

CITY OF FORT PIERRE

AUDIT REPORT

DECEMBER 31, 2011

**CITY OF FORT PIERRE
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**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 Commission
City of Fort Pierre
Fort Pierre, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, as December 31, 2011, and for the year then ended, which collectively comprise the City of Fort Pierre's basic financial statements and have issued my report thereon dated May 11, 2012, which was modified due to a scope limitation regarding the aggregate discretely presented component unit.

I conducted my 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.

Internal Control over Financial Reporting

In planning and performing my audit, I considered the City's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the City's internal control over financial reporting.

My 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 Schedule of Current Audit Findings, I identified certain deficiencies in internal control over financial reporting that I 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.

I consider the deficiency described in the Schedule of Audit Findings and Questioned Costs as item number 2011-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The City of Fort Pierre's response to the findings identified in my audit is described in the accompanying schedule of current audit findings. I did not audit the City of Fort Pierre's response, and, according, I express no opinion on it.

This report is intended solely for the information and use of the governing board and information of the management of the City of Fort Pierre the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 this report is a matter of public record and its distribution is not limited.

May 11, 2012

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

INDEPENDENT AUDITOR'S REPORT

City Commission
City of Fort Pierre
Fort Pierre, South Dakota

Compliance:

I have audited the City of Fort Pierre's compliance with types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the City of Fort Pierre's major federal programs for the year ended December 31, 2011. The City of Fort Pierre's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Fort Pierre's management. My responsibility is to express an opinion on the City of Fort Pierre's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Fort Pierre's compliance with those requirements and performing such other procedures, as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on the City of Fort Pierre's compliance with those requirements.

In my opinion, the City of Fort Pierre complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

Internal Control over Compliance:

The management of the City of Fort Pierre is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the City of Fort Pierre's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City of Fort Pierre's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies or material weaknesses have been identified. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A deficiency in internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2011-02 to be a material weakness.

The City of Fort Pierre's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the City of Fort Pierre's response and, accordingly, I express no opinion on the responses.

This report is intended for the information and use of management, the City Commissioners, others within the entity, the South Dakota Legislature, federal awarding agencies and pass-through entities, 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 and OMB Circular A-133 Section .320(a), this report is a matter of public record and its distribution is not limited.

May 11, 2012

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Fort Pierre
Fort Pierre, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, as of December 31, 2011, and for the year then ended, 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 of Fort Pierre's management. My responsibility is to express opinions on these financial statements based on my audit.

Except as indicated in the following paragraph, I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

I was unable to obtain audited financial statements supporting the financial activities of the Fort Pierre Housing and Redevelopment Commission, nor was I able to satisfy myself as to those financial activities by other auditing procedures. Those financial activities are included in the component unit column and represent 100% of the assets and revenues of the component unit column.

Since I was unable to obtain audited financial statements supporting the activities of the Fort Pierre Housing and Redevelopment Commission and was not able to apply other auditing procedures to satisfy myself as to the reported revenues and expenses, the scope of my work was not sufficient to enable me to express, and I do not express, an opinion on the financial statements of the discretely presented component unit.

Further in my 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, each major fund and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, at December 31, 2011, the respective changes in financial position and cash flows where applicable thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with the Government Auditing Standards, I have also issued my report dated May 11, 2012 on my consideration of the City of Fort Pierre's internal control over financial reporting and my 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 my testing of internal control over financial reporting and compliance and to 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 Governmental Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules on pages 63 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Expenditures of Federal Awards, which is required by U. S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-profit Organizations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records management used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 my opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

May 11, 2012

CITY OF FORT PIERRE

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DECEMBER 31, 2011

**CITY OF FORT PIERRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	PRIMARY GOVERNMENT	
	Governmental Activities	Business-type Activities
ASSETS:		
Cash and cash equivalents	\$583,171	\$601,876
Receivables	2,713,661	410,144
Inventories	5,659	537,807
Land held for resale	334,180	0
Other assets	37,018	0
Internal balances	(151,472)	151,472
Restricted assets:		
Cash and cash equivalents	83,554	278,226
Deposits	29,390	0
Capital assets:		
Land and construction in progress	965,794	163,577
Other capital assets, net of depreciation	8,380,561	12,323,284
TOTAL ASSETS	\$12,981,516	\$14,466,386
LIABILITIES:		
Accounts payable	\$651,027	\$166,848
Note payable	1,393,069	0
Other current liabilities	648,587	120,237
Noncurrent liabilities:		
Due within one year	399,740	430,704
Due in more than one year	1,789,145	3,015,316
TOTAL LIABILITIES	4,881,568	3,733,105
NET ASSETS:		
Invested in capital assets, net of related debt	7,178,579	9,074,209
Restricted for:		
Cemetery	41,318	0
Debt service	107,791	278,226
Insurance	29,390	0
Unrestricted	742,870	1,380,846
TOTAL NET ASSETS	8,099,948	10,733,281
TOTAL LIABILITIES AND NET ASSETS	\$12,981,516	\$14,466,386

The accompanying notes to financial statements
are an integral part of this statement.

TOTAL	Component Unit
\$1,185,047	\$0
3,123,805	0
543,466	0
334,180	0
37,018	0
0	0
361,780	0
29,390	0
1,129,371	0
20,703,845	0
<u>\$27,447,902</u>	<u>\$0</u>

\$817,875	\$0
1,393,069	0
768,824	0
830,444	0
4,804,461	0
<u>8,614,673</u>	<u>0</u>
16,252,788	0
41,318	0
386,017	0
29,390	0
2,123,716	0
<u>18,833,229</u>	<u>0</u>
<u>\$27,447,902</u>	<u>\$0</u>

**CITY OF FORT PIERRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General government	\$255,893	\$39,156	\$0
Public safety	374,500	1,586	0
Public works	1,269,617	87,604	202,168
Health and welfare	28,082	1,143	0
Culture and recreation	318,065	6,140	0
Conservation and development	101,458	3,525	0
*Interest on long-term debt	123,616	0	0
TOTAL GOVERNMENTAL ACTIVITIES	2,471,231	139,154	202,168
Business-type Activities:			
Water	374,594	410,160	0
Electric	2,083,050	2,391,200	0
Sanitary sewer	470,005	418,308	0
TOTAL BUSINESS-TYPE ACTIVITIES	2,927,649	3,219,668	0
TOTAL PRIMARY GOVERNMENT	\$5,398,880	\$3,358,822	\$202,168
Component Unit:			
Housing and Redevelopment Commission	\$20,385	\$0	\$20,385

* The City does not have interest expense related to the governmental functions. This amount includes indirect interest on general long-term debt.

