

CITY OF FORT PIERRE

AUDIT REPORT

DECEMBER 31, 2006

CITY OF FORT PIERRE
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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

City Commission
City of Fort Pierre
Fort Pierre, South Dakota

I have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, as December 31, 2006, 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 September 14, 2007, which was modified to include an adverse opinion as to the aggregate discretely presented component units due to omission of these financial statements.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiencies described in the accompanying schedule of current audit findings and questioned costs as number 2006-01 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

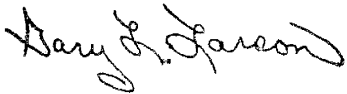
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies, and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I consider item number 2006-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of current audit findings and questioned costs a items number 2006-03.

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

This report is intended solely for the information and use of the governing board and information of the management of the City of Fort Pierre the South Dakota Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDLC 4-11-11 and OMB Circular A-133 this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Gary L. Larson".

September 14, 2007

Gary L. Larson, CPA

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**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, 2006. 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, 2006.

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 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the City's internal control over compliance.

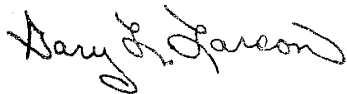
My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, I identified certain deficiencies in internal control over compliance that I consider to be significant deficiencies and material weaknesses.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirements of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control. I consider the deficiency in internal control over compliance described in the accompanying schedule of current audit findings and questioned costs as item 2006-02 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control. Of the significant deficiencies in the internal control over compliance described in the accompanying schedule of current audit findings and questioned costs, I consider item number 2006-02 to be a material weakness.

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

This report is intended solely for the information and use of federal awarding agencies and pass-through entities, the South Dakota Legislature, the governing board and management of the City of Fort Pierre and is not intended to be and should not be used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11 and OMB Circular A-133 Section .320, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, appearing to read "Gary J. Larson".

September 14, 2007

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Fort Pierre
Fort Pierre, South Dakota

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund, and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, as of December 31, 2006, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, I do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe my audit provides a reasonable basis for my opinions.

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, \$28,748 and \$28,748, 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, 2006, or the changes in financial position thereof for the year then ended.

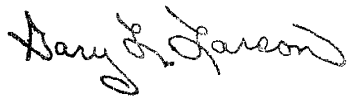
Further in my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Fort Pierre, South Dakota, at December 31, 2006, 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 September 14, 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 10 through 16 and 71 through 77 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 "Gary J. Larson".

September 14, 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, 2006. 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 \$3,044,982, or by 25%, mainly due to Federal grants and expansion of subdivisions.
- The General Fund had a \$443,825 increase, mainly due to the issuance of \$700,000 in new long-term debt.

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

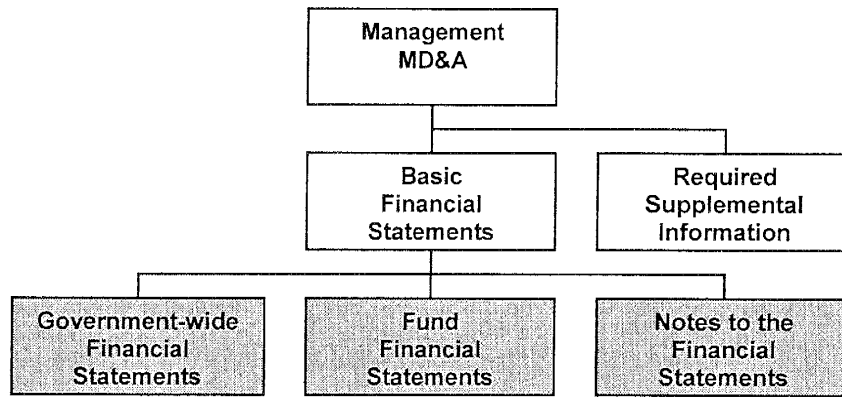


Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each 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 be 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	
	2005	2006	2005	2006	2005	2006
Current/Other Assets	4,564,987	\$4,336,854	790,262	807,526	5,355,249	5,144,380
Capital Assets	4,426,656	\$6,260,077	10,876,727	12,274,329	15,303,383	18,534,406
Total Assets	8,991,643	\$10,596,931	11,666,989	13,081,855	20,658,632	23,678,786
Long-Term Debt	1,532,454	\$2,155,231	4,093,134	3,908,133	5,625,588	6,063,364
Other Liabilities	2,491,282	\$2,072,672	239,118	195,124	2,730,400	2,267,796
Total Liabilities	4,023,736	\$4,227,903	4,332,252	4,103,257	8,355,988	8,331,160
Net Assets:						
Invested in Capital Assets - Net	2,904,829	\$4,116,640	6,760,787	8,438,714	9,665,616	12,555,354
Restricted	33,696	\$911,298	345,397	425,462	379,093	1,336,760
Unrestricted	2,029,382	\$1,341,090	228,553	114,422	2,257,935	1,455,512
Total Net Assets	4,967,907	\$6,369,028	7,334,737	8,978,598	12,302,644	15,347,626
Beginning Net Assets	4,133,242	\$4,967,907	6,550,320	7,334,737	10,723,562	12,302,644

