|
| Insured - FDIC   | \$ 297,739          |
| Uninsured, collateralized in accordance with SDCL 4-6A-3 | 4,251,983           |
| <b>Total Deposits</b>                                    | <b>\$ 4,549,722</b> |

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 and modified-cash basis of accounting, 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.

*Concentration of Credit Risk:* The City 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  
DECEMBER 31, 2025

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2025, is as follows:

|   | Balance<br>12/31/2024 | Additions          | Transfers/<br>Deletions | Balance<br>12/31/2025 |
|---|-----------------------|--------------------|-------------------------|-----------------------|
| <i>Governmental Activities:</i>   |                       |                    |                         |                       |
| Capital Assets, not being Depreciated:                                      |                       |                    |                         |                       |
| Land  | \$ 66,033             | \$ -               | \$ -                    | \$ 66,033             |
| Construction in Progress **   | -                     | 210,690            | -                       | 210,690               |
| <b>Total Capital Assets, not being Depreciated</b>                          | <b>66,033</b>         | <b>210,690</b>     | <b>-</b>                | <b>276,723</b>        |
| Capital Assets, being Depreciated:  |                       |                    |                         |                       |
| Buildings   | 2,982,307             | -                  | -                       | 2,982,307             |
| Improvements Other Than Buildings   | 3,293,940             | -                  | -                       | 3,293,940             |
| Machinery and Equipment   | 1,442,141             | -                  | 3,000                   | 1,439,141             |
| <b>Total Capital Assets, being Depreciated</b>                              | <b>7,718,388</b>      | <b>-</b>           | <b>3,000</b>            | <b>7,715,388</b>      |
| Less Accumulated Depreciation for:  |                       |                    |                         |                       |
| Buildings   | 1,287,516             | 58,661             | -                       | 1,346,177             |
| Improvements Other Than Buildings   | 1,461,784             | 98,189             | -                       | 1,559,973             |
| Machinery and Equipment   | 978,491               | 87,835             | 2,950                   | 1,063,376             |
| <b>Total Accumulated Depreciation</b>                                       | <b>3,727,791</b>      | <b>244,685</b>     | <b>2,950</b>            | <b>3,969,526</b>      |
| <b>Total Governmental Activities Capital Assets, being Depreciated, Net</b> | <b>3,990,597</b>      | <b>(244,685)</b>   | <b>50</b>               | <b>3,745,862</b>      |
| <b>Total Governmental Capital Assets, Net</b>                               | <b>\$ 4,056,630</b>   | <b>\$ (33,995)</b> | <b>\$ 50</b>            | <b>\$ 4,022,585</b>   |

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

|  |                   |
|--|-------------------|
| Public Works                                     | \$ 66,037         |
| Public Safety                                    | 39,852            |
| General Government                               | 103,186           |
| Health and Welfare                               | 14,370            |
| Culture and Recreation                           | 21,240            |
| <b>Total Depreciation Expense - Governmental</b> | <b>\$ 244,685</b> |

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025

(4) Changes in Capital Assets

A summary of changes in business-type activities capital assets for the year ending December 31, 2025, is as follows:

|  | Balance<br>12/31/2024 | Additions           | Transfers/<br>Deletions | Balance<br>12/31/2025 |
|--|-----------------------|---------------------|-------------------------|-----------------------|
| <i>Business-Type Activities:</i>   |                       |                     |                         |                       |
| Capital Assets, not being Depreciated:                                       |                       |                     |                         |                       |
| Land   | \$ 4,673              | \$ -                | \$ -                    | \$ 4,673              |
| Construction in Progress **  | 3,963,299             | 1,463,602           | 2,033,379               | 3,393,522             |
| <b>Total Capital Assets, not being Depreciated</b>                           | <b>3,967,972</b>      | <b>1,463,602</b>    | <b>2,033,379</b>        | <b>3,398,195</b>      |
| Capital Assets, being Depreciated:   |                       |                     |                         |                       |
| Buildings  | 165,000               | -                   | -                       | 165,000               |
| Improvements Other Than Buildings  | 1,721,648             | 2,033,379           | -                       | 3,755,027             |
| Machinery and Equipment  | 426,467               | 130,135             | 17,000                  | 539,602               |
| <b>Total Capital Assets Being Depreciated</b>                                | <b>2,313,115</b>      | <b>2,163,514</b>    | <b>17,000</b>           | <b>4,459,629</b>      |
| Less Accumulated Depreciation for:   |                       |                     |                         |                       |
| Buildings  | 146,760               | 760                 | -                       | 147,520               |
| Improvements Other Than Buildings  | 398,340               | 111,272             | -                       | 509,612               |
| Machinery and Equipment  | 337,463               | 21,822              | 17,000                  | 342,285               |
| <b>Total Accumulated Depreciation</b>  | <b>882,563</b>        | <b>133,854</b>      | <b>17,000</b>           | <b>999,417</b>        |
| <b>Total Business-Type Activities Capital Assets, being Depreciated, Net</b> |                       |                     |                         |                       |
|  | 1,430,552             | 2,029,660           | -                       | 3,460,212             |
| <b>Total Business-Type Capital Assets, Net</b>                               | <b>\$ 5,398,524</b>   | <b>\$ 3,493,262</b> | <b>\$ 2,033,379</b>     | <b>\$ 6,858,407</b>   |

\*\* Construction in Progress at December 31, 2025, consists of engineering fees and construction costs for an airport electrical replacement project and runway renumbering project funded by the general fund with total estimated expenditures remaining for the projects of approximately \$791,000 and \$22,000, respectively. Construction in Progress also consists of a water tower project funded by the water fund with total estimated expenditures remaining for the project of approximately \$473,500.

