

Attachments

City of Faith Municipal Telephone Company

Certification of Compliance with Applicable Service Quality Standards and Consumer Protection Rules

Service Quality Standards

The Company:

- Provides voice grade access to the public switched network.
- Provides flat rated local exchange service with no additional charge to end users.
- Provides access to the emergency services provided by local government or other public safety organizations, such as 911 and enhanced 911.
- Provides toll blocking and toll limitation services.
- Advertises the availability of its services and the charges using media of general distribution and on its website.
- Maintains a business office providing customers with access to a customer service representative either in person or via a local telephone call or toll-free telephone number during normal business hours.
- Directs after hour calls to the Company's help desk.
- Directs trouble reports to the on-call technician.
- Tracks all service orders to ensure they are completed in a timely manner.
- Reviews its service connection and service interruption performance.
- Trains employees to:
 - Answer all incoming calls promptly.
 - Respond to all inquiries for information promptly and courteously.
 - Investigate thoroughly all customer complaints and handle appropriately according to the Company's guidelines for resolution of customer complaints.
 - Be knowledgeable about products and service offerings so they can assist the customer with selecting the best service option.
- Has a process for periodic inspection, testing and preventive maintenance of its equipment to permit the rendering of safe, adequate and continuous service at all times.

Consumer Protection Rules

The Company has established operating procedures designed to facilitate compliance with applicable consumer protection rules which include compliance with the Customer Proprietary Network Information (CPNI) rules. The operating procedures include:

- Appointment of a compliance officer.
- A manual detailing the specific procedures for protecting consumer information.
- Employee training on an annual basis.
- A disciplinary process for improper use of consumer information.

City of Faith Municipal Telephone Company

Functionality in Emergency Situations

Back-Up Power

The Company has back-up power to ensure functionality without an external power source with its battery backup system that is capable of providing power for a minimum period of 8 hours. The Company has a generator that automatically comes on whenever there is a loss of power.

Rerouting of Traffic around Damaged Facilities

The Company provides service in a single exchange. The Company's interexchange traffic is on a SONET ring with diverse routing to prevent being isolated by a fiber cut.

Traffic Spikes

The Company is capable of managing traffic spikes resulting from emergency situations as required by Section 54.202(a)(2). The Company can take reasonable steps to reroute traffic or add capacity to manage traffic spikes throughout its network as emergency situations require.

City of Faith Municipal Telephone Company

Lifeline Terms and Conditions

City of Faith Municipal Telephone Company (the "Company") offers Lifeline program-supported service to qualified low-income residential consumers for one telephone line per eligible household. The Lifeline program provides discounts to eligible low-income consumers to help them establish and maintain telephone service. Lifeline assistance lowers the cost of basic, monthly local telephone service. Eligible consumers can receive \$9.25 per month in discounts. In addition, the Federal Universal Service Charge is not assessed to consumers participating in Lifeline. Toll Blocking prevents the placement of all long distance calls for which a subscriber would be charged. Toll blocking is available to eligible consumers at no cost. Also, by choosing this option, consumers are usually not charged a deposit.

Lifeline Program Eligibility Information

Program Based Eligibility

Consumers are eligible for Lifeline if they, one of their dependents or their household participate in one of the following qualifying assistance programs:

Low-Income Home Energy Assistance Program (LIHEAP)
Federal Public Housing Assistance (Section 8)
Supplemental Nutrition Assistance Program (SNAP)
Medicaid
National School Lunch Program's Free Lunch Program
Supplemental Security Income (SSI)
Temporary Assistance for Needy Families (TANF)

Lifeline applicants must present documentation demonstrating eligibility either through participation in one of the qualifying federal assistance programs or through income-based means.

Acceptable documentation of program-based eligibility includes: current or prior year's statement of benefits from a qualifying state, federal or Tribal program; notice letter of participation in a qualifying state, federal or Tribal program; program participation documents; or another official document evidencing the consumer's participation in a qualifying state, federal or Tribal program.

Income Based Eligibility

In addition, consumers are eligible for Lifeline if their household income is at or below 135% of the federal poverty guidelines.

2013 Federal Poverty Guidelines – 135%

Household Size	48 Contiguous States and D.C.	Alaska	Hawaii
1	\$15,512	\$19,373	\$17,861
2	\$20,939	\$26,163	\$24,098
3	\$26,366	\$32,954	\$30,335
4	\$31,793	\$39,744	\$36,572
5	\$37,220	\$46,535	\$42,809
6	\$42,647	\$53,325	\$49,046
7	\$48,074	\$60,116	\$55,283
8	\$53,501	\$66,906	\$61,520
For each additional person, add	\$5,427	\$6,791	\$6,237

Acceptable documentation of income eligibility includes: prior year's state, federal or Tribal tax return; current income statement from an employer or paycheck stub; social security statement of benefits; Veterans Administration statement of benefits; retirement/pension statement of benefits; unemployment/workmen's compensation statement of benefits; federal or Tribal notice of letter participating in General Assistance; or a divorce decree or child support award or other official document

Numbers of Minutes-of-Use Provided as Part of Lifeline Program Service

The Company's Voice Lifeline service includes unlimited local minutes-of-use within the toll-free calling area. The Company's Voice Lifeline Plan does not include any free minutes-of-use for toll. Toll is billed at the standard toll rate depending on which interexchange carrier the consumer subscribes to for toll service. As part of the Lifeline service, Toll blocking is available to eligible consumers at no cost.

Rates

Subscribers may receive the Lifeline credit on any type or grade of local service, including bundled services that are normally offered by the Company. Advertised rates do not include any applicable taxes or surcharges.

Recertification of Lifeline Eligibility

Lifeline recipients are required to recertify their eligibility annually. Failure to properly recertify a recipient's continued eligibility for the Lifeline program will result in termination of the Lifeline recipient's monthly Lifeline discount and de-enrollment from the Lifeline Program.

Additional Lifeline Program Information

The Lifeline program is limited to one benefit per household, consisting of either wireline or wireless service. A household is defined, for purposes of the Lifeline program, as an individual or group of individuals who live together at the same address and share income and expenses. Lifeline is a government benefit program, and consumers who willfully make false statements in order to obtain the benefit can be punished by fine or imprisonment or can be barred from the program.



**CITY OF FAITH
FAITH, SOUTH DAKOTA**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2011



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

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Faith
Faith, South Dakota

We have audited the accompanying financial statements of 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, 2011, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1(c), these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City as of December 31, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with the basis of accounting described in Note 1(c).

In accordance with Government Auditing Standards, we have also issued our report dated November 7, 2012, 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, grant agreements, and other matters. The purpose of this 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 the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audits.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The management's discussion and analysis on pages 3 through 10 and budgetary information on pages 34 through 36 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.



KETEL THORSTENSON, LLP
Certified Public Accountants

November 7, 2012

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011**

This section of the City of Faith's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended on December 31, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The total revenues for the City's governmental activities increased in 2011 from 2010 by █ percent. The main reason for the increase in revenues in 2011 was due to increased revenue from █ and █ of approximately █, offset by a decrease in █ of approximately █.

The City's business-type activities charges for services increased by █ percent to █. The main factor contributing to these results include the █ Fund revenue increase of █ due to █, █, and a █. There was an increase in █, █, and █ revenue as rates were increased.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements (including related notes), and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements.
 - The governmental funds financial statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds financial statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the █ Fund, █ Fund, █ Fund, █ Fund, █ Fund, and █ Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-wide Statements

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – is one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- Governmental Activities – This category includes most of the City's basic services, such as police, fire, public works, parks department, and general administration. Sales taxes, charges for services, state and federal grants, and interest earnings finance the majority of these activities.
- Business-Type Activities – The City charges a fee to customers to help cover the costs of certain services it provides. The City's [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED] are included here.
- Component Units – The City does not have any component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that the City is properly using certain taxes and grants.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements (Continued)

The City has two kinds of funds:

- Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the year-end balances available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view which helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds financial statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by ■ percent between the fiscal year 2010 and 2011 – increasing by ■. (See Table A-1)

The Statement of Net Assets reports all financial and capital resources. This statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The only long-term liability of the City, a capital lease, has been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Assets for 2011 and 2010							
	Governmental Activities		Business-Type Activities		Total		
	2011	2010	2011	2010	2011	2010	
Current and Other Assets	\$						
Capital Assets							
Total Assets	\$						
Current Liabilities	\$						
Long-Term Debt							
Total Liabilities	\$						
<i>Net Assets:</i>							
Invested in Capital Assets, Net of Related Debt	\$						
Unrestricted							
Total Net Assets	\$						
Beginning Net Assets							
Increase (Decrease) in Net Assets	\$						
Percentage of Change in Net Assets							