GENERAL REVENUES:

Property taxes
Sales taxes
State shared revenues
Unrestricted investment earnings
Other general revenues

EXTRAORDINARY ITEM

Total General Revenues and Extraordinary item

Change in net assets

Net Assets-beginning,

NET ASSETS-ending

The accompanying notes to financial statements are an integral part of this statement.

NET (EXPENSE) REVENUE AND
CHANGE IN NET ASSETS

Governmental Activities	Business-type Activities	Total	Component Unit
(\$216,737)	\$0	(\$216,737)	\$0
(372,914)	0	(372,914)	0
(979,845)	0	(979,845)	0
(26,939)	0	(26,939)	0
(311,925)	0	(311,925)	0
(97,933)	0	(97,933)	0
(123,616)	0	(123,616)	0
(2,129,909)	0	(2,129,909)	0
0	35,566	35,566	0
0	308,150	308,150	0
0	(51,697)	(51,697)	0
0	292,019	292,019	0
(\$2,129,909)	\$292,019	(\$1,837,890)	\$0
\$0	\$0	\$0	\$0
\$983,803	\$0	\$983,803	\$0
1,059,866	0	1,059,866	0
61,506	0	61,506	0
9,568	8,913	18,481	0
92,547	0	92,547	0
184,041	0	184,041	0
2,391,331	8,913	2,400,244	0
261,422	300,932	562,354	0
7,838,526	10,432,349	18,270,875	0
\$8,099,948	\$10,733,281	\$18,833,229	\$0

CITY OF FORT PIERRE
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2011

	General Fund	US COE Fund	Other Governmental Funds
ASSETS			
Cash and cash equivalents	\$0	\$472,275	\$110,896
Taxes receivable-			
Delinquent	36,843	0	0
Accounts receivable	7,010	0	0
Special assessments receivable-current	1,173	0	286
Special assessments receivable-delinquent	3,173	0	2,290
Special assessments receivable-deferred	414,484	0	286
Due from other governments	2,228,621	0	19,495
Deposits	29,390	0	0
Supply inventory	5,659	0	0
Land held for resale	334,180	0	0
Restricted cash	83,554	0	0
TOTAL ASSETS	\$3,144,087	\$472,275	\$133,253
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$651,027	\$0	\$0
Note payable	1,393,069	0	0
Accrued wages payable	17,714	0	0
Deferred revenue	2,682,051	472,275	2,862
Due to Electric Fund	151,472	0	0
Total Liabilities	4,895,333	472,275	2,862
FUND BALANCES:			
Non-spendable:			
Deposits	29,390	0	0
Inventory	5,659	0	0
Land held for resale	334,180	0	0
Restricted:			
Debt service	83,554	0	24,237
Recreation	0	0	44,500
Cemetery	0	0	41,318
Economic development	0	0	20,336
Unassigned	(2,204,029)	0	0
Total Fund Balance (Deficit)	(1,751,246)	0	130,391
TOTAL LIABILITIES AND FUND BALANCES	\$3,144,087	\$472,275	\$133,253

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$583,171

36,843

7,010

1,459

5,463

414,770

2,248,116

29,390

5,659

334,180

83,554

\$3,749,615

\$651,027

\$1,393,069

\$17,714

\$3,157,188

\$151,472

5,370,470

29,390

5,659

334,180

107,791

44,500

41,318

20,336

(2,204,029)

(1,620,855)

\$3,749,615

CITY OF FORT PIERRE

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DECEMBER 31, 2011

CITY OF FORT PIERRE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2011

Total Fund Balances-Government Funds	(\$1,620,855)
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	9,346,355
Long-term liabilities, including bonds payable, capital leases payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds	(2,188,885)
Property taxes receivable, grants receivable and special assessments are reported in the period to be financed by the property tax levy for both the governmental funds and the statement of net assets, but in the funds statement of net assets, "available" (within a 30 day period) are offset with deferred revenue	2,526,315
Prepaid insurance is not recorded in the funds statement because it is on the modified accrual basis of accounting	<u>37,018</u>
Net Assets-Governmental Funds	<u><u>\$8,099,948</u></u>

The accompanying notes to financial statements are an integral part of this statement.

CITY OF FORT PIERRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	US COE Fund	Other Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$855,490	\$0	\$106,471
General sales taxes	939,301	0	120,565
Penalties and interest	3,219	0	430
Licenses and permits	28,855	0	0
Intergovernmental Revenue			
Federal grants	185,355	16,813	0
State shared revenues	61,506	0	0
County shared revenues	4,444	0	0
Charges for Goods or Services			
General government	39,156	0	0
Highways and streets	26,223	0	0
Sanitation	1,275	0	0
Health	1,143	0	0
Culture and recreation	6,140	0	0
Economic development	3,525	0	0
Fines and Forfeits			
Court fines and costs	361	0	0
Parking fines	1,225	0	0
Miscellaneous Revenue			
Interest earned	7,151	0	2,417
Special assessments	78,596	0	13
Contributions	75	0	7,500
Other	35,616	0	16,057
Total Revenue	\$2,278,656	\$16,813	\$253,453

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$961,961
1,059,866
3,649
28,855

202,168
61,506
4,444

39,156
26,223
1,275
1,143
6,140
3,525

361
1,225

9,568
78,609
7,575
51,673

\$2,548,922

CITY OF FORT PIERRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	US COE Fund	Other Governmental Funds
Expenditures:			
General Government:			
Executive	\$50,261	\$0	\$0
Elections	1,390	0	0
Financial administration	160,870	0	0
Other	36,855	0	0
Public Safety:			
Police	266,731	0	0
Fire	84,485	0	0
Other	14,085	0	0
Public Works:			
Highways and streets	1,097,794	0	0
Sanitation	37,085	13,945	0
Electric	0	2,868	0
Transit	24,000	0	0
Cemetery	0	0	6,262
Health and Welfare:			
Health	28,082	0	0
Culture and Recreation:			
Recreation	47,274	0	0
Parks	125,359	0	0
Libraries	8,462	0	0
Auditorium	7,299	0	0
Museum	19,284	0	0
Conservation and Development:			
Economic development	16,258	0	85,200
Debt Service	396,413	0	95,000
Total Expenditures	<u>2,421,987</u>	<u>16,813</u>	<u>186,462</u>
Excess of revenues over (under) expenditures	(143,331)	0	66,991
Other Financing Sources:			
Proceeds of long-term debt	93,594	0	0
Extraordinary Item	<u>(1,883,740)</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(1,933,477)	0	66,991
FUND BALANCE, JANUARY 1, 2011	<u>182,231</u>	<u>0</u>	<u>63,400</u>
FUND BALANCE (DEFICIT), DECEMBER 31, 2011	<u><u>(\$1,751,246)</u></u>	<u><u>\$0</u></u>	<u><u>\$130,391</u></u>

The accompanying notes to financial statements are an
integral part of this statement.