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 and sewer 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 2006. Business-Type Activities saw an increase in Assets from 2005 to 2006, in the amount of 22%, due to the capital contributions for sewer improvements. Governmental Activities experienced a 28% 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					
	2006		2005		2006	
	Governmental Activities	Total	Governmental Activities	Total	Business-Type Activities	Total
Revenues						
Program Revenues						
Charges for Services	\$ 351,234	\$ 598,592	\$ 1,948,504	\$ 2,154,196	\$ 2,299,738	\$ 2,752,788
Operating Grants and Contrib.	0	0	0	0	-	-
Capital Grants and Contrib.	2,001,861	2,675,613	924,328	1,715,559	2,926,189	4,391,172
General Revenues						
Taxes	1,224,043	1,322,693			1,224,043	1,322,693
Shared State Sources	50,687	52,544			50,687	52,544
Unrestricted Inv. Earnings	5,787	52,958	13,203	23,307	18,990	76,265
Miscellaneous	55,075	112,817	0	0	55,075	112,817
Total Revenues	3,688,687	4,815,217	2,886,035	3,893,062	6,574,722	8,708,279
Expenses						
General Government	\$ 205,027	\$ 227,486			205,027	227,486
Public Safety	294,357	296,976			284,357	296,976
Public Works	1,398,228	2,191,178			1,398,228	2,191,178
Health and Welfare	21,474	34,614			21,474	34,614
Culture and Recreation	705,525	361,535			705,525	361,535
Conservation and Develop.	187,873	227,869			187,873	227,869
Interest on Debt Service	81,538	74,438			81,538	74,438
Water Services		349,948		296,829	349,948	296,829
Electric Services		1,422,627		1,533,641	1,422,627	1,533,641
Sewer Services		329,043		418,731	329,043	418,731
Total Expenses	2,894,022	3,414,096	2,101,618	2,249,201	4,995,640	5,663,297
Increase(Decrease) in Net Assets	794,665	1,401,121	784,417	1,643,861	1,579,082	3,044,982
Ending Net Assets	4,967,907	6,369,028	7,334,737	8,978,598	12,302,644	15,347,626

ANALYSIS OF CHANGES IN NET ASSETS

The governmental activities experiences a vast increase in the amount of funds expended for capital projects from 2005 to 2006. This was due principally to infrastructure expansion for the Vintage Square subdivision and construction of sanitary sewer lines and a lift station in the Hamilton Subdivision, paid for by US Corps of Engineers grant funds. Business-type activities saw an increase in the amount of Charges for Services for utility services from 2005 to 2006 due to an increase in electric metering charges. Contributions to the Enterprise Funds from Capital Project Funds increased substantially from 2005 to 2006 due to subdivision improvements paid for by US COE funds or special assessment bond proceeds.

BUDGET ANALYSIS OF THE GENERAL FUND

Four supplemental budgets were adopted by the governing board during Fiscal Year 2006. Budgeted revenues for bond proceeds were increased by \$700,000 for roadway project while cash-on-hand was used for \$100,000 in Park department improvements.

Expenditure budgets were increased in the park department by \$100,000 for the Lilly Park improvements while the Street department was enhanced by \$830,000 for roadway improvements. The Swimming Pool budget was enhanced to pay for the addition of two slides at the pool, while the General Government Buildings department was increased due to the repair of the roof.

CAPITAL ASSET ADMINISTRATION.

As of December 31, 2006, the Municipality had invested \$6,260,077 (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 \$1,833,421, or 41% 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 \$12,274,329 (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 \$1,397,602, or a 13% 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, 2006, the Municipality had \$6,063,364 in revenue bonds, loans, transmission capacity, capital acquisition leases, and compensated absences debt. This represents an increase of \$437,776, or 8%, which includes the addition of a \$700,000 Sales Tax Revenue Bond. 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, 2006**

	Governmental Activities	Business-type Activities
ASSETS:		
Cash and cash equivalents	\$1,852,995	\$7,676
Receivables	863,559	303,309
Inventories	2,715	211,112
Land held for resale	583,663	0
Internal balances	140,033	(140,033)
Other assets	14,518	0
Restricted assets:		
Cash and cash equivalents	849,981	425,462
Deposits	29,390	0
Capital assets:		
Land	998,594	163,577
Other capital assets, net of depreciation	5,261,483	12,110,752
TOTAL ASSETS	\$10,596,931	\$13,081,855
 LIABILITIES:		
Accounts payable	\$274,648	\$114,574
Other current liabilities	1,798,024	80,550
Noncurrent liabilities:		
Due within one year	308,806	258,229
Due in more than one year	1,846,425	3,649,904
TOTAL LIABILITIES	4,227,903	4,103,257
 NET ASSETS:		
Invested in capital assets, net of related debt	4,116,640	8,438,714
Restricted for:		
Cemetery	31,927	0
Debt service	849,981	425,462
Insurance	29,390	0
Unrestricted	1,341,090	114,422
TOTAL NET ASSETS	6,369,028	8,978,598
 TOTAL LIABILITIES AND NET ASSETS	 \$10,596,931	 \$13,081,855

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

TOTAL

\$1,860,671

1,166,868

213,827

583,663

0

14,518

1,275,443

29,390

1,162,171

17,372,235

\$23,678,786

\$389,222

1,878,574

567,035

5,496,329

8,331,160

12,555,354

31,927

1,275,443

29,390

1,455,512

15,347,626

\$23,678,786

**CITY OF FORT PIERRE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Capital Grants and Contributions
Governmental Activities:			
General government	\$227,486	\$32,077	\$0
Public safety	296,976	1,327	0
Public works	2,191,178	17,642	2,669,432
Health and welfare	34,614	475	6,181
Culture and recreation	361,535	24,312	0
Conservation and development	227,869	522,759	0
*Interest on long-term debt	74,438	0	0
TOTAL GOVERNMENTAL ACTIVITIES	3,414,096	598,592	2,675,613
Business-type Activities:			
Water	296,829	239,775	582,922
Electric	1,533,641	1,648,712	0
Sanitary sewer	418,731	265,709	1,132,637
TOTAL BUSINESS-TYPE ACTIVITIES	2,249,201	2,154,196	1,715,559
TOTAL	\$5,663,297	\$2,752,788	\$4,391,172