Changes in Net Assets

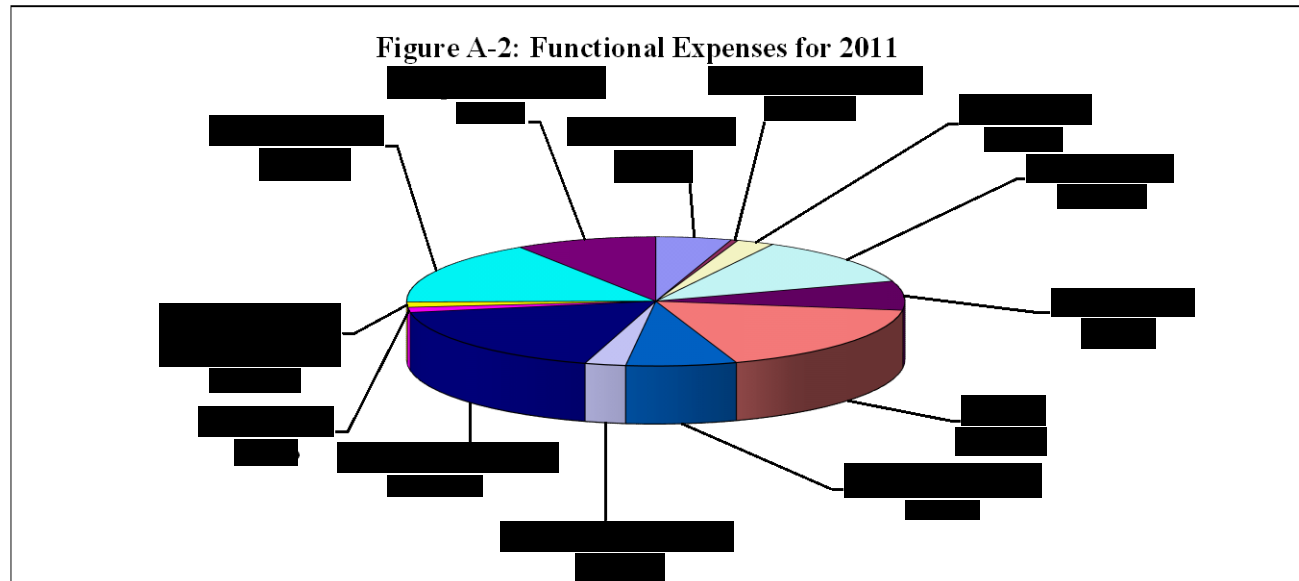
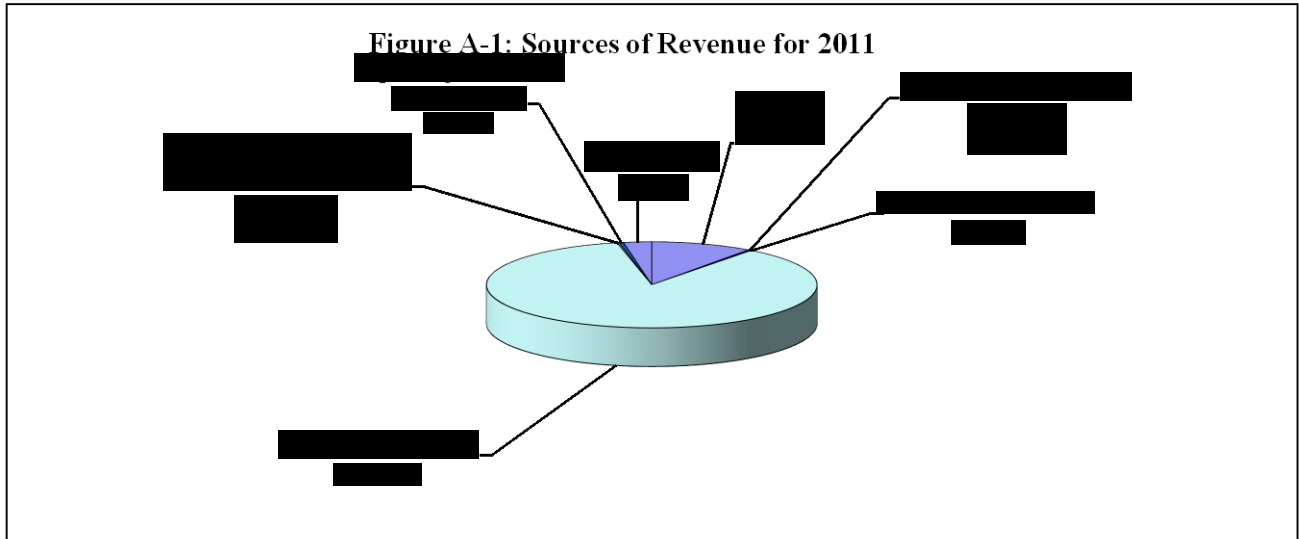
The City's revenues totaled [REDACTED], and the total cost of all programs and services was [REDACTED] for the year ended December 31, 2011. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Table A-2).

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)



CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2 and the narrative that follows consider the operations of the governmental and business-type activities.

Table A-2						
Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program Revenues						
Charges for Services	\$ ██████	██████	██████	██████	██████	██████
Capital Grants and Contributions	██████	██████	██████	██████	██████	██████
Operating Grants and Contributions	██████	██████	██████	██████	██████	██████
General Revenues						
Taxes	██████	██████	██████	██████	██████	██████
Revenue State Sources	██████	██████	██████	██████	██████	██████
Grants and Contributions not Program Specific	██████	██████	██████	██████	██████	██████
Unrestricted Investment Earnings	██████	██████	██████	██████	██████	██████
Miscellaneous	██████	██████	██████	██████	██████	██████
Total Revenues	██████	██████	██████	██████	██████	██████
Expenses						
General Government	██████	██████	██████	██████	██████	██████
Public Safety	██████	██████	██████	██████	██████	██████
Public Works	██████	██████	██████	██████	██████	██████
Health and Welfare	██████	██████	██████	██████	██████	██████
Culture and Recreation	██████	██████	██████	██████	██████	██████
Conservation and Development	██████	██████	██████	██████	██████	██████
Debt Service	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
██████	██████	██████	██████	██████	██████	██████
Total Expenses	██████	██████	██████	██████	██████	██████
Excess (Deficiency) Before Transfers	██████	██████	██████	██████	██████	██████
Transfers	██████	██████	██████	██████	██████	██████
Increase (Decrease) in Net Assets	\$ ██████	██████	██████	██████	██████	██████
Ending Net Assets	\$ ██████	██████	██████	██████	██████	██████

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

The City experienced a decrease in expenses in 2011. [REDACTED] was \$ [REDACTED] less due to the [REDACTED] [REDACTED]. Additionally, the City did not employ local dispatchers in 2011, but instead paid [REDACTED] Dispatch for the service. During 2011, the swimming pool was closed as the Council felt it was unsafe due to the proximity construction for the new school building. This resulted in a decreased in approximately [REDACTED]. Under Conservation and Development, the City paid less in 2011 for the carnival by [REDACTED]. Also, the City's 2011 donation to the school of \$ [REDACTED] was paid in 2010 resulting in a total of [REDACTED] being donated in 2010 and none in 2011.

The revenues increased in 2011 by [REDACTED]. The main factors are sales tax being higher in the amount of [REDACTED], charges for services being higher in the amount of \$ [REDACTED] and grants being lower in the amount of [REDACTED]. Under charges for services, ambulance revenue was higher by [REDACTED], but of that increase, [REDACTED] was a grant from the American Heart Association for a new monitor.

Business-Type Activities

The City's business-type activities charges for services increased by approximately [REDACTED] percent. [REDACTED] expense increased [REDACTED] partly due to some remodeling completed in 2010 of [REDACTED] and none in 2011. The [REDACTED] revenue increase resulted from increased [REDACTED] from [REDACTED] and additional construction work within and near the City during 2011. [REDACTED] revenue was higher due to a rate increase and [REDACTED] expenses increased [REDACTED] due to a rate increase in [REDACTED] purchases for resale. [REDACTED] revenue was up [REDACTED] mainly due to a rate increase.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City's only governmental fund type is the General Fund. The City also maintains six business type funds – [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], and [REDACTED].

BUDGETARY HIGHLIGHTS

Over the course of the years, the City Council revised the City's budget several times. These amendments fall into two categories:

- Supplemental appropriations for funds not funded during the normal budget session.
- Increases in appropriations to prevent budget overruns.

The general fund budget was decreased in 2011 due to the police budget not needing as much since the City does not have dispatchers locally, but instead the City contracts with [REDACTED] Dispatch for a decrease in expense of [REDACTED]. Additionally, the City's 2011 street project was less costly.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2011**

CAPITAL ASSET ADMINISTRATION

By the end of 2011, the City had invested [REDACTED] in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3).

	Governmental Activities		Business-Type Activities	
	2011	2010	2011	2010
Land	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Construction Work in Progress	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

LONG-TERM DEBT

As of December 31, 2011, the City had [REDACTED] in long-term debt (See Table A-4 below)

	Governmental Activities	
	2011	2010
Capital Acquisition Lease	[REDACTED]	[REDACTED]
Total Outstanding Debt and Obligations	\$ [REDACTED]	[REDACTED]

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

One of the primary sources of revenue to the City is based on taxable retail sales in the community (Sales Tax). The City has maintained a stable sales tax revenue from the prior years and has budgeted for consistent sales tax revenue for the next year.

The City's adopted General Fund budget for next year will increase mainly due to a bigger street project, some painting and repairs to a couple buildings and a possible new employee in Public Works.

The City expects business-type activities for 2013 to increase due to rate increases.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Faith's Finance Office, P.O. Box 368, Faith, SD 57626.

