

OFFICE OF THE STATE AUDITOR

CITY OF WAHPETON
Wahpeton, North Dakota

Audit for the Year Ended
December 31, 2005



CITY OF WAHPETON
Wahpeton, North Dakota

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CITY OF WAHPETON
Wahpeton, North Dakota

CITY OFFICIALS

December 31, 2005

Duane M. Schmitz	Mayor
Tim Schmidt	President
Richard A. Loberg	Vice-President
David P. Badgley	Board Member
Alissa Mitskog	Board Member
Wayne H. Beyer	Board Member
Glen H. Tollefson	Board Member
Meryl T. Hansey	Board Member
Lisa Otterson	Board Member
Shawn Kessel	City Administrator
Darcie Huwe	City Finance Officer
Steven J. Lies	City Attorney
Scott Thorsteinson	Police Chief

STATE AUDITOR
ROBERT R. PETERSON
PHONE
(701) 328-2241



LOCAL GOVERNMENT DIVISION:
MANAGER - MARV ECKMAN
(701) 328-9505
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
925 BASIN AVENUE
BISMARCK, ND 58504-6647

INDEPENDENT AUDITOR'S REPORT

City Council
City of Wahpeton
Wahpeton, North Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and aggregate remaining fund information of the City of Wahpeton, North Dakota, as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Wahpeton, North Dakota management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Wahpeton, Wahpeton, North Dakota, as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, 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 July 13, 2006, on our consideration of the City of Wahpeton, North Dakota internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of 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 management's discussion and analysis and budgetary comparison information on pages 4 through 10 and pages 37 through 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

CITY OF WAHPETON

Independent Auditor's Report - Continued

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Wahpeton, North Dakota, basic financial statements. The schedule of fund activity is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of fund activity has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Robert R. Peterson
State Auditor

July 13, 2006

CITY OF WAHPETON
Wahpeton, North Dakota

MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2005

The Management's Discussion and Analysis (MD&A) of the City of Wahpeton's financial performance provides an overall review of the City's financial activities for the fiscal year ended December 31, 2005. The intent of the MD&A is to look at the City's financial performance as a whole. It should, therefore, be read in conjunction with the basic financial statements and related notes.

FINANCIAL HIGHLIGHTS

- Governmental assets exceeded its liabilities (net assets) by \$14,674,877 at the close of the most recent fiscal year. Of this amount, \$802,857 (unrestricted net assets) may be used to meet the government's ongoing obligations.
- Business type assets exceeded its liabilities by \$4,102,164 at the close of the most recent fiscal year.
- The total net assets of governmental activities of the City of Wahpeton increased by \$808,210 as a result of the most recently completed fiscal year's operations.
- Net assets of the business-type activities decreased by \$402,870 as a result of the most recently completed fiscal year's operations.
- Total revenues from all sources were \$5,274,220 for governmental activities and \$5,908,271 on the modified accrual basis.
- Governmental revenues exceeded expenditures by \$157,164 in the governmental fund-based statements and governmental funds reported combined ending fund balances of \$8,565,835. Approximately 64% (\$5,518,906) of this is available for spending at the government's discretion (unreserved fund balances).
- General fund revenues were \$2,236,095 and general fund expenditures were \$2,137,308. General fund revenues exceeded expenditures by \$98,787 and there were a total of net transfers into the general fund totaling \$98,163. Unreserved fund balance for the General Fund was \$404,854 or 19% of the total 2005 general fund expenditures.
- Total revenues from all sources were \$1,598,370 for business-type activities for the year ended December 31, 2005, a decrease of \$225,779 over the year ended December 31, 2004.
- Total expenses were \$4,637,661 for governmental activities on the government-wide basis and total expenditures were \$5,751,107 on the modified accrual basis. The total expenses of business-type activities was \$1,738,559.
- Special assessment bond debt of \$2,000,000 was issued to help finance the costs of the Flood Phase I project.

USING THIS ANNUAL REPORT

This annual financial report consists of a series of statements and related footnotes. These statements are organized so that the reader can understand the City of Wahpeton as a financial whole. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's finances and a longer-term view of those finances. Governmental Fund financial statements provide the next level of detail. These statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's major funds in separate columns with all other governmental funds presented in total in one column.

This report also contains other supplementary information in addition to the basic financial statements.

REPORTING ON THE CITY AS A WHOLE

Statement of Net Assets and Statement of Activities

The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Wahpeton's finances, in a manner similar to a private-sector business and to answer the question "How did the City do financially during the year ended December 31, 2005?".

The *Statement of Net Assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information on how the City's *net assets* changed during the most recent fiscal year. This statement is presented using the accrual basis of accounting, which means that all changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected sales tax, and earned but unused vacation leave). Both the Statement of Net Assets and the Statement of Activities present information as follows:

- Governmental activities – this includes most of the City's basic services which are primarily supported by property and sales taxes, intergovernmental revenues, user fees and interest income.
- Business-type activities – this includes those services which are intended to recover all or a significant part of their costs through user fees.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also a legally separate library for which the City is financially accountable. Financial information for the *component unit* is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 11-12 of this report

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Wahpeton, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide detailed information about the City's significant funds – not the City as a whole. The City's funds can be divided into two categories – governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. The governmental fund statements provide a detailed short-term view of the government operations and the basic services it provides, and are reported on the modified accrual basis of accounting which focuses on available expendable resources. This allows the reader to evaluate the City's short-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between the governmental funds and the government-wide financial statements.

Information is presented separately in the governmental fund balance sheet and statement of revenues, expenditures, and changes in fund balances for the general fund, and the following major funds: sales tax operating fund, sales tax reserve fund, capital improvements fund, revolving loan fund, 5-1-97 flood phase I fund, 1-1-04 rosewood phase II fund, and the 2-2-02 16th avenue north fund. Data from the other special revenue, debt service and capital projects governmental funds are combined into a single, aggregated presentation titled "Other Governmental Funds".

CITY OF WAHPETON**Management's Discussion & Analysis - Continued**

The City of Wahpeton adopts an annual budget for the general fund, sales tax operating fund, sales tax reserve fund, capital improvements fund and the revolving loan fund.

The governmental fund statements may be found on pages 13-18 of this report.

Proprietary funds - the City of Wahpeton maintains one type of proprietary fund. Enterprise funds are used to report activities that charge for services it provides to outside customers. The enterprise funds are presented as business-type activities in the government-wide statements. The City of Wahpeton uses enterprise funds to account for its Water Operations as a major fund and the remaining enterprise funds are combined into a single, aggregated presentation titled "Other Enterprise Funds". Proprietary fund statements provide the same type of information as the government-wide statements, only in more detail.

