

CITY OF FAITH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

CITY OF FAITH

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Faith
Faith, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF FAITH** (the City), Meade County, South Dakota, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund, of the City as of December 31, 2020, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1(c).

Emphasis of Matter Regarding Basis of Accounting

We draw attention to Note 1(c) of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Information

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

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

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The schedule of expenditures of federal awards (SEFA) as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* on page 37 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 25, 2021 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 25, 2021

CITY OF FAITH

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2020**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Investments	\$ 219,829	\$ 2,473,131	\$ 2,692,960
Restricted Cash	2,995	-	2,995
Other Current Assets	35,779	26,367	62,146
Joint Venture Investment	-	62,058	62,058
Capital Assets:			
Land and Construction Work in Progress	245,544	1,608,267	1,853,811
Other Capital Assets, Net of Depreciation	3,201,030	357,224	3,558,254
TOTAL ASSETS	\$ 3,705,177	\$ 4,527,047	\$ 8,232,224
LIABILITIES:			
Other Current Liabilities	\$ 2,585	\$ 43,726	\$ 46,311
Non-Current Liability - Notes Payable:			
Due Within One Year	8,510	606,697	615,207
Due in More Than One Year	58,826	-	58,826
TOTAL LIABILITIES	69,921	650,423	720,344
NET POSITION:			
Net Investment in Capital Assets	3,379,238	1,358,794	4,738,032
Restricted for Debt Service	2,995	-	2,995
Unrestricted	253,023	2,517,830	2,770,853
TOTAL NET POSITION	3,635,256	3,876,624	7,511,880
TOTAL LIABILITIES AND NET POSITION	\$ 3,705,177	\$ 4,527,047	\$ 8,232,224

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, 2020

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 469,389	\$ -	\$ -	\$ -	\$ (469,389)	\$ -	\$ (469,389)
Public Safety	212,452	-	45,000	90,320	(77,132)	-	(77,132)
Public Works	214,567	53,210	85,563	26,212	(49,582)	-	(49,582)
Health and Welfare	169,858	158,429	-	-	(11,429)	-	(11,429)
Culture and Recreation	64,829	6,235	-	-	(58,594)	-	(58,594)
Conservation and Development	18,630	-	-	-	(18,630)	-	(18,630)
Interest on Long-Term Debt	2,464	-	-	-	(2,464)	-	(2,464)
Total Governmental Activities	1,152,189	217,874	130,563	116,532	(687,220)	-	(687,220)
Business-Type Activities:							
Liquor	224,522	267,268	-	-	-	42,746	42,746
Water	86,461	114,915	-	-	-	28,454	28,454
Electric	227,135	668,854	-	-	-	441,719	441,719
Wastewater	30,127	50,728	515,000	-	-	535,601	535,601
Telephone	234,528	496,829	-	-	-	262,301	262,301
Rubble Site	81,610	79,470	-	-	-	(2,140)	(2,140)
Total Business-Type Activities	884,383	1,678,064	515,000	-	-	1,308,681	1,308,681
Total Primary Government	\$ 2,036,572	\$ 1,895,938	\$ 645,563	\$ 116,532	(687,220)	1,308,681	621,461
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Sales Taxes					282,716	-	282,716
Gross Receipt Taxes					17,894	-	17,894
State Shared Revenues					2,914	-	2,914
Unrestricted Investment Earnings					198	18,728	18,926
Miscellaneous Revenue					63,643	-	63,643
Transfers					369,534	(369,534)	-
Total General Revenues and Transfers					736,899	(350,806)	386,093
Change in Net Position					49,679	957,875	1,007,554
Net Position - December 31, 2019					3,585,577	2,918,749	6,504,326
Net Position - December 31, 2020					\$ 3,635,256	\$ 3,876,624	\$ 7,511,880

The accompanying notes are an integral part of this statement.

