

CITY OF FORT PIERRE

AUDIT REPORT

DECEMBER 31, 2005

CITY OF FORT PIERRE
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Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

**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, 2005, 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 4, 2007.

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 of Fort Pierre's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting, that, in my judgment, could adversely affect the City of Fort Pierre's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item number 2005-01, 2005-02 and 2005-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial

statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable conditions Number 2005-01, 2005-02 and 2005-03 described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fort Pierre's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards. See the accompanying Schedule of Findings and Questioned Costs, Finding Number 2005-03.

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 4, 2007

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133**

City Commission
City of Fort Pierre
Fort Pierre, South Dakota

Compliance

I have audited the compliance of the City of Fort Pierre, South Dakota, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. 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 in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Governmental 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 are applicable to each of its major federal programs for the year ended December 31, 2005.

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 the 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.

I noted certain matters involving the internal control over compliance and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in my judgment, could adversely affect the City of Fort Pierre's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as item number 2005-02.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected with in a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition number 2004-02 is a material weakness.

This report is intended solely for the information and use of the governing board and 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 those specified parties. However, as required by OMB Circular A-133 and SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.



May 4, 2007

Gary L. Larson, CPA

900 Winchester Drive
Pierre, SD 57501
(605) 940-1284
glarsoncpa@pie.midco.net

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, 2005, 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.

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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues and expenses of the aggregate discretely presented component units would have been reported as \$0, \$0, \$0, \$25,580 and \$25,580, respectively. In addition, the assets, liabilities, fund balances, revenues and expenditures of the aggregate remaining fund information would have increased by \$0, \$0, \$0, \$25,580 and \$25,580, respectively.

In my opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component units of the City of Fort Pierre, as of December 31, 2005, or the changes in financial position thereof for the year then ended.

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 and each major fund of the City of Fort Pierre, South Dakota, at December 31, 2005, 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 4, 2007 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.

The management's discussion and analysis and budgetary comparison information on pages 7 through 13 and 67 through 73 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the City of Fort Pierre's financial statements taken as a whole. The Schedule of Expenditures of Federal Awards, which is required by the U. S. Office of Budget and Management Circular A-133, Audits of States, Local Governments and Non-profit Organizations is not a required part of the basic financial statements of the City of Fort Pierre.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly presented in all material respects in relation to the general statements taken as a whole.

A handwritten signature in cursive script, appearing to read "Mary J. Tanson". The signature is written in dark ink and is positioned above the date.

May 4, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The City's annual financial report presents a discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2005. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets from governmental and business-type activities increased by \$1,579,082, or by 15%, mainly due to Federal grants and expansion of subdivisions.
- Total General Sales and Use Tax decreased by 8% over the previous year while total BBB Sales and Use Tax decreased by 16% over the previous year.
- The General Fund had a \$173,029 decrease, mainly due to increased costs of public works.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has three proprietary funds – the Water Fund, Electric Fund and the Sewer Fund.
 - Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Fort Pierre's own programs. The only Fiduciary Funds maintained by the City of Fort Pierre is the 5th / 2nd Ave. Curb & Gutter Special Assessment Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another. In addition to these required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

Figure A-1

Required Components of the City's Annual Financial Report

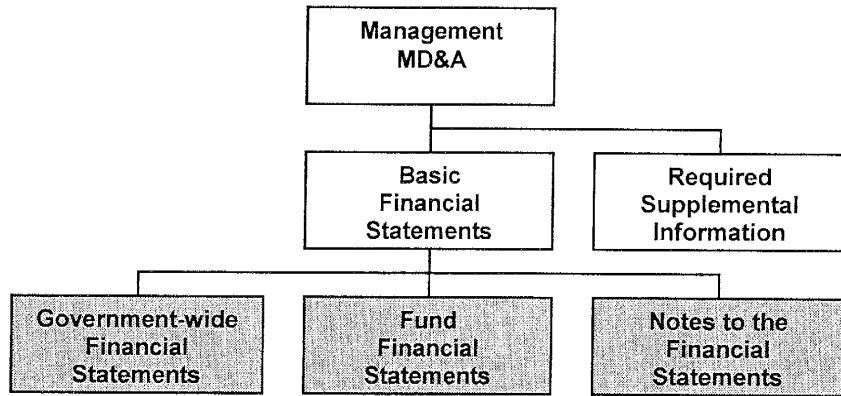


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2

Major Features of City's Government-wide and Fund Financial Statements				
	Government-wide	Fund Statements		
	Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire City government (except fiduciary funds and the City's component units)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems	Instances in which the Municipality is the trustee or agent for someone else's resources.
Required Financial Statements	*Statement of Net Assets & Statement of Activities	*Balance Sheet, *Statement of Revenues, *Expenditures and Changes in Fund Balances	*Balance Sheet *Statement of Revenues, Expenses and Changes in Net Assets *Statement of Cash Flows	*Statement of Fiduciary Net Assets

Accounting Basis and Measurement Focus	Accrual accounting and economic focus	Modified accrual accounting and	Accrual accounting and Economic Focus	Accrual accounting and Economic Focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Municipality's funds do not currently contain capital assets although they can.
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is been received and payment due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid.	

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

- Governmental Activities -- This category includes the most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- Business-type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water, electric, and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has three kinds of funds:

- Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can readily converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.
- Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
- Fiduciary Fund – The Municipality is the trustee, or fiduciary, for various external and internal parties. The Municipality is responsible for ensuring that the assets reported in these funds are used for their intended purpose. All of the Municipality's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the Municipality's government-wide financial statements because the Municipality cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets follow (See Table A-1).