The proprietary fund statements may be found on pages 19-21 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-36 of this report.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The following two tables present condensed information on the City's Net Assets and Changes in Net Assets for the fiscal year ended December 31, 2005 and 2004. As noted earlier, net assets may serve over time as a useful indicator of the City's financial position. In the case of the City of Wahpeton, assets exceeded liabilities by \$14,674,877 at the close of the most recent fiscal year for governmental activities and \$4,102,164 for enterprise business-type activities. The City of Wahpeton's net assets includes its investment in capital assets (e.g. land, buildings, infrastructure, equipment, and vehicles), less any related debt used to acquire those assets that are still outstanding. The City of Wahpeton uses these capital assets to provide services to its citizens; consequently, these assets are *not* available for future spending. Although the City of Wahpeton's investment in its capital assets is reported net of related debt (\$1,903,642), it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TABLE 1
NET ASSETS
December 31, 2005 and 2004

	2005	2005	2004	2004
	Governmental	Business-Type	Governmental	Business-Type
Assets:				
Current Assets	\$ 9,206,551	\$1,051,861	\$ 6,707,473	\$1,294,572
Noncurrent Assets	4,058,235	-	4,765,198	-
Capital Assets (net of accum. depreciation)	11,655,546	6,091,978	11,167,873	5,983,769
Total Assets	\$24,920,332	\$7,143,839	\$22,640,544	\$7,278,341
Liabilities:				
Current Liabilities	\$ 379,105	\$ 204,673	\$ 1,362,957	\$ 240,286
Long-Term Liabilities	9,866,350	2,837,002	7,910,200	3,413,781
Total Liabilities	\$10,245,455	\$3,041,675	\$ 9,273,157	\$3,654,067
NET ASSETS:				
Invested in Capital Assets, net of Related Debt	\$ 1,903,642	\$3,171,500	\$ 2,270,614	\$2,369,120
Restricted	11,965,378	-	6,699,130	50,000
Unrestricted	805,857	930,664	4,397,643	1,205,154
Total Net Assets	\$14,674,877	\$4,102,164	\$13,367,387	\$3,624,274

CITY OF WAHPETON
Management's Discussion & Analysis - Continued

A portion of the City of Wahpeton's net assets totaling \$11,965,378 (82%) represents resources that are subject to external restrictions on how they may be used (debt service and other special purposes financed by restricted tax levies). The remaining balance of *unrestricted net assets* totaling \$805,857 may be used to meet the government's ongoing obligations to citizens and creditors. At the end of the 2005, the City of Wahpeton is able to report positive balances in all three categories of net assets for governmental activities, as well as both categories for the business-type activities.

TABLE II
CHANGES IN NET ASSETS
As of December 31, 2005 and 2004

	2005 Governmental Activities	2005 Business-Type Activities	2004 Governmental Activities	2004 Business-Type Activities
Revenues				
<u>Program Revenues:</u>				
Charges for Services	\$ 620,832	\$1,598,345	\$ 701,727	\$1,824,124
Operating Grants & Contributions	803,487	-	547,468	-
Capital Grants & Contributions	37,499	-	464,647	126,762
<u>General Revenues:</u>				
Taxes	3,019,557	-	4,442,570	-
State Aid	402,792	-	299,320	-
Interest Earnings	163,368	-	110,093	-
Miscellaneous Revenue	226,685	25	425,639	-
Total Revenues	\$5,274,220	\$1,598,370	\$6,991,464	\$1,950,886
Expenses				
General Government	\$ 696,464	\$ -	\$ 955,843	\$ -
Public Safety	1,008,551	-	1,251,452	-
Public Works	826,702	-	1,646,163	-
Economic Development	422,543	-	325,279	-
Conservation of Natural Resources	24,635	-	79,813	-
Culture and Recreation	93,375	-	59,488	-
Other	8,804	-	456,072	-
Capital Outlay	1,182,542	-	-	-
Interest and Fees	374,045	-	-	-
Water Operations	-	1,058,675	-	759,194
Sewer, garbage and other	-	679,884	-	665,938
Total Expenses	\$4,637,661	\$1,738,559	\$4,774,110	\$1,425,132
Excess before transfers/special items	\$ 636,559	\$ (140,189)	\$2,217,354	\$ 525,754
Transfers	171,651	(262,681)	187,865	(216,002)
Net Change in Assets	\$ 808,210	\$ (402,870)	\$2,405,219	\$ 309,752

The City of Wahpeton's total net governmental activities assets equity increased by \$808,210 (6%) for the year ended December 31, 2005. The majority of this increase was due to a transfer from the enterprise funds and revenues exceeding expenses. Business-type activities net assets decreased by \$402,870 (9%). A majority of the decrease is due to a transfer to governmental funds and a decrease in fees received from users of city utility services coupled with an increase in water operating costs over the prior year. It is noted that governmental activities revenues decreased \$1,717,244 and business-type revenues decreased by \$352,516. Causes of the decrease in governmental revenues was the removal of \$709,963 in special assessment taxes in 2005 from the funds to get to the proper amount of governmental revenues and \$1,041,697 of new specials were added in 2004 causing revenue to increase in the prior year. The decrease in business-type revenues is largely due to a decrease in water gallons produced and used by citizens in the 2005 year compared with 2004 (charges for services decreased by \$225,779).

Financial Analysis of the Government's Funds

As noted earlier, the City of Wahpeton uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the City of Wahpeton's *governmental funds* is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the City of Wahpeton's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Wahpeton's governmental funds reported combined ending fund balances of \$8,565,835. The total *unreserved fund balances* are \$5,518,906. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed to pay debt service \$2,142,338 related to capital improvements, and is reserved for inventories \$13,793 and loans \$890,798. Total fund balances of governmental funds increased by \$2,322,415 primarily due to the issuance of \$2,000,000 in special assessment bonds to finance the costs of the Flood Phase I project.

It is noted that total revenues for governmental funds decreased only \$917 for the year ended December 31, 2005 going from \$5,909,188 to \$5,908,271. Expenditures decreased \$724,176 (11%) from \$6,475,283 to \$5,751,107. The primary cause of the decrease was less spent on infrastructure and capital asset additions in 2005 when compared to 2004.

The general fund is the chief operating fund of the City of Wahpeton. At the end of the current fiscal year, unreserved fund balance of the general fund was \$404,854. Unreserved fund balance represents 19% of total general fund expenditures. Revenues of the general fund totaled \$2,236,095 and expenditures totaled \$2,137,308 for the year ended December 31, 2005. Revenues of the general fund increased by \$283,895 (15%) and expenditures increased by only \$82,340 (4%). Of the increase in revenues, \$232,770 is represented by an increase in intergovernmental grants/reimbursements for state revenue sharing, highway tax and other grants.

The fund balance of the City of Wahpeton's general fund increased by \$196,950 during the current fiscal year. The main reason was increased transfers from special revenue and enterprise funds for street public work expense and social security reimbursements and an increase in overall revenues exceeding expenditures.

The sales tax operating fund balance increased by \$132,228, due in part to an increase in sales tax received, and due to spending less on interest buy downs and grants for sales tax projects during 2005. The sales tax reserve fund balance increased \$210,640 due to receiving \$237,257 in sales tax proceeds and spending only \$3,819 from the fund during 2005. The 5-1-97 flood phase I fund balance increased by \$1,601,203 due to receiving \$2,000,000 in bond proceeds for project costs. The rosewood phase II fund balance decreased by \$361,695 due to project costs incurred with no reimbursements or bonds issued by the end of the year. The remaining major funds did not have significant fund balance changes.

