

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
AUDIT REPORT

DECEMBER 31, 2005

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
TABLE OF CONTENTS

	Page
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	1-2
Independent Auditor's Report	3-4
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
Statement of Net Assets-Modified Cash Basis as of December 31, 2005	5
Statement of Activities- Modified Cash Basis for the Year ended December 31, 2005	6-7
Statement of Activities- Modified Cash Basis for the Year ended December 31, 2004	8-9
FUND FINANCIAL STATEMENTS	
Balance Sheet- Modified Cash Basis-Governmental Funds as of December 31, 2005	10
Statement of Revenues, Expenditures and Changes in Fund Balances- Modified Cash Basis-Governmental Funds-for the Year ended December 31, 2005	11
Statement of Revenues, Expenditures and Changes in Fund Balances- Modified Cash Basis-Governmental Funds-for the Year Ended December 31, 2004	12
Notes to Financial Statements	13-25
Schedule of Current Audit Findings	26-28
Schedule of Prior Audit Findings	29

Gary L. Larson, CPA

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

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

Stanley County Law Enforcement Board
Stanley County Law Enforcement
(A Component Unity of Stanley County)
Fort Pierre, South Dakota

I have audited the modified cash basis financial statements of the governmental activities and each major fund of the Stanley County Law Enforcement (a component unit of Stanley County) as December 31, 2005, and for each of the years in the biennial period then ended, and have issued my report thereon dated December 19, 2007.

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

Internal Control over Financial Reporting

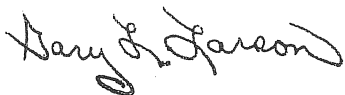
In planning and performing my audit, I considered the Stanley County Law Enforcement (a component unit of Stanley County)'s internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operations that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Stanley County Law Enforcement (a component unit of Stanley County)'s ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of current audit findings as item number 2005-01, 2005-02 and 2005-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, I believe the reportable condition Numbered 2005-01, 2005-02 and 2005-03 described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Stanley County Law Enforcement (a component unit of Stanley County)'s financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed certain instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. See findings numbered 2005-02, 2005-03, 2005-04, 2005-05, and 2005-06 in accompanying schedule of current audit findings.

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



December 19, 2007

Gary L. Larson, CPA

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

INDEPENDENT AUDITOR'S REPORT

Stanley County Law Enforcement Board
Stanley County Law Enforcement
(A Component Unit of Stanley County)
Fort Pierre, South Dakota

I have audited the accompanying modified cash basis financial statements of the governmental activities and each major fund of the Stanley County Law Enforcement (a component unit of Stanley County) as of December 31, 2005, and for each of the years in the biennial period then ended, which collectively comprise the Stanley County Law Enforcement's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Stanley County Law Enforcement (a component unit of Stanley County)'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 Stanley County Law Enforcement (a component unit of Stanley County)'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 statements, 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.

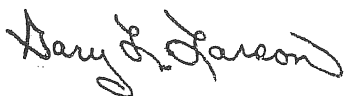
As discussed in Note 1, the Stanley County Law Enforcement (a component unit of Stanley County) prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position (modified cash basis), of the governmental activities and each major fund of the Stanley County Law Enforcement (a component unit of Stanley County) at December 31, 2005, and the respective changes in financial position (modified cash basis) thereof for each of the years in the biennial period then ended, in conformity with the basis of accounting described in Note 1.

As described in Note 1, the Stanley County Law Enforcement (a component unit of Stanley County) has implemented a new financial reporting model, as required by the provisions of GASB No. 34, "Basic Financial Statements" - and Management's Discussion and Analysis - for State and Local Governments as of January 1, 2004.

