

**MUNICIPALITY OF ARTESIAN
ARTESIAN, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2005 TO DECEMBER 31, 2005
AND
FOR THE YEAR JANUARY 1, 2006 TO DECEMBER 31, 2006**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF ARTESIAN

MUNICIPAL OFFICIALS
DECEMBER 31, 2006

MAYOR:

Karen Lambert

GOVERNING BOARD:

Sue Richard
Jon Scott

FINANCE OFFICER:

Molly Ebersdorfer

ATTORNEY:

Jeff Larson

Schoenfish & Co., Inc.

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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

Municipal Council
Municipality of Artesian
Artesian, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Artesian, South Dakota (Municipality), as of December 31, 2006 and 2005, and for each of the years then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated July 24, 2007. 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 Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our 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 in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we 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 Municipality'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 Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2006-01 to be significant deficiencies 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 Municipality's internal control.

Our 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 in internal control that might be significant 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, we consider item 2006-01 to be a material weakness.

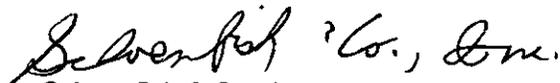
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we 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 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*.

The Municipality of Artesian's response to the findings identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

We also noted certain additional matters that we reported to management of the Municipality in a separate communication dated July 24, 2007.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Artesian, 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 matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
July 24, 2007

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR FEDERAL AUDIT FINDINGS:

Finding Number 1999-01:

The Municipality of Artesian did not secure audit services in a timely manner and, as a result, the audit of the Municipality for the year ended December 31, 1999, was not issued within nine months after the end of the audit period in violation of OMB Circular A-133 §___.320. This comment has been corrected.

Finding Number 1999-02:

Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This comment has not been corrected and is restated as current audit finding number 2006-01.

PRIOR OTHER AUDIT FINDINGS:

Finding Number 1999-03:

The Municipality did not publish or file with the Department of Legislative Audit the annual financial reports for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 in violation of SDCL 4-2-13. This comment has been corrected.

Schoenfish & Co., Inc.

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SCHEDULE OF CURRENT AUDIT FINDINGSCURRENT OTHER AUDIT FINDINGS:Finding Number 2006-01:

Deficiencies were noted in internal accounting control and record keeping resulting in a diminished assurance that transactions were properly executed and recorded and that assets were properly safeguarded. This is the second consecutive audit in which a similar deficiency has occurred.

Criteria:

Proper segregation of duties and municipal records results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The following deficiencies in internal accounting control and record keeping were noted:

- a. A lack of proper segregation of duties existed for the revenue, expenditure, and payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.
- b. Supporting documentation and approval signatures for payment of vouchers were not always provided in violation of South Dakota Codified Law (SDCL) 9-23-1, resulting in statutory noncompliance and the potential for loss of public assets.
- c. The municipal finance officer did not maintain the following necessary accounting records:
 1. Cash receipts journal;
 2. Check register;
 3. Revenue budget record;
 4. Expenditure budget record;
 5. General fixed asset records;
 6. Enterprise fund fixed asset records; and,
 7. Depreciation schedules.
- d. The municipal governing board did not establish or maintain a policy and procedure manual.
- e. The municipal finance officer did not issue any prenumbered duplicate receipts for revenue collected in violation of South Dakota Codified Law (SDCL) 9-22-3.
- f. The annual budget approved by the municipal governing board did not adequately detail the sources of revenue or the expenditures by function, subfunction, activity, and object as required by SDCL 9-21-2 and the Municipal Accounting Manual.
- g. The wastewater rates being charged by the Municipality were not adequate to fund a reserve account required by the bond covenant, make debt service payments, and provide for maintenance and improvements.

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SCHEDULE OF CURRENT AUDIT FINDINGS(Continued)

- h. The garbage rates being charged by the Municipality were not adequate to cover the cost of providing the service.

Effect:

Internal accounting control deficiencies diminish reasonable assurances that transactions are properly executed and recorded and that assets are properly safeguarded.