CITY OF FAITH

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ [REDACTED]	[REDACTED]	[REDACTED]
Investments	[REDACTED]	[REDACTED]	[REDACTED]
Accounts Receivable, Net	[REDACTED]	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets:			
Land and Construction Work in Progress	[REDACTED]	[REDACTED]	[REDACTED]
Other Capital Assets, Net of Depreciation	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL ASSETS	\$ [REDACTED]	[REDACTED]	[REDACTED]
LIABILITIES:			
Other Current Liabilities	\$ [REDACTED]	[REDACTED]	[REDACTED]
Non-Current Liabilities:			
Due Within One Year	[REDACTED]	[REDACTED]	[REDACTED]
Due in More Than One Year	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL LIABILITIES	[REDACTED]	[REDACTED]	[REDACTED]
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	[REDACTED]	[REDACTED]	[REDACTED]
Unrestricted	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL NET ASSETS	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL LIABILITIES AND NET ASSETS	\$ [REDACTED]	[REDACTED]	[REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	
Primary Government:						
Governmental Activities:						
General Government	\$					
Public Safety						
Public Works						
Health and Welfare						
Culture and Recreation						
Conservation and Development						
Interest on Long-Term Debt						
Total Governmental Activities						
Business-Type Activities:						
Total Business-Type Activities						
Total Primary Government	\$					
General Revenues and Transfers:						
General Revenues:						
Taxes:						
Sales Taxes						
Gross Receipt Taxes						
State Shared Revenues						
Grants and Contributions not Restricted to Specific Programs						
Unrestricted Investment Earnings						
Miscellaneous Revenue						
Transfers						
Total General Revenues and Transfers						
Change in Net Assets						
Net Assets - December 31, 2010						
Net Assets - December 31, 2011	\$					

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

		<u>General Fund</u>
ASSETS:		
101	Cash and Cash Equivalents	\$ [REDACTED]
151	Savings Certificates - Investments	[REDACTED]
115	Accounts Receivable, Net	[REDACTED]
TOTAL ASSETS		\$ [REDACTED]
LIABILITIES AND FUND BALANCES:		
Liabilities:		
216	Other Current Liabilities	\$ [REDACTED]
Total Liabilities:		[REDACTED]
Fund Balances:		
266.02	Assigned for Capital Replacements	[REDACTED]
266.01	Assigned for Next Year's Appropriations	[REDACTED]
Total Fund Balances		[REDACTED]
TOTAL LIABILITIES AND FUND BALANCES		\$ [REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total Fund Balances - Governmental Funds	\$	██████████
<p>Amounts reported for governmental activities in the Statement of Net Assets are different because:</p>		
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.		██████████
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.		██████████
Total Net Assets - Governmental Activities	\$	██████████

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

		<u>General Fund</u>
Revenue:		
<i>Taxes:</i>		
313	Sales Taxes	\$ [REDACTED]
314	Gross Receipts Business Taxes	[REDACTED]
315	Amusement Taxes	[REDACTED]
320	Licenses and Permits	[REDACTED]
<i>Intergovernmental Revenue:</i>		
334	State Grant	[REDACTED]
335.02	Motor Vehicle Commercial ProRate	[REDACTED]
335.03	[REDACTED] Tax Reversion	[REDACTED]
335.04	Motor Vehicle Licenses [REDACTED]	[REDACTED]
335.08	Local Government Highway and Bridge Fund	[REDACTED]
338.01	County Road Tax	[REDACTED]
338.99	Other	[REDACTED]
<i>Charges for Goods and Services:</i>		
341	General Government	[REDACTED]
342	Public Safety	[REDACTED]
343	Highways and Streets	[REDACTED]
346	Culture and Recreation	[REDACTED]
347	Ambulance	[REDACTED]
348	Cemetery	[REDACTED]
349	Other	[REDACTED]
<i>Miscellaneous Revenue:</i>		
361	Investment Earnings	[REDACTED]
362	Rentals	[REDACTED]
367	Contributions and Donations From Private Sources	[REDACTED]
369	Other	[REDACTED]
Total Revenue		[REDACTED]

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

		<u>General Fund</u>
Expenditures:		
<i>General Government:</i>		
411	Legislative	████████
412	Executive	████████
413	Elections	██████
414	Financial Administration	████████
419	Other	████████
<i>Public Safety:</i>		
421	Police	████████
422	Fire	████████
<i>Public Works:</i>		
431	Highway and Streets	████████
435	Airport	████████
437	Cemeteries	██████
<i>Health and Welfare:</i>		
441	Health	██████
446	Ambulance	████████
<i>Culture and Recreation:</i>		
451	Recreation	██████
452	Parks	████████
454	Swimming Pool	██████
455	Library	████████
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	████████
465.3	Promoting the City	████████
466	Economic Opportunity	██████
470	Debt Service	████████
485	Capital Outlay	████████
Total Expenditures		████████
Other Financing Sources (Uses):		
391.01	Transfers In	████████
391.04	Compensation for Loss or Damage To Capital Assets	██████
511	Transfers Out	████████
Total Other Financing Sources		████████
Net Change in Fund Balance		██████
Fund Balance, December 31, 2010		██████
Fund Balance, December 31, 2011		\$ ██████

CITY OF FAITH

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Government Funds \$ [REDACTED]

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	[REDACTED]
Depreciation Expense	[REDACTED]
	[REDACTED]

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. [REDACTED]

Change in Net Assets - Governmental Activities \$ [REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

BALANCE SHEET
 PROPRIETARY FUNDS
 DECEMBER 31, 2011

		Fund	Fund	Fund
ASSETS:				
Current Assets:				
101	Cash and Cash Equivalents	\$ [REDACTED]	[REDACTED]	[REDACTED]
151	Saving Certificates - Investments	[REDACTED]	[REDACTED]	[REDACTED]
115	Accounts Receivable	[REDACTED]	[REDACTED]	[REDACTED]
142	Inventory of Supplies Purchased for Resale	[REDACTED]	[REDACTED]	[REDACTED]
Total Current Assets		[REDACTED]	[REDACTED]	[REDACTED]
Noncurrent Assets:				
151	Joint Venture Investment (Note 8)	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets:				
160	Land	[REDACTED]	[REDACTED]	[REDACTED]
168	Construction in Progress	[REDACTED]	[REDACTED]	[REDACTED]
162	Buildings	[REDACTED]	[REDACTED]	[REDACTED]
164	Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]
166	Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]
	Less: Accumulated Depreciation	[REDACTED]	[REDACTED]	[REDACTED]
Total Noncurrent Assets		[REDACTED]	[REDACTED]	[REDACTED]
TOTAL ASSETS		\$ [REDACTED]	[REDACTED]	[REDACTED]
LIABILITIES:				
Current Liabilities:				
216	Other Current Liabilities	\$ [REDACTED]	[REDACTED]	[REDACTED]
220	Customer Deposits	[REDACTED]	[REDACTED]	[REDACTED]
Total Current Liabilities		[REDACTED]	[REDACTED]	[REDACTED]
NET ASSETS:				
253.1	Invested in Capital Assets	[REDACTED]	[REDACTED]	[REDACTED]
253.9	Unrestricted Net Assets	[REDACTED]	[REDACTED]	[REDACTED]
Total Net Assets		[REDACTED]	[REDACTED]	[REDACTED]
TOTAL LIABILITIES AND NET ASSETS		\$ [REDACTED]	[REDACTED]	[REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Fund	Fund	Fund
Operating Revenue:			
380 Charges for Goods and Services	\$		
380.5 Lottery Sales			
330.2 State Grants			
369 Miscellaneous			
Total Operating Revenue			
Operating Expenses:			
410 Personal Services			
420 Other Current Expense			
426.2 Materials (Cost of Goods Sold)			
457 Depreciation			
Total Operating Expenses			
Operating Income			
Nonoperating Revenue (Expenses):			
361 Investment Earnings			
391.4 Compensation for Damages to Capital Assets			
454 Grants to Other Entities			
Total Nonoperating Revenue (Expenses)			
Income Before Transfers			
511 Transfers Out			
Change in Net Assets			
Net Assets - December 31, 2010			
NET ASSETS - DECEMBER 31, 2011	\$		

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011

	Fund	Fund	Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ [REDACTED]	[REDACTED]	[REDACTED]
Payments to Suppliers	[REDACTED]	[REDACTED]	[REDACTED]
Payments to Employees	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Flows Provided by Operating Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Noncapital Financing Activities:			
Grants to Other Entities	[REDACTED]	[REDACTED]	[REDACTED]
Transfers to Other Funds	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Used in Noncapital Financing Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Capital and Related Financing Activities:			
Purchases of Capital Assets	[REDACTED]	[REDACTED]	[REDACTED]
Compensation for Damages to Capital Asset	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Provided by (Used in) Capital and Related Financing Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Investing Activities:			
Interest Earnings	[REDACTED]	[REDACTED]	[REDACTED]
Net Increase (Decrease) in Cash and Investments	[REDACTED]	[REDACTED]	[REDACTED]
Cash and Investments, December 31, 2010	[REDACTED]	[REDACTED]	[REDACTED]
Cash and Investments, December 31, 2011	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Operating Activities:			
Operating Income	[REDACTED]	[REDACTED]	[REDACTED]
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	[REDACTED]	[REDACTED]	[REDACTED]
Change in Assets and Liabilities:			
Inventories	[REDACTED]	[REDACTED]	[REDACTED]
Customer Deposits	[REDACTED]	[REDACTED]	[REDACTED]
Other Current Liabilities	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Flows Provided by Operating Activities	\$ [REDACTED]	[REDACTED]	[REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

(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 Assets and Statement of Activities 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 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, 2011**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements: (Continued)

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund – the general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund is always considered to be a major fund.