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

|   |                   |
|---|-------------------|
| Business-Type Activities:                         |                   |
| Telephone   | \$ 65,787         |
| Electric  | 20,634            |
| Rubble Site                                       | 6,128             |
| Water   | 4,669             |
| Liquor  | 1,663             |
| Wastewater  | 34,973            |
| <b>Total Depreciation Expense - Business-Type</b> | <b>\$ 133,854</b> |

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

**(5) Long-Term Debt**

A summary of the changes in long-term debt for the year ending December 31, 2025, is as follows:

|                                      | Balance<br>12/31/2024 | Additions           | Deletions         | Balance<br>12/31/2025 | Due Within<br>One Year |
|--------------------------------------|-----------------------|---------------------|-------------------|-----------------------|------------------------|
| <b>Primary Government:</b>           |                       |                     |                   |                       |                        |
| <b>Governmental Activities:</b>      |                       |                     |                   |                       |                        |
| Rural Development Loan - Ambulance   | \$ 31,574             | \$ -                | \$ 9,689          | \$ 21,885             | \$ 10,009              |
| <b>Total Governmental Activities</b> | <b>31,574</b>         | <b>-</b>            | <b>9,689</b>      | <b>21,885</b>         | <b>10,009</b>          |
| <b>Business-Type Activities:</b>     |                       |                     |                   |                       |                        |
| 2023 SRF Water Revenue Bond          | 758,460               | 629,813             | 440,257           | 948,016               | 24,307                 |
| 2024 SRF Water Revenue Bond          | -                     | 647,463             | 321,141           | 326,322               | -                      |
| 2024 Sewer Bond                      | 823,033               | -                   | 11,739            | 811,294               | 12,058                 |
|                                      | 1,581,493             | 1,277,276           | 773,137           | 2,085,632             | 36,365                 |
| <b>Total Primary Government</b>      | <b>\$ 1,613,067</b>   | <b>\$ 1,277,276</b> | <b>\$ 782,826</b> | <b>\$ 2,107,517</b>   | <b>\$ 46,374</b>       |

Long-term debt at December 31, 2025, is comprised of the following:

*Note Payable*

USDA Rural Development Loan due in monthly installments of \$881, including interest at 3.25 percent, through February 2028. Financed through the General Fund. \$ 21,885

Rural Development Loan due in monthly installments of \$2,852, including interest at 2.75 percent, through June 2064. Financed through the Sewer Fund. 811,294

Series 2023 State Revolving Fund (SRF) Drinking Water Revenue Bond due in quarterly installments of \$10,478, including interest at 1.875 percent, through May 2055. Financed through the Water Fund.\* 948,016

Series 2024 SRF Drinking Water Revenue Bond, borrowings up to \$1,250,000, matures 30 years after initial loan amortization date, interest at 3.250, due in quarterly installments with principal forgiveness not to exceed \$650,000. Financed through the Water Fund.\* 326,322

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**\$ 2,107,517**

\*During the year ended December 31, 2025, \$749,414 of debt forgiven was.

Debt Covenants

The City’s 2023 SRF Drinking Water Revenue Bond requires the City to keep net water revenue available for debt service equal to at least 110 percent of debt service expenditures each year and debt reserve funds equal to at least one-third of the quarterly loan installment. The City has debt reserves totaling \$3,493 at December 31, 2025 in accordance with the requirements.

Additionally, the Rural Development Loans – Ambulance and Sewer Bond - require debt reserve funds equal to at least one annual loan installment that accumulates at a rate of 10 percent of one annual payment per year for ten years, or until the balance is equal to one annual loan payment. The City has debt reserves totaling \$8,193 for the Ambulance and \$5,134 for the Sewer Bond at December 31, 2025 in accordance with the requirements.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

**(5) Long-Term Debt**

The annual requirements to amortize long-term debt outstanding as of December 31, 2025, are as follows:

|              | Total             |                     |
|--------------|-------------------|---------------------|
|              | Interest          | Principal           |
| 2026         | \$ 39,771         | \$ 46,374           |
| 2027         | 38,976            | 47,499              |
| 2028         | 38,163            | 39,513              |
| 2029         | 37,332            | 38,804              |
| 2030         | 36,482            | 39,655              |
| 2031-2035    | 168,964           | 211,717             |
| 2036-2040    | 144,610           | 236,072             |
| 2041-2045    | 117,339           | 263,343             |
| 2046-2050    | 86,786            | 293,895             |
| 2051-2055    | 52,591            | 307,136             |
| 2056-2060    | 25,799            | 145,321             |
| 2061-2065    | 5,508             | 111,866             |
| 2024 SRF**   | -                 | 326,322             |
| <b>Total</b> | <b>\$ 792,321</b> | <b>\$ 2,107,517</b> |

\*\* The 2024 SRF Loan Amortization will be finalized upon project completion.