RECOMMENDATIONS:

1. We recommend that the Municipality of Artesian officials be cognizant of the lack of segregation of duties for the revenue, expenditure, and payroll functions and attempt to provide compensating internal controls whenever, and wherever, possible and practical.
2. We recommend that properly supported and approved claim vouchers be prepared by the finance officer for all expenditures of the Municipality as required by SDCL 9-23-1.
3. We recommend that all necessary accounting records be established and properly maintained.
4. We recommend that a policy and procedure manual be prepared and adopted by the municipal governing board.
5. We recommend that duplicate prenumbered receipts be issued for all funds received by the Municipality as required by SDCL 9-22-3.
6. We recommend that the municipal governing board adopt an annual budget as required by SDCL 9-21-2 and the Municipal Accounting Manual.
7. We recommend that the Municipality review the rate structure for wastewater and garbage services, and consider increasing the rates to cover the costs associated with providing the services.

Management's Response:

Chairman of the Board, Karen Lambert, is the contact person at this entity responsible for the corrective action plan for this comment. The Municipality is too small to enact a truly effective system of internal control because it would be cost prohibitive to employ enough personnel to properly segregate duties. However, the governing board intends to more closely monitor the activities of future finance officers. The governing board will also attempt to establish and maintain compensating controls whenever, and wherever, possible and practical. The governing board will also endeavor to address and correct the other deficiencies noted.

CLOSING CONFERENCE

The audit recommendations were discussed with the officials during the course of the audit and with the Board Members and Finance Officer on August 8, 2007.

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INDEPENDENT AUDITOR'S REPORT

Municipal Council
Municipality of Artesian
Artesian, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Artesian, South Dakota, as of December 31, 2006 and 2005 and for each of the years then ended, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Municipality of Artesian'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 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 Municipality's internal control over financial reporting. Accordingly, we 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. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1.c., the Municipality of Artesian, 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 present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Municipality of Artesian as of December 31, 2006 and 2005, and the respective changes in financial position and cash flows, where applicable, thereof for each of the years then ended in conformity with accounting principles generally accepted in the United States of America with the basis of accounting described in note 1.c.

In accordance with Government Auditing Standards, we have also issued our report dated July 24, 2007, on our consideration of the Municipality of Artesian's internal control over financial reporting and our 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 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. That 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.

The Municipality of Artesian has not presented Management's Discussion and Analysis (MD&A) or Budgetary Comparison Schedules that the Governmental Accounting Standards Board has determined is necessary to supplements, although not required to be part of, the basic financial statements.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
July 24, 2007

Schoenfish & Co., Inc.

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MUNICIPALITY OF ARTESIAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2006

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents		4,861.08	4,861.08
Investments	5,207.79		5,207.79
Internal Balances	(1,475.56)	1,475.56	0.00
Restricted Assets:			
Cash and Cash Equivalents		161.13	161.13
TOTAL ASSETS	3,732.23	6,497.77	10,230.00
LIABILITIES:			
TOTAL LIABILITIES	0.00	0.00	0.00
NET ASSETS:			
Restricted for:			
Debt Services Purposes		161.13	161.13
Unrestricted	3,732.23	6,336.64	10,068.87
TOTAL NET ASSETS	3,732.23	6,497.77	10,230.00
TOTAL LIABILITIES AND NET ASSETS	3,732.23	6,497.77	10,230.00

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental Activities:							
General Government	22,706.82	1,150.00			(21,556.82)		(21,556.82)
Public Safety	854.76	104.00			(750.76)		(750.76)
Public Works	26,445.43		21,383.93		(5,061.50)		(5,061.50)
Culture and Recreation	21,829.24	1,911.85			(19,917.39)		(19,917.39)
Debt Service Expense	3,595.42				(3,595.42)		(3,595.42)
Total Governmental Activities	75,431.67	3,165.85	21,383.93	0.00	(50,881.89)		(50,881.89)
Business-type Activities:							
Sanitation	32,183.61	35,978.24				3,794.63	3,794.63
Total Business-Type Activities	32,183.61	35,978.24	0.00	0.00		3,794.63	3,794.63
Total Primary Government	107,615.28	39,144.09	21,383.93	0.00	(50,881.89)	3,794.63	(47,087.26)
General Revenues:							
Taxes:							
Property Taxes					17,690.12		17,690.12
Sales Taxes					22,680.40		22,680.40
State Shared Revenues					917.77		917.77
Unrestricted Investment Earnings					278.08		278.08
Miscellaneous Revenue					700.00		700.00
Total General Revenues					42,266.37	0.00	42,266.37
Change in Net Assets					(8,615.52)	3,794.63	(4,820.89)
Net Assets-Beginning					12,347.75	2,703.14	15,050.89
NET ASSETS-ENDING					3,732.23	6,497.77	10,230.00

