

CITY OF WILLOW LAKE  
FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED  
DECEMBER 31, 2005

CITY OF WILLOW LAKE  
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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

Governing Board  
City of Willow Lake  
Willow Lake, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities and each major fund of the City of Willow Lake, South Dakota, as of and for the year ended December 31, 2005, which collectively comprise the City of Willow Lake's basic financial statements and have issued our report thereon dated August 30, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Willow Lake's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Willow Lake's financial statements are free of material misstatement, we 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

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 Willow Lake, South Dakota, and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

*Harrington & Associates, LTD.*

Huron, South Dakota  
August 30, 2006

CITY OF WILLOW LAKE  
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
YEAR ENDED DECEMBER 31, 2005

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS:

The prior audit report contained no written federal compliance audit findings.

PRIOR OTHER AUDIT FINDINGS:

The prior audit report contained no written audit findings.

CURRENT FEDERAL AUDIT FINDINGS:

There are no federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

There are no compliance audit findings to report.

INDEPENDENT AUDITOR'S REPORT

Governing Board  
City of Willow Lake  
Willow Lake, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of the City of Willow Lake, South Dakota, as of and for the year ended December 31, 2005, which collectively comprise the City of Willow Lake's basic financial statements, as listed in the Table of Contents. These financial statements are the responsibility of the City of Willow Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 the City of Willow Lake, South Dakota, 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 our opinion, the financial statements referred to above do present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, the business-type activities and each major fund of the City of Willow Lake, South Dakota, as of December 31, 2005, and the respective change in financial position-modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 30, 2006, on our consideration of the City of Willow Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Changes in Long-Term Debt is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The City of Willow Lake, South Dakota, has not presented the management's discussion and analysis or the budgetary comparison information that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

*Hamington & Associates, LTD.*

Huron, South Dakota  
August 30, 2006

CITY OF WILLOW LAKE  
STATEMENT OF NET ASSETS-MODIFIED CASH BASIS  
DECEMBER 31, 2005

	PRIMARY GOVERNMENT		TOTAL
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 148,839	\$ 164,560	\$ 313,399
Savings Certificates	248,882	-	248,882
TOTAL ASSETS	\$ 397,721	\$ 164,560	\$ 562,281
<b>NET ASSETS:</b>			
Unrestricted	397,721	164,560	562,281
TOTAL NET ASSETS	\$ 397,721	\$ 164,560	\$ 562,281

The accompanying notes are an integral part of these financial statements.

CITY OF WILLOW LAKE  
STATEMENT OF ACTIVITIES-MODIFIED CASH BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2005

FUNCTIONS / PROGRAMS	DISBURSEMENTS	PROGRAM RECEIPTS
		CHARGES FOR SERVICES
Primary Government:		
General Government	\$ 34,562	\$ -
Public Safety	91,094	-
Streets and Public Works	29,084	-
Culture & Recreation	53,554	9,053
Conservation & Development	109	-
Total Governmental Activities	208,403	9,053
Business-Type Activities:		
Water	522,200	49,065
Sewer	46,454	34,228
Solid Waste	16,543	17,279
Total Business-Type Activities	585,197	100,572
Total Primary Government	\$ 793,600	\$ 109,625

The accompanying notes are an integral part of these financial statements.

NET (DISBURSEMENTS) RECEIPTS AND  
CHANGES IN NET ASSETS

PROGRAM RECEIPTS		PRIMARY GOVERNMENT		
OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
\$ -	\$ -	\$ (34,562)	\$ -	\$ (34,562)
-	-	(91,094)	-	(91,094)
-	-	(29,084)	-	(29,084)
-	-	(44,501)	-	(44,501)
-	-	(109)	-	(109)
-	-	(199,350)	-	(199,350)
-	362,000	-	(111,135)	(111,135)
-	11,723	-	(503)	(503)
-	-	-	736	736
-	373,723	-	(110,902)	(110,902)
\$ -	\$ 373,723	\$ (199,350)	\$ (110,902)	\$ (310,252)

GENERAL RECEIPTS AND TRANSFERS:

Taxes:				
Property Taxes	63,102	-	63,102	
Sales Tax	65,581	-	65,581	
Intergovernmental revenue not restricted to specific program				
Fines and Forfeitures	89,606	-	89,606	
Licenses and Permits	15,189	-	15,189	
Unrestricted Investment Earnings	475	-	475	
Miscellaneous	9,632	2,199	11,831	
Long-Term Debt Issued	15,785	-	15,785	
Transfers - Internal Activity	-	62,050	62,050	
	(72)	72	-	
Total General Receipts and Transfers	259,298	64,321	323,619	
Change in Net Assets	59,948	(46,581)	13,367	
Net Assets-Beginning	337,773	211,141	548,914	
Net Assets-Ending	\$ 397,721	\$ 164,560	\$ 562,281	