Proprietary Funds:

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

Proprietary Funds include:

██████████ Fund – financed primarily by the ██████████; this fund accounts for construction and operation of the ██████████. This is a major fund.

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

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

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

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

██████████ Fund – financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████. 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, 2011**

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

1. Recording of capital assets arising from cash transactions and depreciating those assets where appropriate.
2. Recording of long-term debt arising from cash transactions.
3. Recording both capital assets and related long-term debt used to finance the capital asset acquisition.
4. Recording inventory resulting from payment of cash to vendors.
5. Recording of investments arising from cash transactions.
6. Recording of customer's deposits arising from cash transactions.

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.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(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.

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. Under the modified cash basis of accounting, capital assets arising from cash transactions reported in the government-wide financial statements are accounted for as assets in the Statement of Net Assets. 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, with accumulated depreciation reflected in the Statement of Net Assets. 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	\$ █	██████████	██████████
Construction Work in Progress	\$ █	██████████	██████████
Buildings	\$ █	██████████	██████████
Improvements Other Than Buildings	\$ █	██████████	██████████.
Machinery and Equipment	\$ █	██████████	██████████

Land is an inexhaustible capital asset and is not depreciated.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Fund Financial Statements:

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

f. Long-Term Liabilities

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

All long-term liabilities, arising from cash transactions, to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements. The long-term liabilities primarily consist of general obligation bonds and capital acquisition leases.

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 deferred revenue. There was no deferred revenue at December 31, 2011.

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. There were no such revenues for 2011.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(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 Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. 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 [REDACTED] fund, acquired for resale, is valued at the lower of cost or market on the first-in, first-out 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.

l. Equity Classifications

Government-wide Financial Statements:

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

1. Invested in capital assets arising from cash transactions, net of related debt – 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 assets – Consists of net assets 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 assets – All other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which was implemented in the current year, the City classifies governmental fund balance as follows:

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Concluded)

I. Equity Classifications (Continued)

Fund Financial Statements (Continued):

2. Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority 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.

As of December 31, 2011, the City Council assigned [REDACTED] and [REDACTED] for capital replacements for ambulances and a well, respectively.

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

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

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(2) Deposits and Investments (Continued)

Investments – In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2011, the City’s cash and deposits consisted of checking and savings accounts, and certificates of deposit. Saving Certificates - Investments classified in the financial statements consist entirely of certificates of deposits whose term to maturity at date of acquisition exceeds three months. All of these accounts are insured or collateralized in the City’s name.

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, 2011, 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, 2011

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2011, is as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Construction Work in Progress*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets, not being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets, being Depreciated:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets Being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less Accumulated Depreciation for:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Accumulated Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Governmental Activities Capital Assets, being Depreciated, Net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Governmental Capital Assets, Net	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

* Construction in Progress at December 31, 2011 is composed of engineering costs for a land acquisition, wild land fence, and runway safety area grading project for the Faith Airport, which upon completion will total approximately \$ [REDACTED]. The City was granted a [REDACTED] federal grant for this project. Expenditures in excess of the Federal grant will be paid with the General Fund's fund balance.

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

Public Works	\$ [REDACTED]
General Government	[REDACTED]
Public Safety	[REDACTED]
Health and Welfare	[REDACTED]
Culture and Recreation	[REDACTED]
Total Depreciation Expense - Governmental	\$ [REDACTED]

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

(4) Changes in Capital Assets (Continued)

A summary of changes in business-type activities capital assets for the year ended December 31, 2011 is as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Construction in Progress **	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets, not being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets, being Depreciated:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets Being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less Accumulated Depreciation for:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Accumulated Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Business-Type Activities Capital Assets, being Depreciated, Net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Business-Type Capital Assets, Net	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

** Construction in Progress at December 31, 2011 is composed of engineering costs for a broadband technology opportunities project, which upon completion will total approximately [REDACTED]. The City was granted a [REDACTED] federal grant for this project. Expenditures in excess of the Federal grant will be paid with the General Fund's fund balance.

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

Business-Type Activities:	
[REDACTED]	\$ [REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
Total Depreciation Expense - Business-Type	\$ [REDACTED]

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2011, is as follows:

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Leases	\$				
Total Governmental Activities					
Total Primary Government	\$				

The principal amount, above, was included in the appropriate classification of capital assets, and is being depreciated over the estimated useful-life of the asset. The asset as of December 31, 2011 is \$ [REDACTED] with \$ [REDACTED] in accumulated depreciation for a net book value of [REDACTED].

Debt payable at December 31, 2011, is comprised of the following:

Capital Acquisition Lease

Capital Lease for recreation center that bears interest at [REDACTED] percent with semi-annual payments of [REDACTED], matures January 2017 at which time the full balance is due. Financed through the General Fund.

\$ [REDACTED]

The annual requirements to amortize long-term debt outstanding as of December 31, 2011, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2012	\$ [REDACTED]	[REDACTED]
2013	[REDACTED]	[REDACTED]
2014	[REDACTED]	[REDACTED]
2015	[REDACTED]	[REDACTED]
2016	[REDACTED]	[REDACTED]
2017	[REDACTED]	[REDACTED]
Total	\$ [REDACTED]	[REDACTED]

Interest cost paid and charged to interest expense in the current period totaled [REDACTED].

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(6) Operating Leases

During the year ended December 31, 2003, the City began subleasing a portion of the recreation center to the Faith School District. This is a fifteen year operating lease that requires annual lease payments of \$ [REDACTED]. Sublease rental income was \$ [REDACTED] for the year ended December 31, 2011. Future rental revenues expected under this lease are as follows as of December 31, 2011:

2012	\$	[REDACTED]
2013		[REDACTED]
2014		[REDACTED]
2015		[REDACTED]
2016		[REDACTED]
2017-2018		[REDACTED]

The City of Faith entered into a [REDACTED] lease agreement with [REDACTED] on December 7, 2007, for host and remote switching services, with an optional [REDACTED] extension which was extended after year end. The lease requires minimum monthly charges of \$ [REDACTED] plus variable fees based on service levels. Lease payments were [REDACTED] for the year ended December 31, 2011. Future minimum lease payments are as follows as of December 31, 2011:

2012	\$	[REDACTED]
2013		[REDACTED]
2014		[REDACTED]
2015		[REDACTED]

(7) Retirement Plan – South Dakota Retirement System

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute [REDACTED] percent of their salary to the plan, while public safety and judicial employees contribute [REDACTED] and [REDACTED] percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of [REDACTED] percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010, and 2009 were [REDACTED], [REDACTED] and [REDACTED], respectively, equal to the required contributions each year.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2011**

(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, 2011, the City's interest in the voting and non-voting common stock is \$ [REDACTED], which is recorded as an investment (using the cost method) within the [REDACTED] fund. The stock will be maintained by the City as long as it participates in the Network.

Ownership in the Network consists of [REDACTED] entities, none of which have significant ownership percentages. The City has less than [REDACTED] percent ownership. Separate financial statements for this joint venture are available from South Dakota Network, Inc., Sioux Falls, South Dakota.

At December 31, 2011, this joint venture had total fund equity of [REDACTED] (unaudited), total liabilities of \$ [REDACTED] (unaudited), and total assets of \$ [REDACTED] (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, 2011, 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 Pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The Pool pays the first \$ [REDACTED] of any claim per individual. The Pool has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$ [REDACTED] 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 \$ [REDACTED] during the year ended December 31, 2011. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue:				
<i>Taxes:</i>				
313	\$			
314				
315				
320				
<i>Intergovernmental Revenue:</i>				
331				
334				
335.02				
335.03				
335.04				
335.08				
338.01				
338.02				
338.99				
<i>Charges for Goods and Services:</i>				
341				
342				
343				
346				
347				
348				
349				
<i>Miscellaneous Revenue:</i>				
361				
362				
367				
369				
Total Revenue				

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411				
411.5				
Amount Transferred				
412				
413				
414				
419				
<i>Public Safety:</i>				
421				
422				
<i>Public Works:</i>				
431				
435				
437				
<i>Health and Welfare:</i>				
441				
446				
<i>Culture and Recreation:</i>				
451				
452				
454				
455				
<i>Conservation and Development:</i>				
465				
465.3				
466				
470				
Total Expenditures				
391.01				
391.04				
511				
Total Other Financing Sources				
Net Change in Fund Balance				
Fund Balance, December 31, 2010				
Fund Balance, December 31, 2011	\$			

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO SUPPLEMENTARY INFORMATION
DECEMBER 31, 2011**

(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, 2011.
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, however in the Budgetary Required Supplementary Information Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER REPORTS



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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Faith
Faith, South Dakota

We have audited the modified cash basis 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, 2011, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated November 7, 2012. We conducted our audits 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor’s Comments and Closing Conference, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditor’s Comments and Closing Conference as 2011-1 and 2011-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Management's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, management, and federal and state granting agencies and is not intended to be, and should not be, used by anyone other than those specified parties. However, 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

November 7, 2012

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2011**

A. Status of Prior Audit Findings and Recommendations

<u>Prior Year</u>	<u>Description</u>	<u>Current Year</u>
2007-1	Internal Control Over Significant Accounts	Resolved and Not Repeated
2007-2	Financial Statement Preparation	Substantially Repeated as 2011-1
2007-3	Segregation of Duties	Substantially Repeated as 2011-2
2009-6	Telephone Billing Rates	Resolved and Not Repeated
2007-7	Budgetary Overdraft	Resolved and Not Repeated
2010-1	Fund Balances	Resolved and Not Repeated

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011**

B. Findings – Financial Statement Audit

MATERIAL WEAKNESSES

2011-1 FINDING: Financial Statement Preparation

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

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that would not have been prevented or detected by the City's management.