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

**MUNICIPALITY OF ARTESIAN
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2006**

	General Fund
ASSETS:	
Investments	5,207.79
TOTAL ASSETS	5,207.79
LIABILITIES AND FUND BALANCES:	
Liabilities:	
Due to Sanitation Fund	1,475.56
Total Liabilities	1,475.56
Fund Balances:	
Undesignated	3,732.23
Total Fund Balances	3,732.23
TOTAL LIABILITIES AND FUND BALANCES	5,207.79

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2006

	General Fund
Revenue:	
Taxes:	
General Property Taxes	17,630.12
General Sales and Use Taxes	22,680.40
Other Taxes	60.00
Total Taxes	40,370.52
Licenses and Permits	1,150.00
Intergovernmental Revenue:	
Federal Grants	7,273.20
State Shared Revenue:	
Bank Franchise Tax	43.13
Motor Vehicle Commercial Prorate	1,367.79
Liquor Tax Reversion	874.64
Motor Vehicle Licenses	2,905.99
Local Government Highway and Bridge Fund	8,153.25
County Shared Revenue:	
County Road Tax	1,683.70
Total Intergovernmental Revenue	22,301.70
Charges for Goods and Services:	
General Government	1,911.85
Total Charges for Goods and Services	1,911.85
Fines and Forfeits:	
Court Fines and Costs	104.00
Total Fines and Forfeits	104.00
Miscellaneous Revenue:	
Investment Earnings	278.08
Other	700.00
Total Miscellaneous Revenue	978.08
Total Revenue	66,816.15
Expenditures:	
General Government:	
Financial Administration	22,706.82
Total General Government	22,706.82
Public Safety:	
Other Public Safety	854.76
Total Public Safety	854.76
Public Works:	
Highways and Streets	26,445.43
Total Public Works	26,445.43
Culture and Recreation:	
Recreation	21,829.24
Total Culture and Recreation	21,829.24
Debt Service	3,595.42
Total Expenditures	75,431.67
Net Change in Fund Balance	(8,615.52)
Fund Balance, January 1, 2006	12,347.75
FUND BALANCE - DECEMBER 31, 2006	3,732.23

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

**MUNICIPALITY OF ARTESIAN
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2006**

	Enterprise Funds Sanitation Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	4,861.08
Due from General Fund	1,475.56
Total Current Assets	6,336.64
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	161.13
Total Noncurrent Assets	161.13
TOTAL ASSETS	6,497.77
LIABILITIES:	
Total Liabilities	0.00
NET ASSETS:	
Restricted Net Assets, Restricted for:	
Revenue Bond Debt Service	161.13
Unrestricted Net Assets	6,336.64
Total Net Assets	6,497.77
TOTAL LIABILITIES AND NET ASSETS	6,497.77

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006

	Enterprise Funds
	Sanitation
	Fund
Operating Revenue:	
Charges for Goods and Services	13,168.58
Charges for Goods and Services - Dedicated to Servicing Debt	22,809.66
Total Operating Revenue	35,978.24
Operating Expenses:	
Personal Services	1,778.00
Other Current Expense	17,013.61
Debt Service (Principal)	3,057.76
Total Operating Expenses	21,849.37
Operating Income (Loss)	14,128.87
Nonoperating Revenue (Expense):	
Interest Expense and Fiscal Charges	(10,334.24)
Total Nonoperating Revenue (Expense)	(10,334.24)
Change in Net Assets	3,794.63
Net Assets - Beginning	2703.14
Net Assets - Ending	6,497.77

