

CITY OF MOBRIDGE
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2003

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF MOBRIDGE
TABLE OF CONTENTS

	<u>Page</u>
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <u>Government Auditing Standards</u>	1 - 2
Schedule of Prior Audit Findings and Questioned Costs	3 - 4
Schedule of Current Audit Findings and Questioned Costs	5 - 7
Independent Auditor's Report	8 - 9
General Purpose Financial Statements:	
As of December 31, 2003:	
Combined Balance Sheet - All Fund Types and Account Groups	10 - 11
For the Year Ended December 31, 2003:	
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds	12
Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General and Special Revenue Fund Types	13 - 15
Combined Statement of Revenues, Expenses and Changes in Retained Earnings - All Proprietary Fund types	16
Combined Statement of Cash Flows - All Proprietary Fund Types	17
Notes to the Financial Statements	18 - 31
Municipal Officials	32

KOHLMAN, BIERSCHBACH & ANDERSON, LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

WILLIAM JBACHMEIER, CPA
CRAIG DBROCKEL, CPA
DAVID SANDERSON, CPA
ROSEMARY MUELLER, CPA
ROY R FAUTH, CPA

PROFESSIONAL BUILDING
210 EAST GRAND CROSSING • PO Box 460
MOBRIDGE, SOUTH DAKOTA 57601
605-845-3658 • 605-845-3754 (FAX)

WITH OFFICES IN
LEMMON, SOUTH DAKOTA
MILLER, SOUTH DAKOTA

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

City Council
City of Mobridge
Mobridge, South Dakota

We have audited the financial statements of the City of Mobridge, South Dakota, as of December 31, 2003, and for the year then ended and have issued our report thereon dated May 14, 2004, which was qualified because of inadequate fixed asset and inventory records. 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.

Compliance

As part of obtaining reasonable assurance about whether the City of Mobridge'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 instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying schedule of current audit findings and questioned costs as item 2003-04. We noted certain immaterial instances of noncompliance that we have reported to the management of the City of Mobridge in a separate communication dated May 14, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Mobridge's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting

that, in our judgment, could adversely affect the City of Mobridge'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 and questioned costs as items 2003-01 through 2003-04. We also noted other matters involving the internal control over financial reporting that we have reported to the management of the City of Mobridge in a separate communication dated May 14, 2004.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our 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, of the reportable conditions described above, we consider items 2003-01 through 2003-04 to be material weaknesses.

This report is intended solely for the information and use of the South Dakota Legislature, the governing board and the management of the City of Mobridge, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by SDCL 4-11-11, this report is a matter of public record and its distribution is not limited.

Kohlman, Brischbock + Anderson, LLP

May 14, 2004

CITY OF MOBRIDGE
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2003

PRIOR FEDERAL COMPLIANCE AUDIT FINDINGS:

2002-01 - CFDA Number 66.458
Questioned Costs \$-0-

Finding

Fixed asset records, except for land and equipment, were not properly established and maintained to support the amounts reported for general fixed assets, enterprise fixed assets and depreciation. This resulted in diminished control over fixed assets and can result in misleading information being presented to users of the financial statements.

Analysis

The general fixed assets, enterprise fixed assets and depreciation records maintained did not contain sufficient detail for buildings and improvements other than buildings. This results in diminished control over fixed assets and can result in misleading information being presented to users of the financial statements.

Recommendation

We recommend general fixed assets, enterprise fixed assets and depreciation records for buildings and improvements other than buildings be established and maintained.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

The enterprise fixed assets and depreciation records have been corrected but the general fixed assets records have not been corrected and this comment is restated as current other audit finding 2003-01.

2002-02 - CFDA Number 66.458
Questioned Costs \$-0-

Finding

A reportable condition and material weakness was reported for a lack of segregation of duties for revenues.

Analysis

The City has a limited number of employees who prepare all records for revenues.

CITY OF MOBRIDGE
SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2003
(Continued)

Recommendation

We recommend the City Council take a more active role in their oversight of revenues.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Mobridge which precludes staffing at a level sufficient to provide an ideal environment for internal controls. City of Mobridge has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues. City of Mobridge is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical.

This comment has not been corrected and is restated as current other audit finding 2003-02.

PRIOR OTHER AUDIT FINDINGS:

2002-03

Finding

Sufficient records do not exist to verify the amounts reported as inventories.

Analysis

Inventory records maintained do not provide sufficient detail to verify amounts reported as inventories.