* 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
(\$195,409)	\$0	(\$195,409)
(295,649)	0	(295,649)
495,896	0	495,896
(27,958)	0	(27,958)
(337,223)	0	(337,223)
294,890	0	294,890
(74,438)	0	(74,438)
(139,891)	0	(139,891)
0	525,868	525,868
0	115,071	115,071
0	979,615	979,615
0	1,620,554	1,620,554
(\$139,891)	\$1,620,554	\$1,480,663
\$550,280	\$0	\$550,280
772,413	0	772,413
52,544	0	52,544
52,958	23,307	76,265
112,817	0	112,817
1,541,012	23,307	1,564,319
1,401,121	1,643,861	3,044,982
4,967,907	7,334,737	12,302,644
\$6,369,028	\$8,978,598	\$15,347,626

CITY OF FORT PIERRE
BALANCE SHEET-GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	US COE Fund	ST/VIS Fund
ASSETS			
Cash and cash equivalents	\$33,546	\$1,697,990	\$74,114
Taxes receivable-			
Delinquent	7,027	0	0
Accounts receivable	1,130	19,596	0
Special assessments receivable-current	931	0	0
Special assessments receivable-delinquent	3,568	0	0
Special assessments receivable-deferred	702,006	0	0
Due from other governments	112,789	0	0
Due from other funds	0	100,033	0
Deposits	29,390	0	0
Supply inventory	2,715	0	0
Land held for resale	583,663	0	0
Restricted cash	849,981	0	0
TOTAL ASSETS	\$2,326,746	\$1,817,619	\$74,114
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Accounts payable	\$104,464	\$0	\$0
Contracts payable	91,665	0	77,269
Deferred revenue	713,532	1,798,023	0
Due to other fund	0	0	40,000
Total Liabilities	909,661	1,798,023	117,269
FUND BALANCES:			
Reserved for:			
Debt service	849,981	0	0
Deposits	29,390	0	0
Inventory	2,714	0	0
Land held for resale	583,663	0	0
Unreserved:			
Undesignated (deficit)	(48,663)	19,596	(43,155)
Special revenue	0	0	0
Permanent fund	0	0	0
Total Fund Balance	1,417,085	19,596	(43,155)
TOTAL LIABILITIES AND FUND BALANCES	\$2,326,746	\$1,817,619	\$74,114

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

Other Governmental Funds	Total Governmental Funds
\$47,345	\$1,852,995
0	7,027
0	20,726
773	1,704
1,301	4,869
5,678	707,684
8,760	121,549
80,000	180,033
0	29,390
0	2,715
0	583,663
0	849,981
<u>\$143,857</u>	<u>\$4,362,336</u>

\$1,250	\$105,714
0	168,934
7,752	2,519,307
0	40,000
<u>9,002</u>	<u>2,833,955</u>

0	849,981
0	29,390
0	2,714
0	583,663
0	(72,222)
102,928	102,928
31,927	31,927
<u>134,855</u>	<u>1,528,381</u>
<u>\$143,857</u>	<u>\$4,362,336</u>

CITY OF FORT PIERRE
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET
ASSETS
DECEMBER 31, 2006

Total Fund Balances-Government Funds	\$1,528,381
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	6,260,077
Long-term liabilities, including bonds payable, capital leases payable and accrued leave payable are not due and payable in the current period and therefore are not reported in the funds	(2,155,231)
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	721,283
Prepaid insurance is not recorded in the funds statement because it is on the modified accrual basis of accounting	<u>14,518</u>
Net Assets-Governmental Funds	<u><u>\$6,369,028</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, 2006

	General Fund	US COE Fund	ST/VIS Fund
Revenues:			
Taxes-			
General property taxes	\$558,172	\$0	\$0
General sales taxes	709,987	0	0
Penalties and interest	2,982	0	0
Licenses and permits	39,525	0	0
Intergovernmental Revenue			
Federal grants	21,096	554,939	0
State shared revenues	52,544	0	0
County shared revenues	4,444	0	0
Charges for Goods or Services			
General government	32,077	0	0
Highways and streets	15,675	0	0
Sanitation	1,967	0	0
Health	475	0	0
Culture and recreation	24,312	0	0
Economic development	522,759	0	0
Fines and Forfeits			
Court fines and costs	1,327	0	0
Other	2,460	0	0
Miscellaneous Revenue			
Interest earned	33,837	0	18,026
Special assessments	206,238	0	0
Contributions	0	0	1,724,375
Other	66,388	0	0
Total Revenue	<u>\$2,296,265</u>	<u>\$554,939</u>	<u>\$1,742,401</u>

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

Other Governmental Funds	Total Governmental Funds
\$0	\$558,172
62,426	772,413
0	2,982
0	39,525
0	576,035
0	52,544
0	4,444
0	32,077
0	15,675
0	1,967
0	475
0	24,312
0	522,759
0	1,327
0	2,460
1,095	52,958
1,976	208,214
0	1,724,375
0	66,388
<u>\$65,497</u>	<u>\$4,659,102</u>

CITY OF FORT PIERRE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	US COE Fund	ST/VS Fund
Expenditures:			
General Government:			
Executive	\$40,336	\$0	\$0
Elections	910	0	0
Financial administration	128,150	0	0
Other	36,037	0	0
Public Safety:			
Police	196,930	0	0
Fire	71,990	0	0
Other	20,680	0	0
Public Works:			
Highways and streets	401,329	0	0
Sanitation	25,035	535,343	562,716
Water	0	0	435,981
Transit	12,000	0	0
Cemetery	0	0	0
Health and Welfare:			
Health	34,614	0	0
Culture and Recreation:			
Recreation	71,686	0	0
Parks	179,516	0	0
Libraries	4,978	0	0
Auditorium	8,613	0	0
Museum	3,474	0	0
Conservation and Development:			
Economic development	172,306	0	0
Debt Service	152,828	0	0
Capital Outlay	991,028	0	786,859
Total Expenditures	<u>\$2,552,440</u>	<u>\$535,343</u>	<u>\$1,785,556</u>
Excess (deficiency) of Revenues over Expenditures	(256,175)	19,596	(43,155)
Other Financing Sources (Uses):			
Proceeds of long-term debt	<u>700,000</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	443,825	19,596	(43,155)
FUND BALANCE, JANUARY 1, 2006	<u>973,260</u>	<u>0</u>	<u>0</u>
FUND BALANCE, DECEMBER 31, 2006	<u><u>\$1,417,085</u></u>	<u><u>\$19,596</u></u>	<u><u>(\$43,155)</u></u>