**Table A-1
Municipality of Fort Pierre
Net Assets**

	Governmental Activities		Business-Type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current/Other Assets	3,679,581	4,564,987	1,130,098	790,262	4,809,679	5,355,249
Capital Assets	3,741,648	4,426,656	10,220,776	10,876,727	13,962,424	15,303,383
Total Assets	7,421,229	8,991,643	11,350,874	11,666,989	18,772,103	20,658,632
Long-Term Debt	1,950,993	1,532,454	4,254,747	4,093,134	6,205,740	5,625,588
Other Liabilities	1,296,994	2,491,282	545,807	239,118	1,842,801	2,730,400
Total Liabilities	3,247,987	4,023,736	4,800,554	4,332,252	8,048,541	8,355,988
Net Assets:						
Invested in Capital Assets - Net	1,796,689	2,904,829	5,980,228	6,760,787	7,776,917	9,665,616
Restricted	424,504	33,696	437,475	345,397	861,979	379,093
Unrestricted	1,952,049	2,029,382	132,617	228,553	2,084,666	2,257,935
Total Net Assets	4,173,242	4,967,907	6,550,320	7,334,737	10,723,562	12,302,644
Beginning Net Assets	2,349,966	4,133,242	5,130,190	6,550,320	7,480,156	10,723,562

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of compensated absences payable, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the city's assets and liabilities is its net assets.

Changes in Net Assets

The Municipality experienced a few significant changes in Net Assets during Fiscal Year 2005. Business-Type Activities saw an increase in Assets from 2004 to 2005, in the amount of 12%, due to the capital contributions for sewer improvements. Governmental Activities experienced a 19% increase in Net Assets due to the federal revenue from US Corp of Engineer, sale of land held for resale and other sources for projects.

Governmental Activities

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

	Table A-2 City of Fort Pierre Changes in Net Assets					
	Total		Total		Total	
	2004	2005	2004	2005	2004	2005
Revenues						
Program Revenues						
Charges for Services	\$ 304,453	\$ 351,234	\$ 1,703,053	\$ 1,948,504	\$ 2,007,506	\$ 2,299,738
Operating Grants and Contrib.	3,527	0	0	0	3,527	-
Capital Grants and Contrib.	2,701,896	2,001,861	1,550,918	924,328	4,252,814	2,926,189
General Revenues	0	0				
Taxes	1,239,738	1,224,043			1,239,738	1,224,043
Shared Gov't Sources	11,062	50,687			11,062	50,687
Unrestricted Invt. Earnings	6,802	5,787	17,904	13,203	24,706	18,990
Miscellaneous	30,129	55,075	-22,916	0	7,213	55,075
Total Revenues	4,297,607	3,688,687	3,248,959	2,886,035	7,546,566	6,574,722
Expenses						
General Government	\$ 179,093	\$ 205,027			\$ 179,093	\$ 205,027
Public Safety	260,222	294,357			260,222	284,357
Public Works	1,628,606	1,398,228			1,628,606	1,398,228
Health and Welfare	27,675	21,474			27,675	21,474
Culture and Recreation	422,343	705,525			422,343	705,525
Conservation and Develop.	200,615	187,873			200,615	187,873
Interest on Debt Service	34,077	81,538			34,077	81,538
Water Services			314,654	349,948	314,654	349,948
Electric Services			1,257,333	1,422,627	1,252,333	1,422,627
Sewer Services			256,841	329,043	25,684	329,043
Total Expenses	2,752,631	2,894,022	1,828,828	2,101,618	4,581,459	4,995,640
Excess (Deficiency) Before						
Special Items and Transfers	1,544,976	794,665	1,420,131	784,417	2,965,107	1,579,082
Special Items	0	0	0	0	0	0
Transfers	0	0	0	0	0	0
Increase(Decrease) in Net Assets	1,544,976	794,665	1,420,131	784,417	2,965,107	1,579,082
Ending Net Assets	4,173,242	4,967,907	6,550,320	7,334,737	10,723,562	12,302,644

ANALYSIS OF CHANGES IN NET ASSETS

The governmental activities experiences a vast increase in the amount of funds expended for capital projects from 2004 to 2005. This was due principally in the amount of funds expended in the US Corps of Engineers Fund. Business-type activities saw an increase in the amount of Charges for Services for utility services from 2004 to 2005 due to a return of normal seasonal conditions.

BUDGET ANALYSIS OF THE GENERAL FUND

Three supplemental budgets were adopted by the governing board during Fiscal Year 2005. Budgeted revenues for state revenue were increased by over \$670,000 for grant awards through SD DOT for the recreation trail, Wakpa Sica, and the Verendrye Monument. Other revenue budgets were increased due to the continuing economic development of the city.

Expenditure budgets were increased substantially in park department for the recreation trail and Wakpa Sica. The budget for economic assistance was increased somewhat, but still overexpended by \$98,737 due to the sale of land held for resale.

CAPITAL ASSET ADMINISTRATION.

As of December 31, 2005, the Municipality had invested \$4,426,656 (net of accumulated depreciation) in a broad range of governmental activities capital assets, including land, buildings, improvements, machinery and equipment, and equity in law enforcement. This represents a net increase of \$685,008, or 18% over last year. The majority of the increase was due to street and recreation improvements. Please refer to note number 7, the changes in capital assets note for additional details.

The Municipality had invested \$10,876,727 (net of accumulated depreciation) in a broad range of business-type activities capital assets, including land, buildings, improvements, machinery and equipment, and construction in progress. This represents a net increase of \$655,951, or a 6% over last year. The vast majority of the increase was due to the expansion to the utility system. Please refer to note number 7, the changes in capital assets note for additional details.

LONG-TERM DEBT

As of December 31, 2005, the Municipality had \$5,625,588 in revenue bonds, loans, transmission capacity, capital acquisition leases, and compensated absences debt. This represents a decrease of \$584,152, or 9%. Please refer to note number 8, the long-term debt note for additional details.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Fort Pierre, City Finance Office, PO Box 700, Fort Pierre, SD 57532.

Visit us on the Web at www.fortpierre.com.