Recommendation

We recommend the City establish a perpetual inventory record system.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. The City will attempt to install a perpetual inventory system to correct this deficiency.

This comment has not been corrected and is restated as current other audit finding 2003-03.

CITY OF MOBRIDGE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2003

CURRENT FEDERAL COMPLIANCE AUDIT FINDINGS:

There are no current federal compliance audit findings to report.

CURRENT OTHER AUDIT FINDINGS:

2003-01

Finding

Fixed asset records, except for land and equipment, were not properly established and maintained to support the amounts reported for general fixed assets. This resulted in diminished control over fixed assets and can result in misleading information being presented to users of the financial statements.

Analysis

The general fixed assets records maintained did not contain sufficient detail for buildings and improvements other than buildings. This results in diminished control over fixed assets and can result in misleading information being presented to users of the financial statements.

Recommendation

We recommend general fixed assets records for buildings and improvements other than buildings be established and maintained.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

2003-02

Finding

A reportable condition and material weakness was reported for a lack of segregation of duties for revenues.

Analysis

The City has a limited number of employees who prepare all records for revenues.

CITY OF MOBRIDGE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2003
(Continued)

Recommendation

We recommend the City Council take a more active role in their oversight of revenues.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. This comment is a result of the size of the City of Mobridge which precludes staffing at a level sufficient to provide an ideal environment for internal controls. City of Mobridge has determined it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues. City of Mobridge is aware of this problem and is attempting to provide compensating controls wherever and whenever possible and practical.

2003-03

Finding

Sufficient records do not exist to verify the amounts reported as inventories.

Analysis

Inventory records maintained do not provide sufficient detail to verify amounts reported as inventories.

Recommendation

We recommend the City establish a perpetual inventory record system.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. The City will attempt to install a perpetual inventory system to correct this deficiency.

2003-04

Finding

The municipal board did not adopt a budget for the Capital Projects Fund.

Analysis

The municipal board did not adopt a budget for the Capital Projects Fund as required by South Dakota Codified Law 9-21-2.

CITY OF MOBRIDGE
SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
DECEMBER 31, 2003
(Continued)

Recommendation

We recommend that a formal budget be adopted for all funds, other than Trust and Agency.

Corrective Action Plan

Kyle Jensen is the contact person responsible for the corrective action plan for this comment. The municipality of Mobridge will adopt a budget for the Capital Projects Fund in the future.

KOHLMAN, BIERSCHBACH & ANDERSON, LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

WILLIAM JBACHMEIER, CPA
CRAIG D BROCKEL, CPA
DAVID S ANDERSON, CPA
ROSEMARY MUELLER, CPA
ROY R FAUTH, CPA

PROFESSIONAL BUILDING
210 EAST GRAND CROSSING • PO BOX 460
MOBRIDGE, SOUTH DAKOTA 57601
605-845-3658 • 605-845-3754 (FAX)

WITH OFFICES IN
LEMMON, SOUTH DAKOTA
MILLER, SOUTH DAKOTA

INDEPENDENT AUDITOR'S REPORT

City Council
City of Mobridge
Mobridge, South Dakota

We have audited the accompanying general purpose financial statements of the City of Mobridge, South Dakota, as of December 31, 2003, and for the year then ended, as listed in the Table of Contents. These general purpose financial statements are the responsibility of the City of Mobridge's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as indicated in the following paragraph, 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 opinion.

Evidence supporting the amounts reported for general fixed assets and inventories was inadequate and the records maintained did not permit the application of adequate alternative procedures regarding the reported amounts.

In our opinion, except for the effects of such adjustments as might have been determined to be necessary had we been able to test general fixed assets and inventories as discussed in the preceding paragraph, the general purpose financial statements, referred to above present fairly, in all material respects, the financial position of the City of Mobridge, South Dakota, as of December 31, 2003, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated May 14, 2004, on our consideration of the City of Mobridge's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. This report is an integral part of an audit performed in accordance with Government Auditing Standards and, in considering the results of the audit, this report should be read along with the independent auditor's report on the financial statements.