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

Response/Corrective Action Plan: The City evaluates its risk associated with this condition on an annual basis. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

2011-2 FINDING: Segregation of Duties

Condition/Cause: The City has a general lack of segregation of duties in the finance office, more specifically:

- a. All finance personnel have access to the general ledger, open mail, receive the unopened bank statement, and mail the signed checks.
- b. The Finance Officer and Deputy Finance Officer receive customer payments, have access to write-off and adjust customer accounts, and the customer adjustments or write-off reports are not reviewed. In addition, the Finance Officer prepares the revenue portion of the financial statements given to the City Council for review. The Finance Officer is preparing a listing of adjustments, but the listing is not currently being reviewed by someone other than herself.
- c. There is lack of controls at the [REDACTED]. The [REDACTED] Manager orders inventory, receives inventory, and performs quarterly spot-check inventory counts. Additionally, there is not a process to accurately account for all movement of inventory from the [REDACTED] store to the [REDACTED]. During the current year, the count documentation was reviewed by the Finance Officer for reasonableness and accuracy. Additionally, the Finance Officer is performing spot checks of inventory. We noted the year end inventory listing as of December 31, 2011 did not match the general ledger by \$[REDACTED]. Margin analysis on the [REDACTED] inventory, [REDACTED] sales and operating agreements was not performed periodically until the end of 2011.
- d. The [REDACTED] maintains a stack of signed checks (with one signature) on hand for larger lottery payouts. The risk of misappropriation is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2011**

B. Findings – Financial Statement Audit (Continued)

MATERIAL WEAKNESSES (Continued)

2011-2 FINDING: Segregation of Duties (Continued)

Criteria and Effect: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. A 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.

Recommendation:

- a. There is an overall lack of segregation of duties over the disbursement process due to the limited number of accounting personnel, which is typical in a city of this size. However, the risk of misappropriation is mitigated by the Mayor reviewing the unopened bank statement.
- b. The listing of account adjustments and write-offs from the accounting software should be reviewed monthly by a City Council Member.
- c. The Finance Officer should continue to review the periodic inventory count paperwork and perform random count checks. Additionally, margin analysis (direct cost of sales as a percentage of sales) should be performed at least monthly by the Finance Officer and reviewed for reasonableness based on gross margin percentages of [REDACTED], [REDACTED] and operating agreements. During the year, the Finance Officer began recording the operating agreement activity in separate accounts to assist in analyzing gross margins, we recommend this process continues.
- d. Signed checks should not be maintained on hand, as it creates the potential for misappropriation of cash. As noted above, the risk is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

Response/Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff available. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.



CITY OF FAITH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2012



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

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CITY OF FAITH

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INDEPENDENT AUDITOR'S REPORT

City Council
 City of Faith
 Faith, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of **CITY OF FAITH** (the City), Meade County, South Dakota, as of and for the year ended December 31, 2012, 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.

Basis for Qualified Opinions on Governmental Activities and General Fund

We did not observe physical chip inventory at December 31, 2012, stated at \$ [REDACTED]. We were unable to obtain sufficient appropriate audit evidence about inventory quantities by other auditing procedures.

Qualified Opinions

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinion paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the governmental activities and the General Fund as of December 31, 2012, and the changes in financial position thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1(c).

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the business-type activities and each major fund, other than the General Fund, for City of Faith as of December 31, 2012, 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.

Disclaimer of Opinion 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. The management's discussion and analysis and budgetary comparison information on pages 3 through 10 and 34 through 36, which are the responsibility of management, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has 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 it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2013 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

September 20, 2013

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2012**

This section of the City of Faith's (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended on December 31, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

The total revenues for the City's governmental activities decreased in 2012 from 2011 by \$ [REDACTED]. The main reasons for this change were due to operating grants decreasing \$ [REDACTED] and interest decreasing \$ [REDACTED]. Sales Taxes also increased by \$ [REDACTED], showing local business are staying steady.

The City's business-type activities charges for services increased by [REDACTED] percent to \$ [REDACTED]. The main factor contributing to these results include the [REDACTED] Fund revenue increase of \$ [REDACTED] due to additional sales.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts of management's discussion and analysis (this section), the basic financial statements (including related notes), and supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City's government, reporting the City's operations in more detail than the government-wide financial statements.
 - The governmental funds financial statements tell how general government services like public safety were financed in the short-term, as well as what remains for future spending.
 - Proprietary funds financial statements offer short-term and long-term financial information about the activities that the City operates like businesses. The City has [REDACTED] funds of the [REDACTED]

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The basic financial statements are followed by a section of supplementary information that further explains and supports the information in the financial statements.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Basis of Accounting

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues and expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues, (such as accounts receivable and revenue for billed or provided services not yet collected) and liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the modified cash basis of accounting.

Government-wide Statements

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City's assets and liabilities and is one way to measure the City's financial health or position.

- Increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- Governmental Activities is This category includes most of the City's basic services, [REDACTED] [REDACTED] finance the majority of these activities.
- Business-Type Activities is The City charges a fee to customers to help cover the costs of certain services it provides. The [REDACTED] are included here.
- Component Units is The City does not have any component units.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds and not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes. State law requires some of the funds. The City Council establishes other funds to control and manage money for particular purposes or to show that the City is properly using certain taxes and grants.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Fund Financial Statements (Continued)

The City has two kinds of funds:

- Governmental Funds ó Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the year-end balances available for spending. Consequently, the governmental funds financial statements provide a detailed short-term view which helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds financial statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds ó Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short-term and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by █ percent between the fiscal year 2011 and 2012 ó increasing to \$█. (See Table A-1)

The Statement of Net Position ó Modified Cash Basis reports all financial and capital resources. This statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components ó the amount due within one year and the amount due in more than one year. The only long-term liability of the City, a capital lease, has been reported in this manner on the Statement of Net Position ó Modified Cash Basis. The difference between the City's assets and liabilities is its net position.

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Table A-1 Summarized Statement of Net Position - Modified Cash Basis for 2012 and 2011						
	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Capital Assets	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Current Liabilities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Long-Term Debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Liabilities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
<i>Net Position:</i>						
Net Investment in Capital Assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Unrestricted	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Net Position	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Beginning Net Position	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Increase (Decrease) in Net Position	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Percentage of Change in Net Position	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Changes in Net Position