**CITY OF FORT PIERRE
STATEMENT OF NET ASSETS
DECEMBER 31, 2005**

	Governmental Activities	Business-type Activities
ASSETS:		
Cash and cash equivalents	\$2,480,091	\$120,667
Receivables	1,127,934	193,461
Prepays	35,404	0
Inventories	2,715	309,765
Land held for resale	739,815	0
Internal balances	179,028	(179,028)
Restricted assets:		
Cash and cash equivalents	0	345,397
Capital assets:		
Land	767,474	163,577
Other capital assets, net of depreciation	3,659,182	10,713,150
TOTAL ASSETS	\$8,991,643	\$11,666,989
 LIABILITIES:		
Accounts payable	\$138,320	\$172,097
Other current liabilities	2,352,962	67,021
Noncurrent liabilities:		
Due within one year	157,712	234,057
Due in more than one year	1,374,742	3,859,077
TOTAL LIABILITIES	4,023,736	4,332,252
 NET ASSETS:		
Invested in capital assets, net of related debt	2,904,829	6,760,787
Restricted for:		
Cemetery	33,696	0
Debt service	0	345,397
Unrestricted	2,029,382	228,553
TOTAL NET ASSETS	4,967,907	7,334,737
 TOTAL LIABILITIES AND NET ASSETS	\$8,991,643	\$11,666,989

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

TOTAL

\$2,600,758

1,321,395

35,404

312,480

739,815

0

345,397

931,051

14,372,332

\$20,658,632

\$310,417

2,419,983

391,769

5,233,819

8,355,988

9,665,616

33,696

345,397

2,257,935

12,302,644

\$20,658,632

**CITY OF FORT PIERRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2005**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Capital Grants and Contributions
Governmental Activities:			
General government	\$205,027	\$38,025	\$0
Public safety	294,357	3,477	0
Public works	1,398,228	47,759	1,612,296
Health and welfare	21,474	867	0
Culture and recreation	705,525	26,631	389,565
Conservation and development	187,873	234,475	0
*Interest on long-term debt	81,538	0	0
TOTAL GOVERNMENTAL ACTIVITIES	2,894,022	351,234	2,001,861
Business-type Activities:			
Water	349,948	229,002	0
Electric	1,422,627	1,483,612	94,110
Sanitary sewer	329,043	235,890	830,218
TOTAL BUSINESS-TYPE ACTIVITIES	2,101,618	1,948,504	924,328
TOTAL	\$4,995,640	\$2,299,738	\$2,926,189

* 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

Total General Revenues

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
(\$167,002)	\$0	(\$167,002)
(290,880)	0	(290,880)
261,827	0	261,827
(20,607)	0	(20,607)
(289,329)	0	(289,329)
46,602	0	46,602
(81,538)	0	(81,538)
(540,927)	0	(540,927)
0	(120,946)	(120,946)
0	155,095	155,095
0	737,065	737,065
0	771,214	771,214
(\$540,927)	\$771,214	\$230,287
\$538,101	\$0	\$538,101
685,942	0	685,942
50,687	0	50,687
5,787	13,203	18,990
55,075	0	55,075
1,335,592	13,203	1,348,795
794,665	784,417	1,579,082
4,173,242	6,550,320	10,723,562
\$4,967,907	\$7,334,737	\$12,302,644

CITY OF FORT PIERRE
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2005

	General Fund	US COE Fund	Other Governmental Funds
ASSETS			
Cash and cash equivalents	\$14,203	\$2,385,317	\$80,571
Taxes receivable-			
Delinquent	17,900	0	0
Accounts receivable	2,795	0	0
Special assessments receivable-current	931	0	822
Special assesments receivable-delinquent	2,792	0	856
Special assessments receivable-deferred	907,134	0	7,452
Due from other governments	180,670	0	6,582
Due from other funds	139,028	0	40,000
Supply inventory	2,715	0	0
Land held for resale	739,815	0	0
TOTAL ASSETS	\$2,007,983	\$2,385,317	\$136,283
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$19,513	\$32,355	\$0
Contracts payable	86,452	0	0
Deferred revenue	928,758	2,352,962	9,130
Total Liabilities	1,034,723	2,385,317	9,130
FUND BALANCES:			
Reserved for:			
Inventory	2,715	0	0
Land held for resale	739,815	0	0
Unreserved:			
Undesignated	230,730	0	0
Special revenue	0	0	93,457
Perpetual care	0	0	33,696
Total Fund Balance	973,260	0	127,153
TOTAL LIABILITIES AND FUND BALANCES	\$2,007,983	\$2,385,317	\$136,283

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

Total
Governmental
Funds

\$2,480,091

17,900

2,795

1,753

3,648

914,586

187,252

179,028

2,715

739,815

\$4,529,583

\$51,868

86,452

3,290,850

3,429,170

2,715

739,815

230,730

93,457

33,696

1,100,413

\$4,529,583

CITY OF FORT PIERRE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2005

Total Fund Balances-Government Funds	\$1,100,413
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	4,426,656
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	(1,532,454)
Property taxes 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	937,888
Prepaid insurance on long-term debt is not recorded in the funds statement because it is on the modified accrual basis of accounting	<u>35,404</u>
Net Assets-Governmental Funds	<u><u>\$4,967,907</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, 2005

	General Fund	US COE Fund	Other Governmental Funds
Revenues:			
Taxes-			
General property taxes	\$529,752	\$0	\$0
General sales taxes	626,961	0	58,981
Penalties and interest	2,358	0	0
Licenses and permits	27,706	0	0
Intergovernmental Revenue			
Federal grants	663,705	867,285	0
State grants	326,130	0	0
State shared revenues	50,687	0	0
County shared revenues	4,444	0	0
Charges for Goods or Services			
General government	38,025	0	0
Sanitation	6,375	0	0
Highways and streets	41,384	0	0
Health	867	0	0
Culture and recreation	26,631	0	0
Economic development	234,475	0	0
Fines and Forfeits			
Court fines and costs	827	0	0
Other	2,650	0	0
Miscellaneous Revenue			
Interest earned	4,592	0	1,195
Special assessments	231,459	0	6,618
Other	22,925	0	0
Total Revenue	\$2,841,953	\$867,285	\$66,794