Total
Governmental
Funds

\$50,261
1,390
160,870
36,855

266,731
84,485
14,085

1,097,794
51,030
2,868
24,000
6,262

28,082

47,274
125,359
8,462
7,299
19,284

101,458
491,413

2,625,262

(76,340)

93,594

(1,883,740)

(1,866,486)

245,631

(\$1,620,855)

CITY OF FORT PIERRE

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DECEMBER 31, 2011

CITY OF FORT PIERRE
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 Changes in Fund Balances-Total Governmental Funds	(\$1,866,486)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period	
	(211,849)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	
	367,797
Proceeds of long-term debt is reported as revenue in the funds statement, but is an increase in liabilities in the statement of activities	
	(93,594)
Property tax revenues, state and federal revenues, and special assessments are reported in the period to be financed by the property tax levy or special assement for both the governmental funds and the governmental activities, but in the funds statement, any amounts that are not "available" are offset with deferred revenue.	
	2,067,471
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	
	(4,523)
Prepaid insurance cost is deferred in the activities statement.	
	2,606
Change in Nets Assets of Governmental Activities	\$261,422

The accompanying notes to financial statements are an integral part of this statement.

CITY OF FORT PIERRE
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2011

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
ASSETS:			
Current Assets:			
Cash	\$0	\$601,876	\$0
Accounts receivable	53,453	317,484	39,207
Supply inventory	119,010	409,628	9,169
Due from other funds	0	348,780	0
Total Current Assets	172,463	1,677,768	48,376
Noncurrent Assets:			
Restricted cash and cash equivalents	28,322	249,904	0
Capital Assets:			
Land	27,587	115,999	19,991
Buildings	810,296	3,802,896	0
Improvements other than buildings	2,341,836	3,751,463	7,294,563
Machinery and equipment	75,784	369,206	254,583
Accumulated depreciation	(1,700,139)	(2,465,550)	(2,211,654)
Total Noncurrent Assets	1,583,686	5,823,918	5,357,483
TOTAL ASSETS	\$1,756,149	\$7,501,686	\$5,405,859

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$601,876
410,144
537,807
348,780

1,898,607

278,226

163,577
4,613,192
13,387,862
699,573
(6,377,343)

12,765,087

\$14,663,694

CITY OF FORT PIERRE
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2011

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$10,713	\$149,326	\$6,809
Accrued wages	3,869	13,348	4,766
Due to other funds	178,434	0	18,874
Deferred revenue	13,405	1,323	5,847
Customer deposits	3,250	74,429	0
Current portion of long-term debt	44,999	286,061	99,644
	<u>254,670</u>	<u>524,487</u>	<u>135,940</u>
Total Current Liabilities			
Non-current Liabilities:			
Bonds payable:			
Revenue	0	2,357,926	624,405
Accrued leave payable	4,418	7,848	4,418
Other long-term debt	0	16,301	0
	<u>4,418</u>	<u>2,382,075</u>	<u>628,823</u>
Total Non-current Liabilities			
NET ASSETS			
Invested in capital assets, net of related debt	1,514,783	2,921,574	4,637,852
Restricted net assets restricted for:			
Revenue bond debt service	28,322	249,904	0
Unrestricted net assets	(46,044)	1,423,646	3,244
	<u>1,497,061</u>	<u>4,595,124</u>	<u>4,641,096</u>
Total Net Assets			
	<u>\$1,756,149</u>	<u>\$7,501,686</u>	<u>\$5,405,859</u>
TOTAL LIABILITIES AND NET ASSETS			

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$166,848
21,983
197,308
20,575
77,679
430,704

915,097

2,982,331
16,684
16,301

3,015,316

9,074,209

278,226
1,380,846

10,733,281

\$14,663,694

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

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUES:			
Charges for goods and services	\$410,160	\$2,391,200	\$418,308
OPERATING EXPENSES:			
Personal services	115,863	287,626	95,852
Cost of sales	144,370	1,249,325	0
Other current expense	33,979	199,915	104,575
Depreciation	77,290	210,502	241,409
Total Operating Expenses	371,502	1,947,368	441,836
Operating Income (Loss)	38,658	443,832	(23,528)
Non-operating Revenue (Expense)			
Interest earned	0	8,913	0
Interest expense	(3,092)	(135,682)	(28,169)
Total Non-operating Revenue (Expense)	(3,092)	(126,769)	(28,169)
Change in Net Assets	35,566	317,063	(51,697)
NET ASSETS, BEGINNING	1,461,495	4,278,061	4,692,793
NET ASSETS, ENDING	\$1,497,061	\$4,595,124	\$4,641,096

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$3,219,668

499,341

1,393,695

338,469

529,201

2,760,706

458,962

8,913

(166,943)

(158,030)

300,932

10,432,349

\$10,733,281

CITY OF FORT PIERRE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$417,040	\$2,288,002	\$422,834
Cash receipts for interfund services	0	81,618	0
Payments to suppliers	(180,388)	(1,400,679)	(76,364)
Cash payments for interfund services	(12,199)	(66,524)	(37,684)
Payments to employees	(114,642)	(285,681)	(93,685)
Net Cash Provided (Used) by Operating Activities	109,811	616,736	215,101
CashFlows from Non-capital Financing Activities:			
Loans (to) from other funds	(32,876)	231,096	18,874
Cash Flows from Capital and Related Financing Activities:			
Purchase of capital assets	(35,001)	(54,257)	(128,526)
Debt principal paid	(38,842)	(215,450)	(91,282)
Debt interest paid	(3,092)	(135,682)	(28,169)
Cash Flows from Investing Activities:			
Cash received for interest	0	8,913	0
Net Increase (Decrease) in Cash and Cash Equivalents	0	451,356	(14,002)
Cash and Cash Equivalents Beginning of Year	28,322	400,424	14,002
Cash and Cash Equivalents End of Year	\$28,322	\$851,780	\$0
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	\$38,658	\$443,832	(\$23,528)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	77,290	210,502	241,409
Changes in Assets and Liabilities:			
Receivables	11,450	(23,498)	4,526
Inventories	(3,043)	26,728	(2,336)
Accounts and other payables	(11,195)	(44,691)	(7,137)
Accrued leave payable	1,221	1,945	2,167
Deposits	0	1,918	0
Deferred revenue	(4,570)	0	0
Net Cash Provided (Used) by Operating Activities	\$109,811	\$616,736	\$215,101

The accompanying notes to financial statements are an
integral part of this statement.