CITY OF WILLOW LAKE  
STATEMENT OF MODIFIED CASH BASIS ASSETS AND FUND BALANCES  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2005

	GENERAL FUND	SALES TAX FUND	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS:</b>			
Cash and Cash Equivalents	\$ 85,776	\$ 63,063	\$ 148,839
Savings Certificates	193,152	55,730	248,882
<b>TOTAL ASSETS</b>	<b>\$ 278,928</b>	<b>\$ 118,793</b>	<b>\$ 397,721</b>
<b>FUND BALANCES:</b>			
Unreserved Fund Balances:			
Board Designated for Capital Improvement	\$ -	\$ 118,793	\$ 118,793
Undesignated	278,928	-	278,928
<b>TOTAL FUND BALANCES</b>	<b>\$ 278,928</b>	<b>\$ 118,793</b>	<b>\$ 397,721</b>

The accompanying notes are an integral part of these financial statements.

CITY OF WILLOW LAKE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	GENERAL FUND	SALES TAX FUND	TOTAL GOVERNMENTAL FUNDS
<b>Receipts (Source):</b>			
Taxes	\$ 128,683	\$ -	\$ 128,683
Intergovernmental	89,606	-	89,606
Charges for Services	9,053	-	9,053
Fines and Forfeitures	15,189	-	15,189
Licenses and Permits	475	-	475
Investment Income	8,386	1,246	9,632
Miscellaneous	15,785	-	15,785
<b>Total Receipts</b>	<b>267,177</b>	<b>1,246</b>	<b>268,423</b>
<b>Disbursements (Function):</b>			
General Government:			
Council	4,939	-	4,939
Mayor	1,904	-	1,904
Election	29	-	29
Attorney	628	-	628
Finance Officer	8,757	-	8,757
General Government Buildings	18,305	-	18,305
Public Safety:			
Police	11,605	-	11,605
Fire	79,489	-	79,489
Streets and Public Works:			
Highways and Streets	29,084	-	29,084
Culture-Recreation			
Recreation	49,610	-	49,610
Parks	3,944	-	3,944
Conservation and Development			
Economic Development and Assistance	109	-	109
<b>Total Disbursements</b>	<b>208,403</b>	<b>-</b>	<b>208,403</b>
<b>Excess of Receipts Over Disbursements</b>	<b>58,774</b>	<b>1,246</b>	<b>60,020</b>
<b>Other Financing Uses:</b>			
Transfers Out	(72)	-	(72)
<b>Net Change in Fund Balances</b>	<b>58,702</b>	<b>1,246</b>	<b>59,948</b>
Fund Balance - Beginning	220,226	117,547	337,773
<b>Fund Balance - Ending</b>	<b>\$ 278,928</b>	<b>\$ 118,793</b>	<b>\$ 397,721</b>

The accompanying notes are not integral part of these financial statements.

CITY OF WILLOW LAKE  
 STATEMENT OF MODIFIED CASH BASIS ASSETS AND  
 NET ASSETS - PROPRIETARY FUNDS  
 DECEMBER 31, 2005

	ENTERPRISE FUNDS			
	WATER FUND	SEWER FUND	GARBAGE FUND	TOTAL
<b>ASSETS:</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 51,254	\$ 59,252	\$ 9,437	\$ 119,943
Savings Certificates	28,492	16,125	-	44,617
<b>TOTAL ASSETS</b>	<b>\$ 79,746</b>	<b>\$ 75,377</b>	<b>\$ 9,437</b>	<b>\$ 164,560</b>
 <b>NET ASSETS:</b>				
 <b>NET ASSETS:</b>				
Unrestricted Net Assets	\$ 79,746	\$ 75,377	\$ 9,437	\$ 164,560
<b>TOTAL NET ASSETS</b>	<b>\$ 79,746</b>	<b>\$ 75,377</b>	<b>\$ 9,437</b>	<b>\$ 164,560</b>

The accompanying notes are an integral part of these financial statements.