CITY OF FAITH

BALANCE SHEET

GOVERNMENTAL FUND - MODIFIED CASH BASIS

DECEMBER 31, 2020

	<u>General Fund</u>
ASSETS:	
101 Cash and Investments	\$ 219,829
107 Restricted Cash	2,995
115 Other Current Assets	35,779
TOTAL ASSETS	\$ 258,603
LIABILITIES AND FUND BALANCE:	
Liabilities:	
216 Other Current Liabilities	\$ 2,585
Total Liabilities	2,585
Fund Balance:	
263.01 Nonspendable - Inventory	33,796
264.01 Restricted - Debt Service	2,995
265 Committed - Capital Replacement	219,227
Total Fund Balance	256,018
TOTAL LIABILITIES AND FUND BALANCE	\$ 258,603

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, 2020**

Total Fund Balances - Governmental Funds \$ 256,018

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

Capital Assets used in governmental activities are not financial
resources and therefore are not reported in the funds. 3,446,574

Long-term liabilities are not due and payable in the current period
and therefore are not reported in the funds. (67,336)

Total Net Position - Governmental Activities \$ **3,635,256**

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, 2020**

	<u>General Fund</u>
Revenue:	
<i>Taxes:</i>	
313 Sales Taxes	\$ 282,716
314 Gross Receipts Business Taxes	17,846
315 Amusement Taxes	48
320 Licenses and Permits	2,280
<i>Intergovernmental Revenue:</i>	
331 Federal Grant	194,163
334 State Grant	37,932
335.01 Bank Franchise Tax	738
335.03 Liquor Tax Reversion	2,914
335.04 Motor Vehicle Licenses (5%)	13,991
335.08 Local Government Highway and Bridge Fund	12,248
338.01 County Road Tax (25%)	509
338.99 Other	4,498
<i>Charges for Goods and Services:</i>	
343 Highways and Streets	650
346 Culture and Recreation	6,235
347 Ambulance	158,429
348 Cemetery	1,520
349 Other - Airport	21,274
<i>Miscellaneous Revenue:</i>	
361 Investment Earnings	198
362 Rentals	33,436
369 Other	14,446
Total Revenue	806,071

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2020

		<u>General Fund</u>
Expenditures:		
<i>General Government:</i>		
411	Legislative	3,304
412	Executive	22,955
413	Elections	898
414	Financial Administration	214,186
419	Other	185,209
<i>Public Safety:</i>		
421	Police	143,141
422	Fire	19,370
<i>Public Works:</i>		
431	Highway and Streets	77,661
432	Sanitation	644
435	Airport	29,210
437	Cemeteries	4,740
<i>Health and Welfare:</i>		
441	Health	684
446	Ambulance	145,984
<i>Culture and Recreation:</i>		
451	Recreation	4,013
452	Parks	19,520
454	Swimming Pool	876
455	Library	21,890
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	12,904
466	Economic Opportunity	1,000
467	Economic Development - Exhibit Area	4,726
470	Debt Service	50,647
485	Capital Outlay	155,621
Total Expenditures		1,119,183
Other Financing Sources:		
391.01	Transfers In	369,534
391.04	Compensation for Loss or Damage To Capital Assets	11,263
391.21	Other Long Term Debt Issued	30,000
Total Other Financing Sources		410,797
Net Change in Fund Balance		97,685
Fund Balance, December 31, 2019		158,333
Fund Balance, December 31, 2020		\$ 256,018

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, 2020

Net Change in Fund Balance - Government Funds \$ 97,685

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	155,621
Depreciation Expense	(236,810)
	<hr/>
	(81,189)

Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position. 15,000

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. 48,183

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement on Net Position. (30,000)

Change in Net Position - Governmental Activities \$ 49,679

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2020

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
ASSETS:				
Current Assets:				
101 Cash and Cash Equivalents	\$ 358,480	\$ 246,377	\$ 1,196,157	\$ 141,320
115 Accounts Receivable	827	-	-	-
142 Inventory of Supplies Purchased for Resale	25,540	-	-	-
Total Current Assets	384,847	246,377	1,196,157	141,320
Noncurrent Assets:				
151 Joint Venture Investment	-	-	-	-
Capital Assets:				
160 Land	-	375	-	1,318
162 Buildings	-	146,000	-	-
164 Improvements Other Than Buildings	-	61,226	56,429	31,100
166 Machinery and Equipment	29,824	105,890	115,460	12,844
Less: Accumulated Depreciation	(25,494)	(259,801)	(124,540)	(32,599)
168 Construction in Progress	-	-	-	1,391,788
Total Noncurrent Assets	4,330	53,690	47,349	1,404,451
TOTAL ASSETS	\$ 389,177	\$ 300,067	\$ 1,243,506	\$ 1,545,771
LIABILITIES:				
Current Liabilities:				
205 Current Portion of Long-Term Debt	\$ -	\$ -	\$ -	\$ 606,697
216 Other Current Liabilities	1,900	28	2,879	5
220 Customer Deposits	-	8,420	8,965	-
Total Current Liabilities	1,900	8,448	11,844	606,702
NET POSITION:				
253.1 Invested in Capital Assets	4,330	53,690	47,349	797,754
253.9 Unrestricted Net Position	382,947	237,929	1,184,313	141,315
Total Net Position	387,277	291,619	1,231,662	939,069
TOTAL LIABILITIES AND NET POSITION	\$ 389,177	\$ 300,067	\$ 1,243,506	\$ 1,545,771