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2006

	Enterprise Funds
	Sanitation
	Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Customers	35,978.24
Cash Payments to Employees for Services	(1,778.00)
Cash Payments to Suppliers of Goods and Services	(17,013.61)
Net Cash Provided (Used) by Operating Activities	17,186.63
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
Due from General Fund	(1,475.56)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,475.56)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Paid on Capital Debt	(3,057.76)
Interest Paid on Capital Debt	(10,334.24)
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,392.00)
Net Increase (Decrease) in Cash and Cash Equivalents	2,319.07
Cash and Cash Equivalents - Beginning	2,703.14
Cash and Cash Equivalents - Ending	5,022.21
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET	
CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	14,128.87
Adjustments to Reconcile Operating Income to	
Net Cash Provided (Used) by Operating Activities:	
Principal Paid on Capital Debt	3,057.76
Net Cash Provided (Used) by Operating Activities	17,186.63

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
December 31, 2005

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	7,347.75	2,542.01	9,889.76
Investments	5,000.00		5,000.00
Restricted Assets:			
Cash and Cash Equivalents		161.13	161.13
TOTAL ASSETS	12,347.75	2,703.14	15,050.89
LIABILITIES:			
TOTAL LIABILITIES	0.00	0.00	0.00
NET ASSETS:			
Restricted for:			
Debt Services Purposes		161.13	161.13
Unrestricted	12,347.75	2,542.01	14,889.76
TOTAL NET ASSETS	12,347.75	2,703.14	15,050.89
TOTAL LIABILITIES AND NET ASSETS	12,347.75	2,703.14	15,050.89

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For the Year Ended December 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	42,198.07	1,200.00			(40,998.07)		(40,998.07)
Public Safety		81.36			81.36		81.36
Public Works	14,094.58		13,781.47		(313.11)		(313.11)
Culture and Recreation	5,407.59	1,906.19			(3,501.40)		(3,501.40)
Total Governmental Activities	61,700.24	3,187.55	13,781.47	0.00	(44,731.22)		(44,731.22)
Business-type Activities:							
Sanitation	32,257.60	23,583.49				(8,674.11)	(8,674.11)
Total Business-Type Activities	32,257.60	23,583.49	0.00	0.00		(8,674.11)	(8,674.11)
Total Primary Government	93,957.84	26,771.04	13,781.47	0.00	(44,731.22)	(8,674.11)	(53,405.33)
General Revenues:							
Taxes:							
Property Taxes					18,109.48		18,109.48
Sales Taxes					24,171.76		24,171.76
State Shared Revenues					875.23		875.23
Unrestricted Investment Earnings					63.49		63.49
Miscellaneous Revenue					10,000.00		10,000.00
Total General Revenues					53,219.96	0.00	53,219.96
Change in Net Assets					8,488.74	(8,674.11)	(185.37)
Net Assets-Beginning					3,859.01	11,377.25	15,236.26
NET ASSETS-ENDING					12,347.75	2,703.14	15,050.89

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

**MUNICIPALITY OF ARTESIAN
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
December 31, 2005**

	General Fund
ASSETS:	
Cash and Cash Equivalents	7,347.75
Investments	5,000.00
TOTAL ASSETS	12,347.75
LIABILITIES AND FUND BALANCES:	
Liabilities	0.00
Fund Balances:	
Undesignated	12,347.75
Total Fund Balances	12,347.75
TOTAL LIABILITIES AND FUND BALANCES	12,347.75

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

	General Fund
Revenue:	
Taxes:	
General Property Taxes	18,037.73
General Sales and Use Taxes	24,171.76
Other Taxes	71.75
Total Taxes	42,281.24
Licenses and Permits	1,200.00
Intergovernmental Revenue:	
State Shared Revenue:	
Bank Franchise Tax	62.06
Motor Vehicle Commercial Prorate	1,389.30
Liquor Tax Reversion	813.17
Motor Vehicle Licenses	2,659.51
Local Government Highway and Bridge Fund	8,048.96
County Shared Revenue:	
County Road Tax	1,683.70
Total Intergovernmental Revenue	14,656.70
Charges for Goods and Services:	
General Government	1,906.19
Total Charges for Goods and Services	1,906.19
Fines and Forfeits:	
Court Fines and Costs	81.36
Total Fines and Forfeits	81.36
Miscellaneous Revenue:	
Investment Earnings	63.49
Other	10,000.00
Total Miscellaneous Revenue	10,063.49
Total Revenue	70,188.98
Expenditures:	
General Government:	
Financial Administration	42,198.07
Total General Government	42,198.07
Public Works:	
Highways and Streets	14,094.58
Total Public Works	14,094.58
Culture and Recreation:	
Recreation	5,407.59
Total Culture and Recreation	5,407.59
Total Expenditures	61,700.24
Net Change in Fund Balance	8,488.74
Fund Balance, January 1, 2005	3,859.01
FUND BALANCE - DECEMBER 31, 2005	12,347.75