Kohlman, Bierschbach + Anderson, LLP

May 14, 2004

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES	ACCOUNT GROUPS	
		General Fixed Assets	General Long-Term Debt
<u>Enterprise</u>	<u>Expendable Trust</u>		
\$ 1,112,333	\$ --	\$ --	\$ --
644,511	5,147	--	--
--	--	--	--
--	--	--	--
42,564	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
52,569	--	--	--
<u>1,851,977</u>	<u>5,147</u>	<u>--</u>	<u>--</u>
104,993	--	167,758	--
8,435,867	--	1,742,808	--
--	--	554,612	--
280,663	--	1,056,088	--
<u>(5,323,956)</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>3,497,567</u>	<u>--</u>	<u>3,521,266</u>	<u>--</u>
--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>1,213,372</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>1,213,372</u>
\$ 5,349,544	\$5,147	\$3,521,266	\$1,213,372
=====	=====	=====	=====

PROPRIETARY FUND TYPES	FIDUCIARY FUND TYPES Expendable Trust	ACCOUNT GROUPS	
		General Fixed Assets	General Long-Term Debt
Enterprise			
\$ 13,123	\$ --	\$ --	\$ --
--	--	--	--
--	--	--	--
--	--	--	--
<u>128,833</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>141,956</u>	<u>--</u>	<u>--</u>	<u>--</u>
11,531	--	--	29,443
1,664,132	--	--	1,183,929
--	--	--	--
<u>61,051</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>1,736,714</u>	<u>--</u>	<u>--</u>	<u>1,213,372</u>
1,203,594	--	--	--
--	--	3,521,266	--
646,147	--	--	--
1,621,133	--	--	--
--	--	--	--
--	5,147	--	--
--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>3,470,874</u>	<u>5,147</u>	<u>3,521,266</u>	<u>--</u>
\$ 5,349,544	\$5,147	\$3,521,266	\$1,213,372
=====	=====	=====	=====

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

	GOVERNMENTAL FUND TYPES				FIDUCIARY
	General	Special Revenue	Debt Service	Capital Projects	FUND TYPES Expendable Trust
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(38,481)	(63,502)	--	20,425	5,000
FUND BALANCE, JANUARY 1, 2003	<u>233,203</u>	<u>601,425</u>	<u>--</u>	<u>274</u>	<u>147</u>
FUND BALANCE, DECEMBER 31, 2003	\$ <u>194,722</u>	\$ <u>537,923</u>	\$ <u>--</u>	\$ <u>20,699</u>	\$ <u>5,147</u>

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

SPECIAL REVENUE FUND

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
--	\$ --	\$ --
--	430,250	430,250
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	3,588	3,588
--	--	--
--	--	--
--	370	370
--	--	--
<u>--</u>	<u>434,208</u>	<u>434,208</u>

SPECIAL REVENUE FUND

<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	--	--
--	16	(16)
27,900	32,299	(4,399)
142,017	152,314	(10,297)
29,000	59,863	(30,863)
--	--	--
--	--	--
24,500	10,026	14,474
15,000	12,749	2,251
25,000	--	25,000
203,000	15,223	187,777
--	--	--
--	--	--
168,391	--	168,391
25,000	--	25,000
<u>659,808</u>	<u>282,490</u>	<u>377,318</u>
--	(215,220)	(215,220)
--	--	--
<u>--</u>	<u>(215,220)</u>	<u>(215,220)</u>

SPECIAL REVENUE FUND

<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
(659,808)	(63,502)	596,306
<u>601,425</u>	<u>601,425</u>	<u>--</u>
\$ (58,383) =====	\$ 537,923 =====	\$ 596,306 =====

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

CITY OF MOBRIDGE
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES
 IN RETAINED EARNINGS - ALL PROPRIETARY FUND TYPES
 FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Enterprise Funds</u>
OPERATING REVENUE:	
Charges for goods and services	\$1,018,221
Miscellaneous	<u>20,023</u>
TOTAL OPERATING REVENUE	<u>1,038,244</u>
OPERATING EXPENSES:	
Personal services	252,792
Other current expense	363,900
Depreciation	<u>257,901</u>
TOTAL OPERATING EXPENSES	<u>874,593</u>
OPERATING INCOME	<u>163,651</u>
NONOPERATING REVENUE (EXPENSE):	
Investment earnings	10,686
Interest expense and fiscal charges	<u>(86,358)</u>
TOTAL NONOPERATING REVENUE (EXPENSE)	<u>(75,672)</u>
INCOME BEFORE OPERATING TRANSFERS	87,979
OPERATING TRANSFERS OUT	<u>(40,336)</u>
NET INCOME	47,643
RETAINED EARNINGS, JANUARY 1, 2003	<u>2,219,637</u>
RETAINED EARNINGS, DECEMBER 31, 2003	\$2,267,280 =====

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

SCHEDULE RECONCILING OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES

	Enterprise Funds
OPERATING INCOME	\$163,651
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Depreciation	257,901
Changes in:	
Accounts receivable	19,316
Inventory of supplies	2,506
Accounts payable	4,062
Accrued wages payable	(1,157)
Accrued leave payable	564
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$446,843 =====

SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES

There were no noncash investing or financing activities during the year ended December 31, 2003.