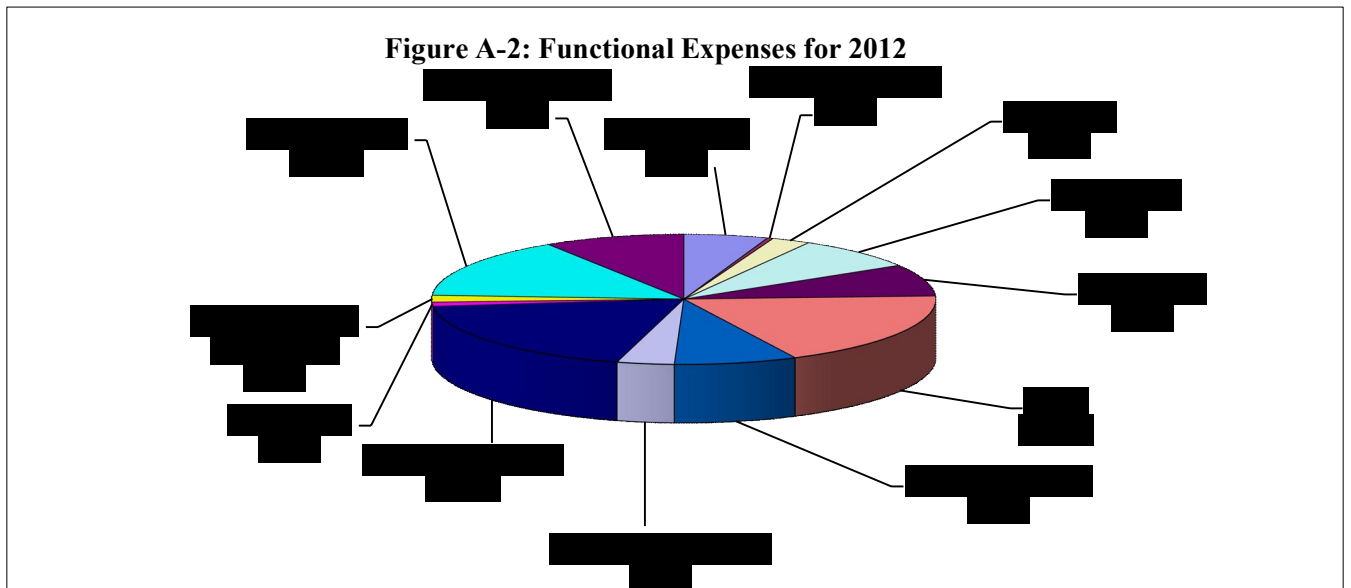
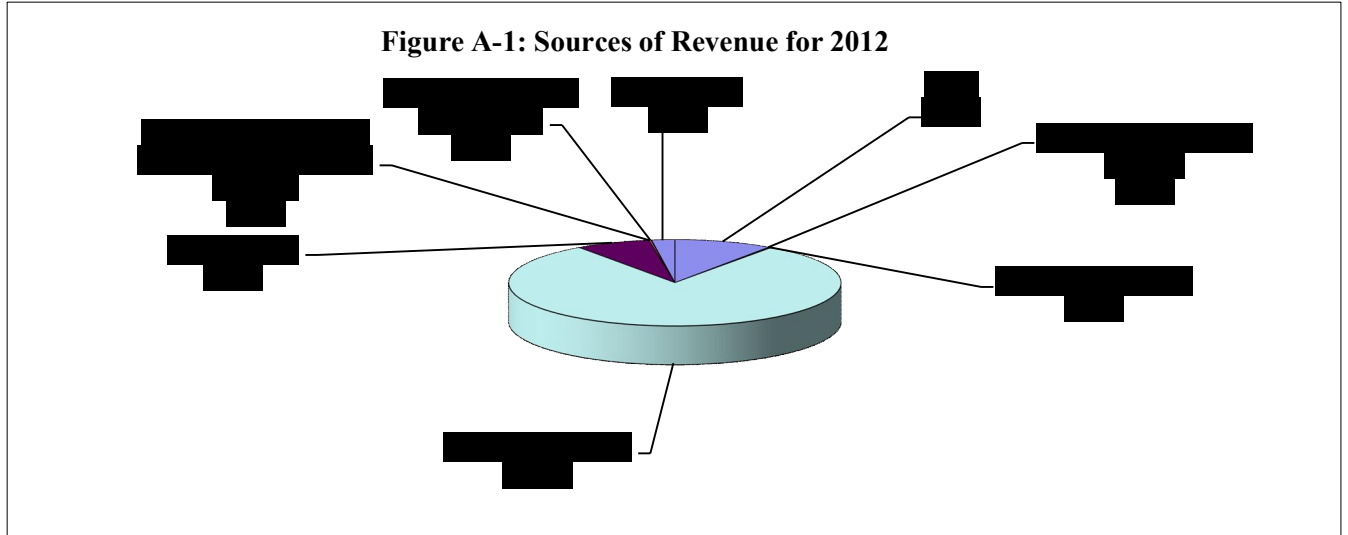
The City's revenues totaled [REDACTED], and the total cost of all programs and services was [REDACTED] for the year ended December 31, 2012. The City's expenses cover a range of services, including road maintenance, parks and recreation services, and sewer system services. (See Table A-2).

CITY OF FAITH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)



CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2012**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

The City experienced an increase in expenses in 2012. [REDACTED] had an increase of \$ [REDACTED], due mainly to [REDACTED] with one of the bigger expenses being the [REDACTED] at \$ [REDACTED]. [REDACTED] increased due to giving the [REDACTED] \$ [REDACTED] for a [REDACTED]. [REDACTED] decreased approximately \$ [REDACTED] due to a [REDACTED] project in 2011 that did not occur in 2012 and \$ [REDACTED] more in [REDACTED] in 2011 versus 2012. [REDACTED] increased mainly due to \$ [REDACTED] given to the [REDACTED] in 2012 and not in 2011.

Business-Type Activities

[REDACTED] increased approximately \$ [REDACTED] in expenses, due to approximately [REDACTED] more in [REDACTED] purchased for the operating agreements, as well as [REDACTED] more purchased by the [REDACTED], as new management didn't take over in the prior year until October of 2011, so the 2012 was a full year for operations. [REDACTED] increased by approximately \$ [REDACTED], mainly due to more [REDACTED] being used in 2012. [REDACTED] revenue increased slightly, mainly due to cost increase.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City's only governmental fund type is the General Fund. The City also maintains [REDACTED] business type funds of [REDACTED].

BUDGETARY HIGHLIGHTS

The City budgeted in [REDACTED] for a project that didn't happen in 2012 at \$ [REDACTED]. [REDACTED] was also budgeted for a [REDACTED] which was a [REDACTED]. These are the main changes to the budget. [REDACTED] still remains steady, so thus expected budgeted revenue was increased in 2012.

CITY OF FAITH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2012**

CAPITAL ASSET ADMINISTRATION

By the end of 2012, the City had invested \$ [REDACTED] in a broad range of capital assets, including [REDACTED], and [REDACTED]. The [REDACTED] was the most significant addition for \$ [REDACTED]. (See Table A-3).

	Governmental Activities		Business-Type Activities	
	2012	2011	2012	2011
Land	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Construction Work in Progress	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

LONG-TERM DEBT

As of December 31, 2012, the City had \$ [REDACTED] in long-term debt (See Table A-4 below)

	Governmental Activities	
	2012	2011
Capital Acquisition Lease	[REDACTED]	[REDACTED]
Total Outstanding Debt and Obligations	\$ [REDACTED]	\$ [REDACTED]

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The City expects business-type activities for 2013 to increase due to rate increases.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Faith's Finance Office, P.O. Box 368, Faith, SD 57626.

CITY OF FAITH

STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2012

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Investments	[REDACTED]	[REDACTED]	[REDACTED]
Accounts Receivable, Net	[REDACTED]	[REDACTED]	[REDACTED]
Inventory	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets:			
Land and Construction Work in Progress	[REDACTED]	[REDACTED]	[REDACTED]
Other Capital Assets, Net of Depreciation	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL ASSETS	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
LIABILITIES:			
Other Current Liabilities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Non-Current Liabilities:			
Due Within One Year	[REDACTED]	[REDACTED]	[REDACTED]
Due in More Than One Year	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL LIABILITIES	[REDACTED]	[REDACTED]	[REDACTED]
NET POSTION:			
Net Investment in Capital Assets	[REDACTED]	[REDACTED]	[REDACTED]
Unrestricted	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL NET POSTION	[REDACTED]	[REDACTED]	[REDACTED]
TOTAL LIABILITIES AND NET POSITION	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

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, 2012

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Operating Revenues		Primary Government		
		Charges for Services	Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities
Primary Government:						
Governmental Activities:						
General Government	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Public Safety	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Public Works	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Health and Welfare	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Culture and Recreation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Conservation and Development	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Interest on Long-Term Debt	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Governmental Activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Business-Type Activities:						
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Business-Type Activities	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Primary Government	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
General Revenues and Transfers:						
General Revenues:						
Taxes:						
Sales Taxes				[REDACTED]	[REDACTED]	[REDACTED]
Gross Receipt Taxes				[REDACTED]	[REDACTED]	[REDACTED]
State Shared Revenues				[REDACTED]	[REDACTED]	[REDACTED]
Grants and Contributions not Restricted to Specific Programs				[REDACTED]	[REDACTED]	[REDACTED]
Unrestricted Investment Earnings				[REDACTED]	[REDACTED]	[REDACTED]
Miscellaneous Revenue				[REDACTED]	[REDACTED]	[REDACTED]
Transfers				[REDACTED]	[REDACTED]	[REDACTED]
Total General Revenues and Transfers				[REDACTED]	[REDACTED]	[REDACTED]
Change in Net Position				[REDACTED]	[REDACTED]	[REDACTED]
Net Position- December 31, 2011				[REDACTED]	[REDACTED]	[REDACTED]
Net Position - December 31, 2012	\$ [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2012

		<u>General Fund</u>
ASSETS:		
101	Cash and Cash Equivalents	\$ [REDACTED]
151	Savings Certificates - Investments	[REDACTED]
115	Accounts Receivable, Net	[REDACTED]
142	Inventory	[REDACTED]
TOTAL ASSETS		\$ [REDACTED]
LIABILITIES AND FUND BALANCE:		
Liabilities:		
216	Other Current Liabilities	\$ [REDACTED]
Total Liabilities:		[REDACTED]
Fund Balance:		
263.01	Nonspendable	[REDACTED]
267	Unassigned	[REDACTED]
Total Fund Balance		[REDACTED]
TOTAL LIABILITIES AND FUND BALANCE		\$ [REDACTED]

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, 2012

Total Fund Balances - Governmental Funds	\$	██████████
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.		██████████
Long-term liabilities are not due and payable in the current period and therefore are not included in the funds.		██████████
Total Net Position - Governmental Activities	\$	██████████

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

		<u>General Fund</u>
Revenue:		
<i>Taxes:</i>		
313	Sales Taxes	\$ [REDACTED]
314	Gross Receipts Business Taxes	[REDACTED]
315	Amusement Taxes	[REDACTED]
320	Licenses and Permits	[REDACTED]
<i>Intergovernmental Revenue:</i>		
334	State Grant	[REDACTED]
335.02	Motor Vehicle Commercial ProRate	[REDACTED]
335.03	[REDACTED] Tax Reversion	[REDACTED]
335.04	Motor Vehicle Licenses [REDACTED]	[REDACTED]
335.08	Local Government Highway and Bridge Fund	[REDACTED]
338.01	County Road Tax	[REDACTED]
338.99	Other	[REDACTED]
<i>Charges for Goods and Services:</i>		
341	General Government	[REDACTED]
342	Public Safety	[REDACTED]
343	Highways and Streets	[REDACTED]
346	Culture and Recreation	[REDACTED]
347	Ambulance	[REDACTED]
348	Cemetery	[REDACTED]
349	Other	[REDACTED]
<i>Miscellaneous Revenue:</i>		
361	Investment Earnings	[REDACTED]
362	Rentals	[REDACTED]
367	Contributions and Donations From Private Sources	[REDACTED]
369	Other	[REDACTED]
Total Revenue		[REDACTED]