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

**MUNICIPALITY OF ARTESIAN
BALANCE SHEET - MODIFIED CASH BASIS
PROPRIETARY FUNDS
December 31, 2005**

	Enterprise Funds Sanitation Fund
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	2,542.01
Total Current Assets	2,542.01
Noncurrent Assets:	
Restricted Cash and Cash Equivalents	161.13
Total Noncurrent Assets	161.13
TOTAL ASSETS	2,703.14
LIABILITIES:	
Total Liabilities	0.00
NET ASSETS:	
Restricted Net Assets, Restricted for:	
Revenue Bond Debt Service	161.13
Unrestricted Net Assets	2,542.01
Total Net Assets	2,703.14
TOTAL LIABILITIES AND NET ASSETS	2,703.14

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND
NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Enterprise Funds Sanitation Fund
Operating Revenue:	
Charges for Goods and Services	10,401.83
Charges for Goods and Services - Dedicated to Servicing Debt	13,181.66
Total Operating Revenue	23,583.49
Operating Expenses:	
Personal Services	2,751.60
Other Current Expense	16,114.00
Debt Service (Principal)	2,923.47
Total Operating Expenses	21,789.07
Operating Income (Loss)	1,794.42
Nonoperating Revenue (Expense):	
Interest Expense and Fiscal Charges	(10,468.53)
Total Nonoperating Revenue (Expense)	(10,468.53)
Change in Net Assets	(8,674.11)
Net Assets - Beginning	11377.25
Net Assets - Ending	2,703.14

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

MUNICIPALITY OF ARTESIAN
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Enterprise Funds
	Sanitation
	Fund
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash Receipts from Customers	23,583.49
Cash Payments to Employees for Services	(2,751.60)
Cash Payments to Suppliers of Goods and Services	(16,114.00)
Net Cash Provided (Used) by Operating Activities	4,717.89
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal Paid on Capital Debt	(2,923.47)
Interest Paid on Capital Debt	(10,468.53)
Net Cash Provided (Used) by Capital and Related Financing Activities	(13,392.00)
Net Increase (Decrease) in Cash and Cash Equivalents	(8,674.11)
Cash and Cash Equivalents - Beginning	11,377.25
Cash and Cash Equivalents - Ending	2,703.14
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating Income (Loss)	1,794.42
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Principal Paid on Capital Debt	2,923.47
Net Cash Provided (Used) by Operating Activities	4,717.89

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

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS1. 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 and the fund financial statements for proprietary funds, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have not 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 Municipality of Artesian consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Assets and 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 governmental and business-type activities. 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.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality'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 accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary,

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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 Municipality 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 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 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, expenses 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.

Sanitation Fund – financed primarily by user charges, this fund accounts for the collection and disposal of solid waste and sanitary sewer system from the municipality. (SDCL 9-32-11 and 34A-6) This is 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 2005 and 2006, the Municipality used the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

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 with 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 and business-type 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 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 modified 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. Acceptable modifications to the cash basis of accounting implemented by the Municipality in these financial statements are:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.
- b. Recording assets and liabilities related to interfund receivables and payables resulting from cash transactions between funds.

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 would use the 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

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(Continued)

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.

Investments classified in the financial statements consist of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

e. 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. The Municipality did not have interfund receivables and payables which required elimination as of December 31, 2005 or 2006.

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."

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 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. Under the modified cash basis of accounting, all long-term debts arising from cash transactions to be repaid from governmental and business-type resources are not reported as liabilities in the respective columns on the government-wide financial statements.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. The accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

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(Continued)

g. Revenue Received in Advance:

Under the modified cash basis of accounting, cash may have been received in advance of the Municipality's providing a good or service to a customer. These amounts are reported in the financial statements, as applicable.

h. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Assets, 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 and expenses.

j. Cash and Cash Equivalents:

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

k. Equity Classifications:

Government-wide Statements:

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

1. Invested in capital assets arising from cash transactions, 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 acquisition, construction, or improvement of those assets.