In accordance with the Government Auditing Standards, I have also issued my report dated December 19, 2007 on my consideration of the Stanley County Law Enforcement (a component unit of Stanley County)'s internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of the internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That 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 Stanley County Law Enforcement (a component unit of Stanley County) has not presented the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules for the General Fund that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



December 19, 2007

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
DECEMBER 31, 2005**

	<u>Governmental Activities</u>
ASSETS:	
Cash and cash equivalents	<u>\$103,918</u>
TOTAL ASSETS	<u><u>\$103,918</u></u>
NET ASSETS:	
Unrestricted	<u>\$103,918</u>
TOTAL NET ASSETS	<u><u>\$103,918</u></u>

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

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2005

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants
Governmental Activities:			
Public safety	\$400,729	\$6,377	\$15,990
TOTAL	\$400,729	\$6,377	\$15,990

GENERAL REVENUES:

Cost sharing fees:

Stanley County

City of Fort Pierre

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
CHANGES IN NET ASSETS

Governmental
Activities

(\$378,362)

(378,362)

154,147

212,870

1,652

2,821

371,490

(6,872)

110,790

\$103,918

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2004

Functions/Programs	Expenses	PROGRAM REVENUES	
		Changes for Services	Operating Grants
Governmental Activities:			
Public safety	\$349,879	\$6,149	\$49,653
TOTAL	\$349,879	\$6,149	\$49,653

GENERAL REVENUES:

Cost sharing fees:

Stanley County

City of Fort Pierre

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
CHANGES IN NET ASSETS

Governmental
Activities

(\$294,077)

(294,077)

140,575

192,187

487

4,303

337,552

43,475

67,315

\$110,790

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
BALANCE SHEET-MODIFIED CASH BASIS-
GOVERNMENTAL FUNDS
DECEMBER 31, 2005**

	<u>General Fund</u>
ASSETS	
Cash and cash equivalents	<u>\$103,918</u>
TOTAL ASSETS	<u><u>\$103,918</u></u>
FUND BALANCES:	
Designated for Capital Outlay	\$13,600
Undesignated	<u>90,318</u>
TOTAL FUND BALANCE	<u><u>\$103,918</u></u>

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

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund
Revenues:	
Intergovernmental Revenue	
Federal grants	\$15,990
Stanley County cost share	154,147
City of Fort Pierre cost share	212,870
Charges for Goods and Services:	
Public safety	6,377
Miscellaneous Revenue	
Interest earned	1,652
Other	2,821
	\$393,857
Total Revenue	
Expenditures:	
Public Safety	
Police	400,729
	400,729
Total Expenditures	
Net Change in Fund Balance	(6,872)
FUND BALANCE, JANUARY 1, 2005	110,790
FUND BALANCE, DECEMBER 31, 2005	\$103,918

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

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2004**

	General Fund
Revenues:	
Intergovernmental Revenue	
Federal grants	\$14,789
State grants	34,864
Stanley County cost share	140,575
City of Fort Pierre cost share	192,817
Charges for Goods and Services:	
Public safety	6,149
Miscellaneous Revenue	
Interest earned	487
Other	4,303
	393,984
Total Revenue	393,984
Expenditures:	
Public Safety	
Police	349,879
	349,879
Total Expenditures	349,879
Net Change in Fund Balance	43,475
FUND BALANCE, JANUARY 1, 2004	67,315
FUND BALANCE, DECEMBER 31, 2004	\$110,790

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

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1 c., these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable to the modified cash basis of accounting.

a. Financial Reporting Entity:

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Stanley County is financially accountable because its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization. Stanley County may also be financially accountable for another organization if that organization is fiscally dependent on it.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Stanley County Law Enforcement is a component unit of Stanley County. The five members of its board consist of two Stanley County Commissioners, the Stanley County Sheriff and two City of Fort Pierre Commissioners. Since the County has the majority on the board it is deemed to control it, thus it's considered a component unit of the Stanley County.

b. Basis of Presentation:

On June 10, 1999, the Governmental Accounting Standards Board (GASB) issued Statement of Governmental Accounting Standards No. 34 - Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (No. 34). GASB No. 34 amended accounting principles generally accepted in the United States (USGAAP) by establishing a new reporting model for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. For the Stanley County Law Enforcement (a component unit of Stanley County), GASB No. 34 implementation is first required for the calendar year ending December 31, 2004. The new reporting model significantly changed the focus of the required financial statements from a focus on fund types to a focus on major funds and on government-wide information. The implementation of GASB No. 34 results in a lack of comparability between these financial statements and those presented in prior years.

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. The statements have only *governmental type activities*. Governmental activities generally are financed through intergovernmental revenues, and other non-exchange revenues.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Stanley County Law Enforcement governmental activities.

Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. A fund is considered major if it is the primary operating fund of the Stanley County Law Enforcement (a component unit of Stanley County) 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

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the financial reporting entity are described below:

Governmental Funds:

General Fund - The General Fund is the general operating fund of the Stanley County Law Enforcement (a component unit of Stanley County). 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.

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.

During 2004, the Stanley County Law Enforcement (a component unit of Stanley County) changed its basis of accounting from a basis essentially in conformity with accounting principles generally accepted in the United States (USGAAP) to the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus:

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

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

Basis of Accounting:

In the Government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by Stanley County Law Enforcement (SCLE) is recording long-term investments in marketable securities (those with maturities more than 90-days (3 months) from the date of acquisition) acquired with cash assets at cost.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

If the Stanley County Law Enforcement (a component unit of Stanley County) applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Deposits and Investments:

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Stanley County Law Enforcement (a component unit of Stanley County) held no investments as of December 31, 2005

e. Capital Assets:

Under the modified cash basis of accounting, capital assets are recorded not as assets, but as a program cost (expense) when they result from cash transactions.

f. Long-term Liabilities:

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances is recorded as a receipt, while payments to creditors to reduce long-term

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principle and interest are reported as expenditures.

g. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Stanley County Law Enforcement (a component unit of Stanley County)'s citizenry, as a whole. Program revenues are classified into three categories, as follows.

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

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Equity Classifications:

Government-wide Statements:

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

1. Restricted net assets - Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted net assets - All other net assets that do not meet the definition of "restricted."

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components.

j. Application of Net Assets:

It is the Stanley County Law Enforcement (a component unit of Stanley County)'s policy to first use restricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

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

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits - The Stanley County Law Enforcement (a component unit of Stanley County) deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS

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

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 letter of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

It is the Stanley County Law Enforcement (a component unit of Stanley County) policy to deposit all interest revenue to the fund making the investment.

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

Insured (FDIC/NCUA)	\$ 126,035
Total Deposits	<u>\$ 126,035</u>

The carrying amount of deposits at December 31, 2005 was \$103,918.

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

**STANLEY COUNTY LAW ENFORCEMENT
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS**

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

The entity's investments except mutual funds are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity'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 entity'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 entity's name.

No investments were held as of December 31, 2005.

Custodial Credit Risk - Deposits -The risk that, in the event of a depository failure, Stanley County Law Enforcement (the Entity) deposits may not be returned to it. The Entity does not have a deposit policy for custodial credit risk.

Interest Rate Risk - The Stanley County Law Enforcement (a component unit of Stanley County) 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 Entity, as discussed above. The Entity has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Entity 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 Entity's policy is to credit all income from investments to the fund making the investment.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS**

3. RISK MANAGEMENT

The Entity 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 period ended December 31, 2005, the Entity managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

The agreement with the South Dakota Public Assurance Alliance provided that the above coverage's would be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay reinsurance for claims in excess of \$250,000 to the upper limit.

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

Workmen's Compensation:

The Entity joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Entity pays

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

3. RISK MANAGEMENT (continued)

an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

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

Unemployment Benefits:

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

4. RETIREMENT PLAN

All employees participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor's 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, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

General employees are required by the State statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS**

4. RETIREMENT PLAN (continued)

additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The Entity's share of contributions to the SDRS for fiscal years ended December 31, 2005, 2004 and 2003 were \$15,174, \$15,611 and \$16,068 respectively, equal to the required contributions each year.

5. VIOLATIONS OF FINANCE RELATED LEGAL PROVISIONS

Stanley County Law Enforcement (a component unit of Stanley County) is prohibited by stature from spending in excess of appropriated amounts. The Stanley County Law Enforcement (a component unity of Stanley County) over expended its appropriation in 2004 and 2005. The Stanley County Law Enforcement Board plans to closely monitor these expenditures in the future and supplement their budget if necessary.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2005-01:

A lack of proper segregation of duties is the present situation in the Stanley County Law Enforcement (a component unit of Stanley County)'s accounting department.

CRITERIA:

Duties should be segregated so the same employees who handle cash do not record cash transactions nor have general ledger access. Bank reconciliation should be performed by personnel not involved with the check writing process. Other financial and accounting functions should be done by separate people.

CONDITION, CAUSE AND EFFECT:

The size of the staff of the entity precludes an adequate segregation of duties.