CITY OF FAITH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 GOVERNMENTAL FUND - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

		<u>General Fund</u>
Expenditures:		
<i>General Government:</i>		
411	Legislative	
412	Executive	
413	Elections	
414	Financial Administration	
419	Other	
<i>Public Safety:</i>		
421	Police	
422	Fire	
<i>Public Works:</i>		
431	Highway and Streets	
435	Airport	
437	Cemeteries	
<i>Health and Welfare:</i>		
441	Health	
446	Ambulance	
<i>Culture and Recreation:</i>		
451	Recreation	
452	Parks	
454	Swimming Pool	
455	Library	
<i>Conservation and Development:</i>		
465	Economic Development and Assistance	
465.3	Promoting the City	
466	Economic Opportunity	
470	Debt Service	
485	Capital Outlay	
Total Expenditures		
Other Financing Sources:		
390.3	Proceeds from Sale of Capital Assets	
391.01	Transfers In	
391.04	Compensation for Loss or Damage To Capital Assets	
Total Other Financing Sources		
Net Change in Fund Balance		
Fund Balance, December 31, 2011		
Fund Balance, December 31, 2012		\$

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, 2012

Net Change in Fund Balance - Governmental Fund \$ [REDACTED]

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	[REDACTED]
Depreciation Expense	[REDACTED]

In the Statement of Activities, the gains and losses on disposal of capital assets are reported, whereas in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.

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

Change in Net Position - Governmental Activities	\$ [REDACTED]
--	---------------

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 DECEMBER 31, 2012

	Fund	Fund	Fund
ASSETS:			
Current Assets:			
101 Cash and Cash Equivalents	\$	\$	\$
151 Saving Certificates - Investments			
115 Accounts Receivable			
142 Inventory of Supplies Purchased for Resale			
Total Current Assets			
Noncurrent Assets:			
151 Joint Venture Investment (Note 8)			
Capital Assets:			
160 Land			
162 Buildings			
164 Improvements Other Than Buildings			
166 Machinery and Equipment			
Less: Accumulated Depreciation			
Total Noncurrent Assets			
TOTAL ASSETS	\$	\$	\$
LIABILITIES:			
Current Liabilities:			
216 Other Current Liabilities	\$	\$	\$
220 Customer Deposits			
Total Current Liabilities			
NET POSITION:			
253.1 Net Investment in Capital Assets			
253.9 Unrestricted Net Assets			
Total Net Position			
TOTAL LIABILITIES AND NET POSITION	\$	\$	\$

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Fund	Fund	Fund
Operating Revenue:			
380 Charges for Goods and Services	\$	\$	\$
380.5 Lottery Sales			
Total Operating Revenue			
Operating Expenses:			
410 Personal Services			
420 Other Current Expense			
426.2 Materials (Cost of Goods Sold)			
457 Depreciation			
Total Operating Expenses			
Operating Income			
Nonoperating Revenue:			
361 Investment Earnings			
Income Before Transfers and Capital Grants			
330.2 Capital Grants			
511 Transfers Out			
Change in Net Position			
Net Position - December 31, 2011			
NET POSITION - DECEMBER 31, 2012	\$	\$	\$

The accompanying notes are an integral part of this statement.

CITY OF FAITH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2012

	Fund	Fund	Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Payments to Suppliers	[REDACTED]	[REDACTED]	[REDACTED]
Payments to Employees	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Flows Provided by Operating Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Noncapital Financing Activities:			
Transfers to Other Funds	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Used in Noncapital Financing Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Capital and Related Financing Activities:			
Capital Grants Received	[REDACTED]	[REDACTED]	[REDACTED]
Purchases of Capital Assets	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Used in Capital and Related Financing Activities	[REDACTED]	[REDACTED]	[REDACTED]
Cash Flows From Investing Activities:			
Interest Earnings	[REDACTED]	[REDACTED]	[REDACTED]
Net Increase (Decrease) in Cash and Investments	[REDACTED]	[REDACTED]	[REDACTED]
Cash and Investments, December 31, 2011	[REDACTED]	[REDACTED]	[REDACTED]
Cash and Investments, December 31, 2012	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Cash Flows From Operating Activities:			
Operating Income	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation Expense	[REDACTED]	[REDACTED]	[REDACTED]
Change in Assets and Liabilities:			
Accounts Receivable	[REDACTED]	[REDACTED]	[REDACTED]
Inventories	[REDACTED]	[REDACTED]	[REDACTED]
Customer Deposits	[REDACTED]	[REDACTED]	[REDACTED]
Other Current Liabilities	[REDACTED]	[REDACTED]	[REDACTED]
Net Cash Flows Provided by Operating Activities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012**

(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 ó Modified Cash Basis and Statement of Activities ó 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 ó 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, 2012**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements: (Continued)

The funds of the City financial reporting entity are described below:

Governmental Funds:

General Fund ó 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 ó 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:

██████████ Fund ó financed primarily by the sale of ██████████; this fund accounts for construction and operation of the ██████████. This is a major fund.

██████████ Fund ó financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████ and related facilities (SDCL 9-47-1). This is a major fund.

██████████ Fund ó financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████ and related facilities. This is a major fund.

██████████ Fund ó financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████ and related facilities (SDCL 9-48-2). This is a major fund.

██████████ Fund ó financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████ and related facilities. This is a major fund.

██████████ Fund ó financed primarily by user charges; this fund accounts for the construction and operation of the City ██████████. 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, 2012**

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

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

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

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

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

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

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

(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.

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 ó Modified Cash Basis, with accumulated depreciation reflected in the Statement of Net Position ó 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$ [REDACTED]	[REDACTED]	[REDACTED]
Construction Work in Progress	\$ [REDACTED]	[REDACTED]	[REDACTED]
Buildings	\$ [REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	\$ [REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	\$ [REDACTED]	[REDACTED]	[REDACTED]

Land is an inexhaustible capital asset and is not depreciated.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Fund Financial Statements:

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

f. Long-Term Liabilities

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

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

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 deferred revenue. There was no deferred revenue at December 31, 2012.

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 ó 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 ó 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 ó 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, 2012**

(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 ó Modified Cash Basis, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows ó 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 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 ó 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 ó 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 ó 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 ó 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 ó includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

(1) Summary of Significant Accounting Policies (Concluded)

I. Equity Classifications (Continued)

Fund Financial Statements (Continued):

2. Restricted ó 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 ó includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
4. Assigned ó 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 ó includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

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

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

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

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

(2) Deposits and Investments (Continued)

Investments ó In general, SDCL 4-5-6 permits Municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2012, the City's cash and deposits consisted of checking and savings accounts, and certificates of deposit. Saving Certificates - Investments classified in the financial statements consist entirely of certificates of deposits whose term to maturity at date of acquisition exceeds three months. All of these accounts are insured or collateralized in the City's name.

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, 2012, 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, 2012

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2012, is as follows:

	Balance 12/31/2011	Additions	Transfers/ Deletions	Balance 12/31/2012
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Construction Work in Progress*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets, not being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Capital Assets, being Depreciated:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Capital Assets Being Depreciated	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Less Accumulated Depreciation for:				
Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Improvements Other Than Buildings	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Machinery and Equipment	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Accumulated Depreciation	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Governmental Activities Capital Assets, being Depreciated, Net	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Total Governmental Capital Assets, Net	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

* Construction in Progress at December 31, 2012 is composed of engineering costs for a land acquisition, wild land fence, and runway safety area grading project for the Faith Airport, which upon completion will total approximately \$ [REDACTED]. The City was granted a \$ [REDACTED] federal grant for this project. Expenditures in excess of the Federal grant will be paid with the General Fund's fund balance.

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

Public Works	\$ [REDACTED]
General Government	[REDACTED]
Public Safety	[REDACTED]
Health and Welfare	[REDACTED]
Culture and Recreation	[REDACTED]
Total Depreciation Expense - Governmental	\$ [REDACTED]

CITY OF FAITH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012

(5) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2012, is as follows:

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012	Due Within One Year
Primary Government:					
Governmental Activities:					
Capital Acquisition Leases	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Total Governmental Activities	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]
Total Primary Government	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]	\$ [REDACTED]

The principal amount, above, was included in the appropriate classification of capital assets, and is being depreciated over the estimated useful-life of the asset. The asset as of December 31, 2012 is \$ [REDACTED] with \$ [REDACTED] in accumulated depreciation for a net book value of \$ [REDACTED].

Debt payable at December 31, 2012, is comprised of the following:

Capital Acquisition Lease

Capital Lease for community center that bears interest at [REDACTED] percent with semi-annual payments of \$ [REDACTED], matures January 2017 at which time the full balance is due. Financed through the General Fund.