Proprietary Funds

The City of Wahpeton's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water Operating Fund totaled \$1,497,777. Total decrease in net assets for this fund was \$334,214. The majority of this decrease is attributable to a decrease in user fees received for water utility operations coupled with an increase in operating expenses during the year ended December 31, 2005.

CITY OF WAHPETON

Management's Discussion & Analysis - Continued

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for the City's general operating fund was a relatively minor \$46,877 (2%) decrease in expenditure appropriations and an increase in revenue of \$265,448 (14%). The general fund budget was amended to actual amounts for the year ended December 31, 2005, as were all other major and nonmajor funds.

CAPITAL ASSET ADMINISTRATION

The City of Wahpeton's investment in capital assets for its governmental activities as of December 31, 2005 amounted to \$11,655,546 (net of accumulated depreciation), representing a \$51,313 decrease due to depreciation. The change in business-type activities capital assets was a net decrease of \$160,864 (3%) due to depreciation. This investment in capital assets includes land, infrastructure, buildings, equipment and vehicles. There were no major capital asset events during the year ended December 31, 2005.

**TABLE III
CAPITAL ASSETS**
(Net of Accumulated Depreciation)
December 31, 2005 and 2004

	2005 Governmental Activities	2005 Business-Type Activities	2004 Governmental Activities	2004 Business-Type Activities
Land	\$ 247,510	\$ 11,000	\$ 247,511	\$ 11,000
Buildings	1,944,753	1,766,223	1,581,849	1,812,562
Equipment	2,101,608	1,365,602	2,258,556	1,402,287
Vehicles	102,318	3,940	88,146	5,910
Infrastructure	7,259,357	2,945,213	7,428,171	3,021,083
Total Capital Assets	\$11,655,546	\$6,091,978	\$11,604,233	\$6,252,842

Additional information on the City of Wahpeton's capital assets can be found in note 9 of this report found on pages 29-30.

DEBT ADMINISTRATION

At year-end the City had total long-term debt for governmental activities totaling \$9,751,904, a net overall increase of \$917,565 (10%) over the prior year. The increase was caused by the issuance of \$2,000,000 in special assessment bonds for the 5-1-97 Flood Phase I project coupled with scheduled debt payments. Business-type activities long-term debt decreased by \$120,022 (4%) going from \$3,059,286 to \$2,939,264. The decrease was due solely to scheduled debt payments.

**TABLE IV
OUTSTANDING LONG-TERM DEBT**
As of December 31, 2005 and 2004

	Total Outstanding Dec. 31, 2005	Due Within One Year	Total Outstanding Dec. 31, 2004	Due Within One Year
Governmental Activities:				
Special Assessment Bonds Payable	\$ 9,404,102	\$ 977,697	\$ 8,367,080	\$ 962,978
Loans Payable	325,751	103,376	424,251	98,500
Leases Payable	22,051	22,051	43,008	20,957
Total Governmental Activities	\$ 9,751,904	\$1,103,124	\$ 8,834,339	\$1,082,435
Business-Type Activities:				
Revenue Bonds Payable	\$ 1,158,264	\$ 102,303	\$ 1,260,286	\$ 217,000
Drawdowns Payable	1,842,214	80,000	1,742,676	-
Total Business-Type Activities	\$ 3,000,478	\$ 182,303	\$ 3,002,962	\$ 217,000
Total Long-Term Debt	\$12,752,382	\$1,285,427	\$11,837,301	\$1,299,435

Note 14 to the financial statements describes the City's long-term debt in greater detail and is found on pages 31-34 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2005 budget did include a mill levy decrease of 1.98 mills going from a total of 124.64 to 122.66. The 2006 budget did include a mill levy decrease of 4.34 mills going from 122.66 to 118.32. The value of a mill for the City for the 2006 budget increased from \$11,169 to \$11,625 per mill.

Total appropriations for operations for 2006 increased by approximately \$739,097 from 2005 levels. The 12% increase is caused primarily by increases in capital construction projects for various city street, water and sewer, storm sewer, and street lighting improvements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances and to demonstrate the City's accountability for the money it receives to the citizens of Wahpeton. If you have any questions about this report or need further information, contact the City of Wahpeton Finance Director, Darcie Huwe, 1900 4th Street North, Wahpeton, ND 58075, phone 701-642-8448, fax 701-642-1428, email darcieh@wahpeton.com, or visit us online at <http://www.wahpeton.com>.

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF NET ASSETS
December 31, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Unit
	Activities	Activities		Library
ASSETS				
Cash, cash equivalents, and investments	\$ 7,637,483	\$ 973,834	\$ 8,611,317	\$ 43,407
Utility billings receivable	-	77,642	77,642	-
Accounts receivable	37,910	-	37,910	-
Due from county	9,439	-	9,439	403
Intergovernmental receivable	205,834	-	205,834	-
Taxes receivable	182,636	-	182,636	5,460
Special assessments receivable	122,958	-	122,958	-
Loans receivable	996,498	385	996,883	-
Inventories	13,793	-	13,793	-
Long-term receivable:				
Uncertified special assessments receivable	4,058,235	-	4,058,235	-
Capital Assets (net of accumulated depreciation):				
Land	247,510	11,000	258,510	3,000
Buildings	1,944,753	1,766,223	3,710,976	-
Equipment	2,101,608	1,365,602	3,467,210	-
Vehicles	102,318	3,940	106,258	-
Infrastructure	7,259,357	2,945,213	10,204,570	-
Total Capital Assets	\$ 11,655,546	\$ 6,091,978	\$ 17,747,524	\$ 3,000
Total Assets	\$ 24,920,332	\$ 7,143,839	\$ 32,064,171	\$ 52,270
LIABILITIES				
Accounts payable	\$ 202,736	\$ -	\$ 202,736	\$ -
Accrued payroll benefits	26,686	-	26,686	-
CDBG loan payable	105,700	-	105,700	-
Accrued interest payable	66,034	22,370	88,404	-
Long-Term Liabilities:				
Portion due or payable within one year:				
Leases payable	22,051	-	22,051	-
Loans payable	103,376	-	103,376	-
Special assessment bonds payable	977,697	-	977,697	-
Revenue drawdowns payable	-	80,000	80,000	-
Revenue bonds payable	-	102,303	102,303	-
Portion due or payable after one year:				
Loans payable	222,375	-	222,375	-
Special assessment bonds payable	8,426,405	-	8,426,405	-
Revenue drawdowns payable	-	1,762,214	1,762,214	-
Revenue bonds payable	-	1,055,961	1,055,961	-
Compensated absences payable	92,395	18,827	111,222	1,154
Total Liabilities	\$ 10,245,455	\$ 3,041,675	\$ 13,287,130	\$ 1,154
NET ASSETS				
Invested in Capital Assets, net of related debt	\$ 1,903,642	\$ 3,171,500	\$ 5,075,142	\$ 3,000
Restricted for:				
Debt service	6,421,744	-	6,421,744	-
Public safety	192,925	-	192,925	-
Public works	373,935	-	373,935	-
Economic development	4,571,534	-	4,571,534	-
Culture and recreation	15,418	-	15,418	48,116
Conservation of natural resources	47,937	-	47,937	-
Capital improvements	302,113	-	302,113	-
Other special purposes	42,772	-	42,772	-
Unrestricted	802,857	930,664	1,733,521	-
Total Net Assets	\$ 14,674,877	\$ 4,102,164	\$ 18,777,041	\$ 51,116