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

Other Governmental Funds	Total Governmental Funds
\$0	\$40,336
0	910
0	128,150
0	36,037
0	196,930
0	71,990
0	20,680
0	401,329
0	1,123,094
0	435,981
0	12,000
2,232	2,232
0	34,614
0	71,686
0	179,516
0	4,978
0	8,613
0	3,474
55,563	227,869
0	152,828
0	1,777,887
<u>\$57,795</u>	<u>\$4,931,134</u>
7,702	(272,032)
<u>0</u>	<u>700,000</u>
7,702	427,968
<u>127,153</u>	<u>1,100,413</u>
<u>\$134,855</u>	<u>\$1,528,381</u>

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, 2006

Net Changes in Fund Balances-Total Governmental Funds	\$427,968
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	
	1,460,701
Capital contributed to the City in the form of infrastructure is not recorded in the funds statement	372,720
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	78,390
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.	(216,605)
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(1,167)
Proceeds of long-term debt are reported as revenues in the funds statements, but are liabilities in the Statement of Activities	(700,000)
Prepaid insurance cost is deferred in the activities statement.	<u>(20,886)</u>
Change in Nets Assets of Governmental Activities	<u><u>\$1,401,121</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, 2006

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
ASSETS:			
Current Assets:			
Cash	\$0	\$0	\$7,676
Accounts receivable	30,644	247,035	25,630
Supply inventory	33,233	170,345	7,534
Total Current Assets	63,877	417,380	40,840
Noncurrent Assets:			
Restricted cash and cash equivalents	56,830	344,205	24,427
Capital Assets:			
Land	27,587	115,999	19,991
Buildings	810,296	3,802,896	0
Improvements other than buildings	2,132,898	2,246,097	6,536,623
Machinery and equipment	72,284	326,731	159,696
Accumulated depreciation	(1,240,950)	(1,627,625)	(1,108,194)
Total Noncurrent Assets	1,858,945	5,208,303	5,632,543
TOTAL ASSETS	\$1,922,822	\$5,625,683	\$5,673,383

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

Total

\$7,676

303,309

211,112

522,097

425,462

163,577

4,613,192

10,915,618

558,711

(3,976,769)

12,699,791

\$13,221,888

CITY OF FORT PIERRE
BALANCE SHEET - PROPRIETARY FUNDS
DECEMBER 31, 2006

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
LIABILITIES			
Current Liabilities:			
Accounts payable	\$4,112	\$107,383	\$3,079
Due to other funds	6,925	93,108	40,000
Deferred revenue	10,282	0	0
Customer deposits	750	69,518	0
Current portion of long-term debt	44,507	168,597	45,125
Total Current Liabilities	66,576	438,606	88,204
Non-current Liabilities:			
Bonds payable:			
Revenue	48,017	2,755,000	763,260
Accrued leave payable	2,137	7,431	2,137
Other long-term debt	0	71,922	0
Total Non-current Liabilities	50,154	2,834,353	765,397
NET ASSETS			
Invested in capital assets, net of related debt	1,711,728	1,925,118	4,801,868
Restricted net assets restricted for:			
Revenue bond debt service	56,830	344,205	24,427
Unrestricted net assets	37,534	83,401	(6,513)
Total Net Assets	1,806,092	2,352,724	4,819,782
TOTAL LIABILITIES AND NET ASSETS	\$1,922,822	\$5,625,683	\$5,673,383

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

Total

\$114,574
140,033
10,282
70,268
258,229

593,386

3,566,277
11,705
71,922

3,649,904

8,438,714

425,462
114,422

8,978,598

\$13,221,888

CITY OF FORT PIERRE
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
OPERATING REVENUES:			
Charges for goods and services securing payment of revenue bonds	\$239,775	\$1,648,712	\$265,709
Total Operating revenue	<u>239,775</u>	<u>1,648,712</u>	<u>265,709</u>
OPERATING EXPENSES:			
Personal services	106,393	278,407	107,137
Cost of sales	0	712,217	0
Other current expense	92,974	256,756	70,060
Depreciation	92,773	148,169	213,388
Total Operating Expenses	<u>292,140</u>	<u>1,395,549</u>	<u>390,585</u>
Operating Income (Loss)	<u>(52,365)</u>	<u>253,163</u>	<u>(124,876)</u>
Non-operating Revenue (Expense)			
Interest earned	0	23,307	0
Interest expense	(4,689)	(138,092)	(28,146)
Total Non-operating Revenue (Expense)	<u>(4,689)</u>	<u>(114,785)</u>	<u>(28,146)</u>
Net Income (Loss) before Contributions	(57,054)	138,378	(153,022)
Capital contributions	<u>582,922</u>	<u>0</u>	<u>1,132,637</u>
Change in Net Assets	525,868	138,378	979,615
NET ASSETS, BEGINNING	<u>1,280,224</u>	<u>2,214,346</u>	<u>3,840,167</u>
NET ASSETS, ENDING	<u><u>\$1,806,092</u></u>	<u><u>\$2,352,724</u></u>	<u><u>\$4,819,782</u></u>