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

Total
Governmental
Funds

\$529,752
685,942
2,358
27,706

1,530,990
326,130
50,687
4,444
0
38,025
6,375
41,384
867
26,631
234,475

827
2,650
0
5,787
238,077
22,925

\$3,776,032

CITY OF FORT PIERRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	US COE Fund	Other Governmental Funds
Expenditures:			
General Government:			
Executive	\$37,838	\$0	\$0
Elections	471	0	0
Financial administration	134,951	0	0
Other	28,812	0	0
Public Safety:			
Police	212,870	0	0
Fire	73,184	0	0
Civil defense	927	0	0
Public Works:			
Highways and streets	309,894	0	0
Sanitation	27,166	926,328	0
Transit	11,000	0	0
Cemetery	0	0	1,230
Health and Welfare:			
Health	21,474	0	0
Culture and Reecreation:			
Recreation	66,666	0	0
Parks	535,195	0	0
Libraries	4,980	0	0
Auditorium	5,705	0	0
Museum	4,807	0	0
Conservation and Development:			
Economic development	131,206	0	56,667
Debt Service	604,670	0	0
Capital Outlay	903,166	0	0
Total Expenditures	<u>\$3,114,982</u>	<u>\$926,328</u>	<u>\$57,897</u>
Excess (deficiency) of Revenues over Expenditures	(273,029)	(59,043)	8,897
Other Financing Sources (Uses):			
Proceeds of long-term debt	<u>100,000</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(173,029)	(59,043)	8,897
FUND BALANCE, JANUARY 1, 2005	<u>1,146,289</u>	<u>59,043</u>	<u>118,256</u>
FUND BALANCE, DECEMBER 31, 2005	<u><u>\$973,260</u></u>	<u><u>\$0</u></u>	<u><u>\$127,153</u></u>

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

Total
Governmental
Funds

\$37,838
471
134,951
28,812
0
212,870
73,184
927
0
309,894
953,494
11,000
1,230
0
21,474
0
66,666
535,195
4,980
5,705
4,807
0
187,873
604,670
903,166

\$4,099,207

(323,175)

100,000

(223,175)

1,323,588

\$1,100,413

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, 2005

Net Changes in Fund Balances-Total Governmental Funds	(\$223,175)
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 capital outlays exceeded depreciation in the current period	
	685,008
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	
	523,132
Property tax revenues and special assessments are reported in the period to be financed by the property tax levy or special assessment 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.	
	(87,345)
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	
	(4,593)
Proceeds of long-term debt are reported as revenues in the funds statements, but are liabilities in the Statement of Activities	
	(100,000)
Prepaid insurance cost is deferred in the activities statement.	
	<u>1,638</u>
Change in Nets Assets of Governmental Activities	<u><u>\$794,665</u></u>

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

CITY OF FORT PIERRE
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2005

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
ASSETS:			
Current Assets:			
Cash	\$46,773	\$66,271	\$7,623
Accounts receivable	19,170	152,098	22,193
Supply inventory	40,248	240,163	29,354
Total Current Assets	106,191	458,532	59,170
Noncurrent Assets:			
Restricted cash and cash equivalents	0	345,397	0
Capital Assets:			
Land	27,587	115,999	19,991
Buildings	810,296	3,802,896	0
Improvements other than buildings	1,577,702	2,105,268	5,418,386
Machinery and equipment	65,708	303,038	161,312
Accumulated depreciation	(1,148,177)	(1,478,735)	(904,544)
Total Noncurrent Assets	1,333,116	5,193,863	4,695,145
TOTAL ASSETS	\$1,439,307	\$5,652,395	\$4,754,315

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

Total

\$120,667

193,461

309,765

623,893

345,397

163,577

4,613,192

9,101,356

530,058

(3,531,456)

11,222,124

\$11,846,017

CITY OF FORT PIERRE
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2005

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$23,805	\$83,424	\$64,868
Due to other funds	0	139,028	40,000
Customer deposits	750	66,271	0
Current portion of long-term debt	42,459	155,997	35,601
Total Current Liabilities	67,014	444,720	140,469
Non-current Liabilities:			
Bonds payable:			
Revenue	90,391	2,895,000	772,001
Accrued leave payable	1,678	5,241	1,678
Capital lease payable	0	36,981	0
Other long-term debt	0	56,107	0
Total Non-current Liabilities	92,069	2,993,329	773,679
NET ASSETS			
Invested in capital assets, net of related debt	1,201,944	1,709,622	3,849,221
Restricted net assets restricted for:			
Revenue bond debt service	0	345,397	0
Unrestricted net assets	78,280	159,327	(9,054)
Total Net Assets	1,280,224	2,214,346	3,840,167
TOTAL LIABILITIES AND NET ASSETS	\$1,439,307	\$5,652,395	\$4,754,315

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

Total

\$172,097
179,028
67,021
234,057

652,203

3,757,392
8,597
36,981
56,107

3,859,077

6,760,787

345,397
228,553

7,334,737

\$11,846,017

CITY OF FORT PIERRE
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUES:			
Charges for goods and services			
securing payment of revenue bonds	\$229,002	\$1,483,612	\$235,890
Total Operating revenue	<u>229,002</u>	<u>1,483,612</u>	<u>235,890</u>
OPERATING EXPENSES:			
Personal services	107,432	311,510	92,001
Cost of sales	0	669,883	0
Other current expense	164,858	154,880	29,651
Depreciation	73,674	143,321	177,185
Total Operating Expenses	<u>345,964</u>	<u>1,279,594</u>	<u>298,837</u>
Operating Income (Loss)	<u>(116,962)</u>	<u>204,018</u>	<u>(62,947)</u>
Non-operating Revenue (Expense)			
Interest earned	0	13,203	0
Interest expense	(3,984)	(143,033)	(30,206)
Total Non-operating Revenue (Expense)	<u>(3,984)</u>	<u>(129,830)</u>	<u>(30,206)</u>
Net Income (Loss) before Contributions	<u>(120,946)</u>	<u>74,188</u>	<u>(93,153)</u>
Capital contributions	<u>0</u>	<u>94,110</u>	<u>830,218</u>
Change in Net Assets	<u>(120,946)</u>	<u>168,298</u>	<u>737,065</u>
NET ASSETS, BEGINNING	<u>1,401,170</u>	<u>2,046,048</u>	<u>3,103,102</u>
NET ASSETS, ENDING	<u><u>\$1,280,224</u></u>	<u><u>\$2,214,346</u></u>	<u><u>\$3,840,167</u></u>