**(6) Operating Leases**

The City subleases a portion of the community center to the Faith School District. The sublease requires annual payments of \$30,000 through June 30, 2027. Sublease rental income was \$30,000 for the year ended December 31, 2025. Future rental revenue expected under this lease is \$30,000 for the year ending December 31, 2026, and \$15,000 for the year ended December 31, 2027.

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

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

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

All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25 percent.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5 percent and no greater than 3.5 percent.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5 percent and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the COLA.

**Contributions:**

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were \$35,085, \$34,116, and \$30,639, respectively, equal to the required contributions each year.

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred inflows and outflows and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2025, 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, 2025 was .019903 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity.

**CITY OF FAITH**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2025**

**(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, 2025, 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, 2025, this joint venture had total equity of approximately \$121,500,000 (unaudited), total liabilities of approximately \$30,500,000 (unaudited), and total assets of approximately \$152,000,000 (unaudited).

**(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2025, 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 \$1,775 during the year ended December 31, 2025. It is not anticipated that any significant claims for unemployment benefits will be filed in the next year.

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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 5, 2026.

**Report on 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) as a basis for designing 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2025-001 and #2025-002, that we consider to be material weaknesses.

**Report on 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 financial statements. 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**

*Government Auditing Standards* requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

May 5, 2026

**CITY OF FAITH**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

**MATERIAL WEAKNESSES**

FINDING #2025-001: Financial Statement Preparation and Year-End Adjustments

*Condition and Cause:* As a matter of practicality and efficiency, we have assisted in drafting the modified-cash basis financial statements, in both form and content, based on information provided by management during the audit. We also proposed material audit adjustments in accordance with the modified-cash basis of accounting.

*Criteria and Effect:* Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained. These deficiencies could result in material misstatements to the financial statements that would not have been prevented or detected by the City's management.

*Repeat Finding from Prior Year:* Yes, prior year Finding #2024-001.

*Recommendation:* Management and if applicable, governance, should review the financial statements and audit adjustments for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

*Response/Corrective Action Plan:* The City agrees with the above Finding. See Corrective Action Plan.

2025-002 FINDING: Segregation of Duties

*Condition and Cause:* The City has a general lack of segregation of duties. Specifically:

- a. All finance personnel have access to the general ledger, open mail, receive unopened bank statements, and mail the signed checks. However, the Mayor receives the bank statement directly from the bank and reviews for any unusual items.
- b. The Finance Officer and Deputy Finance Officer receive customer payments, have access to 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. The Finance Officer is performing spot checks of inventory.
- d. There is a lack of oversight for bar operations. Margins are not tracked on a regular basis to ensure sales margins are consistent with cost of sales.
- e. 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.
- f. There is a lack of controls over manual adjusting journal entries. The Finance Officer posts journal entries with no review process in place.

**CITY OF FAITH**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED DECEMBER 31, 2025**

**MATERIAL WEAKNESSES**

2025-002 FINDING: Segregation of Duties

*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 safeguarding of assets and the reliability of financial records and reporting. The effectiveness of the internal control system relies on enforcement by management.

*Repeat Finding from Prior Year:* Yes, prior year finding 2024-002.

*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 statements.
- 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.
- d. 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.
- e. 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 statements, including images of cancelled checks.
- f. All manual journal entries should be reviewed for reasonableness at least monthly.

*Response/Corrective Action Plan:* See City's Corrective Action Plan.

MANAGEMENT RESPONSE



# CITY OF FAITH

P.O. Box 368

Faith, South Dakota 57626-0368

Phone: (605) 967-2261

## CITY OF FAITH

### SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2025

The City of Faith respectfully submits the following summary schedule of prior audit findings from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

#### Finding No. 2024-001: Financial Statement Preparation and Year-End Adjustments

*Status:* It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* The City is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements prepared by the auditors. The finding will be repeated in 2025, see Corrective Action Plan.

#### Finding No. 2024-002: Segregation of Duties

*Status:* 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 organization and has accepted the risk involved with such, due to cost considerations.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* As the City has accept the risk associated with the segregation of duties finding, it will be repeated in 2025, see Corrective Action Plan.



# CITY OF FAITH

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## CITY OF FAITH

### CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2025

The City respectfully submits the following corrective action plan from the December 31, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#### Finding 2025-001: Financial Statement Preparation and Year-End Adjustments

*Responsible Official:* Debbie Brown, Finance Officer

*Corrective Action Plan:* Management of the City has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the City. Management has been given adequate opportunity to ask questions regarding the financials statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

*Anticipated Completion Date:* Ongoing

#### Finding 2025-002: 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