DISCLOSURE OF ACCOUNTING POLICY

The City pools its cash resources for depositing and investing purposes. The Proprietary Funds essentially have access to their cash resources on demand. Accordingly, all reported deposit and investment balances are considered to be cash equivalents for the purpose of the Statement of Cash Flows.

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

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City's governing board.

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

The City has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. This Commission is a related party because the City appoints the board for the Commission. However, there were no material financial transactions between the two during the year.

b. Fund Accounting:

The accounts are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into three broad fund categories and six generic fund types as follows:

Governmental Funds:

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Second Penny Sales Tax Fund is the only Special Revenue Fund maintained by the City.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds and Trust Funds). The River Front Project Fund, the Airport Project Fund and the Storm Sewer Project Fund are the only Capital Projects Funds maintained by the City.

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - (Continued)

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 Cemetery, Water, Waste Collection, Sewer and Water Extension, and Sewer Funds are the only Enterprise Funds maintained by the City.

The Enterprise Funds do not apply all FASB Statements and Interpretations issued after November 30, 1989.

Fiduciary Funds:

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. These include Expendable Trust Funds. Expendable Trust Funds are accounted for in essentially the same manner as Governmental Funds.

c. Fixed Assets and Long-Term Liabilities:

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group, rather than in Governmental Funds. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, are not capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

Interest costs incurred during construction of fixed assets are not capitalized along with other fixed asset costs.

An undetermined portion of the general fixed assets are valued at estimated cost. The total December 31, 2003 proprietary fund fixed assets includes approximately zero percent for which the costs were

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - (Continued)

determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

Depreciation of all exhaustible fixed assets used by Proprietary Funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method.

Long-term liabilities expected to be financed from Governmental Funds are accounted for in the General Long-Term Debt Account Group, not in the Governmental Funds.

The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

d. Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

All Governmental Funds and Expendable Trust Funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available. The revenues which are accrued at December 31, 2003, are amounts due from state for sales tax revenues. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All Proprietary Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility accounts receivable are included in the financial statements.

e. Budgets and Budgetary Accounting:

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - (Continued)

2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total city budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board.

The City did not encumber any amounts at December 31, 2003.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Fund. Formal budgetary integration is not employed for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General and Special Revenue Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).

f. Deposits and Investments:

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The City deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2. 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.

CITY OF MOBRIDGE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 1 - (Continued)

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

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

The actual bank balances at December 31, 2003, were as follows:

	<u>Bank Balances</u>
Insured (FDIC/NCUA)	\$ 263,402
Uninsured, collateral jointly held by state's/city's agent in the name of the state and the pledging financial institution	2,290,482
Uninsured, uncollateralized	--
TOTAL DEPOSITS	\$2,553,884

The carrying amount of deposits on the December 31, 2003 balance sheet was \$2,547,470.

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.

The City had no investments at December 31, 2003.

g. Inventory:

Inventory is valued at the lower of cost or market. The cost valuation method is first-in, first-out (FIFO).

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 1 - (Continued)

h. Interfund Receivables:

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.

i. Deferred Revenue:

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

NOTE 2 - PROPERTY TAX

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 County bills and collects the City's taxes and remits them to the City.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City:

General Fund	\$27
Bond Redemption Funds	Amounts Required by Bond Agreements
Judgment Fund (Upon Judgment Being Made)	\$10

State statute allows the tax rates to be raised by special election of the voters.

CITY OF MOBRIDGE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 3 - CHANGES IN GENERAL FIXED ASSETS

A summary of changes in general fixed assets for the year ended December 31, 2003, is as follows:

	<u>Balance</u> 1/1/03	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> 12/31/03
Land	\$ 167,758	\$ --	\$ --	\$ 167,758
Buildings and Improvements	1,768,402	--	(25,594)	1,742,808
Furniture and Fixtures	554,612	--	--	554,612
Machinery and Equipment	<u>1,029,762</u>	<u>26,326</u>	<u>--</u>	<u>1,056,088</u>
TOTAL	\$3,520,534 =====	\$26,326 =====	\$(25,594) =====	\$3,521,266 =====