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 489,373	\$ 41,424	\$ 2,473,131
-	-	827
-	-	25,540
489,373	41,424	2,499,498
62,058	-	62,058
-	2,980	4,673
-	-	146,000
239,817	-	388,572
141,871	7,071	412,960
(140,803)	(7,071)	(590,308)
211,806	-	1,603,594
514,749	2,980	2,027,549
\$ 1,004,122	\$ 44,404	\$ 4,527,047

\$ -	\$ -	\$ 606,697
8,597	382	13,791
12,550	-	29,935
21,147	382	650,423

452,691	2,980	1,358,794
530,284	41,042	2,517,830
982,975	44,022	3,876,624
\$ 1,004,122	\$ 44,404	\$ 4,527,047

CITY OF FAITH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Operating Revenue:				
380 Charges for Goods and Services	\$ 238,462	\$ 114,915	\$ 668,854	\$ 50,728
380.5 Lottery Sales	28,806	-	-	-
Total Operating Revenue	267,268	114,915	668,854	50,728
Operating Expenses:				
410 Personal Services	63,436	10,741	28,376	7,576
420 Other Current Expense	23,985	10,575	13,978	22,082
426.2 Materials (Cost of Goods Sold)	136,433	61,140	176,974	-
457 Depreciation	668	4,005	7,807	469
Total Operating Expenses	224,522	86,461	227,135	30,127
Operating Income (Loss)	42,746	28,454	441,719	20,601
Nonoperating Revenue:				
361 Investment Earnings	2,402	1,543	8,081	2,019
331 Federal Grant Revenue	-	-	-	515,000
Total Nonoperating Revenue	2,402	1,543	8,081	517,019
Income (Loss) Before Transfers	45,148	29,997	449,800	537,620
511 Transfers Out	(31,208)	(1,543)	(169,081)	(2,019)
Change in Net Position	13,940	28,454	280,719	535,601
Net Position - December 31, 2019	373,337	263,165	950,943	403,468
NET POSITION - DECEMBER 31, 2020	\$ 387,277	\$ 291,619	\$ 1,231,662	\$ 939,069

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 496,829	\$ 79,470	\$ 1,649,258
-	-	28,806
496,829	79,470	1,678,064
51,830	7,550	169,509
168,911	74,060	313,591
-	-	374,547
13,787	-	26,736
234,528	81,610	884,383
262,301	(2,140)	793,681
4,345	338	18,728
-	-	515,000
4,345	338	533,728
266,646	(1,802)	1,327,409
(165,345)	(338)	(369,534)
101,301	(2,140)	957,875
881,674	46,162	2,918,749
\$ 982,975	\$ 44,022	\$ 3,876,624