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

Total

\$2,154,196

2,154,196

491,937

712,217

419,790

454,330

2,078,274

75,922

23,307

(170,927)

(147,620)

(71,698)

1,715,559

1,643,861

7,334,737

\$8,978,598

CITY OF FORT PIERRE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	ENTERPRISE FUNDS		
	Water Fund	Electric Fund	Sanitary Sewer Fund
Cash Flows from Operating Activities:			
Receipts from customers	\$238,401	\$1,498,091	\$261,796
Cash receipts for interfund services	182	58,931	476
Payments to suppliers	(67,948)	(848,657)	(38,153)
Cash payments for interfund services	(37,704)	(26,539)	(23,165)
Payments to employees	(105,475)	(274,027)	(106,219)
Net Cash Provided (Used) by Operating Activities	<u>27,456</u>	<u>407,799</u>	<u>94,735</u>
CashFlows from Non-capital Financing Activities:			
Loans (to) from other funds	6,925	(45,920)	0
Cash Flows from Capital and Related Financing Activities:			
Capital contributions	582,922	0	1,132,637
Proceeds of capital debt	0	0	34,247
Purchase of capital assets	(561,772)	(163,801)	(1,175,070)
Debt principle paid	(40,785)	(150,756)	(33,923)
Debt interest paid	(4,689)	(138,092)	(28,146)
Cash Flows from Investing Activities:			
Cash received for interest	<u>0</u>	<u>23,307</u>	<u>0</u>
Net Increase (Decrease) in Cash and Cash Equivalents	10,057	(67,463)	24,480
Cash and Cash Equivalents Beginning of Year	<u>46,773</u>	<u>411,668</u>	<u>7,623</u>
Cash and Cash Equivalents End of Year	<u><u>\$56,830</u></u>	<u><u>\$344,205</u></u>	<u><u>\$32,103</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(\$52,365)	\$253,163	(\$124,876)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation expense	92,773	148,169	213,388
Changes in Assets and Liabilities:			
Receivables	(11,474)	(94,937)	(3,437)
Inventories	7,015	69,818	21,820
Accounts and other payables	(9,411)	23,959	(13,078)
Accrued leave payable	918	4,380	918
Deposits	0	3,247	0
Net Cash Provided (Used) by Operating Activities	<u><u>\$27,456</u></u>	<u><u>\$407,799</u></u>	<u><u>\$94,735</u></u>

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

Total

\$1,998,288
59,589
(954,758)
(87,408)
(485,721)
529,990

(38,995)

1,715,559
34,247
(1,900,643)
(225,464)
(170,927)

23,307

(32,926)

466,064

\$433,138

\$75,922

454,330

(109,848)
98,653
1,470
6,216
3,247

\$529,990

CITY OF FORT PIERRE
STATEMENT OF FIDUCIARY NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	<u>\$4,103</u>
Total Assets	<u><u>\$4,103</u></u>
LIABILITIES	
Amounts held for others	<u>\$4,103</u>
Total Liabilities	<u>4,103</u>
NET ASSETS	<u>0</u>
Total Liabilities and Net Assets	<u><u>\$4,103</u></u>

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

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

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

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

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

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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b. Basis of Presentation:

Government-wide Statements:

The Statement of Net Assets and the Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity, except for fiduciary funds. The statements distinguish between the governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria, as described in note 1a above and may be classified as either governmental or business-type activities.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the funds operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

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

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

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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.

ST/VS Fund - This fund was established to account for the receipts and expenditures of capital contributions for two development projects: Stanley Townsite (ST) and Vintage Square (VS). This is a major fund.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Cedar Hill Cemetery Perpetual Care Fund - to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not a major fund.

PROPRIETARY FUNDS:

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

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

The City reports the following major enterprise funds:

Enterprise Funds:

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

Electric Fund - to account for the construction and operation of the municipal electrical system and

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

related facilities (SDCL 9-39-1 and 9-39-96).

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

Fiduciary Funds:

Agency Funds - Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The 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, 2006 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 of 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, 2006 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, 2006 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, 2006 were as follows:

Insured (FDIC/NCUA)	\$ 237,461
Uninsured	<u>2,920,683</u>
Total Deposits	<u>\$ 3,158,144</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, 2006 was \$3,140,217.

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

Cash and cash equivalents	\$ 3,136,114
Add: Agency fund cash (not included in Government-wide statement of Net Assets)	<u>4,103</u>
	<u>\$ 3,140,217</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 \$1,275,443 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, 2006, 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, 2006, 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 is consumed. Material supply inventories and land held for

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

4. INVENTORY (continued)

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, 2006 follows:

	<u>Balance</u> <u>1/1/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/06</u>
Governmental Activities:				
Capital Assets				
Not being				
Depreciated:				
Land	\$ 767,474	\$ 198,320	\$ -	\$ 965,794
Construction				
In progress:	-	32,800	-	32,800
	<u>\$ 767,474</u>	<u>\$ 231,120</u>	<u>\$ -</u>	<u>\$ 998,584</u>

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

7. CHANGES IN CAPITAL ASSETS (continued)

	<u>Balance</u> <u>1/1/06</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/06</u>
Capital Assets				
Being Depreciated				
Buildings	\$ 493,640	\$ -	\$ -	\$ 493,640
Improvements				
Other than				
Buildings	3,387,576	2,094,233	-	5,481,809
Machinery and				
Equipment	<u>483,172</u>	<u>34,638</u>	<u>-</u>	<u>517,810</u>
Totals	<u>4,364,388</u>	<u>2,128,871</u>	<u>-</u>	<u>6,493,259</u>
Less accumulated				
Depreciation for:				
Building	147,993	12,131	-	160,124
Improvements	423,494	263,183	-	686,677
Machinery and				
Equipment	<u>133,719</u>	<u>41,872</u>	<u>-</u>	<u>175,591</u>
Total	<u>705,206</u>	<u>317,186</u>	<u>-</u>	<u>1,022,392</u>
Total Capital				
Assets being				
Depreciated-				
Net	<u>\$ 3,659,182</u>	<u>\$ 1,811,685</u>	<u>\$ -</u>	<u>\$ 5,470,867</u>
Governmental Activity				
Capital Assets				
Net	<u>\$ 4,426,656</u>	<u>\$ 2,042,805</u>	<u>\$ -</u>	<u>\$ 6,469,461</u>