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(Continued)

2. 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.
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.

I. Application of Net Assets:

It is the Municipality'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.

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 Municipality's cash 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. 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.

Investments - In general, SDCL 4-5-6 permits Municipality funds to be invested only 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) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to 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.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

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

Interest Rate Risk – The Municipality 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.

Assignment of Investment Income – 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 are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

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

4. 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>
Primary Government:					
Governmental Activities:					
Notes Payable	10,208.88	11,409.58	11,948.27	9,670.19	3,634.89
Total Governmental Activities	<u>10,208.88</u>	<u>11,409.58</u>	<u>11,948.27</u>	<u>9,670.19</u>	<u>3,634.89</u>
Business-Type Activities:					
Bonds Payable:					
Revenue	233,976.15		5,986.23	227,989.92	3,200.33
Total Business-Type Activities	<u>233,976.15</u>	<u>0.00</u>	<u>5,986.23</u>	<u>227,989.92</u>	<u>3,200.33</u>
Total Primary Government	<u>244,185.03</u>	<u>11,409.58</u>	<u>17,934.50</u>	<u>237,660.11</u>	<u>6,835.22</u>

Debt payable at December 31, 2006, is comprised of the following:

Revenue Bonds:

Sewer Utility Revenue Bonds, Series 1999 \$ 227,989.92
Maturity: Monthly from August 22, 2001 to May 22, 2039
Interest Rate: 4.50%
Payments made by Wastewater Fund

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NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

Notes Payable:

Building and Equipment Note \$ 9,670.19
 Maturity Date: June 1, 2009
 Interest Rate: 8.75%
 Payments made by General Fund

The annual requirements to amortize all debt outstanding as of December 31, 2006, including interest payments of \$206,304.99 are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2006

Year Ending December 31,	USDA Rural Development Sewer Loan		Cortrust Bank Bus Shed & Equipment		TOTALS	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	3,200.33	10,191.67	3,634.89	747.95	6,835.22	10,939.62
2008	3,347.32	10,044.68	3,959.51	423.33	7,306.83	10,468.01
2009	3,501.11	9,890.89	2,075.79	115.63	5,576.90	10,006.52
2010	3,661.97	9,730.03			3,661.97	9,730.03
2011	3,830.18	9,561.82			3,830.18	9,561.82
2012-2016	21,957.71	45,002.29			21,957.71	45,002.29
2017-2021	27,486.50	39,473.50			27,486.50	39,473.50
2022-2026	34,407.58	32,552.42			34,407.58	32,552.42
2027-2031	43,071.27	23,888.73			43,071.27	23,888.73
2032-2036	53,916.40	13,043.60			53,916.40	13,043.60
2037-2039	29,609.55	1,638.45			29,609.55	1,638.45
Totals	<u>227,989.92</u>	<u>205,018.08</u>	<u>9,670.19</u>	<u>1,286.91</u>	<u>237,660.11</u>	<u>206,304.99</u>

The above long-term debt information is presented for informational purposes only. The financial statements are prepared on the modified cash basis so no liabilities are shown.

5. INDIVIDUAL FUND INTERFUND RECEIVABLE AND PAYABLE BALANCES

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

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund		\$1,475.56
Enterprise Funds:		
Sanitation Fund	\$1,475.56	

6. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2006, the Municipality was not involved in any litigation.

NOTES TO THE MODIFIED CASH BASIS FINANCIAL STATEMENTS
(Continued)

7. 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 period ended December 31, 2006, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality does not purchase health insurance for its employees.

Liability Insurance:

The Municipality 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, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The Municipality'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 Municipality. The Municipality 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 Municipality pays an annual premium to the pool to provide coverage for:

Liability Insurance
Property Insurance
Vehicle Insurance

The agreement with the SDPAA provides that the above coverages will be provided to a \$2,000,000 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 Municipality would be eligible to receive a refund for the percentage of the amount allocated to the cumulative reserve fund on the following basis:

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

As of December 31, 2006, the Municipality has vested balance in the cumulative reserve fund of \$3,208.00.

The Municipality 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.

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Worker's Compensation:

The Municipality 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 Municipality'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 Municipality pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$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 Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage over the past three years.

Unemployment Benefits:

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

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