NOTE 4 - LONG-TERM DEBT

A summary of changes in long-term debt follows:

	<u>State</u> <u>Revolving</u> <u>Fund</u>	<u>Compensated</u> <u>Absences</u>	<u>Financing</u> <u>(Capital</u> <u>Acquisition)</u> <u>Leases</u>	<u>Total</u>
Debt payable, January 1, 2003	\$3,248,388	\$40,205	\$103,757	\$3,392,350
Change in compensated absences	--	769	--	769
Retired	<u>(271,494)</u>	<u>--</u>	<u>(42,706)</u>	<u>(314,200)</u>
DEBT PAYABLE, DECEMBER 31, 2003	\$2,976,894 =====	\$40,974 =====	\$ 61,051 =====	\$3,078,919 =====

CITY OF MOBRIDGE
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 4 - (Continued)

Debt payable at December 31, 2003, is comprised of the following:

State Revolving Fund (SRF):

Two loans repayable by the Sewer Fund secured by a pledge of Sewer Fund revenues:

1. A 3.0% loan payable in monthly installments of \$8,319, including principal and interest, with a final maturity of October, 2011 \$ 696,123
2. A 4.0% loan payable in monthly installments of \$1,171, including principal and interest, with a final maturity of June, 2007 \$ 45,829

Two loans repayable by the Water Fund secured by a pledge of Water Fund revenues:

1. A 5.25% loan payable in quarterly installments of \$23,339, including principal and interest, with a final maturity of July, 2014 \$ 763,192
2. A 5.25% loan payable in quarterly installments of \$8,510, including principal and interest, with a final maturity of January, 2015 \$ 287,821

A 4.5% loan payable in quarterly installments of \$42,098, including principal and interest, with a final maturity of April, 2012, payable from Special Revenue Second Penny Sales Tax Fund \$1,183,929

Compensated Absences:

Accrued leave payable \$ 40,974

Financing (Capital Acquisition) Leases:

1. A 5.84% lease payable in yearly installments of \$22,772, including principal and interest, with a final maturity of May, 2006, payable by the Water and Sewer Funds \$ 61,051

CITY OF MOBRIDGE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 4 - (Continued)

The purchase price at the commencement of the Financing (Capital Acquisition) Lease was:

Principal	\$247,165
Interest	<u>32,520</u>
 Total	 \$279,685 =====

The annual requirements to amortize all debt outstanding as of December 31, 2003, except for compensated absences but including interest payments of \$679,408, are as follows:

Annual Requirements to Amortize Long-Term Debt
 December 31, 2003

Year Ending December 31,	SRF#1 C461016-01	SRF#2 C461016-02	SRF#1 C462016-01	SRF#2 C462016-02
2004	\$ 99,828	\$14,054	\$ 93,356	\$ 34,042
2005	99,828	14,054	93,356	34,042
2006	99,828	14,054	93,356	34,042
2007	99,828	7,027	93,356	34,042
2008	99,828	--	93,356	34,042
Thereafter	<u>282,843</u>	<u>--</u>	<u>536,794</u>	<u>212,758</u>
 TOTAL	 \$781,983 =====	 \$49,189 =====	 \$1,003,574 =====	 \$382,968 =====

Year Ending December 31,	SRF#3 C461016-03	Capital Acquisition Leases	Totals
2004	\$ 168,391	\$22,772	\$ 432,443
2005	168,391	22,772	432,443
2006	168,391	22,773	432,444
2007	168,391	--	402,644
2008	168,391	--	395,617
Thereafter	<u>589,367</u>	<u>--</u>	<u>1,621,762</u>
 TOTAL	 \$1,431,322 =====	 \$67,317 =====	 \$3,717,353 =====

CITY OF MOBRIDGE
 NOTES TO THE FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 5 - CONDUIT DEBT

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, the State of South Dakota, or any other political subdivision of the state is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2003, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$5,210,000.