Total

\$3,127,876
81,618
(1,657,431)
(116,407)
(494,008)

941,648

217,094

(217,784)
(345,574)
(166,943)

8,913

437,354

442,748

\$880,102

\$458,962

529,201

(7,522)
21,349
(63,023)
5,333
1,918
(4,570)

\$941,648

CITY OF FORT PIERRE
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2011

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$25,261</u>
Total Assets	<u><u>\$25,261</u></u>
LIABILITIES	
Amounts held for others	<u>\$25,261</u>
Total Liabilities	<u>25,261</u>
NET ASSETS	<u>0</u>
Total Liabilities and Net Assets	<u><u>\$25,261</u></u>

The accompanying notes to financial statements
are an integral part of this statement

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the City of Fort Pierre 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 with 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.

The Primary Government Unit is the City of Fort Pierre. The City participates in two cooperative units:

- 1.) Stanley Country Law Enforcement (with Stanley Country), see Note 16 for specific disclosure.
- 2.) Expo Building (Hughes County, Stanley County, and City of Pierre). See detailed Note 15 for specific disclosure.

The City has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law (SDCL 11-7-7). The City created this Housing and Redevelopment Commission for the purpose of providing low income housing assistance to its citizens through the "HUD" program. The City has entered into a "Joint Powers" agreement with the City of Pierre Housing and Redevelopment Commission, whereby that commission would act as an Agent to administer their HUD program.

The accounting policies of the City conform to generally accepted accounting principles as applicable to governments.

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. Basis of Presentation:

Government-wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. The statements distinguish between the governmental and business-type activities and discretely presented component units. 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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1a above and may be classified as either governmental or business-type activities.

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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. 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 10 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 5 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 funds operations.

The funds of the 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.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Entertainment Tax Fund - to account for a 3rd cent sales tax on motel rooms, restaurants and bars which may only be used for the promotion of the City, land acquisitions, civic centers and auditoriums and debt service related to these acquisitions (SDCL 10-52-8). This is not a major fund.

Second One Percent Sales Tax Fund - a fund established by ordinance to account for a portion of the City's general sales tax. Proceeds from this tax are to be used for retiring capital improvement indebtedness for both Governmental and Business Type Activity debt. This is not a major fund.

Capital Project Funds - capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations or other governments).

US COE Fund - The US COE Fund was established by the City according to the Construction, Relocation, and Alteration of Facilities Agreement with the US COE to account for the receipt and expenditure of federal grant monies obtained from the Department of Defense - U.S. Army Corps of Engineers. This is a major fund.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

"TIF" No. 2 Fund - to account for property taxes which may be used only for the payment of the TIF Revenue Note principal, interest and related costs. This is not a major fund.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanent Funds - Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principle, may be used for purposes that support the City's programs - that is for the benefit of the City and its citizenry.

Cedar Hill Cemetery Perpetual Care Fund - to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not 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, expensed incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

The City reports the following major enterprise funds:

Enterprise Funds:

Water Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities (SDCL 9-47-1).

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Electric Fund - to account for the construction and operation of the municipal electrical system and related facilities (SDCL 9-39-1 and 9-39-96).

Sanitary Sewer Fund - to account for the construction and operation of the municipal sewer system and related facilities (SDCL 9-48-2).

Fiduciary Funds:

Agency Funds - Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The City's agency funds include three Special Assessment Funds and the Stanley County Law Enforcement 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.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accruals basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Fort Pierre, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2011 are sales tax, real estate taxes, state shared revenues and miscellaneous other revenues.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principle and interest on general long-term debt which are recognized when due.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

All proprietary funds and fiduciary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on internal service fund activity, certain "centralized expenses" including employee health insurance, are charged as direct expenses to funds or programs in order to show all expenses that are associated with a service, program, department or fund. When expenses are charged, in this manner, expense reductions occur in the General Fund so that expenses are reported only in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a fund balance "non-spendable" classification which indicates that they do not constitute

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

"available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources".

e. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

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, 1980, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 1980 are recorded at cost, and classified as "Improvements other than Buildings".

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

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

**CITY OF FORT PIERRE
NOTES TO THE FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide Statements: All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend to useful life of a capital asset are also capitalized.

The total December 31, 2011 balance of capital assets for governmental activities includes approximately twenty-five percent for which the costs were determined by estimates of the original costs. The total December 31, 2011 balance of capital assets for business-type activities includes approximately twenty-five percent for which costs were also estimates of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon or by using deflated current replacement costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet. 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 and land rights	\$ All	N/A	N/A
Improvements other than buildings	5,000	Straight-line	10-50 years

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings	5,000	Straight-line	20-33 years
Machinery and Equipment	5,000	Straight-line	5-25 years
Infrastructure	5,000	Straight-line	10-50 years
Utilities property and improvements	5,000	Straight-line	10-50 years

Land, an inexhaustible capital asset, is not depreciated.

Fund Financial Statements: In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide 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 to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of compensated absences, revenue special assessment bonds payable and capital leases and other notes payable.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principle and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. 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.

h. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Activities, 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.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Cash and Cash Equivalents:

The City pools the cash resources of its funds for cash management purpose. 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 equivalents for the purpose of the Statement of Cash Flows.

j. Equity Classifications:

Government-wide Statements:

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

1. Invested in capital assets, 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 acquisitions, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints places 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:

Governmental fund equity is classified as fund balance, and may distinguish between "Non-spendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

k. Application of Net Assets or Fund Balances:

The City uses restricted or committed amounts first when both restricted and unrestricted amounts are available unless there are legal documents/contracts that prohibit 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.

Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

1. Non-spendable - includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the 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 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.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1, and 7-20-1.2, 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 banks public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK (continued)

Custodial Credit Risk - Deposits - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are:

- a. Uncollateralized,
- b. Collateralized with securities held by the pledging financial institution, or
- c. Collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor-government's name.