RECOMMENDATION:

The Sheriff and Board Members should always be aware of this weakness as they review and approve transactions of the Entity and resulting financial reports. Compensating controls should be implemented whenever and wherever possible.

FINDING NUMBER 2005-02:

The annual appropriation (budget) was overspent by \$9,363 for 2005 and \$15,176 for 2004.

\$15,000 grants

A 49,000 grants

CRITERIA:

State statutes prohibit either Counties or Cities from overspending their budgets. Since Stanley County Law Enforcement is comprised of representatives of these two governments, it is also prohibited from overspending its budget.

CONDITION, CAUSE AND EFFECT:

The budgets were overspent inadvertently. The effect was a violation of state statute and an override of an important internal control (the budget).

RECOMMENDATION:

The Stanley County Law Enforcement (a component unit of Stanley County) board should closely monitor its year-to-date expenditures to ascertain if they are within their budgets. If the need arises for more spending than was budgeted, a properly approved "supplemental budget" should be adopted assuming resources are available.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2005-03:

The accountant for the Stanley County Law Enforcement (a component unit of Stanley County) was an employee of the City of Fort Pierre, therefore was not covered by the fidelity bond of the County.

CRITERIA:

Sound internal control procedures include a fidelity bond for those individuals who handle cash assets and/or write checks and maintain journals and ledgers.

CONDITION, CAUSE AND EFFECT:

Prior to January 1, 2004, the books and records of this entity were maintained by Stanley County and were thus covered by their fidelity bond. In 2004, the majority of the accounting duties were assigned to the City of Fort Pierre Finance Officer. No modifications were made to the fidelity bond of either the County or the City.

RECOMMENDATION:

All employees who handle cash and/or record transactions should be bonded for at least an amount equal to the highest cash balances anticipated during given year.

FINDING NUMBER 2005-04:

Salaries of all employees were not published for 2004 nor 2005.

CRITERIA:

SDCL 6-1-10 requires governmental entities to annually publish employee salaries.

CONDITION, CAUSE AND EFFECT:

Stanley County Law Enforcement (a component unit of Stanley County) inadvertently did not publish the salaries for 2004 and 2005, assuming Stanley County was doing this. Since Stanley County did not publish Stanley County Law Enforcement salaries, a violation of state statute occurred.

RECOMMENDATION:

Salaries should be published annually.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
SCHEDULE OF CURRENT AUDIT FINDINGS**

FINDING NUMBER 2005-05:

Stanley County Law Enforcement (a component unit of Stanley County) did not approve its official depository or legal publication for 2004 nor 2005.

CRITERIA:

SDCL 9-22-6 requires a governmental entity to designate an official depository. SDCL also requires a governmental entity to designate an official newspaper each year.

CONDITION, CAUSE AND EFFECT:

Stanley County Law Enforcement (a component unit of Stanley County) personnel were not aware of these requirements, thus inadvertently did not comply with them. The effect was a violation of the requirements.

RECOMMENDATION:

The Stanley County Law Enforcement (a component unit of Stanley County) board should designate both an official depository and an official newspaper for the ensuing year at their January meeting each year.

FINDING NUMBER 2005-06:

The Stanley County Law Enforcement (a component unit of Stanley County) did not publish nor file with the Auditor General of the Department of Legislative Audit an annual report for neither 2004 nor 2005.

CRITERIA:

SDCL 7-10-4 for Counties and SDCL 9-22-21 for cities require annual reports to be filed with the Auditor General and published in March, following the end of a given year.

CONDITION, CAUSE AND EFFECT:

The Stanley County Law Enforcement (a component unit of Stanley County) personnel were not aware of the requirements, therefore inadvertently did not comply.

RECOMMENDATION:

Annual reports should be published and filed with the Auditor General as required by SDCL.

**STANLEY COUNTY LAW ENFORCEMENT
(A COMPONENT UNIT OF STANLEY COUNTY)
SCHEDULE OF PRIOR AUDIT FINDINGS**

FINDING NUMBER 2003-01:

The annual report was not filed with the Department of Legislative Audit, nor published.

CURRENT STATUS:

The condition remains the same as of December 31, 2005.

FINDING NUMBER 2003-02:

Numerous errors were noted in the financial reports.

CURRENT STATUS:

No errors were noted for 2004 or 2005.