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

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Library
	Expenses	Fees, Fines, and Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total	
Primary government:								
Governmental activities:								
General government	\$ 696,464	\$ 376,649	\$ 148,221	\$ -	\$ (171,594)		\$ (171,594)	
Public safety	1,008,551	169,209	77,451	-	(761,891)		(761,891)	
Public works	826,702	74,974	498,289	-	(253,439)		(253,439)	
Culture and recreation	93,375	-	2,321	-	(91,054)		(91,054)	
Conservation of natural resources	24,635	-	-	-	(24,635)		(24,635)	
Economic development	422,543	-	77,205	-	(345,338)		(345,338)	
Other	8,804	-	-	-	(8,804)		(8,804)	
Capital Outlay	1,182,542	-	-	-	(1,182,542)		(1,182,542)	
Interest & fees on long-term debt	374,045	-	-	37,499	(336,546)		(336,546)	
Total Governmental Activities	\$ 4,637,661	\$ 620,832	\$ 803,487	\$ 37,499	\$ (3,175,843)		\$ (3,175,843)	
Business-type activities:								
Water operations	\$ 1,058,675	\$ 987,142	\$ -	\$ -	\$ -	\$ (71,533)	\$ (71,533)	
Sewer, garbage & other	679,884	611,203	-	-	-	(68,681)	(68,681)	
Total Business-Type Activities	\$ 1,738,559	\$ 1,598,345	\$ -	\$ -	\$ -	\$ (140,214)	\$ (140,214)	
Total Primary Government	\$ 6,376,220	\$ 2,219,177	\$ 803,487	\$ 37,499	\$ (3,175,843)	\$ (140,214)	\$ (3,316,057)	
Component unit:								
Library	\$ 196,616	\$ 2,169	\$ 13,237	\$ -				\$ (181,210)
<u>General Revenues:</u>								
Taxes:								
Property taxes, levied for general purposes					\$ 1,384,547	\$ -	\$ 1,384,547	\$ -
Property taxes, levied for special purposes					3,660	-	3,660	79,595
Special assessment & property taxes, levied for debt service					445,064	-	445,064	-
Sales taxes					1,186,286	-	1,186,286	-
State aid distribution					402,792	-	402,792	-
Unrestricted investment earnings					163,368	-	163,368	-
Miscellaneous					226,685	25	226,710	7,865
Transfers					171,651	(262,681)	(91,030)	91,030
Total General Revenues and Transfers					\$ 3,984,053	\$ (262,656)	\$ 3,721,397	\$ 178,490
Change in Net Assets					\$ 808,210	\$ (402,870)	\$ 405,340	\$ (2,720)
Net Assets -- January 1					\$ 13,367,387	\$ 3,624,274	\$ 16,991,661	\$ 53,836
Prior Period Adjustments					499,280	880,760	1,380,040	-
Net Assets -- January 1, as restated					\$ 13,866,667	\$ 4,505,034	\$ 18,371,701	\$ 53,836
Net Assets -- December 31					\$ 14,674,877	\$ 4,102,164	\$ 18,777,041	\$ 51,116

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

CITY OF WAHPETON
Wahpeton, North Dakota

BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

	Major Funds							
	General Fund	Capital Improvements	Sales Tax Operating	Sales Tax Reserve	Revolving Loan Fund	2-2-02 16th Ave. North	5-1-97 Flood Phase I	1-1-04 Rosewood Phase II
ASSETS								
Cash, cash equivalents, and investments	\$ 277,150	\$ 665,389	\$ 259,525	\$ 1,154,505	\$ 989,958	\$ -	\$ -	\$ -
Accounts receivable	33,490	2,514	-	-	-	-	-	-
Due from county	3,062	-	-	-	-	-	-	-
Intergovernmental receivable	117,838	2,962	34,014	17,007	-	-	-	-
Due from other funds	-	-	749,321	-	-	-	-	-
Loans receivable	-	-	455,235	35,000	496,969	-	-	-
Taxes receivable	40,718	-	-	-	-	-	-	-
Special assessments receivable	-	-	-	-	-	-	-	-
Inventory	-	-	-	-	-	-	-	-
Total Assets	\$ 472,258	\$ 670,865	\$ 1,498,095	\$ 1,206,512	\$ 1,486,927	\$ -	\$ -	\$ -
LIABILITIES AND FUND BALANCES								
Liabilities:								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 160,468	\$ -
Accrued payroll benefits	26,686	-	-	-	-	-	-	-
CDBG loans payable	-	-	-	-	105,700	-	-	-
Due to other funds	-	-	-	-	-	364,169	23,124	362,028
Deferred revenue	40,718	-	-	-	-	-	-	-
Total Liabilities	\$ 67,404	\$ -	\$ -	\$ -	\$ 105,700	\$ 364,169	\$ 183,592	\$ 362,028
Fund Balances:								
Reserved for Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Reserved for Inventories	-	-	-	-	-	-	-	-
Reserved for Loans	-	-	455,235	35,000	391,269	-	-	-
Unreserved, reported in:								
General fund	404,854	-	-	-	-	-	-	-
Special revenue funds	-	670,865	1,042,860	1,171,512	989,958	-	-	-
Capital projects funds	-	-	-	-	-	(364,169)	(183,592)	(362,028)
Total Fund Balances	\$ 404,854	\$ 670,865	\$ 1,498,095	\$ 1,206,512	\$ 1,381,227	\$ (364,169)	\$ (183,592)	\$ (362,028)
Total Liabilities and Fund Balances	\$ 472,258	\$ 670,865	\$ 1,498,095	\$ 1,206,512	\$ 1,486,927	\$ -	\$ -	\$ -

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

Other Governmental Funds	Total Governmental Funds
\$ 4,290,956	\$ 7,637,483
1,906	37,910
6,377	9,439
34,013	205,834
-	749,321
9,294	996,498
141,918	182,636
122,958	122,958
13,793	13,793
<u>\$ 4,621,215</u>	<u>\$ 9,955,872</u>

\$ 42,268	\$ 202,736
-	26,686
-	105,700
-	749,321
264,876	305,594

\$ 307,144 \$ 1,390,037

\$ 2,142,338	\$ 2,142,338
13,793	13,793
9,294	890,798
-	404,854
1,604,646	5,479,841
544,000	(365,789)

\$ 4,314,071 \$ 8,565,835

\$ 4,621,215 \$ 9,955,872

CITY OF WAHPETON
Wahpeton, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
December 31, 2005

Total *Fund Balances* of Governmental Funds \$ 8,565,835

Total *net assets* reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds.

Cost of Capital Assets	\$ 15,193,478	
Less Accumulated Depreciation	(3,537,932)	
Net Capital Assets		11,655,546

Property taxes & special assessments receivable will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and therefore are reported as deferred revenues in the funds.