None of the City's deposits were exposed to the risks above as of December 31, 2011.

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 arising 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. As of December 31, 2011, the City had no investments.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer.

State law allows income from deposits and investment to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

4. INVENTORY

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

The General Fund also owns certain plots of land which were acquired for industrial development and are held for resale.

Inventory acquired for supplies or resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories and land held for resale are off-set by a fund balance "non-spendable" classification which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFERRED REVENUE

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

6. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

7. CHANGES IN CAPITAL ASSETS

A summary of changes in fixed assets for the year ended December 31, 2011 follows:

	<u>Balance</u> <u>1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/11</u>
Governmental Activities:				
Capital Assets				
Not being				
Depreciated:				
Land	\$ 965,794	\$ -	\$ -	\$ 965,794
Construction-				
in-progress	<u>2,034,599</u>	<u>-</u>	<u>2,034,599</u>	<u>-</u>
Totals	<u>3,000,393</u>	<u>-</u>	<u>2,034,599</u>	<u>965,794</u>
Capital Assets				
Being Depreciated				
Buildings	493,640	-	-	493,640
Improvements				
Other than				
Buildings	7,878,260	2,230,923	-	10,109,183
Machinery and				
Equipment	<u>818,676</u>	<u>51,773</u>	<u>-</u>	<u>870,449</u>
Totals	<u>9,190,576</u>	<u>2,282,696</u>	<u>-</u>	<u>11,473,272</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/11</u>
Less accumulated				
Depreciation for:				
Building	\$ 208,647	\$ 12,131	\$ -	\$ 220,778
Improvements	2,045,005	381,260	-	2,426,265
Machinery and Equipment	<u>379,113</u>	<u>66,555</u>	<u>-</u>	<u>445,668</u>
Total	<u>2,632,765</u>	<u>459,946</u>	<u>-</u>	<u>3,092,711</u>
Total Capital Assets being Depreciated- Net	<u>6,557,811</u>	<u>1,822,750</u>	<u>-</u>	<u>8,380,561</u>
Governmental Activity Capital Assets Net	<u>\$ 9,558,204</u>	<u>\$1,822,750</u>	<u>\$2,034,599</u>	<u>\$ 9,346,355</u>

Depreciation expense was charged to functions as follows:

General Government	\$ 4,608
Public Safety	9,198
Public Works	335,761
Culture and Recreation	<u>110,387</u>
	<u>\$ 459,946</u>

Business-type Activities:

Capital Assets Not being Depreciated				
Land	\$ 163,577	\$ -	\$ -	\$ 163,577
Construction- in-progress	<u>1,258,982</u>	<u>-</u>	<u>1,258,982</u>	<u>-</u>
Totals	<u>1,422,559</u>	<u>-</u>	<u>1,258,982</u>	<u>163,577</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

7. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>1/1/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/11</u>
Business-type Activities:				
Capital Assets				
Being Depreciated				
Buildings	\$ 4,613,192	\$ -	\$ -	\$ 4,613,192
Improvements				
Other than				
Buildings	12,002,483	1,385,379	-	13,387,862
Machinery and				
Equipment	<u>608,186</u>	<u>91,387</u>	<u>-</u>	<u>699,573</u>
Totals	<u>17,223,861</u>	<u>1,476,766</u>	<u>-</u>	<u>18,700,627</u>
Less accumulated				
Depreciation for:				
Building	1,413,838	76,096	-	1,489,934
Improvements	4,000,684	425,578	-	4,426,262
Machinery and				
Equipment	<u>433,620</u>	<u>27,527</u>	<u>-</u>	<u>461,147</u>
Total	<u>5,848,142</u>	<u>529,201</u>	<u>-</u>	<u>6,377,343</u>
Total Capital Assets being Depreciated-Net	<u>11,375,719</u>	<u>947,565</u>	<u>-</u>	<u>12,323,284</u>
Business-type Activity				
Capital Assets				
Net	<u>\$12,798,278</u>	<u>\$ 947,565</u>	<u>\$1,258,982</u>	<u>\$12,486,861</u>

Depreciation expense was charged to functions as follows:

Water	\$ 77,290
Electric	210,502
Sanitary Sewer	<u>241,409</u>
	<u>\$ 529,201</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

8. SHORT-TERM DEBT

During 2011, the City had the following short-term debt transactions:

Loan proceeds	\$ 3,860,009
Payments	<u>(2,466,940)</u>
Balance, 12/31/2011	<u>\$1,393,069</u>

The loan was necessary to cash flow the costs of the 2011 flood (see note 17). The notes is due to the State of South Dakota with no interest for the first eighteen months. Security for the loan is grant proceeds due to the City from the Federal Emergency Management Agency (FEMA).

9. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Government Activities:					
Bonds Payable:					
Revenue	\$ 845,867	\$ 93,594	\$ 139,313	\$ 800,148	\$ 150,034
Special Assess- ment	846,681	-	136,151	710,530	140,193
Notes Payable:					
Revenue	618,281	-	50,652	567,629	54,428
Financing (Capital Acquisition) Leases	<u>131,150</u>	<u>-</u>	<u>41,681</u>	<u>89,469</u>	<u>43,685</u>
Total Debt	<u>2,441,979</u>	<u>93,594</u>	<u>367,797</u>	<u>2,167,776</u>	<u>388,340</u>
Accrued Compensated Absences- Governmental					
Funds	\$ 16,586	\$ 12,723	\$ 8,200	\$ 21,109	\$ 11,400
Total Governmental Activities	<u>2,458,565</u>	<u>106,317</u>	<u>375,997</u>	<u>2,188,885</u>	<u>399,740</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Business-type Activities:

Bonds Payable:

Revenue	\$ 3,678,678	\$ -	\$ 314,514	\$ 3,364,164	\$ 381,834
Special Assessment	51,877	-	25,434	26,443	26,443
Other	<u>27,675</u>	<u>-</u>	<u>5,630</u>	<u>22,045</u>	<u>5,744</u>

Total Debt	<u>3,758,230</u>	<u>-</u>	<u>345,578</u>	<u>3,412,652</u>	<u>414,021</u>
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Accrued Compensated Absences-
Business-type

Funds	<u>28,284</u>	<u>19,234</u>	<u>14,150</u>	<u>33,368</u>	<u>16,684</u>
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Total Business-type Activities	<u>3,786,514</u>	<u>19,234</u>	<u>359,728</u>	<u>3,446,020</u>	<u>430,705</u>
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GRAND