CITY OF WILLOW LAKE  
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND  
CHANGES IN NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	ENTERPRISE FUNDS			TOTAL
	WATER FUND	SEWER FUND	GARBAGE FUND	
<b>Operating Receipts:</b>				
Charges for Services:				
Water	\$ 49,065	\$ -	\$ -	\$ 49,065
Sewer	-	34,228	-	34,228
Solid Waste Disposal	-	-	17,279	17,279
Total Operating Receipts	49,065	34,228	17,279	100,572
<b>Operating Disbursement:</b>				
Water	522,200	-	-	522,200
Sewer	-	40,563	-	40,563
Solid Waste	-	-	16,543	16,543
Debt Service Expense	-	5,891	-	5,891
Total Operating Expenses	522,200	46,454	16,543	585,197
Operating Income (Loss)	(473,135)	(12,226)	736	(484,625)
<b>Nonoperating Receipts:</b>				
Investment Earnings	1,763	436	-	2,199
Long-Term Debt Issued	62,050	-	-	62,050
Total Nonoperating Receipts	63,813	436	-	64,249
Income (Loss) Before Transfers	(409,322)	(11,790)	736	(420,376)
Capital Grants and Contributions	362,000	11,723	-	373,723
Transfers In	-	72	-	72
Change in Net Assets	(47,322)	5	736	(46,581)
Net Assets - Beginning	127,068	75,372	8,701	211,141
Net Assets - Ending	\$ 79,746	\$ 75,377	\$ 9,437	\$ 164,560

The accompanying notes are an integral part of these financial statements.

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

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. This 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 and the fund financial statements for the proprietary funds, 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, unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

a. Financial Reporting Entity:

The reporting entity of the City of Willow Lake, South Dakota, consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices) that make up the legal entity.

b. Basis of Presentation:

**Government-Wide Financial Statements:** The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental receipts, and other non-exchange receipts. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

**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 constitutes its assets, fund equity, receipts, and disbursements. Funds are organized into two major categories: Governmental and Proprietary. The City presently has no fiduciary funds. 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 meets the following criteria:

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

1. Total assets, receipts, or disbursements 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, receipts, or disbursements 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 fund's operations.

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

**Governmental Funds:**

General Fund - The General Fund is the general operating fund of the Municipality. 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.

Sales Tax Fund - To account for an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals, or nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, and debt retirement. (SDCL 10-52-2) This is 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

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

b. Basis of Presentation: (cont'd)

**Proprietary Funds:** (cont'd)

(disbursements) 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 receipts earned, disbursements 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.

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) This is a major fund.

Sewer Fund - Financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Garbage Fund - Financed primarily by user charges this fund accounts for the collection and disposal of solid waste from the municipality. (SDCL 9-32-11 and 34A-6). This is a major fund.

c. Measurement Focus and Basis of Accounting

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

Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and certain assets and liabilities are recognized to the extent that cash has been received and disbursed. Acceptable modifications to the cash basis of accounting implemented by the Municipality is these financial statements are:

- a. Recording long-term deposits and investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

c. Measurement Focus and Basis of Accounting: (cont'd)

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 Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting. Under the accrual basis of accounting, assets, liabilities, revenues and expenditures/expenses are recognized in the accounts when the underlying transaction occurs, regardless of the timing of cash inflows or outflows.

d. Assets, Liabilities, and Equity:

**Cash and Cash Equivalents:**

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 an original maturity of three months or less.

**Investments:**

Investments classified in the financial statements consist entirely of certificates of deposit whose original maturity term exceeds three months. Investments are carried at cost, which approximates fair value.

**Equity Classification:**

Government-Wide Statements:

Equity is classified as net assets and displayed in unrestricted net assets.

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

d. Assets, Liabilities, and Equity:

**Fund Financial Statements:**

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

e. Receipts and Disbursements:

**Program Receipts:**

In the Statement of Activities, cash basis receipts that are derived directly from each activity or from parties outside the City's taxpayers are reported as program receipts. The City has the following program receipts in each activity:

1. General Government - Licenses and permits.
2. Public Safety - Fine revenue and E-911 revenue; operating and capital grants include Department of Homeland Security and Division of Criminal Investigation.
3. Streets and Public Works - Commercial vehicle and gasoline excise tax shared by the State.
4. Culture and Recreation - Rental income, recreation fees, and specific donations.

All other governmental receipts are reported as general. All taxes are classified as general revenue even if restricted for a specific purpose.

**Operating Receipts and Disbursements:**

Operating receipts and disbursements for proprietary funds result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONT'D)

f. Internal and Interfund Balances and Activities:

In the process of aggregating the financial information for the government-wide Statement of Net Assets and Statement of Activities, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

**Fund Financial Statements:**

Interfund activity, if any, within and among the governmental and proprietary fund categories is reported as follows in the fund financial statements:

1. Interfund transfers - Flow of assets from one fund to another where repayment is not expected are reported as transfers in and out.