Depreciation expense was charged to functions as follows:

Public Safety	\$ 7,376
Public Works	216,542
Culture and Recreation	<u>93,268</u>
	<u>\$ 317,186</u>

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

7. CHANGES IN CAPITAL ASSETS (continued)

	Balance 1/1/06	Increases	Decreases	Balance 12/31/06
Business-type Activities:				
Capital Assets Not being Depreciated				
Land	\$ 163,577	\$ -	\$ -	\$ 163,577
Total	<u>163,577</u>	<u>-</u>	<u>-</u>	<u>163,577</u>
Capital Assets Being Depreciated				
Buildings	4,613,192	-	-	4,613,192
Improvements Other than Buildings	9,101,356	1,814,262	-	10,915,618
Machinery and Equipment	530,058	39,471	10,818	558,711
Totals	<u>14,244,606</u>	<u>1,853,733</u>	<u>10,818</u>	<u>16,087,521</u>
Less accumulated Depreciation for:				
Building	\$ 1,031,103	\$ 77,124	\$ -	\$ 1,108,227
Improvements	2,027,018	337,735	-	2,364,753
Machinery and Equipment	473,335	39,471	9,017	503,789
Total	<u>3,531,456</u>	<u>454,330</u>	<u>9,017</u>	<u>3,976,769</u>
Total Capital Assets being Depreciated- Net	<u>10,713,150</u>	<u>1,399,403</u>	<u>1,801</u>	<u>12,110,752</u>
Business-type Activity Capital Assets Net	<u>\$10,876,727</u>	<u>\$1,399,403</u>	<u>1,801</u>	<u>\$12,274,329</u>

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

7. CHANGES IN CAPITAL ASSETS (continued)

Depreciation expense was charged to functions as follows:

Water	\$ 92,773
Electric	148,169
Sanitary Sewer	<u>213,388</u>
	<u>\$ 454,330</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	\$ 606,000	\$ 700,000	\$ 18,449	\$ 1,287,551	\$ 165,718
Special Assess- ment	825,391	-	42,793	782,598	119,421
Financing (Capital Acquisition)					
Leases	<u>90,436</u>	<u>-</u>	<u>17,148</u>	<u>73,288</u>	<u>17,770</u>
Total Debt	<u>1,521,827</u>	<u>700,000</u>	<u>78,390</u>	<u>2,143,437</u>	<u>302,909</u>
Accrued Compensated Absences- Governmental Funds	<u>10,627</u>	<u>7,367</u>	<u>6,200</u>	<u>11,794</u>	<u>5,897</u>
Total Governmental Activities	<u>1,532,454</u>	<u>707,367</u>	<u>84,590</u>	<u>2,155,231</u>	<u>308,806</u>

Business-type Activities:

Bonds Payable:					
Revenue	\$ 3,962,096	\$ 34,247	\$ 204,708	\$ 3,791,635	\$ 225,358
Other	68,204	-	12,096	56,108	12,199

**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	\$ 45,640	\$ -	\$ 8,660	\$ 36,980	\$ 8,967
Total Debt	<u>4,075,940</u>	<u>34,247</u>	<u>225,464</u>	<u>3,884,723</u>	<u>246,524</u>
Accrued Compensated Absences- Business-type					
Funds	<u>17,194</u>	<u>10,500</u>	<u>4,284</u>	<u>23,410</u>	<u>11,705</u>
Total Business-type Activities	<u>4,093,134</u>	<u>44,747</u>	<u>229,748</u>	<u>3,908,133</u>	<u>258,229</u>
GRAND TOTAL	<u>\$5,625,588</u>	<u>\$ 752,114</u>	<u>\$ 314,338</u>	<u>\$ 6,063,364</u>	<u>\$ 567,035</u>

Debt payable at December 31, 2006 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	\$ 81,551
Sales Tax Revenue Bonds, Series 2006, matures in 11/20/18; 4.97% interest rate, payment to be made by the General Fund	\$ 700,000
Sales Tax Revenue Bonds, Series 2003, matures May 16, 2013, 4.07% interest rate, payment to be financed by the General Fund	<u>506,000</u>
Total Revenue Bonds	<u>\$1,287,551</u>

**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 \$ 132,598

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 \$ 782,598

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 \$ 73,288

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 \$ 73,288

Compensated Absences:

The liability for compensated absences
represents leave benefits earned as of
December 31, 2006. This will be paid
By the General Fund

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

8. LONG-TERM DEBT (continued)

Annual Leave	\$ 6,687
Sick Leave	<u>5,107</u>
Total compensated absences	<u>\$ 11,794</u>
TOTAL GOVERNMENTAL ACTIVITY	<u>\$2,155,231</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	\$ 49,624
Series 2004 State Revolving Fund (SRF) Sanitary Sewer, matures 06/01/26; 3.5% interest. Debt will be repaid from the Sanitary Sewer Fund	435,500
Series 2002 State Revolving Fund (SRF) Sanitary Sewer, maturity date April 1, 2008, 3.5% interest. Debt is repaid from the Sanitary Sewer Fund	370,748
Series 2005 Water Revenue Bonds, interest rate of 3.95%, due December 9, 2010. Paid by the Water Fund	40,763
Electric Surcharge Revenue Bonds, Series 2002, matures December 1, 2018, 4.64% interest rate, payment to be financed from Electric Fund	<u>2,895,000</u>
Total Revenue Bonds	<u>3,791,635</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	7,000

**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>\$ 49,108</u>
---	------------------

Total Other Debt	<u>56,108</u>
------------------	---------------

Capital Acquisition Lease:

Mini-excavator, matures 2010, 3.5% interest rate, payment to be paid from the Electric Fund	<u>36,980</u>
---	---------------

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

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

Total Capital Leases	<u>36,980</u>
----------------------	---------------

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	14,046
Sick leave	<u>9,364</u>

Total Compensated Absences	<u>23,410</u>
----------------------------	---------------

These are paid from each enterprise fund.