CITY OF FAITH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2020

	Liquor Fund	Water Fund	Electric Fund	Wastewater Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 267,268	\$ 114,895	\$ 668,834	\$ 50,728
Payments to Suppliers	(160,863)	(71,715)	(190,952)	(22,082)
Payments to Employees	(63,399)	(10,744)	(28,527)	(7,580)
Net Cash Flows Provided by (Used in) Operating Activities	43,006	32,436	449,355	21,066
Cash Flows Used in Noncapital Financing Activities:				
Transfers to Other Funds	(31,208)	(1,543)	(169,081)	(2,019)
Cash Flows from Capital and Related Financing Activities:				
Purchases of Capital Assets	-	-	-	(1,227,577)
Proceeds From Capital Debt	-	-	-	606,697
Federal Grant	-	-	-	515,000
Net Cash Used In Capital and Related Financing Activities	-	-	-	(105,880)
Cash Flows Provided by Investing Activities:				
Cash Received for Interest	2,402	1,543	8,081	2,019
Net Increase (Decrease) in Cash and Investments	14,200	32,436	288,355	(84,814)
Cash and Investments, December 31, 2019	344,280	213,941	907,802	226,134
Cash and Investments, December 31, 2020	\$ 358,480	\$ 246,377	\$1,196,157	\$ 141,320
Cash Flows From Operating Activities:				
Operating Income (Loss)	\$ 42,746	\$ 28,454	\$ 441,719	\$ 20,601
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used In) Operating Activities:				
Depreciation Expense	668	4,005	7,807	469
Change in Assets and Liabilities:				
Inventories	(445)	-	-	-
Customer Deposits	-	(20)	(20)	-
Other Current Liabilities	37	(3)	(151)	(4)
Net Cash Flows Provided by (Used in) Operating Activities	\$ 43,006	\$ 32,436	\$ 449,355	\$ 21,066

The accompanying notes are an integral part of this statement.

Telephone Fund	Rubble Site Fund	Totals
\$ 497,099	\$ 79,470	\$ 1,678,294
(168,911)	(74,060)	(688,583)
(52,111)	(7,554)	(169,915)
276,077	(2,144)	819,796
(165,345)	(338)	(369,534)
(211,806)	-	(1,439,383)
-	-	606,697
-	-	515,000
(211,806)	-	(317,686)
4,345	338	18,728
(96,729)	(2,144)	151,304
586,102	43,568	2,321,827
\$ 489,373	\$ 41,424	\$ 2,473,131
\$ 262,301	\$ (2,140)	\$ 793,681
13,787	-	26,736
-	-	(445)
270	-	230
(281)	(4)	(406)
\$ 276,077	\$ (2,144)	\$ 819,796

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

(1) Summary of Significant Accounting Policies

As discussed further in Note 1(c), these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Reporting Entity

The reporting entity of the City of Faith (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements: (Continued)

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

Proprietary Funds include:

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

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

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

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

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

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

c. Measurement Focus and Basis of Accounting

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

All financial statements are presented using the modified cash basis of accounting. The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are:

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

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

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Transfers

The City transfers unrestricted revenues collected in the enterprise funds to the General Fund and other enterprise funds to balance the budgets in those funds. Also, as part of the City’s policy, any interest earnings on deposits and investments are transferred to the General Fund (Note 2).

e. Capital Assets

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

Government-wide Financial Statements:

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

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

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Fund Financial Statements:

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

f. Long-Term Liabilities

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

All long-term liabilities, arising from cash transactions, to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements.

Long-term liabilities arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund financial statements as it is in the government-wide financial statements.

g. Revenue Received in Advance

Under the modified cash basis of accounting, cash may have been received in advance of the City's providing a good or service to a customer, resulting in unearned revenue. There was no unearned revenue at December 31, 2020.

h. Program Revenues

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

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Continued)

i. Proprietary Funds Revenue and Expense Classification

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

j. Inventory

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

k. Cash and Cash Equivalents

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

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

l. Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(1) Summary of Significant Accounting Policies (Concluded)

I. Equity Classifications (Continued)

Fund Financial Statements (Continued):

3. Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Council and does not lapse at year-end.
4. Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.
5. Unassigned – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

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

m. Subsequent Events

The City has assessed subsequent events through May 25, 2021, the date which the financial statements were available to be issued.

(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 SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits 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 (CONTINUED)
DECEMBER 31, 2020

(2) Deposits and Investments (Continued)

As of December 31, 2020, 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, 2020 were as follows:

Primary Government	Bank Balance
Insured - FDIC	\$ 293,670
Uninsured, collateral jointly held by State's/City agent in the name of the State and the pledging financial institution	2,320,297
Total Deposits	\$ 2,613,967

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

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

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

Custodial Credit Risk: This is the risk that in the event of a deposit failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2020, none of the City's deposits were exposed to custodial credit risk.

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

(3) Property Taxes

The City does not levy property taxes.