Taxes Receivable	\$ 182,636	
Special Assessments Receivable	122,958	305,594

Long-term uncertified special assessments receivable are not reported in the funds because they are unavailable to pay the current period's expenditures. 4,058,235

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities-both current and long-term are reported in the statement of net assets. Balances at December 31 are made up of the following liabilities:

Special Assessment Bonds Payable	\$ (9,404,102)	
Leases Payable	(325,751)	
Loans Payable	(22,051)	
Interest Payable	(66,034)	
Compensated Absences Payable	(92,395)	
Total Long-Term Liabilities		<u>(9,910,333)</u>

Total Net Assets - Governmental Activities \$ 14,674,877

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

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

	Major Funds							
	General Fund	Capital Improvements	Sales Tax Operating	Sales Tax Reserve	Revolving Loan Fund	2-2-02 16th Ave. North	5-1-97 Flood Phase I	1-1-04 Rosewood Phase II
Revenues:								
Taxes	\$ 674,373	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Sales taxes	-	-	474,515	237,257	-	-	-	-
Special assessment taxes	-	-	-	-	-	-	-	-
Licenses, permits and fees	376,180	-	-	-	-	-	-	-
Fines	161,850	-	-	-	-	-	-	-
Intergovernmental	895,165	6,955	-	-	-	19,830	136,628	-
Charges for services	7,828	-	-	-	-	-	-	-
Loan receivable receipts								
Interest income	90,952	7,812	29,707	7,202	20,315	-	-	-
Miscellaneous	29,747	9,701	20,655	-	9,735	-	4,800	-
Total Revenues	\$ 2,236,095	\$ 24,468	\$ 524,877	\$ 244,459	\$ 30,050	\$ 19,830	\$ 141,428	\$ -
Expenditures:								
Current:								
General government	\$ 410,164	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	1,130,273	-	-	-	-	-	-	-
Public works / highways & streets	507,847	-	-	-	-	-	-	-
Culture and recreation	82,365	-	-	-	-	-	-	-
Conservation of natural resources	-	-	-	-	-	-	-	-
Economic development	-	-	104,055	3,819	13,682	-	-	-
Other	6,659	-	-	-	-	-	-	-
Debt Service:								
Principal	-	20,957	-	-	-	-	-	-
Interest	-	1,188	-	-	-	-	-	-
Fees	-	-	-	-	-	-	-	-
Capital outlay	-	232,424	-	-	-	39,535	533,825	361,695
Total Expenditures	\$ 2,137,308	\$ 254,569	\$ 104,055	\$ 3,819	\$ 13,682	\$ 39,535	\$ 533,825	\$ 361,695
Excess (Deficiency) of Revenues Over Expenditures	\$ 98,787	\$ (230,101)	\$ 420,822	\$ 240,640	\$ 16,368	\$ (19,705)	\$ (392,397)	\$ (361,695)
Other Financing Sources (Uses):								
Transfers in	\$ 408,765	\$ 214,571	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Bond proceeds	-	-	-	-	-	-	2,000,000	-
Bond discount	-	-	-	-	-	-	(6,400)	-
Transfers out	(310,602)	-	(288,594)	(30,000)	-	-	-	-
Total Other Financing Sources and Uses	\$ 98,163	\$ 214,571	\$ (288,594)	\$ (30,000)	\$ -	\$ -	\$ 1,993,600	\$ -
Net Change in Fund Balances	\$ 196,950	\$ (15,530)	\$ 132,228	\$ 210,640	\$ 16,368	\$ (19,705)	\$ 1,601,203	\$ (361,695)
Fund Balances - January 1	\$ 207,904	\$ 686,395	\$ 1,365,867	\$ 995,872	\$ 1,364,859	\$ (344,464)	\$ (1,784,795)	\$ (333)
Fund Balances - December 31	\$ 404,854	\$ 670,865	\$ 1,498,095	\$ 1,206,512	\$ 1,381,227	\$ (364,169)	\$ (183,592)	\$ (362,028)

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

Other Governmental Funds	Total Governmental Funds
\$ 709,971	\$ 1,384,344
474,514	1,186,286
1,120,477	1,120,477
-	376,180
-	161,850
147,701	1,206,279
74,974	82,802
7,380	163,368
152,047	226,685
<u>\$ 2,687,064</u>	<u>\$ 5,908,271</u>

\$ 270,576	\$ 680,740
243,950	1,374,223
45,539	553,386
11,010	93,375
24,635	24,635
300,671	422,227
2,145	8,804
1,023,979	1,044,936
346,367	347,555
18,684	18,684
15,063	1,182,542
<u>\$ 2,302,619</u>	<u>\$ 5,751,107</u>

\$ 384,445 \$ 157,164

\$ 737,278	\$ 1,360,614
-	2,000,000
-	(6,400)
<u>(559,767)</u>	<u>(1,188,963)</u>

\$ 177,511 \$ 2,165,251

\$ 561,956 \$ 2,322,415

\$ 3,752,115 \$ 6,243,420

\$ 4,314,071 \$ 8,565,835

CITY OF WAHPETON
Wahpton, North Dakota

RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

Net Change in *Fund Balances* - Total Governmental Funds \$ 2,322,415

The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.

Capital Asset Additions	\$ 487,673	
Current Year Depreciation Expense	<u>(436,360)</u>	51,313

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets, while the issuance of debt increases long-term liabilities in the statement of net assets. This is the amount by which debt issuance exceeded the amount of debt repayment.

Repayment of Special Assessment Bonds	\$ 925,478	
Repayment of Leases	20,957	
Repayment of Loans	98,500	
Repayment of Debt by Enterprise Fund	37,500	
Issuance of Special Assessment Bonds	<u>(2,000,000)</u>	(917,565)

Collections on uncertified special assessments is a revenue in the governmental funds, but the collection reduces the long-term receivable in the statement of net assets. This amount consists of collection on long-term receivable. (706,963)

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Net Decrease in Compensated Abscences	\$ 25,003	
Net Increase in Interest Payable	<u>(1,406)</u>	23,597

Some revenues reported on the statement of activities are not reported as revenues in the governmental funds since they do not represent available resources to pay current expenditures. This consists of the increase in taxes and special assessments receivable.