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

Total

\$1,948,504

1,948,504

510,943

669,883

349,389

394,180

1,924,395

24,109

13,203

(177,223)

(164,020)

(139,911)

924,328

784,417

6,550,320

\$7,334,737

CITY OF FORT PIERRE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$229,458	\$1,338,731	\$239,674
Cash receipts for interfund services	0	116,743	0
Payments to suppliers	(108,044)	(867,826)	(18,190)
Internal activities-payment to other funds	(42,852)	(22,013)	(31,782)
Payments to employees	(107,681)	(308,017)	(92,250)
Net Cash Provided (Used) by Operating Activities	(29,119)	257,618	97,452
CashFlows from Non-capital Financing Activities:			
Loans from other funds	0	139,028	40,000
Cash Flows from Capital and Related Financing Activities:			
Capital contributions	0	94,110	1,142,182
Proceeds of capital debt	50,000	0	0
Purchase of capital assets	(27,732)	(144,148)	(878,251)
Debt principle paid	(30,374)	(141,456)	(42,778)
Debt interest paid	(3,984)	(143,033)	(30,206)
Cash Flows from Investing Activities:			
Cash received for interest	0	13,203	0
Net Increase (Decrease) in Cash and Cash Equivalents	(41,209)	75,322	328,399
Cash and Cash Equivalents Beginning of Year	87,982	336,346	(320,776)
Cash and Cash Equivalents End of Year	\$46,773	\$411,668	\$7,623
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(\$116,962)	\$204,018	(\$62,947)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	73,674	143,321	177,185
Changes in Assets and Liabilities:			
Receivables	456	(28,154)	3,784
Inventories	(7,015)	(69,818)	(21,820)
Accounts and other payables	20,977	4,742	1,499
Accrued leave payable	(249)	3,493	(249)
Deposits	0	16	0
Net Cash Provided (Used) by Operating Activities	(29,119)	\$257,618	\$97,452

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

Total

\$1,807,863
116,743
(994,060)
(96,647)
(507,948)
325,951

179,028

1,236,292
50,000
(1,050,131)
(214,608)
(177,223)

13,203

362,512

103,552

\$466,064

\$24,109

394,180

(23,914)
(98,653)
27,218
2,995
16

\$325,951

CITY OF FORT PIERRE
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2005

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$8,324</u>
Total Assets	<u><u>\$8,324</u></u>
LIABILITIES	
Amounts held for others	<u>\$8,324</u>
Total Liabilities	<u>8,324</u>
NET ASSETS	<u>0</u>
Total Liabilities and Net Assets	<u><u>\$8,324</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 which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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.

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. The Expo Debt Service Fund is the only debt service fund maintained by the City and is not considered 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

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).

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 5th and 2nd Avenue Special Assessment Fund is the only agency fund of the City.

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.

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.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2005 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.

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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 reserve account which indicates that they do not constitute "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".

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2005 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, 2005 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
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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

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:

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

k. Application of Net Assets:

It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

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.

Deposits are reported at cost, plus interest, if the account is of the add-on type.

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

The actual bank balances as of December 31, 2005 were as follows:

Insured (FDIC/NCUA)	\$ 244,843
Uninsured	<u>2,714,325</u>
Total Deposits	<u>\$ 2,959,168</u>

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

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

The carrying amount of deposits at December 31, 2005 was \$2,954,479.

Reconciliation of deposits to Government-wide Statement of Net Assets:

Cash and cash equivalents	\$ 2,946,155
Add: Agency fund cash (not included in Government-wide statement of Net Assets)	<u>8,324</u>
	<u>\$ 2,954,479</u>

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 including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of Section 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the

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

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

Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Investments are stated at fair value. Accordingly, changes in market value of investments at year-end are reflected as a component of earnings on investments.

The City's investments, except for mutual funds, are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent but not in the City's name.

The amount reported as deposits includes \$345,397 of the various funds restricted for debt service.

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. As of December 31, 2005, none of the City's deposits in financial institutions were exposed to custodial credit risk.

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, 2005, the City had no investments.

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

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

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.

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

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

4. INVENTORY (continued)

is consumed. Material supply inventories and land held for resale are off-set by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. DEFFERED 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.

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, 2005 follows:

	<u>Balance</u>			<u>Balance</u>
	<u>1/1/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/05</u>
Governmental Activities:				
Capital Assets				
Not being				
Depreciated:				
Land	\$ 767,474	\$ -	\$ -	\$ 767,474

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

7. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>1/1/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/05</u>
Capital Assets				
Being Depreciated				
Buildings	\$ 493,640	\$ -	-	\$ 493,640
Improvements				
Other than				
Buildings	2,526,238	861,338	-	3,387,576
Machinery and				
Equipment	<u>441,344</u>	<u>41,828</u>	<u>-</u>	<u>483,172</u>
Totals	<u>3,461,222</u>	<u>903,166</u>	<u>-</u>	<u>4,364,388</u>
Less accumulated				
Depreciation for:				
Building	135,862	12,131	-	147,993
Improvements	256,222	167,272	-	423,494
Machinery and				
Equipment	<u>94,964</u>	<u>38,755</u>	<u>-</u>	<u>133,719</u>
Total	<u>487,048</u>	<u>218,158</u>	<u>-</u>	<u>705,206</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>\$ 2,974,174</u>	<u>\$ 685,008</u>	<u>\$ -</u>	<u>\$ 3,659,182</u>
Governmental Activity				
Capital Assets				
Net	<u>\$ 3,741,648</u>	<u>\$ 685,008</u>	<u>\$ -</u>	<u>\$ 4,426,656</u>

Depreciation expense was charged to functions as follows:

Public Safety	\$ 7,376
Public Works	122,610
Culture and Recreation	<u>88,172</u>
	<u>\$ 218,158</u>