TOTAL	<u>\$ 6,245,079</u>	<u>\$ 125,551</u>	<u>\$ 735,725</u>	<u>\$ 5,634,905</u>	<u>\$ 830,445</u>
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Debt payable at December 31, 2011 is comprised of the following:

GOVERNMENT ACTIVITY DEBT:

Revenue Bonds:

Series 2010 State Revolving Fund (SRF)
matures in 12/14/20; 3% interest rate;
payment to be financed from the General Fund \$ 204,949

Sales Tax Revenue Bonds, Series 2006,
matures in 11/20/18; 4.97% interest rate,
payment to be made by the General Fund 466,404

Sales Tax Revenue Bonds, Series 2003,
matures May 16, 2013, 4.07% interest rate,
payment to be financed by the General Fund 128,795

Total Revenue Bonds 800,148

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Series 2008(a) Special Assessment Bond,
interest rate of 5.10%, final payment due
August 28, 2018. This debt will be repaid
by the proceeds from special assessments. \$ 152,230

Series 2008(b) Special Assessment Bond,
interest rate of 4.20%, final payment due
August 26, 2018. This debt will be repaid
by the proceeds from special assessments. 302,862

Series 2004 Special Assessment Bond,
Interest rate of 3.85%, final payment
due November 1, 2014. This debt will
be repaid by the proceeds from special
assessments 255,438

Total Special Assessments Debt 710,530

Revenue Note:

TIF # 2 Revenue Note, interest rate of
7.32%, maturing 12/01/19, paid by the
Tax Increment District #3 fund 567,629

Financing (Capital Acquisition) Lease:

Asphalt Zipper, due in semi-annual payments
of \$23,711, including 4.6% interest, due
in 2013, payments to be made by the
General Fund 89,469

The purchase price at the commencement
Of the financing (capital acquisition)
Lease was:

Principal	\$209,270
Interest	<u>27,840</u>
	<u>\$237,110</u>

Compensated Absences:

The liability for compensated absences
represents leave benefits earned as of
December 31, 2011. This will be paid
by the General Fund \$ 21,109

TOTAL GOVERNMENTAL ACTIVITY \$2,188,885

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

BUSINESS ACTIVITY DEBT

Revenue Bonds:

Series 2004 State Revolving Fund (SRF) Sanitary Sewer, matures 06/01/26; 3.5% interest. Debt will be repaid from the Sanitary Sewer Fund	\$ 350,374
Series 2002 State Revolving Fund (SRF) Sanitary Sewer, maturity date April 1, 2018, 3.5% interest. Debt is repaid from the Sanitary Sewer Fund	225,087
Series 2010 Water Revenue Bonds, interest rate of 4%, due December 1, 2015. Paid by the Water Fund	130,948
Electric Surcharge Revenue Bonds, Series 2011, matures December 15, 2019, 2.5% interest rate, payment to be financed from Electric Fund	2,085,000
Series 2007 Water Revenue Bond, matures August 22, 2012, interest rate of 4.67%, payments to be made by the Water Fund	27,360
Series 2007 Electric Revenue Bond, matures October 25, 2019, interest rate of 4.77%, payments to be made by the Electric Fund	<u>545,395</u>
Total Revenue Bonds	<u>3,364,164</u>
Series 2007 Special Assessment Bonds, matures September 19, 2012, interest rate of 3.93%, payments to be made 60% by the Water Fund and 40% by the Sewer Fund. (These will be partially financed by special assessments, but will also be paid from revenues of the applicable enterprise funds)	<u>\$ 26,443</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Other:

Transmission Capacity Agreement with West Central Electric Cooperative, maturity date September, 2015 2% interest rate, debt is repaid from the Electric Fund	<u>\$ 22,045</u>
Compensated Absences	<u>33,368</u>
These are paid from each enterprise fund.	
TOTAL BUSINESS TYPE ACTIVITY	<u>3,446,020</u>
GRAND TOTAL	<u>\$5,634,905</u>

The annual requirements to amortize all debt outstanding as of December 31, 2011 excluding compensated absences is as follows:

Governmental Activities:

Year Ending December 31,	Revenue Bonds and Note		Financing (Capital Acquisition)	
31,	Principal	Interest	Lease	
			Principal	Interest
2012	\$ 204,462	\$ 73,478	\$ 43,685	\$ 3,373
2013	170,439	58,808	45,784	1,638
2014	134,269	54,288	-	-
2015	142,383	46,175	-	-
2016	151,011	37,546	-	-
2017-2021	449,968	62,736	-	-
2022-2026	55,997	13,262	-	-
2027-2031	59,248	4,240	-	-
Total	<u>\$1,367,777</u>	<u>\$ 350,533</u>	<u>\$ 89,469</u>	<u>\$ 5,375</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Year Ending December 31,	Special Assessments		Totals	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 140,193	\$ 29,689	\$ 388,340	\$ 106,904
2013	144,377	23,897	360,600	84,343
2014	148,711	17,924	282,980	72,212
2015	64,754	11,766	207,137	57,941
2016	67,702	8,817	218,713	46,363
2017-2021	144,793	8,247	594,761	70,983
2022-2026	-	-	55,997	13,262
2027-2031	-	-	59,248	4,240
Total	<u>\$ 710,530</u>	<u>\$ 100,340</u>	<u>\$2,167,776</u>	<u>\$456,248</u>

BUSINESS TYPE ACTIVITIES:

Year Ending December 31,	Revenue Bonds		Special Assessment Bonds	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 381,834	\$ 126,362	\$ 26,443	\$ 782
2013	390,328	91,703	-	-
2014	396,416	81,940	-	-
2015	407,767	71,057	-	-
2016	393,273	59,172	-	-
2017- 2021	1,266,289	112,084	-	-
2022- 2026	<u>128,257</u>	<u>10,555</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,364,164</u>	<u>\$ 552,868</u>	<u>\$ 26,443</u>	<u>\$ 782</u>

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

9. LONG-TERM DEBT (continued)

Year Ending December 31,	Other		Totals	
	Principal	Interest	Principal	Interest
2012	\$ 5,744	\$ 398	\$ 414,021	\$ 127,542
2013	5,859	283	396,187	91,986
2014	5,978	164	402,394	82,104
2015	4,463	44	412,231	71,101
2016	-	-	393,273	59,172
2017-2021	-	-	1,266,289	112,084
2022-2026	-	-	128,257	10,550
Total	<u>\$ 22,045</u>	<u>\$ 889</u>	<u>\$3,412,652</u>	<u>\$ 554,539</u>

As of December 31, 2011, the City was acting as a fiscal agent for three special assessment issues having a total outstanding balance of \$396,827.