Net Increase in Taxes Receivable	\$ 3,863	
Net Increase in Special Assessments Receivable	<u>31,550</u>	35,413

Change in Net Assets of Governmental Activities \$ 808,210

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

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
December 31, 2005

	Business-type Activities - Enterprise Funds		
	Water Operating	Other Enterprise Funds	Total
ASSETS			
Current assets:			
Cash	\$ 663,737	\$ 310,097	\$ 973,834
Loans receivable	-	385	385
Utility billings receivable	29,613	48,029	77,642
Noncurrent assets:			
Capital assets:			
Land	8,400	2,600	11,000
Buildings	1,704,540	61,683	1,766,223
Equipment	415,901	949,701	1,365,602
Vehicles	3,940	-	3,940
Infrastructure	1,319,318	1,625,895	2,945,213
Total capital assets	<u>\$ 3,452,099</u>	<u>\$ 2,639,879</u>	<u>\$ 6,091,978</u>
Total Assets	<u>\$ 4,145,449</u>	<u>\$ 2,998,390</u>	<u>\$ 7,143,839</u>
LIABILITIES			
Current liabilities:			
Accrued interest payable	\$ 19,198	\$ 3,172	\$ 22,370
Revenue drawdowns payable	80,000	-	80,000
Revenue bonds payable	70,000	32,303	102,303
Noncurrent liabilities:			
Revenue drawdowns payable	1,762,214	-	1,762,214
Revenue bond payable	702,366	353,595	1,055,961
Compensated absences	13,894	4,933	18,827
Total Liabilities	<u>\$ 2,647,672</u>	<u>\$ 394,003</u>	<u>\$ 3,041,675</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 917,519	\$ 2,253,981	\$ 3,171,500
Unrestricted	580,258	350,406	930,664
Total Net Assets	<u>\$ 1,497,777</u>	<u>\$ 2,604,387</u>	<u>\$ 4,102,164</u>

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

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds		
	Water Operating	Other Enterprise Funds	Enterprise Total
Operating Revenues:			
Charges for sales and services:			
Water operations	\$ 987,142	\$ -	\$ 987,142
Sanitary sewer operations	-	358,738	358,738
Waste removal & reduction	-	209,582	209,582
Vector control	-	42,883	42,883
Total Operating Revenues	\$ 987,142	\$ 611,203	\$ 1,598,345
Operating Expenses:			
Salaries and wages	220,798	\$ 95,403	\$ 316,201
Benefits	57,396	30,501	87,897
Advertising	220	4,944	5,164
Heating fuel, gas and oil	5,124	1,967	7,091
Utilities - electricity and telephone	51,440	45,563	97,003
Service contracts	13,122	181,812	194,934
Supplies and postage	12,927	5,814	18,741
Repairs and maintenance	32,083	16,848	48,931
Equipment/Lift Station Maintenance	51,006	15,837	66,843
Equipment	-	10,434	10,434
Insurance	19,110	6,939	26,049
Chemicals	71,893	23,145	95,038
Professional fees and other service charges	30,024	7,173	37,197
Meters/hydrants/wells/lagoons	9,538	7,713	17,251
Schools/Training	1,579	1,046	2,625
Misquito Control/Spraying	-	12,225	12,225
Miscellaneous	19,440	18,606	38,046
Depreciation	127,739	141,334	269,073
Total Operating Expenses	\$ 723,442	\$ 627,304	\$ 1,350,746
Operating Income	\$ 263,700	\$ (16,101)	\$ 247,599
Nonoperating Revenues (Expenses):			
Payments to contractors-construction	(258,944)	\$ -	\$ (258,944)
Capital contribution to governmental funds		(37,500)	(37,500)
Interest expense	(63,368)	(13,092)	(76,460)
Service charges and administration fees	(12,729)	(1,988)	(14,717)
Miscellaneous	(192)	25	(167)
Total Nonoperating Revenue (Expenses)	\$ (335,233)	\$ (52,555)	\$ (387,788)
Income Before Contributions and Transfers	\$ (71,533)	\$ (68,656)	\$ (140,189)
Transfers out	\$ (262,681)	\$ -	\$ (262,681)
Change in Net Assets	\$ (334,214)	\$ (68,656)	\$ (402,870)
Total Net Assets - January 1	\$ 1,083,598	\$ 2,540,676	\$ 3,624,274
Prior Period Adjustments	748,393	132,367	880,760
Net Assets - January 1 - as restated	\$ 1,831,991	\$ 2,673,043	\$ 4,505,034
Net Assets - December 31	\$ 1,497,777	\$ 2,604,387	\$ 4,102,164

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

CITY OF WAHPETON
Wahpeton, North Dakota

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2005

	Business-type Activities - Enterprise Funds		
	Water Fund	Other Enterprise Funds	Total Enterprise Funds
Cash Flows from Operating Activities:			
Receipts from customers	\$ 1,018,448	\$ 611,520	\$ 1,629,968
Payments to suppliers	(314,948)	(359,932)	(674,880)
Payments to employees	(278,194)	(125,904)	(404,098)
Net Cash Provided by Operating Activities	\$ 425,306	\$ 125,684	\$ 550,990
Cash Flows from Noncapital Financing Activities:			
Transfers out	\$ (262,681)	\$ -	\$ (262,681)
Cash Flows from Capital and Related Financing Activities:			
Purchases and construction of capital assets	\$ (59,208)	\$ (49,000)	\$ (108,208)
Proceeds from loan drawdowns	117,538	-	117,538
Payments to contractors	(258,944)	-	(258,944)
Interest received	-	25	25
Principal paid on capital debt	(83,000)	(37,022)	(120,022)
Capital contribution to governmental funds	-	(37,500)	(37,500)
Interest paid on capital debt	(64,457)	(12,921)	(77,378)
Fees paid on capital debt	(12,921)	(1,988)	(14,909)
Net Cash (Used) by Capital and Related Financing Activities	\$ (360,992)	\$ (138,406)	\$ (499,398)
Net Increase in Cash and Cash Equivalents	\$ (198,367)	\$ (12,722)	\$ (211,089)
Cash and Cash Equivalents, January 1	\$ 862,104	\$ 322,819	\$ 1,184,923
Cash and Cash Equivalents, December 31	\$ 663,737	\$ 310,097	\$ 973,834
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 263,700	\$ (16,101)	\$ 247,599
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	127,739	141,334	269,073
Change in assets and liabilities:			
Utility billings receivable	31,306	317	31,623
Compensated absences	2,561	134	2,695
Net Cash Provided (Used) by Operating Activities	\$ 425,306	\$ 125,684	\$ 550,990

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

CITY OF WAHPETON
Wahpeton, North Dakota

NOTES TO THE FINANCIAL STATEMENTS
December 31, 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Wahpeton, North Dakota operates under a Home Rule Charter adopted in 1988. The financial statements of the city have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

The accompanying financial statements present the activities of the City of Wahpeton. The city has considered all potential component units for which the city is financially accountable and other organizations for which the nature and significance of their relationships with the city are such that exclusion would cause the city's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the City of Wahpeton to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the City of Wahpeton.

Based on these criteria, the component unit discussed below is included within the city's reporting entity because of the significance of its operational or financial relationships with the city.

COMPONENT UNIT

In conformity with accounting principles generally accepted in the United States of America, the financial statements of component unit have been included in the financial reporting entity as a discretely presented component unit.

Discretely Presented Component Unit - The component unit column in the government-wide financial statements include the financial data of the city's component unit. This unit is reported in a separate column to emphasize that it is legally separate from the city.

Leach Public Library - The City's governing board appoints a voting majority of the members of the Library's Board. The city has the authority to approve or modify the Library's operational and capital budgets. The city also must approve the tax levy established by the Library. Complete financial statements for the library can be obtained at Leach Public Library, 417 Second Avenue North, Wahpeton, ND 58075. The library is reported as a governmental fund type.

Complete financial statements for the component unit may be obtained by contacting the city finance director.