TOTAL BUSINESS TYPE ACTIVITY	<u>\$3,908,133</u>
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GRAND TOTAL	<u><u>\$6,063,364</u></u>
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The annual requirements to amortize all debt outstanding as of December 31, 2006 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, 2007

Governmental Activities:

Year Ending December 31,	Revenue Bonds		Financing (Capital Acquisition) Lease	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2007	\$ 165,718	\$ 45,010	\$ 17,770	\$ 2,281
2008	172,568	32,220	18,397	1,654
2009	179,591	32,137	19,056	995
2010	186,958	23,770	18,065	317
2011	172,143	16,325	-	-
2012-2016	271,575	11,127	-	-
2017-2021	<u>139,058</u>	<u>5,562</u>	<u>-</u>	<u>-</u>
Total	<u>\$1,289,551</u>	<u>\$ 166,151</u>	<u>\$ 73,288</u>	<u>\$ 5,247</u>

Year Ending December 31,	Special Assessments		Totals	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2007	\$ 119,421	\$ 29,334	\$ 302,909	\$ 76,625
2008	121,589	24,998	312,494	58,872
2009	123,797	20,582	322,444	53,714
2010	80,402	16,085	285,425	40,172
2011	81,950	12,989	254,093	29,314
2012-2016	255,439	19,794	527,014	30,921
2017-2021	<u>-</u>	<u>-</u>	<u>139,058</u>	<u>5,562</u>
Total	<u>\$ 782,598</u>	<u>\$ 123,782</u>	<u>\$2,143,437</u>	<u>\$295,180</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	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2007	\$ 225,358	\$ 159,737	\$ 8,967	\$ 1,151
2008	231,358	154,272	9,283	835
2009	226,485	146,288	9,616	502
2010	243,534	137,690	9,114	160
2011	249,438	128,271	-	-
2012-2016	1,434,854	472,922	-	-
2017-2021	<u>1,180,608</u>	<u>138,007</u>	<u>-</u>	<u>-</u>
Total	<u>\$3,791,635</u>	<u>\$1,337,187</u>	<u>\$ 36,980</u>	<u>\$ 2,648</u>

Year Ending December 31,	Other		Totals	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
2007	\$ 12,199	\$ 943	\$ 246,524	\$ 161,831
2008	5,303	839	245,944	155,946
2009	5,410	732	241,511	147,522
2010	5,519	623	258,167	138,473
2011	5,631	511	255,069	128,782
2012-2016	22,046	888	1,456,900	473,810
2017-2021	<u>-</u>	<u>-</u>	<u>1,180,608</u>	<u>138,007</u>
Total	<u>\$ 56,108</u>	<u>\$ 4,536</u>	<u>\$3,884,723</u>	<u>\$1,344,371</u>

As of December 31, 2006, the City was acting as a fiscal agent for seven special assessment issues having a total outstanding balance of \$1,578,996.

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

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

9. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

Interfund receivable and payable balances at December 31, 2006 were:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
ST/VS Fund	\$ -	\$ 40,000
2 nd penny Sales tax fund	80,000	-
US COE Fund	100,033	-
Enterprise Funds:		
Water Fund	-	6,925
Electric Fund	-	93,108
Sanitary Sewer Fund	-	40,000
	<u>\$ 180,033</u>	<u>\$ 180,033</u>

The above loans were due to a temporary cash overdrafts or to cash flow specific projects.

10. RETIREMENT PLAN

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

General employees are required by the state statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to

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

10. RETIREMENT PLAN (continued)

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, 2006, 2005 and 2004 were \$36,263, \$36,941 and \$32,604, respectively, equal to the required contributions each year.

11. 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, 2006, 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 (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

11. RISK MANAGEMENT (continued)

Fund members. 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 an additional \$1,675,000 per individual per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Liability:

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for automobile and general liability insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$1,000,000 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. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

11. RISK MANAGEMENT (continued)

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

As of December 31, 2006, the City has vested balance in the cumulative reserve fund of \$29,390.

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

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

12. RESTRICTED NET ASSETS

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

<u>RESTRICTION</u>	<u>RESTRICTED BY</u>	<u>Amount</u>
Cemetery	Trust agreements	\$ 31,927
Debt Service	Debt Covenants	1,275,443
Insurance	Policy agreement	<u>29,590</u>
		<u>\$1,336,760</u>

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

13. 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, 2006 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, 2006 this joint operation had total fund equity of \$36,997.

14. STANLEY COUNTY LAW ENFORCEMENT

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

As of December 31, 2006, this joint venture had a total equity of \$91,221.