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2020, is as follows:

	Balance 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 66,033	\$ -	\$ -	\$ 66,033
Construction Work in Progress *	90,752	88,759	-	179,511
Total Capital Assets, not being Depreciated	156,785	88,759	-	245,544
Capital Assets, being Depreciated:				
Buildings	2,975,331	-	-	2,975,331
Improvements Other Than Buildings	1,845,296	14,530	-	1,859,826
Machinery and Equipment	1,120,966	67,332	-	1,188,298
Total Capital Assets, being Depreciated	5,941,593	81,862	-	6,023,455
Less Accumulated Depreciation for:				
Buildings	994,496	58,648	-	1,053,144
Improvements Other Than Buildings	1,035,002	89,118	-	1,124,120
Machinery and Equipment	556,117	89,044	-	645,161
Total Accumulated Depreciation	2,585,615	236,810	-	2,822,425
Total Governmental Activities Capital Assets, being Depreciated, Net	3,355,978	(154,948)	-	3,201,030
Total Governmental Capital Assets, Net	\$ 3,512,763	\$ (66,189)	\$ -	\$ 3,446,574

*Construction Work in Progress at December 31, 2020 is composed of engineering costs for both an airport access road and a parallel taxiway. There were no additional cost incurred for the airport access road in 2020 and the project is on hold until the taxiway is completed. The City received **\$82,970** of federal grant funds for the airport parallel taxiway in 2020. Expenditures in excess of the federal grants will be paid for with General Fund fund balance. There are no construction commitments for either of these projects.

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

Public Works	\$ 102,312
Public Safety	49,941
General Government	42,837
Health and Welfare	23,190
Culture and Recreation	18,530
Total Depreciation Expense - Governmental	\$ 236,810

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(4) Changes in Capital Assets (Continued)

A summary of changes in business-type activities capital assets for the year ending December 31, 2020, is as follows:

	Balance 12/31/2019	Additions	Transfers/ Deletions	Balance 12/31/2020
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 4,673	\$ -	\$ -	\$ 4,673
Construction in Progress **	170,355	1,433,239	-	1,603,594
Total Capital Assets, not being Depreciated	175,028	1,433,239	-	1,608,267
Capital Assets, being Depreciated:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	388,572	-	-	388,572
Machinery and Equipment	406,816	6,144	-	412,960
Total Capital Assets Being Depreciated	941,388	6,144	-	947,532
Less Accumulated Depreciation for:				
Buildings	146,000	-	-	146,000
Improvements Other Than Buildings	162,099	10,321	-	172,420
Machinery and Equipment	255,473	16,415	-	271,888
Total Accumulated Depreciation	563,572	26,736	-	590,308
Total Business-Type Activities Capital Assets, being Depreciated, Net	377,816	(20,592)	-	357,224
Total Business-Type Capital Assets, Net	\$ 552,844	\$ 1,412,647	\$ -	\$ 1,965,491

** Construction Work in Progress at December 31, 2020 consists of engineering fees and construction costs for a sewer lining project. Total estimated expenditures for the project are estimated to be approximately \$1,900,000 and is being funded through a USDA Rural Development debt of \$829,000, a USDA Rural Development grant of \$116,000, and a Community Development Block Grant of \$515,000. The City received interim financing from CoBank during the year ended December 31, 2020. Expenses in excess of the debt and grants will be paid for with Sewer Fund balance.

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

<i>Business-Type Activities:</i>	
Telephone	\$ 13,787
Electric	7,807
Water	4,005
Liquor	668
Wastewater	469
Total Depreciation Expense - Business-Type	\$ 26,736

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2020, is as follows:

	Balance 12/31/2019	Additions	Repayments	Balance 12/31/2020	Due Within One Year
Primary Government:					
Governmental Activities:					
USDA Loan - Ambulance	\$ 75,574	\$ -	\$ 8,238	\$ 67,336	\$ 8,510
USDA Loan - Ambulance Equipment	9,945	-	9,945	-	-
USDA Loan - Fire	-	30,000	30,000	-	-
Total Governmental Activities	85,519	30,000	48,183	67,336	8,510
Business-Type Activities:					
CoBank Interim Loan - Sewer Project	-	606,697	-	606,697	606,697
Total Primary Government	\$ 85,519	\$ 636,697	\$ 48,183	\$ 674,033	\$ 615,207

Interest cost paid and charged to interest expense in the current period totaled **\$2,464**.