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance <u>1/1/05</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/05</u>
Business-type Activities:				
Capital Assets				
Not being				
Depreciated				
Land	\$ 163,577	\$ -	\$ -	\$ 163,577
Construction in				
Progress	<u>1,781,170</u>	<u>-</u>	<u>1,781,170</u>	<u>-</u>
Total	<u>1,944,747</u>	<u>-</u>	<u>1,781,170</u>	<u>163,577</u>
Capital Assets				
Being Depreciated				
Buildings	4,601,168	12,024	-	4,613,192
Improvements				
Other than				
Buildings	6,338,640	2,762,716	-	9,101,356
Machinery and				
Equipment	<u>473,496</u>	<u>56,562</u>	<u>-</u>	<u>530,058</u>
Totals	<u>11,413,304</u>	<u>2,831,302</u>	<u>-</u>	<u>14,244,606</u>
Less accumulated				
Depreciation for:				
Building	\$ 954,700	\$ 76,403	\$ -	\$ 1,031,103
Improvements	1,950,417	76,601	-	2,027,018
Machinery and				
Equipment	<u>232,158</u>	<u>241,177</u>	<u>-</u>	<u>473,335</u>
Total	<u>3,137,275</u>	<u>394,181</u>	<u>-</u>	<u>3,531,456</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>8,276,029</u>	<u>2,437,121</u>	<u>-</u>	<u>10,713,150</u>
Business-type Activity				
Capital Assets				
Net	<u>\$10,220,776</u>	<u>\$2,437,121</u>	<u>\$1,781,170</u>	<u>\$10,876,727</u>

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

7. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Water	\$ 73,674
Electric	143,322
Sanitary Sewer	<u>177,185</u>
	<u>\$ 394,181</u>

8. 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	\$ 762,570	\$ 100,000	\$ 256,570	\$ 606,000	\$ 92,445
Special Assessment	1,067,500	-	242,109	825,391	42,793
Financing (Capital Acquisition)					
Leases	<u>114,889</u>	<u>-</u>	<u>24,453</u>	<u>90,436</u>	<u>17,160</u>
Total Debt	<u>1,944,959</u>	<u>100,000</u>	<u>523,132</u>	<u>1,521,827</u>	<u>152,398</u>
Accrued Compensated Absences- Governmental					
Funds	<u>6,034</u>	<u>7,693</u>	<u>3,100</u>	<u>10,627</u>	<u>5,314</u>
Total Governmental Activities	<u>1,950,993</u>	<u>107,693</u>	<u>526,232</u>	<u>1,532,454</u>	<u>157,712</u>

Business-type Activities:

Bonds Payable:					
Revenue	\$ 4,105,248	\$ 50,000	\$ 193,152	\$ 3,962,096	\$ 204,704
Other	80,297	-	12,093	68,204	12,096

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

8. LONG-TERM DEBT (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing (Capital Acquisition)					
Leases	\$ 55,003	\$ -	\$ 9,363	\$ 45,640	\$ 8,659
Total					
Debt	<u>4,240,548</u>	<u>50,000</u>	<u>214,608</u>	<u>4,075,940</u>	<u>225,459</u>
Accrued Compensated Absences- Business-type					
Funds	<u>14,199</u>	<u>10,195</u>	<u>7,200</u>	<u>17,194</u>	<u>8,598</u>
Total Business-type					
Activities	<u>4,254,747</u>	<u>60,195</u>	<u>221,808</u>	<u>4,093,134</u>	<u>234,057</u>
GRAND					
TOTAL	<u>\$6,205,740</u>	<u>\$ 167,888</u>	<u>\$ 748,040</u>	<u>\$ 5,625,588</u>	<u>\$ 391,769</u>

Debt payable at December 31, 2005 is comprised of the following:

GOVERNMENT ACTIVITY DEBT:

Revenue Bonds:

Sales Tax Revenue Bonds, Series 2005,
matures in 12/09/10; 3.95% interest rate;
payment to be financed from the General
Fund \$ 100,000

Sales Tax Revenue Bonds, Series 2003,
matures May 16, 2013, 4.07% interest rate,
payment to be financed by the General
Fund 506,000

Total Revenue Bonds \$ 606,000

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

8. LONG-TERM DEBT (continued)

Special Assessment Bonds:

Series 2004 Special Assessment Bond,
interest rate of 3.25%, final payment
due November 15, 2009. This debt will
be repaid by the proceeds from the sale
of lots at Broken Timber Addition \$ 175,391

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 the sale
of lots at the Teton Island Addition 650,000

Total Special Assessments Debt \$ 825,391

Financing (Capital Acquisition) Leases:

Street Sweeper, due in annual payments of
\$20,051, including 3.5% interest, due
in 2010, payments to be made by the
General Fund \$ 90,436

The purchase price at the commencement
of the financing (capital acquisition)
lease was:

Principle	\$109,006
Interest	<u>14,249</u>
	<u>\$123,255</u>

Total Capital Leases \$ 90,436

Compensated Absences:

The liability for compensated absences
represents leave benefits earned as of
December 31, 2005. This will be paid
By the General Fund

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

8. LONG-TERM DEBT (continued)

Annual Leave	\$ 8,800
Sick Leave	<u>1,827</u>
Total compensated absences	<u>\$ 10,627</u>
TOTAL GOVERNMENTAL ACTIVITY	<u><u>\$1,532,454</u></u>
BUSINESS ACTIVITY DEBT	
Revenue Bonds:	
Water Revenue Bonds Series 2003, matures May 16, 2008, 3.83% interest rate, payment financed from the Water Fund	\$ 81,172
Series 2004 State Revolving Fund (SRF) Sanitary Sewer. This note has not been established as the loan has not been closed, but the note will bear 3.5% interest. Debt will be repaid from the Sanitary Sewer Fund	<u>408,976</u>
Series 2002 State Revolving Fund (SRF) Sanitary Sewer, maturity date April 1, 2008, 3.5% interest. Debt is repaid from the Sanitary Sewer Fund	396,948
Series 2005 Water Revenue Bonds, interest rate of 3.95%, due December 9, 2010. Paid by the Water Fund	50,000
Electric Surcharge Revenue Bonds, Series 2002, matures December 1, 2018, 4.64% interest rate, payment to be financed from Electric Fund	<u>3,025,000</u>
Total Revenue Bonds	<u><u>3,962,096</u></u>
Other:	
Installment Land Contract with Judy Anderson for Spencer's Outlot #T9 in Lot 1, final payment date August, 2007, debt is repaid from the Electric Fund	14,000