CITY OF FORT PIERRE
NOTES TO FINANCIAL STATEMENTS

15. SIGNIFICANT NONCOMPLIANCE

The City overspent five of eighteen of its General Fund budget "line items" in 2006. The total of these line items was \$192,125. The General Fund, in total, was also overspent a net of \$38,682. 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, 2006**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
REVENUES			
Taxes:			
General property taxes	\$538,574	\$568,289	\$558,172
General sales and use taxes	650,050	692,500	709,987
Penalties and interest on delinquent taxes	1,750	1,750	2,982
Licenses and Permits	26,375	36,475	39,525
Intergovernmental Revenue			
Federal grants	984,510	20,000	21,096
State shared revenue	48,450	49,800	52,544
County shared revenues	4,444	4,444	4,444
Charges for Goods and Services			
General government	39,950	39,700	32,077
Highways and streets	31,937	31,225	15,675
Sanitation	2,500	2,500	1,967
Health	500	500	475
Culture and Recreation	19,400	21,500	24,312
Economic development	0	0	522,759
Fines and Forfeits			
Court fines and costs	1,500	1,500	1,327
Other	1,300	500	2,460
Miscellaneous Revenue			
Investment earnings	0	10,775	33,837
Special assessments	179,236	82,050	206,238
Other	263,783	20,300	66,388
Total Revenue	2,794,259	1,583,808	2,296,265

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

Variance with
Final Budget-
Positive
(Negative)

(\$10,117)

17,487

1,232

3,050

1,096

2,744

0

(7,623)

(15,550)

(533)

(25)

2,812

522,759

(173)

1,960

0

23,062

124,188

46,088

712,457

**CITY OF FORT PIERRE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
EXPENDITURES:			
General Government			
Executive	\$38,310	\$40,660	\$40,336
Elections	500	1,000	910
Financial administration	137,180	120,590	128,150
Other	29,860	36,520	36,037
Public Safety			
Police	212,870	197,298	196,930
Fire	70,063	72,064	71,990
Civil defense	1,000	22,900	20,680
Public Works			
Highways and streets	1,178,986	1,403,778	1,280,663
Sanitation	26,775	25,110	25,035
Transit	11,000	12,000	12,000
Health and Welfare			
Health	22,130	36,690	34,614
Culture and Recreation			
Recreation	66,740	91,240	91,273
Parks	822,150	294,655	271,623
Libraries	4,980	4,978	4,978
Auditorium	3,050	3,300	8,613
Museum	4,850	5,060	3,474
Conservation and Development			
Economic development and assistance	34,100	16,200	172,306
Debt Service	129,715	129,715	152,828
Total Expenditures	2,794,259	2,513,758	2,552,440

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

Variance with
Final Budget-
Positive
(Negative)

\$324
90
(7,560)
483

368
74
2,220

123,115
75
0

2,076

(33)
23,032
0
(5,313)
1,586

(156,106)

(23,113)

(38,682)

**CITY OF FORT PIERRE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND - BUDGETARY BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2006**

	Budgeted Amounts		Actual Amount
	Original	Final	(Budgetary Basis)
Excess of Revenue over (under) Expenditures	\$0	(\$929,950)	(\$256,175)
Other Financing Sources (Uses) Proceeds of long-term debt	0	700,000	700,000
Net Change in Fund Balance	0	(229,950)	443,825
FUND BALANCE-Beginning	973,260	973,260	973,260
FUND BALANCE-Ending	<u>\$973,260</u>	<u>\$743,310</u>	<u>\$1,417,085</u>

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

Variance with
Final Budget-
Positive
(Negative)

\$673,775

0

673,775

0

\$673,775

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, 2006**

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>\$535,343</u>
Department of Transportation:			
Indirect Federal Funding:			
S. D. Department of Transportation: Highway Planning and Construction, Transportation Enhancement Projects	20.205	N/A	<u>14,915</u>
Department of Health and Human Services:			
Indirect Federal Funding:			
S. D. Department of Health and Human Services Centers for Disease Control and Prevention- Investigations and Technical Assistance	93.283	N/A	<u>6,181</u>
GRAND TOTAL			<u><u>\$556,439</u></u>

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

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 CURRENT AUDIT FINDINGS AND QUESTIONED COSTS

1. SUMMARY OF AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. A significant deficiency and material weakness was disclosed by the audit. See Section 2, Finding Number 2006-01.
- c. One instance of noncompliance was noted by the audit. See Finding Number 2006-03.
- d. A significant deficiency and material weakness in internal control over major programs was noted. See Section 3, Finding Number 2006-02.
- e. An unqualified opinion was issued on compliance with the requirements applicable to major programs.
- f. My audit did disclose audit findings that need to be disclosed in accordance with the Office of Management and Budget Circular A-133, Section .510(a). See Finding Number 2006-01 and 2006-02 below.
- g. The federal awards tested as major programs were:

Construction, Relocation and
Alteration of Facilities CFDA 12.000

- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$300,000.
- i. The City of Fort Pierre did not qualify as a low-risk entity.

2. FINANCIAL STATEMENT FINDINGS

FINDING NUMBER 2006-01:

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

CRITERIA:

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

CITY OF FORT PIERRE
SCHEDULE OF CURRENT AUDIT 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.

CITY RESPONSE:

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

FINDING NUMBER 2006-03

The General Fund budget was overspent in 2006.

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.

CITY RESPONSE:

The City officials agree with this comment. The Finance Officer and Mayor are responsible for the corrective action plan of this comment. Closer monitoring of budget versus actual expenditures and prompt supplemental budgets will be the corrective action plan for this situation.

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

3. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING NUMBER 2006-02

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.

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.

CITY RESPONSE:

The City officials agree with this comment. The Mayor and City Commission 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 2005-01:

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

Status as of December 31, 2006:

The condition noted in prior audits is still applicable.

FINDING NUMBER 2004-03 and 2005-03:

Budgets were overspent.

Status as of December 31, 2006:

Budgets were again overspent during 2006.

Prior Audit Findings relative to Federal Awards:

FINDING NUMBER 2004-02 and 2005-02:

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

Status as of December 31, 2006:

The condition noted in the prior audit is still applicable.