Long-term debt payable at December 31, 2020, is comprised of the following:

Note Payable

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

\$ 67,336

CoBank Interim Financing Loan to be repaid by a Rural Development Loan when the related sewer project is completed, which is anticipated in 2021. Interest of 1.25 percent above LIBOR is accrued and payable monthly. Financed through the Sewer Fund.

606,697

\$ 674,033

The annual requirements to amortize long-term debt outstanding as of December 31, 2020, are as follows:

	Total	
	Interest	Principal
2021	\$ 2,062	\$ 615,207
2022	1,782	8,790
2023	1,492	9,080
2024	1,192	9,380
2025	883	9,689
2026-2028	1,018	21,887
Total	\$ 8,429	\$ 674,033

The City has restricted cash reserves of \$2,995 at December 31, 2020, in accordance with debt covenants.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

(6) Operating Leases

The City subleases a portion of the community center to the Faith School District. The lease requires annual lease payments of \$30,000 through December 31, 2021. Sublease rental income was \$30,000 for the year ended December 31, 2020. Future rental revenues expected under this lease are \$30,000 for the year ended December 31, 2021.

(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), a cost sharing, multiple employer hybrid defined benefit pension plan 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. The right to receive retirement benefits vests after three years of credited service. 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.

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. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

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% 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% 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.

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2020**

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

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, 2020, 2019, and 2018 were **\$22,689**, \$22,398, and \$22,553, 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 balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2020, SDRS is 100.04 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, 2020 was .017 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity.

(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, 2020, 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, 2020, this joint venture had total equity of \$89,912,241 (unaudited), total liabilities of \$27,036,689 (unaudited), and total assets of \$116,948,930 (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, 2020, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

The City purchases property and liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2020**

(9) Risk Management (Continued)

Worker's Compensation:

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

Unemployment Benefits:

The City has elected to be a noncontributing member of the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. As a result, the City retains all risks for liabilities resulting from claims for unemployment benefits. Claims filed and paid for unemployment benefits were **\$1,485** during the year ended December 31, 2020. It is not anticipated that any significant claims for unemployment benefits will be filed in the next year.

(10) Current Economic Conditions

The City's revenue consists primarily of funding provided by the State of South Dakota, the federal government, and local counties. The continued uncertainty regarding the local and national economy and labor markets as a result of the coronavirus pandemic could have a significant impact on the City's ability to maintain staffing and continue to provide services to citizens. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the City's financial position is not known.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020**

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:					
<i>Taxes:</i>					
313	Sales Taxes	\$ 240,000	\$ 240,000	\$ 282,716	\$ 42,716
314	Gross Receipts Business Taxes	-	-	17,846	17,846
315	Amusement Taxes	90	90	48	(42)
320	Licenses and Permits	2,000	2,000	2,280	280
<i>Intergovernmental Revenue:</i>					
331	Federal Grant	194,163	194,163	194,163	-
334	State Grant	1,400	1,400	37,932	36,532
335.01	Bank Franchise Tax	-	-	738	738
335.02	Motor Vehicle Commercial Prorate	700	700	-	(700)
335.03	Liquor Tax Reversion	2,500	2,500	2,914	414
335.04	Motor Vehicle Licenses (5%)	12,000	12,000	13,991	1,991
335.08	Local Government Highway and Bridge Fund	11,000	11,000	12,248	1,248
338.01	County Road Tax (25%)	500	500	509	9
338.99	Other	3,200	3,200	4,498	1,298
<i>Charges for Goods and Services:</i>					
342	Public Safety	250	250	-	(250)
343	Highways and Safety	-	-	650	650
346	Culture and Recreation	4,300	4,300	6,235	1,935
347	Ambulance	100,000	100,000	158,429	58,429
348	Cemetery	-	-	1,520	1,520
349	Other - Airport	21,274	21,274	21,274	-
<i>Miscellaneous Revenue:</i>					
361	Investment Earnings	1,000	1,000	198	(802)
362	Rentals	31,000	31,000	33,436	2,436
369	Other	10,500	10,500	14,446	3,946
Total Revenue		635,877	635,877	806,071	170,194