\$ [REDACTED]

The annual requirements to amortize long-term debt outstanding as of December 31, 2012, are as follows:

	Capital Acquisition Lease	
	Interest	Principal
2013	\$ [REDACTED]	\$ [REDACTED]
2014	[REDACTED]	[REDACTED]
2015	[REDACTED]	[REDACTED]
2016	[REDACTED]	[REDACTED]
2017	[REDACTED]	[REDACTED]
Total	\$ [REDACTED]	\$ [REDACTED]

Interest cost paid and charged to interest expense in the current period totaled \$ [REDACTED].

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2012**

(6) Operating Leases

During the year ended December 31, 2003, the City began subleasing a portion of the community center to the Faith School District. This is a [REDACTED] year operating lease that requires annual lease payments of \$ [REDACTED]. Sublease rental income was \$ [REDACTED] for the year ended December 31, 2012. Future rental revenues expected under this lease are as follows as of December 31, 2012:

2013	\$	[REDACTED]
2014		[REDACTED]
2015		[REDACTED]
2016		[REDACTED]
2017		[REDACTED]
2018		[REDACTED]

The City of Faith entered into a [REDACTED]-year lease agreement with [REDACTED] on December 7, 2007, for host and remote switching services, with an optional [REDACTED] year extension which was extended during 2012. The lease requires minimum monthly charges of \$ [REDACTED], plus variable fees based on service levels. Lease payments were \$ [REDACTED] for the year ended December 31, 2012. Future minimum lease payments are as follows as of December 31, 2012:

2013	\$	[REDACTED]
2014		[REDACTED]
2015		[REDACTED]

(7) Retirement Plan – South Dakota Retirement System

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after [REDACTED] years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by state statute to contribute [REDACTED] percent of their salary to the plan, while public safety and judicial employees contribute [REDACTED] and [REDACTED] percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of [REDACTED] percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2012, 2011, and 2010 were \$ [REDACTED], \$ [REDACTED] and [REDACTED], respectively, equal to the required contributions each year.

CITY OF FAITH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2012**

(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, 2012, the City's interest in the voting and non-voting common stock is \$ [REDACTED], which is recorded as an investment (using the cost method) within the [REDACTED] fund. The stock will be maintained by the City as long as it participates in the Network.

Ownership in the Network consists of [REDACTED] entities, none of which have significant ownership percentages. The City has less than [REDACTED] percent ownership. Separate financial statements for this joint venture are available from South Dakota Network, Inc., Sioux Falls, South Dakota.

At December 31, 2012, this joint venture had total equity of \$ [REDACTED] (unaudited), total liabilities of \$ [REDACTED] (unaudited), and total assets of \$ [REDACTED] (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, 2012, 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 Pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The Pool pays the first \$ [REDACTED] of any claim per individual. The Pool has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$ [REDACTED] 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 \$ [REDACTED] during the year ended December 31, 2012. It is not anticipated that any additional claims for unemployment benefits will be filed in the next year.

SUPPLEMENTARY INFORMATION

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

		Original	Final	Actual -	
		Budget	Budget	Budgetary	Variance
				Basis	
Revenue:					
<i>Taxes:</i>					
313	Sales Taxes	\$			
314	Gross Receipts Business Taxes				
315	Amusement Taxes				
320	Licenses and Permits				
<i>Intergovernmental Revenue:</i>					
331	Federal Grant				
334	State Grant				
335.02	Motor Vehicle Commercial Prorate				
335.03	██████ Tax Reversion				
335.04	Motor Vehicle Licenses ██████				
335.08	Local Government Highway and Bridge Fund				
338.01	County Road Tax ██████				
338.02	County HBR Tax ██████				
338.99	Other				
<i>Charges for Goods and Services:</i>					
341	General Government				
342	Public Safety				
343	Highways and Streets				
346	Culture and Recreation				
347	Ambulance				
348	Cemetery				
349	Other				
<i>Miscellaneous Revenue:</i>					
361	Investment Earnings				
362	Rentals				
367	Contributions and Donations From Private Sources				
369	Other				
Total Revenue					

CITY OF FAITH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2012**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures:				
<i>General Government:</i>				
411				
412				
413				
414				
419				
<i>Public Safety:</i>				
421				
422				
<i>Public Works:</i>				
431				
435				
437				
<i>Health and Welfare:</i>				
441				
446				
<i>Culture and Recreation:</i>				
451				
452				
454				
455				
<i>Conservation and Development:</i>				
465				
465.3				
466				
470				
Total Expenditures				
390.3				
391.01				
391.04				
Total Other Financing Sources				
Net Change in Fund Balance				
Fund Balance, December 31, 2011				
Fund Balance, December 31, 2012	\$	\$	\$	\$

The accompanying notes are an integral part of this statement.

CITY OF FAITH

**NOTES TO SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012**

(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, 2012.
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 ó Modified Cash Basis, however in the Budgetary Required Supplementary Information Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

OTHER REPORTS



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council
City of Faith
Faith, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 20, 2013.

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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing opinions on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Auditor's Comments and Closing Conference, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as 2012-1 and 2012-2 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as 2012-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying Auditor's Comments and Closing Conference as 2012-3.

City's Response to Findings

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of Report

This report is intended 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 of 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. However, as required by South Dakota Codified Law 4-11-11, the report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 20, 2013

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2012**

A. Status of Prior Audit Findings and Recommendations

<u>Prior Year</u>	<u>Description</u>	<u>Current Year</u>
2011-1	Financial Statement Preparation	Substantially Repeated as 2012-1
2011-2	Segregation of Duties	Substantially Repeated as 2012-2

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2012**

B. Current Year Audit Findings and Recommendations

MATERIAL WEAKNESSES

2012-1 FINDING: Financial Statement Preparation and Year End Adjustments

Condition and Cause: As in prior years, we were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. During this process, we proposed a material audit adjustment to reclassify inventory from expense. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do with municipalities of your size.

Criteria and Effect: Adjustments noted above would not have been identified as a result of the City's existing internal controls. These deficiencies could result in material misstatements to the financial statements that would not have been prevented or detected by the City's management.

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

Response/Corrective Action Plan: The City will review expenses at year end and provide the auditors with a listing of inventory. The City evaluates its risk associated with this condition on an annual basis. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

2012-2 FINDING: Segregation of Duties

Condition and Cause: The City has a general lack of segregation of duties in the finance office, more specifically:

- a. All finance personnel have access to the general ledger, open mail, receive unopened bank statements, and mail the signed checks.
- b. The Finance Officer and Deputy Finance Officer receive customer payments, have access to write-off and adjust customer accounts, and the customer adjustments or write-off reports are not reviewed. In addition, the Finance Officer prepares the revenue portion of the financial statements given to the City Council for review. The Finance Officer is preparing a listing of adjustments, but the listing is not currently being reviewed by someone other than herself.
- c. There is lack of controls at the [REDACTED]. The [REDACTED] Manager orders inventory, receives inventory, and performs quarterly spot-check inventory counts. Additionally, there is not a process to accurately account for all movement of inventory from the [REDACTED] store to the [REDACTED]. During the current year, the count documentation was reviewed by the Finance Officer for reasonableness and accuracy. Margin analysis on the [REDACTED] inventory, [REDACTED] sales and operating agreements was not performed periodically throughout the year.
- d. The [REDACTED] maintains a stack of signed checks (with one signature) on hand for larger lottery payouts. The risk of misappropriation is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

CITY OF FAITH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2012**

B. Current Year Audit Findings and Recommendations (Continued)

MATERIAL WEAKNESSES (Continued)

2012-2 FINDING: Segregation of Duties (Continued)

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

Recommendations:

- a. The overall lack of segregation of duties over the disbursement process is due to the limited number of accounting personnel, which is typical in a city of this size. However, the risk of misappropriation is mitigated by the Mayor reviewing the unopened bank statement.
- b. The listing of account adjustments and write-offs from the accounting software should be reviewed monthly by a City Council Member.
- c. The Finance Officer should continue to review the periodic inventory count paperwork and perform random count checks. Additionally, margin analysis (direct cost of sales as a percentage of sales) should be performed at least monthly by the Finance Officer and reviewed for reasonableness based on gross margin percentages of [REDACTED], [REDACTED] and operating agreements. The results should be reviewed with a City Council member.
- d. Signed checks should not be maintained on hand, as it creates the potential for misappropriation of cash. As noted above, the risk is mitigated by the Finance Officer's review of the bank statement, including images of cancelled checks.

Response/Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff available. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.

SIGNIFICANT DEFICIENCY

2012-3 FINDING: Approval of Disbursements

Condition and Cause:

- a. We noted during our review of disbursements that two checks were written that had only one signature, whereas two are required.
- b. We noted during our review of disbursements one invoice was paid without Council approval; however the bid was approved by the city council.

Criteria and Effect: Signature on disbursements and council approval of claims are required per SDCL 9-23-2 and SDCL 9-23-3.

Recommendations:

- a. The City will review disbursements prior to being mailed for two signatures.
- b. The City will review the claims for council approval prior to the council meeting for completeness.

Response/Corrective Action Plan: Whoever mails the checks will ensure two signatures are present prior to mailing. Two people will compare the actual vouchers to the claims list before the list is approved at the Council meeting. The Finance Officer, Debbie Brown, is responsible for this corrective action plan.