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

8. LONG-TERM DEBT (continued)

Transmission Capacity Agreement with West Central Electric Cooperative, maturity date September, 2015 2% interest rate, debt is repaid from the Electric Fund	<u>\$ 54,204</u>
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Total Other Debt	<u>68,204</u>
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Capital Acquisition Lease:

Mini-excavator, matures 2010, 3.5% interest rate, payment to be paid from the Electric Fund	<u>45,640</u>
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The purchase price at the commencement of the
financing (capital acquisition) lease was:

Principle	\$ 55,003
Interest	<u>7,190</u>
	<u>\$ 62,193</u>

Total Capital Leases	<u>45,640</u>
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The principle amount, above, was included in the appropriate classification of capital assets, and is being depreciated over the shorter of the estimated useful-life of the asset, or the lease term (where title never transfers), as appropriate.

Compensated Absences:

Annual leave	14,270
Sick leave	<u>2,924</u>

Total Compensated Absences	<u>17,194</u>
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These are paid from each enterprise fund.

TOTAL BUSINESS TYPE ACTIVITY	<u>\$4,093,134</u>
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GRAND TOTAL	<u>\$5,625,588</u>
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The annual requirements to amortize all debt outstanding as of December 31, 2005 excluding compensated is as follows:

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT (continued)

Annual Requirements to Amortize Long-term Debt
December 31, 2005

Governmental Activities:

Year Ending December 31,	Revenue Bonds		Financing (Capital Acquisition) Lease	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2006	\$ 92,455	\$ 22,865	\$ 17,160	\$ 2,891
2007	96,235	25,087	17,770	2,281
2008	100,169	21,153	18,397	1,654
2009	104,263	17,060	19,056	995
2010	108,523	12,799	18,053	317
2011-2015	<u>104,365</u>	<u>8,583</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 606,000</u>	<u>\$ 107,547</u>	<u>\$ 90,436</u>	<u>\$ 8,138</u>

Year Ending December 31,	Special Assessments		Totals	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2006	\$ 42,793	\$ 30,725	\$ 152,398	\$ 56,481
2007	119,421	29,334	233,426	56,702
2008	121,589	24,998	240,155	47,805
2009	123,797	20,582	247,116	38,637
2010	80,402	16,085	206,978	29,201
2011-2015	<u>337,389</u>	<u>32,783</u>	<u>441,754</u>	<u>41,366</u>
Total	<u>\$ 825,391</u>	<u>\$ 154,507</u>	<u>\$1,521,827</u>	<u>\$270,192</u>

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

8. LONG-TERM DEBT (continued)

Business-type Activities

Year Ending December 31,	Revenue Bonds		Financing (Capital Acquisition) Lease	
	Principle	Interest	Principle	Interest
	2006	\$ 204,704	\$ 153,758	\$ 8,659
2007	216,502	147,012	8,967	1,151
2008	214,938	139,847	9,283	835
2009	209,480	132,466	9,616	502
2010	220,797	126,032	9,115	160
2011-2015	1,666,931	475,236	-	-
2016-2020	1,228,744	153,903	-	-
Total	\$3,962,096	\$1,328,254	\$ 45,640	\$ 4,107

Year Ending December 31,	Other		Totals	
	Principle	Interest	Principle	Interest
	2006	\$ 12,096	\$ 1,046	\$ 225,459
2007	12,199	943	237,668	149,106
2008	5,303	839	229,524	141,521
2009	5,410	732	224,506	133,700
2010	5,631	623	235,543	126,815
2011-2015	27,565	1,399	1,694,496	476,635
2016-2020	-	-	1,228,744	153,903
Total	\$ 68,204	\$ 5,582	\$4,075,940	\$1,337,943

As of December 31, 2005, the City was acting as a fiscal agent for four special assessment issues having a total outstanding balance of \$88,745.

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

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

9. OPERATING LEASES

The City is leasing a copy machine through Mid-America Leasing Company. This is a 51-month lease with a final payment to be made in March, 2007. Payments are being made from the General Fund.

The following is the minimum payment on this operating lease:

<u>Year</u>	<u>General Fund</u>
2005	\$5,084
2006	1,271

10. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2005 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
2 nd penny Sales tax fund	\$ 40,000	\$ -
General Fund	139,028	-
Enterprise Funds:		
Electric Fund	-	139,028
Sanitary Sewer Fund	-	40,000
	<u>\$ 179,028</u>	<u>\$ 179,028</u>

The above loans were due to a temporary cash overdrafts.

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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

11. RETIREMENT PLAN (continued)

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, 2005, 2004 and 2003 were \$36,941, \$32,604 and \$28,499, 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, 2005, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance from a commercial carrier.

Workmen's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$325,000 of any claim per individual. The pool has reinsurance which covers up to \$1,750,000 per individual per incident.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

12. RISK MANAGEMENT (continued)

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Liability:

The City joined the South Dakota Public Assurance Alliance, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide coverage for automobile and general liability.

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's will be provided to a \$1,000,000 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. The City carries a \$500 deductible for the automobile coverage and \$2,000 deductible for the general liability.

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 for the past several 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.

13. RESTRICTED NET ASSETS

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

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

13. RESTRICTED NET ASSETS (continued)

<u>RESTRICTION</u>	<u>RESTRICTED BY</u>	<u>Amount</u>
Cemetery	Trust agreements	\$ 33,696
Debt Service	Debt Covenants	<u>345,397</u>
		<u>\$ 379,093</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, 2005 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, 2005 this joint operation had total fund equity of \$28,220.

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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

15. STANLEY COUNTY LAW ENFORCEMENT (continued)

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, 2005, this joint venture had a total equity of \$91,221.

16. SIGNIFICANT NONCOMPLIANCE

The City overspent its General Fund budget by \$135,688 in 2005. The City intends to implement supplement appropriation ordinances in the future to prevent reoccurrence of this situation.

**CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amount (Budgetary Basis)
	Original	Final	
REVENUES			
Taxes:			
General property taxes	\$538,574	\$538,574	\$529,752
General sales and use taxes	539,150	650,050	626,961
Penalties and interest on delinquent taxes	1,750	1,750	2,358
Licenses and Permits	22,475	26,375	27,706
Intergovernmental Revenue			
Federal grants	0	0	663,705
State revenue	313,350	984,510	326,130
State shared revenue	48,450	48,450	50,687
County shared revenues	4,444	4,444	4,444
Charges for Goods and Services			
General government	29,100	39,950	38,025
Sanitation	2,500	2,500	6,375
Highways and streets	31,937	31,937	41,384
Culture and recreation	19,400	19,400	26,631
Health	500	500	867
Economic development	0	0	234,475
Fines and Forfeits			
Court fines and costs	1,000	1,500	827
Other	1,000	1,300	2,650
Miscellaneous Revenue			
Investment earnings	0	0	4,592
Special assessments	180,236	180,236	231,459
Other	159,950	262,783	22,925
Total Revenue	1,893,816	2,794,259	2,841,953

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

Variance with
Final Budget-
Positive
(Negative)

(\$8,822)

(23,089)

608

1,331

663,705

(658,380)

2,237

0

(1,925)

3,875

9,447

7,231

367

234,475

(673)

1,350

0

4,592

51,223

(239,858)

47,694

**CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
EXPENDITURES:			
General Government			
Executive	\$36,810	\$38,310	\$37,838
Elections	400	500	471
Financial administration	132,680	137,180	134,951
Other	16,200	29,860	28,812
Public Safety			
Police	212,870	212,870	212,870
Fire	74,913	70,063	73,184
Civil defense	1,300	1,000	927
Public Works			
Highways and streets	844,747	893,647	919,159
Sanitation	19,075	26,775	27,166
Transit	11,000	11,000	11,000
Health and Welfare			
Health	28,130	22,130	21,474
Culture and Recreation			
Recreation	62,440	66,740	66,666
Parks	142,840	822,150	827,465
Libraries	4,980	4,980	4,980
Auditorium	6,000	7,900	10,512
Conservation and Development			
Economic development and assistance	500	34,100	132,837
Debt Service			
	358,931	606,309	604,670
Total Expenditures	1,953,816	2,985,514	3,114,982

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

Variance with
Final Budget-
Positive
(Negative)

\$472
29
2,229
1,048

0
(3,121)
73

(25,512)
(391)
0

656

74
(5,315)
0
(2,612)

(98,737)

1,639

(129,468)

**CITY OF FORT PIERRE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2005**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
Excess of Revenue over (under) Expenditures	(\$60,000)	(\$191,255)	(\$273,029)
Other Financing Sources (Uses) Proceeds of long-term debt	0	0	100,000
Net Change in Fund Balance	(60,000)	(191,255)	(173,029)
FUND BALANCE-Beginning	1,146,289	1,146,289	1,146,289
FUND BALANCE-Ending	<u>\$1,086,289</u>	<u>\$955,034</u>	<u>\$973,260</u>

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

Variance with
Final Budget-
Positive
(Negative)

(\$81,774)

100,000

18,226

0

\$18,226

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 and Special Revenue Funds.
7. Budgets for the General, Special Revenue and Capital Projects Funds are adopted on a basis consistent with generally accepted accounting practices (GAAP), except that capital outlays are reported separately in the GAAP statements, but are reported in the respective budgetary functions in the budgetary statements.

CITY OF FORT PIERRE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2005

Federal Grantor/Pass-through Grantor Program Title	Federal CFDA Number	Pass through Grantor's Number	Expenditures
Department of Defense - U.S. Corps of Engineers: Direct Federal Funding: Construction Relocation and Alteration of Facilities (Note 1)	12.000	N/A	<u>\$921,328</u>
Department of Transportation: Indirect Federal Funding: S. D. Department of Transportation: Highway Planning and Construction, Transportation Enhancement Projects (Note 1)	20.205	N/A	<u>663,705</u>
General Services Administration: Indirect Federal Funding: S. D. Federal Property Agency, Donation of Federal Surplus Personal Property (Note 2)	39.003	N/A	<u>8,162</u>
 GRAND TOTAL			 <u><u>\$1,593,195</u></u>

Note 1: This represents a Major Federal Financial Assistance Program.

Note 2: The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR FEDERAL AWARDS

Federal awards received and expended in governmental funds use the modified accrual basis of accounting. Federal awards received and spent in enterprise funds, use the accrual basis of accounting.

CITY OF FORT PIERRE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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.

CORRECTIVE ACTION PLAN:

The City officials are responsible for the corrective action plan 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 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.

FINDING NUMBER 2005-03

The General Fund budget was overspent in 2005.

CRITERIA:

SDCL 9-21-9 requires the City to set a budget for the anticipated obligations of each fund. The City does not have "spending authority" to expend more than the budgeted amounts, unless the budgets are properly supplemented.

POSSIBLE ASSERTED EFFECT:

Violations of state budget regulations have occurred and a major internal control has been overridden.

RECOMMENDATION:

Spending should be within the set budgets required by SDCL 9-21-9.

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2005-02

A material weakness in internal control over federal programs exists due to a lack of segregation of duties. See Finding Number 2005-01 above for further explanation.

CITY OF FORT PIERRE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Major Federal Programs Affected:

See 1e above - All major programs were affected.

POSSIBLE ASSERTED EFFECT:

Inaccurate financial statements and/or misappropriations 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.

CORRECTIVE ACTION PLAN:

The City officials are responsible for the corrective action plan 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 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 PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

Prior Audit Findings relative to Financial Statement Audit:

Finding NUMBER 2004-01 and 2003-01:

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

Status as of December 31, 2005:

The condition noted in prior audits is still applicable.

FINDING NUMBER 2004-03 and 2003-03:

Budgets were overspent.

Status as of December 31, 2005:

Budgets were again overspent during 2005.

Prior Audit Findings relative to Federal Awards:

FINDING NUMBER 2004-02:

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

Status as of December 31, 2005:

The condition noted in the prior audit is still applicable.