CITY OF FAITH

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411	4,000	4,000	3,304	696
411.5	25,000	25,000	-	25,000
412	26,796	26,796	22,955	3,841
413	1,200	1,200	898	302
414	226,334	226,334	214,186	12,148
419	238,649	250,119	188,959	61,160
<i>Public Safety:</i>				
421	186,561	186,561	147,264	39,297
422	25,000	70,000	67,580	2,420
<i>Public Works:</i>				
431	207,121	207,121	88,441	118,680
432	1,323	1,323	644	679
435	228,810	228,810	117,968	110,842
437	6,196	13,096	4,740	8,356
<i>Health and Welfare:</i>				
441	2,000	2,000	684	1,316
446	167,153	167,153	145,984	21,169
<i>Culture and Recreation:</i>				
451	4,741	4,741	4,013	728
452	24,170	26,670	19,520	7,150
454	28,928	28,928	876	28,052
455	20,000	22,000	21,890	110
<i>Conservation and Development:</i>				
465	12,805	12,805	12,904	(99)
466	1,000	1,000	1,000	-
467	8,433	8,433	4,726	3,707
470	10,592	50,652	50,647	5
Total Expenditures	1,456,812	1,564,742	1,119,183	445,559
391.01	431,789	431,789	369,534	(62,255)
391.04	-	-	11,263	11,263
391.2	-	-	30,000	30,000
511.0	(441,500)	(441,500)	-	441,500
Total Other Financing Sources	(9,711)	(9,711)	410,797	420,508
Net Change in Fund Balance	(830,646)	(938,576)	97,685	1,036,261
Fund Balance, December 31, 2019	158,333	158,333	158,333	-
Fund Balance, December 31, 2020	\$ (672,313)	\$ (780,243)	\$ 256,018	\$ 1,036,261

CITY OF FAITH

NOTES TO SUPPLEMENTARY INFORMATION DECEMBER 31, 2020

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year, or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2020 or 2019.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.

(2) GAAP Budgetary Accounting Basis Differences

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

SINGLE AUDIT SECTION

CITY OF FAITH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Identifying Number	CFDA	Amount
<i>U.S. Department of Agriculture</i>			
<i>Direct Funding</i>			
Community Facilities Loans and Grants	N/A	10.766	\$ 50,000
Water and Waste Disposal Systems for Rural Communities	N/A	10.760	541,647
Total U.S. Department of Agriculture			591,647
<i>U.S. Department of Housing and Urban Development</i>			
<i>Pass-Through the S.D. Governor's Office of Economic Development:</i>			
Community Development Block Grant	1617-102	14.228	515,000
<i>U.S. Department of Transportation</i>			
<i>Pass-Through the S.D. Department of Transportation:</i>			
Airport Improvement Program	3-46-0076-10-2019	20.106	2,457
Airport Improvement Program	3-46-0076-12-2020	20.106	74,673
Airport Improvement Program - Covid 19	3-46-0076-12-2020	20.106	8,297
Airport Improvement Program - Covid 19	3-46-0076-11-2020	20.106	18,280
			103,707
<i>Pass-Through the S.D. Department of Public Safety:</i>			
Highway Safety 402 Funds	N/A	20.600	3,100
Total U.S. Department of Transportation			106,807
<i>U.S. Department of Treasury</i>			
<i>Pass-Through the S.D. Department of Bureau of Finance and Management:</i>			
Coronavirus Relief Fund - Covid 19	N/A	21.019	90,320
<i>National Endowment for the Humanities</i>			
<i>Pass-Through the S.D. Humanities Council:</i>			
Promotion of the Humanities Federal-State Partnership - Covid 19	N/A	45.129	2,000
<i>U.S. Department of Health and Human Services</i>			
<i>Direct Funding</i>			
Provider Relief Funds - Covid 19	N/A	93.498	2,090
<i>U.S. Department of Homeland Security</i>			
<i>Pass-Through the S.D. Department of Public Safety:</i>			
Emergency Management LETPP Equipment	N/A	97.067	2,701
Total Federal Expenditures			\$ 1,310,565

Note 1: This schedule is presented on the modified cash basis of accounting.

Note 2: The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.



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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, 2020, 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 25, 2021.