RELATED ORGANIZATIONS

The city is accountable for the following legally separate entity because it appoints a voting majority to its governing board. Although, the city is not financially accountable for this entity, as defined by GASB Statement 14, the city did provide operating grants to it as follows:

Airport	\$49,262
---------	----------

The City of Wahpeton is accountable for the Bois de Sioux Golf Club, a legally separate entity because it appoints a voting majority to its governing board. The city also owns the land used by the golf club. The city cannot and does not control the operations of the club.

B. Basis of Presentation

Government-wide statements: The statement of net assets and the statement of activities display information about the primary government, the City of Wahpeton and its component unit. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or 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 and interest, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the city's funds. Separate statements for each fund category are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The city reports the following major governmental funds:

General Fund. This is the city's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Sales Tax Operating Fund. This fund accounts for the use of city sales tax for various purposes within the city, primarily for economic development operations, economic development grants and loans.

Sales Tax Reserve Fund. This fund accounts for the use of the city sales tax set aside for recreation purposes.

Revolving Loan Fund. This fund accounts for the use of the money set aside for various types of economic development loans.

Capital Improvements Fund. This fund is used to purchase equipment for the police, fire, street, public works and city hall departments, as well as city building projects. The fund also accounts for other miscellaneous improvement projects within the city.

2-2-02 16th Ave. N. Fund. This fund is used to account for financial resources to be used for the improvement and construction of this project.

5-1-97 Flood Phase I Fund. This fund is used to account for financial resources to be used for construction of the flood protection project related to the 1997 flood.

1-1-04 Rosewood Phase II Fund. This fund is used to account for financial resources to be used for the improvement and construction of this project.

The City reports the following major enterprise "fund":

Water Operating Fund. This fund accounts for the activities of the Water Department. This department operates the water distribution system to citizens in the City of Wahpeton.

C. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Special assessments, intergovernmental revenues, charges for services and investment income are considered susceptible to accrual. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, and then use general revenues.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the city's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash, Cash Equivalents and Investments

Cash and cash equivalents include amounts in demand deposits, money market accounts and highly liquid investments with an original maturity of three months or less. Deposits must either be deposited with the Bank of North Dakota or in other financial institution situated and doing business within the state. Deposits, other than with the Bank of North Dakota, must be fully insured or secured with pledges of securities equal to 110% of the uninsured balance.

State statutes authorize the city to invest in:

- (1) Bonds, treasury bills and notes, or other securities that are a direct obligation of, or an obligation insured or guaranteed by, the treasury of the United States, or its agencies, instrumentalities, or organizations created by an act of Congress.
- (2) Securities sold under agreements to repurchase written by a financial institution in which the underlying securities for agreement to repurchase are of the type listed above.
- (3) Certificates of Deposit full insured by the federal deposit insurance corporation or state.
- (4) Obligations of the state.

Investments consist of certificates of deposit and are stated at cost.

E. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method.

F. Capital Assets

Capital assets include property, plant and equipment. Capital Assets are reported in the governmental activities and business-type activities columns of the government-wide financial statements. Additionally, capital assets and capital asset activity are reported in the applicable proprietary statements of net assets and revenues, expenses and changes in proprietary net assets. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 or more with useful lives of greater than one fiscal year. Such assets are recorded at cost or estimated historical cost if purchased or constructed. General infrastructure assets are reported for those that were acquired or constructed after July 1, 1980 and are reported at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as infrastructure projects are constructed. Interest incurred during the construction phase of capital assets of is not capitalized in the governmental funds.

Capital assets are depreciated using the straight line method of the following estimated useful lives:

Governmental and Business-type Activities:	Years
Buildings	50
Equipment	15
Office Equipment	3
Vehicles	5
Infrastructure	10 - 25

G. Compensated Absences

Full-time and permanent part-time employees are granted vacation benefits at a specified rate per calendar month of full-time service. Other part-time, hourly, temporary and seasonal employees are excluded from earning vacation. Beginning with a new policy approved November 15, 2004, full-time employees earn sick leave benefits at the rate of one working day per month. Part-time and hourly employees do not earn sick leave benefits. Permanent part-time employees earn sick leave benefits at the rate of ½ working day per month.

CITY OF WAHPETON

Notes to the Financial Statements - Continued

Four separate computations and credit will be utilized in determining the vacation hours credited each pay period based on longevity.

Police Officers and Sergeants:

Years of Service	Maximum Hours Credited
Introductory Period	20
Six Month Anniversary	40
1st Day of 7th month - 1 year	170
1st day of 2nd year - 3rd year	225
1st day of 4th year - 5th year	280
1st day of 6th year - 19th year	335
1st day of 20th year and after	395

Water Plant Personnel:

Years of Service	Maximum Hours Credited
Introductory Period	20
Six Month Anniversary	40
1st Day of 7th month - 1 year	150
1st day of 2nd year - 3rd year	200
1st day of 4th year - 5th year	250
1st day of 6th year - 19th year	300
1st day of 20th year and after	350

Other Full-Time City Employees:

Years of Service	Maximum Hours Credited
Introductory Period	20
Six Month Anniversary	40
1st Day of 7th month - 1 year	50
1st day of 2nd year - 3rd year	100
1st day of 4th year - 5th year	150
1st day of 6th year - 19th year	200
1st day of 20th year and after	250

Permanent Part-Time City Employees:

Years of Service	Maximum Hours Credited
Introductory Period	10
Six Month Anniversary	20
1st Day of 7th month - 1 year	50
1st day of 2nd year - 5th year	100
1st day of 6th year and after	150

It is the library's policy to follow the other full-time City employee policy regarding compensated absences.

H. Fund Balances

Reserves represent those portions of fund balances not appropriate for expenditure or legally segregated for a specific future use.

CITY OF WAHPETON

Notes to the Financial Statements - Continued

NOTE 2: LEGAL COMPLIANCE - BUDGETS

Budget Amendments:

The city's governing board approved the following amendments to the city budget:

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Major Funds:			
General Fund	\$2,299,219	\$ 156,927	\$2,456,146
Capital Improvements	282,175	(27,606)	254,569
Sales Tax Operating	444,400	(51,751)	392,649
Sales Tax Reserve	30,000	3,819	33,819
Revolving Loan Fund	-	13,682	13,682
5-1-97 Flood Phase II	400,000	(26,643)	373,357
2-2-02 16th Avenue North	-	39,535	39,535
Water	1,099,775	(24,557)	1,075,217
Nonmajor Funds:			
Sewer	417,428	(34,219)	383,209
Waste Removal	201,202	(10,514)	190,688
Waste Reduction	7,500	9,183	16,683
Vector Control	42,264	(8,577)	33,687
Armory	30,000	(2,120)	27,880
Library	199,469	(3,253)	196,216
Advertising	11,057	4,426	15,483
Airport	44,100	5,162	49,262
Planning Commission	11,025	(6,095)	4,930
Social Security Levy	82,688	(4,523)	78,165
Retirement Levy	55,125	(9,333)	45,792
Health Insurance Reserve	-	994	994
Fire Dept. Levy Fund	99,225	53,303	152,528
Real Estate Levy	22,227	6,566	28,793
Special Street Maintenance	19,500	9,401	28,901
Snow/Flood Emergency	11,058	4,298	15,356
Levee MTC.	-	1,269	1,269
Share of Specials	176,363	(21,611)	154,752
Ambulance	26,058	(1,572)	24,486
Codes Admin. Fund	42,125	26,545	68,670
Economic Development	167,972	(9,506)	158,466
Professional Development	-	8,665	8,665
Miscellaneous Fund	-	8,795	8,795
Special Assessment Deficiency	-	27,186	27,186
Job Development Levy	22,050	(3,092)	18,958
Lodging Tax	39,450	3,923	43,373
Sales Tax Mini-Match Res.	20,000	10,112	30,112
Bulk Fuel, Gasoline, Oil	-	23,289	23,289
Local Law Enforcement Block Grant	-	3,808	3,808
PD Canine Unit	-	6,602	6,602
Clubhouse Maintenance	-	11,010	11,010
R/I 10405 Sinking Fund	-	14,951	14,951
R/I 9295 Sinking Fund Pro Gold	134,938	(2,837)	132,101

CONTINUED ON NEXT PAGE....