The City is liable neither directly nor indirectly for the preceding special assessments.

10. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2011 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ -	\$ 151,472
Enterprise Funds:		
Water Fund	-	178,434
Electric Fund	348,780	-
Sewer Fund	-	18,874
	<u>\$ 348,780</u>	<u>\$ 348,780</u>

The above loans were made to compensate for a temporary cash overdraft position in the General and Water Funds at year-end. The "loans" above are legal transfers between funds as defined by SDCL 9-21-26.1. Since it was the City's intent to repay them as soon as possible, these legal transfers are classified as "loans."

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

11. RETIREMENT PLAN

All employees, except for part-time, 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 the state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% 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 \$52,389, \$45,187 and \$41,138, respectively, equal to the required contributions each year.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft or 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 from a commercial carrier.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

12. RISK MANAGEMENT (continued)

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (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 provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual 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 over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance (SDPAA), 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 SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

12. RISK MANAGEMENT (continued)

made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,500,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's First Full Year	50%
End of City's Second Full Year	60%
End of City's Third Full Year	70%
End of City's Fourth Full Year	80%
End of City's Fifth Full Year	90%
End of City's Sixth Full Year and Thereafter	100%

As of December 31, 2011, the City has vested balance in the cumulative reserve fund of \$29,390.

The City carries a \$500 deductible for the automobile coverage and \$2,000 deductible for the liability coverage.

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 provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

13. RESTRICTED NET ASSETS

The following table shows the net assets for other purposes as shown on the Statement of Net Assets:

<u>RESTRICTION</u>	<u>RESTRICTED BY</u>	<u>Amount</u>
Cemetery	Trust agreements	\$ 41,318
Debt Service	Debt Covenants	386,017
Insurance	Policy agreement	<u>29,390</u>
		<u>\$ 456,725</u>

14. JOINT OPERATIONS AND VENTURES

The City participates in an undivided interest, known as Exposition Building, which is a joint operation between the City of Pierre, Fort Pierre, Stanley and Hughes Counties for the construction and operation of a multiple use exposition building located at the Stanley County Fairgrounds in Fort Pierre, South Dakota. The primary use of the facility during winter months will be for hockey and multiple uses during other times of the year. Construction started in 1998 and was completed in 1999. Interest in the facility is as follows:

City of Pierre	35%
City of Fort Pierre	15%
Hughes County	35%
Stanley County	15%

The City's interest in the facility as of December 31, 2011 is reported as a capital asset. Hughes County is acting in the capacity of fiscal agent during the construction of the facility and currently, while the City of Pierre acted in the capacity of fiscal agent for parking lot storm sewer improvements. Financial statements for the joint operation are available from the Hughes County Finance Officer.

At December 31, 2011 this joint operation had total fund equity of \$82,627.

**CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS**

15. STANLEY COUNTY LAW ENFORCEMENT

Stanley County Law Enforcement, a joint venture, is intended to be a separate legal entity pursuant SDCL 1-24-19 and SDCL 9-12-4 for services including the enforcement of state and federal laws, county and city ordinances and regulation. Membership to the Law Enforcement Board includes two Council members. The City has an equity interest of 58% of the net assets. Separate financial statements for this joint venture are available from the Stanley County Auditor.

As of December 31, 2011, this joint venture had a total equity of \$21,378.

Since the City of Fort Pierre maintains the accounting records and bank accounts of this entity it is included as an agency fund in these financial statements.

16. PLEDGED REVENUES

The City has pledged future water customers' revenues, net of specified operating expenses, to repay \$27,360 in water system revenue bonds issued in 2007. Proceeds from the bonds provided financing for the construction of water system infrastructure.

The bonds are payable solely from water customer net revenues and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 80% of net revenues. The total principal and interest remaining to be paid on the bonds is \$28,322. Principal and interest paid for the current year and total customer net revenue were \$41,934 and \$115,948, respectively.

The City has also pledged future electric customers' revenues, net of specified operating expenses, to repay \$2,630,395 in electric system revenue bonds issued in 2002 and 2007. Proceeds from the bonds provided financing for the construction of electric system improvements.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

16. PLEDGED REVENUES (continued)

The bonds are payable solely from electric customer net revenues and are payable through 2019. Annual principal and interest payments on the bonds are expected to require less than 75% of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,047,142. Principal and interest paid for the current year and total customer net revenues were \$351,132 and \$654,334, respectively.

The City has also pledged future sanitary sewer customers' revenues, net of specified operating expenses, to repay \$706,409 in sanitary sewer system revenue bonds issued in 2002, 2004 and 2010. Proceeds from the bonds provided financing for the construction of sanitary sewer system improvements.

The bonds are payable solely from sanitary sewer customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds are expected to require less than 80% of net revenues. The total principal and interest remaining to be paid on the bonds is \$841,568. Principal and interest paid for the current year and total customer net revenues were \$119,451 and \$217,881, respectively.

17. EXTRAORDINARY ITEM

During 2011, the City experienced a disaster due to flooding of the Missouri River. The extraordinary costs and related State and Federal "F.E.M.A" assistance through December 31, 2011 were as follows:

Flood related costs	\$4,371,708
"FEMA" reimbursements	<u>(2,487,968)</u>
Net extraordinary costs	<u>\$1,883,740</u>

Clean up and repairs related to this disaster are ongoing, as are requests for State and Federal assistance.

18. DEFICIT FUND BALANCE

The General Fund had a \$1,751,245 deficit fund balance as of December 31, 2011. The City plans to eliminate this deficit in 2012 with the receipt of "F.E.M.A" grants due for the 2011 flood noted above.

CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amount
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$869,500	\$869,500	\$855,490
General sales and use taxes	1,015,500	1,015,500	939,301
Penalties and interest on delinquent taxes	3,000	3,000	3,219
Licenses and Permits	41,925	41,925	28,855
Intergovernmental Revenue			
Federal grants	0	765,550	185,355
State shared revenue	76,500	76,500	61,506
County shared revenues	4,444	4,444	4,444
Charges for Goods and Services			
General government	62,213	62,213	39,156
Highways and streets	33,262	33,262	26,223
Sanitation	2,000	2,000	1,275
Health	1,500	1,500	1,143
Culture and recreation	24,050	24,050	6,140
Economic Development	0	0	3,525
Fines and Forfeits			
Court fines	1,500	1,500	361
Other	500	500	1,225
Miscellaneous Revenue			
Investment earnings	35,000	35,000	7,151
Special assessments	78,500	78,500	78,596
Contributions	0	0	75
Other	23,000	23,000	35,616
Total Revenue	<u>\$2,272,394</u>	<u>\$3,037,944</u>	<u>\$2,278,656</u>

The accompanying notes to required supplemental information
are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

(\$14,010)
(76,199)
219

(13,070)

(580,195)
(14,994)
0

(23,057)
(7,039)
(725)
(357)
(17,910)
3,525

(1,139)
725

(27,849)
96
75
12,616

(\$759,288)

CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amount
	Original	Final	
EXPENDITURES:			
General Government			
Executive	\$53,975	\$53,975	\$50,261
Elections	1,050	1,395	1,390
Financial administration	177,105	185,105	160,870
Other	46,200	46,200	36,855
Public Safety			
Police	262,925	267,925	266,731
Fire	92,125	92,125	84,485
Other	20,850	20,850	14,085
Public Works			
Highways and streets	1,068,975	1,639,325	1,097,794
Sanitation	45,830	45,830	37,085
Transit	24,000	24,000	24,000
Health and Welfare			
Health	36,200	36,200	28,082
Culture and Recreation			
Recreation	91,825	91,825	47,274
Parks	214,700	214,700	125,359
Libraries	8,475	8,475	8,462
Auditorium	5,800	7,300	7,299
Museum	17,825	22,325	19,284
Conservation and Development			
Economic development	500	16,300	16,258
Debt Service	388,025	396,500	396,413
Total Expenditures	\$2,556,385	\$3,170,355	\$2,421,987

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

\$3,714
5
24,235
9,345

1,194
7,640
6,765

541,531
8,745
0

8,118

44,551
89,341
13
1
3,041

42

87

\$748,368

CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE-GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2011

	Budgeted Amounts		Actual Amount
	Original	Final	
Excess of Revenues over (under) Expenditures	(\$283,991)	(\$132,411)	(\$143,331)
Other Financing Sources:			
Proceeds of long-term debt	0	93,600	93,594
Extraordinary item	0	(2,000,000)	(1,883,740)
	(283,991)	(2,038,811)	(1,933,477)
Net change in Fund Balances			
	(283,991)	(2,038,811)	(1,933,477)
FUND BALANCE-Beginning	182,231	182,231	182,231
FUND BALANCE-Ending	(\$101,760)	(\$1,856,580)	(\$1,751,246)

The accompanying notes to required supplemental information are an integral part of this schedule.

Variance with
Final Budget-
Positive
(Negative)

(\$10,920)

(6)
116,260

105,334

0

\$105,334

CITY OF FORT PIERRE
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

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 expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 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 to the governing board.
6. Formal budgetary integration is employed as a management control device during the year for the General Fund.
7. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting practices (GAAP).

**CITY OF FORT PIERRE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Federal Grantor/Pass through Grantor Program Title	Federal CFDA Number	Pass through Grantor's Number	Expenditures
Department of Commerce:			
Direct Federal Funding:			
Economic Adjustment Grant	11.307	N/A	<u>\$185,355</u>
Department of Defense-U.S. Corps of Engineers:			
Direct Federal Funding:			
Construction Relocation and Alteration of Facilities	12.000	N/A	<u>16,813</u>
General Services Administration:			
Indirect Federal Funding:			
S.D. Federal Property Agency, Donation of Federal Surplus (Note 3)	39.003	N/A	<u>26</u>
Department of Homeland Security:			
Indirect Federal Funding:			
S.D. Department of Public Safety Office of Emergency Management Disaster Grant-Public Assistance (Note 2)	97.036	N/A	<u>3,820,056</u>
GRAND TOTAL			<u><u>\$4,022,250</u></u>

Note 1: The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2: This represents a Major Federal Assistance Program.

Note 3: The amount reported represents 23.3% of the original cost of federal surplus property received by the City.

**CITY OF FORT PIERRE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements of each opinion unit except for a disclaimer of opinion issued on the discretely presented component unit.
- b. A significant deficiency and material weakness was disclosed by the audit and is reported in Section 2, Finding Number 2011-01.
- c. No instances of noncompliance were noted by the audit.
- d. A significant deficiency and material weakness in internal control over major programs was noted. It is reported below in Section 3, Finding Number 2011-02.
- e. An unqualified report was issued on compliance for major programs.
- f. Audit findings required to be reported under Section .510(a) of OMB Circular A-133 are listed below as Findings Number 2011-01 and 2011-02.
- g. Programs treated as major programs for this audit were:

<u>Name</u>	<u>CFDA Number</u>
Disaster Grant- Public Assistance	97.036

- h. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i. The entity was not qualified as a low risk auditee as described in Section .530 of OMB Circular A-133.

**CITY OF FORT PIERRE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2011-01:

A significant deficiency and material weakness is present due to a lack of segregation of duties in the revenue, expenditure and payroll functions.

CRITERIA:

To obtain adequate internal control, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process. Various other accounting functions should be performed by different people to insure a proper segregation of duties.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations of funds could result from a lack of segregation on duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

CITY RESPONSE:

The City officials agree with this comment. The Mayor and City Commission are responsible for the corrective action plans for this comment. This comment is a result of the size of the City of Fort Pierre which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Fort Pierre management is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll function continues to exist.

**CITY OF FORT PIERRE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2011-02:

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2011-01 above for further explanation.

Major Federal Programs affected: See 1g above. All programs treated as majors were effected.

Compliance requirements affected: Allowable costs/cost principles.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriation of funds could result from a lack of segregation of duties.

RECOMMENDATION:

Management should remain aware of this situation and attempt to provide compensating controls wherever and whenever possible and practical.

CITY RESPONSE AND CORRECTIVE ACTION PLAN:

The City Commissioners agree with this finding and are responsible for the corrective action plan. This comment is a result of the size of the City of Fort Pierre which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City of Fort Pierre has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for the revenue, expenditures and payroll functions. The City of Fort Pierre is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical. However, this lack of segregation of duties regarding the revenues, expenditures and payroll functions continues to exist.

CITY OF FORT PIERRE
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Finding NUMBER 2009-01 and 2010-01:

A material weakness was reported due to a lack of segregation of duties.

Status as of December 31, 2011:

The condition noted in prior audits is still applicable.