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 first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2020-001 and #2020-002, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Council
Page Two

City's Response to Findings

The City's responses to the findings identified in our audit are 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 25, 2021



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Faith
Faith, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2020.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City Council
City of Faith

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings as #2020-003 that we consider to be a significant deficiency.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 25, 2021

CITY OF FAITH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020**

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses unmodified opinions on all of the financial statements of the City of Faith (the City).
2. Material weaknesses disclosed during the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the City's financial statements were disclosed during the audit.
4. A significant deficiency was disclosed during the audit of the major federal award programs as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award programs for the City are reported in part C of this schedule.
7. The program tested as a major program was Water and Waste Disposal Systems for Rural Communities (CFDA #10.760).
8. The threshold for distinguishing type A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

B. FINDINGS -- FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2020-001 FINDING: Financial Statement Preparation and Year-End Adjustments

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. We also made adjustments to correct the FUSC accrual and record capital assets. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do for municipalities of your size.

Criteria and Effect: These deficiencies could result in material misstatements to the financial statements that would not have been prevented or detected by the City's management.

CITY OF FAITH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

B. FINDINGS -- FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2020-001 FINDING: Financial Statement Preparation and Year-End Adjustments (Continued)

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

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

2020-002 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.
- b. The Finance Officer and Deputy Finance Officer receive customer payments, have access to write-off and adjust customer accounts, and the customer adjustments or write-off reports are not reviewed. In addition, the Finance Officer prepares the revenue portion of the financial statements given to the City Council for review. The Finance Officer is preparing a listing of adjustments, but the listing is not currently being reviewed by a second person.
- c. There is lack of controls at the bar. The Bar Manager orders inventory, receives inventory, and performs quarterly spot-check inventory counts. During the current year, the count documentation was reviewed by the Finance Officer for reasonableness and accuracy.
- d. 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. Debbie posts journal entries with no review process in place.
- g. During the course of our audit, we noted one employee of the City with timecards that were not reviewed by a supervisor.

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

CITY OF FAITH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2020**

MATERIAL WEAKNESSES (CONCLUDED)

2020-002 FINDING: Segregation of Duties (Continued)

Recommendations:

- a. The overall lack of segregation of duties over the disbursement process is due to the limited number of accounting personnel, which is typical in a city of this size. However, the risk of misappropriation is mitigated by the Mayor reviewing the unopened bank statement.
- b. The listing of account adjustments and write-offs from the accounting software should be reviewed monthly by a City Council Member.
- c. The Finance Officer should continue to review the periodic inventory count paperwork and perform random count checks.
- 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 statement, including images of cancelled checks.
- f. All manual journal entries should be reviewed for reasonableness at least monthly.
- g. We recommend the City place proper review and approval controls over employee timesheets. Additionally, the City Council should be reviewing a detailed payroll summary for reasonableness at each meeting.

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

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

SIGNIFICANT DEFICIENCY

#2020-003 FINDING: Written Uniform Guidance Policies

Federal Program Affected: All major federal programs listed in Part A, #7

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: None

Condition and Cause: The City does not have written policies for allowable costs/cost principles.

Criteria and Effect: Uniform Guidance specifically requires entities to maintain written policies for allowable costs/cost principles. Not properly maintaining such policies leads to noncompliance and potential unallowable costs.

Repeat Finding from Prior Year: N/A

Recommendation: The City should create written policies for allowable costs/cost principles.

Response/Corrective Action Plan: The City is in agreement with the finding. See City's Corrective Action Plan.

MANAGEMENT RESPONSE



CITY OF FAITH

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CITY OF FAITH

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2020

The City of Faith respectfully submits the following summary schedule of prior audit findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

Finding No. 2019-001: Financial Statement Preparation and Year-End Adjustments

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. The finding, originally issued years ago, is repeated as Finding #2020-001.

Finding No. 2019-002: Segregation of Duties

The City has implemented several mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office, and has accepted the risk involved with this finding. The finding, originally issued years ago, is repeated as Finding #2020-002.



-4- CITY OF FAITH

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CITY OF FAITH

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2020

The City respectfully submits the following corrective action plan from the December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding 2020-001: Financial Statement Preparation and Year-End Adjustments

Responsible Official: Debbie Brown, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2020-001 regarding the preparation of the financial statements as well as year-end adjustments and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

Finding 2020-002: 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

Finding 2020-003: Written Uniform Guidance Policies

Responsible Individuals: Debbie Brown, Finance Officer

Corrective Action Plan: The City Finance Officer will create written policies as required by Uniform Guidance.

Anticipated Completion Date: December 31, 2021.