**Government-Wide Financial Statements:**

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

1. Internal activities - Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers - Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities.

g. Use of Estimates:

The preparation of financial statements in conformity with the other comprehensive basis of accounting (OCBOA) used by the City requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

CITY OF WILLOW LAKE  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

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

The Municipality 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's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1 and 13-16-18.1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

	<u>Bank Balances</u>
Insured (FDIC/NCUA)	\$ 115,035
Uninsured, collateral jointly held by state's/ city's agent in the name of the state and the pledging financial institution.	<u>451,511</u>
Total Deposits	<u>\$ 566,546</u>

The carrying amount of deposits on the December 31, 2005 balance sheet was \$562,281.

Investments - In general, SDCL 4-5-6 permits city funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or 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.

CITY OF WILLOW LAKE  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2005

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK: (CONT'D)

**Interest Rate Risk** - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk** - State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2005, the City's investment consisted solely of certificates of deposit whose original maturity term exceed three months.

**Concentrations of Credit Risk** - The City places no limit on the amount that may be invested in any one issuer. All of the City's investments are in certificates of deposit whose original maturity term exceed three months.

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

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

CITY OF WILLOW LAKE  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2005

4. INTERFUND TRANSFERS:

Transfers between funds of the primary government for the year ended December 31, 2005, were as follows:

	Transfers In	Transfers Out
<b>MAJOR FUNDS:</b>		
GENERAL FUND		\$ 72
<b>ENTERPRISE FUNDS:</b>		
Sewer Fund	\$ 72	

5. RISK MANAGEMENT:

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2005, the Municipality managed its risks as follows:

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

Worker's Compensation:

The Municipality purchases liability insurance for worker's compensation from a commercial carrier.

Unemployment Benefits:

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

SUPPLEMENTAL INFORMATION

CITY OF WILLOW LAKE  
 SCHEDULE OF CHANGES IN DEBT  
 DECEMBER 31, 2005

LONG-TERM LIABILITIES:

A summary of changes in long-term debt follows:

	<u>Balance</u> 1/01/05	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/05	<u>Amount</u> Due Within <u>One Year</u>
Governmental Activities:					
Revenue Bonds	\$ 100,000	\$ --	\$ (2,628)	\$ 97,372	\$ 3,612
Rural Development Loan	<u>    --</u>	<u>  62,050</u>	<u>    --</u>	<u>  62,050</u>	<u>    492</u>
	<u>\$ 100,000</u>	<u>\$ 62,050</u>	<u>\$ (2,628)</u>	<u>\$ 159,422</u>	<u>\$ 4,104</u>

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

Revenue Bonds:

During October 2004, the City entered into an agreement to receive Revenue Bonds in the amount of \$100,000. The interest rate is 3.546%. Final payment is January 1, 2025. The Sewer Fund makes payment of this debt.

\$ 97,372

Rural Development Loan:

During June 2005, the City entered into an agreement to receive a Rural Development Loan in the amount of \$139,500 at a rate of 4.125%. As of 12/31/05, the City has received \$62,050 of this loan with the remainder of the loan to be received and spent in 2006 when it will start amortizing. Final payment is May 2045. Along with this loan, the City is to receive a \$46,500 grant from Rural Development to assist in payment of a water construction project the City is completing. The Water Fund will make payments on this debt.

62,050

\$ 159,422

CITY OF WILLOW LAKE  
SCHEDULE OF CHANGES IN DEBT  
DECEMBER 31, 2005

LONG-TERM LIABILITIES: (CONT'D)

The annual requirements to amortize the Revenue Bonds and Rural Development Loan outstanding at December 31, 2005, are as follows:

	Revenue Bonds		Rural Development Loan		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2006	\$ 3,612	\$ 3,361	\$ 492	\$ 1,915	\$ 9,380
2007	3,741	3,233	1,518	5,705	14,197
2008	3,873	3,100	1,582	5,642	14,197
2009	4,011	2,963	1,648	5,575	14,197
2010	4,153	2,821	1,718	5,506	14,198
2011-2015	23,080	11,787	9,736	26,405	71,008
2016-2020	27,474	7,393	11,962	24,157	70,986
Thereafter	27,428	2,209	110,844	64,967	205,448
	<u>\$ 97,372</u>	<u>\$ 36,867</u>	<u>\$ 139,500</u>	<u>\$ 139,872</u>	<u>\$ 413,611</u>