NOTE 6 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS

Cemetery, Water, Waste Collection, Sewer and Water Extension, and Sewer Funds are maintained by the City which provide cemetery, water, waste collection, and sewer services financed partially by user charges. Segment information for Enterprise Funds is as follows:

	Year Ended December 31, 2003		
	Cemetery Fund	Water Fund	Waste Collection Fund
Operating Revenue	\$14,260	\$ 537,044	\$100,621
Operating Expenses:			
Depreciation	342	88,072	--
Other	<u>13,266</u>	<u>313,800</u>	<u>94,056</u>
Operating Income	652	135,172	6,565
Operating Transfers:			
Out	--	(40,336)	--
Net Nonoperating Revenue (Expense)	<u>445</u>	<u>(55,896)</u>	<u>--</u>
Net Income	\$ 1,097 =====	\$ 38,940 =====	\$ 6,565 =====

CITY OF MOBRIDGE
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 6 - (Continued)

	<u>Year Ended December 31, 2003</u>		
	<u>Cemetery Fund</u>	<u>Water Fund</u>	<u>Waste Collection Fund</u>
Net Working Capital	\$66,835	\$ 628,769	\$ 15,216
Long-Term Debt: Payable from Operating Revenue	\$ --	\$1,052,757	\$ --
Total Assets	\$68,170	\$2,763,144	\$ 18,466
Total Liabilities	\$ --	\$1,091,751	\$ 3,250
Fund Equity	\$68,170	\$1,671,393	\$ 15,216
		<u>Year Ended December 31, 2003</u>	
		<u>Sewer and Water Extension Fund</u>	<u>Sewer Fund</u>
Operating Revenue		\$ 9,197	\$ 377,122
Operating Expenses:			
Depreciation		--	169,487
Other		<u>1,900</u>	<u>193,670</u>
Operating Income		7,297	13,965
Net Nonoperating Revenue (Expense)		<u>--</u>	<u>(20,221)</u>
Net Income (Loss)		\$ 7,297 =====	\$ (6,256) =====
Net Working Capital		\$85,291	\$ 913,910
Long-Term Debt: Payable from Operating Revenue		\$ --	\$ 683,957
Total Assets		\$85,291	\$2,414,473
Total Liabilities		\$ --	\$ 783,669
Fund Equity		\$85,291	\$1,630,804

CITY OF MOBRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 7 - EXPENDITURES IN EXCESS OF APPROPRIATIONS

The following represents the overdrafts of the expenditures compared to appropriations for funds other than the General Fund:

Special Revenue Fund:

Public Safety - Police	\$ 16
Public Safety - Fire	\$ 4,399
Public Works - Highways and Streets	\$10,297
Public Works - Airport	\$30,863

NOTE 8 - RETIREMENT PLAN

All employees, except for part-time and seasonal, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors' benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 733-3731.

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2003, 2002 and 2001 were \$50,917, \$48,282, and \$45,252, respectively, equal to the required contributions each year.

NOTE 9 - LITIGATION

At December 31, 2003, the City was not involved in any litigation.

CITY OF MOBRIDGE
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2003

NOTE 10 - SUBSEQUENT EVENTS

In 2004 the municipality issued \$1,050,000 in Water Utility Revenue Refunding Bonds with an average interest rate of 4.073 percent to refund the following:

<u>Date Issued</u>	<u>Project</u>	<u>Average Interest Rate</u>	<u>Unpaid Principal At Time of Refunding</u>
7-01-99	Drinking Water State Revolving Fund	5.25%	\$736,373
5-11-01	Drinking Water State Revolving Fund	5.25%	\$278,294

The entire proceeds of the refunding issue, in the amount of \$1,023,545, were deposited in an irrevocable trust with an escrow agent to provide for all future debt service requirements on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds has been removed from the municipality's Water Fund records.

The municipality refunded the debt to reduce its total debt service payments over the next ten years by \$25,298 and to obtain an economic gain of \$34,734.

NOTE 11 - RISK MANAGEMENT

The City 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, 2003, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier.

Liability Insurance:

The City 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.

Workmen's Compensation

The City purchases liability insurance for workmen's compensation from a commercial carrier.

CITY OF MOBRIDGE
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2003

NOTE 11 - (Continued)

Unemployment Benefits:

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

NOTE 12 - ACCOUNTING PRINCIPLES CHANGE

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 establishes new requirements for the annual financial reports for state and local governments, including states, cities, towns, villages, counties, school districts and special purpose governments. For the city, GASB No. 34 implementation is first required for the calendar year ended December 31, 2004. The effect of the implementation of GASB No. 34 on the financial statements of the city has not yet been determined.

CITY OF MOBRIDGE
MUNICIPAL OFFICIALS
DECEMBER 31, 2003

Mayor:

Kyle Jensen

Governing Board:

Tom Unterseher, President
Taylor Oster, Vice-President
John Villbrandt
Jerry Weischedel
Tony Yellow Boy
Randy Runnels

Finance Officer:

Amanda Lind

Attorney:

Laurie Bauer