CITY OF WAHPETON

Notes to the Financial Statements - Continued

Budget Amendments: - CONTINUED

Fund	EXPENDITURES		
	Original Budget	Amendment	Amended Budget
Nonmajor Funds:			
Pro Gold Reserve Fund	\$ -	\$104,000	\$104,000
1/2 Sales Tax Fund	176,604	197,691	374,295
6-1-02 Imation	-	9,695	9,695
1-2-02 Water Tower	-	5,005	5,005
1-1-04 Rosewood Phase II	-	361,696	361,696
4-1-04 Rosewood Street Lighting	-	5,368	5,368
1-2-02 Water Tower Maint.	-	253,938	253,938

NOTE 3: DEPOSITS

At December 31, 2005, the deposits of the city were entirely covered by federal depository insurance or by collateral held by the custodial bank in the city's name. For the purpose of risk analysis, certificates of deposit are considered deposits.

State statutes require the market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. During the year ended December 31, 2005, deposits were adequately protected by insurance or collateral in compliance with state law. Additional information regarding deposits is included in Note 1D.

NOTE 4: ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts on open account from individuals for goods and services furnished by the city. No allowance has been established for estimated uncollectible accounts receivable.

NOTE 5: UTILITY BILLINGS RECEIVABLE

Utility billings receivable consists of amounts due from citizens on open account for water, sewer and garbage services furnished by the city. No allowance has been established for estimated uncollectible utility billings receivable.

NOTE 6: TAXES RECEIVABLE

The taxes receivable represents the past four years of delinquent uncollected taxes. No allowance has been established for uncollectible taxes receivable.

The county treasurer acts as an agent to collect property taxes levied in the county for all taxing authorities. Any material collections are distributed after the end of the month.

Property taxes are levied as of January 1. The property taxes attach as an enforceable lien on property on January 1. The tax levy may be paid in two installments: the first installment includes one-half of the real estate taxes and all the special assessments; the second installment is the balance of the real estate taxes. The first installment is due by March 1 and the second installment is due by October 15. A 5% discount is allowed if all taxes and special assessments are paid by February 15. After the due dates, the bill becomes delinquent and penalties are assessed.

Most property owners choose to pay property taxes and special assessments in a single payment on or before February 15 and receive the 5% discount on the property taxes.

CITY OF WAHPETON

Notes to the Financial Statements - Continued

NOTE 7: SPECIAL ASSESSMENTS RECEIVABLE

Special assessments receivable consists of uncollected special assessments due the City at December 31 and uncertified special assessments, which represents a long-term receivable in the financial statements. No allowance has been established for uncollectible special assessments.

NOTE 8: LOANS RECEIVABLE

Loans receivable consist of loans for the promotion of economic development within the city through various Wahpeton sales tax and loan funds. The loans receivable activity for the year ended December 31, 2005 is as follows:

City Fund:	Beg. Balance	Additions	Deductions	Ending Bal.
Real Estate Levy Fund	\$ 7,266	\$ -	\$ 2,241	\$ 5,025
Sales Tax Operating Fund	503,668	409	48,842	455,235
Sanitary Sewer Operating Fund	-	385	-	385
Sales Tax Reserve Fund	35,000	-	-	35,000
Sales Tax H.E.L.P. Housing	5,777	-	1,508	4,269
Revolving Loan Fund	539,888	72,547	115,466	496,969
Total Loans Receivable	\$1,091,599	\$73,341	\$168,057	\$996,883

NOTE 9: CAPITAL ASSETS

The following is a summary of changes in capital assets for the year ended December 31, 2005:

	Balance 1-1-05	Increases	Decreases	Balance 12-31-05
Governmental Activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 247,510	\$ -	\$ -	\$ 247,510
<i>Capital assets being depreciated:</i>				
Buildings	\$ 2,462,623	\$400,364	\$ -	\$ 2,862,987
Equipment	3,247,871	40,622	-	3,288,493
Vehicles	307,108	46,687	-	353,795
Infrastructure	8,440,692	-	-	8,440,692
Total Capital Assets, Being Depreciated	\$14,458,294	\$487,673	\$ -	\$14,945,967
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 880,774	\$ 37,460	\$ -	\$ 918,234
Equipment	989,315	197,570	-	1,186,885
Vehicles	218,961	32,516	-	251,477
Infrastructure	1,012,521	168,814	-	1,181,335
Total Accumulated Depreciation	\$ 3,101,571	\$436,360	\$ -	\$ 3,537,931
Total Capital Assets Being Depreciated, Net	\$11,356,723	\$ 51,313	\$ -	\$11,408,036
Governmental Activities - Capital Assets, Net	\$11,604,233	\$ 51,313	\$ -	\$11,655,546

Depreciation expense was charged to functions/programs of the city as follows:

Governmental Activities:	Amounts
General Government	\$ 57,712
Public Safety	77,653
Public Works	300,995
Total Depreciation Expense - Governmental Activities	\$436,360

CITY OF WAHPETON

Notes to the Financial Statements - Continued

Business-Type Activities:	Balance 1-1-05	Increases	Decreases	Balance 12-31-05
<i>Capital assets not being depreciated:</i>				
Land	\$ 11,000	\$ -	\$ -	\$ 11,000
<i>Capital assets being depreciated:</i>				
Buildings	\$2,316,946	\$ -	\$ -	\$2,316,946
Equipment	3,739,714	108,209	-	3,847,923
Vehicles	18,350	-	-	18,350
Infrastructure	3,643,493	-	-	3,643,493
Total Capital Assets, Being Depreciated	\$9,718,503	\$ 108,209	\$ -	\$9,826,712
<i>Less Accumulated Depreciation for:</i>				
Buildings	\$ 504,384	\$ 46,339	\$ -	\$ 550,723
Equipment	2,337,427	144,894	-	2,482,321
Vehicles	12,440	1,970	-	14,410
Infrastructure	622,410	75,870	-	698,280
Total Accumulated Depreciation	\$3,476,661	\$ 269,073	\$ -	\$3,745,734
Total Capital Assets Being Depreciated, Net	\$6,241,842	\$(160,864)	\$ -	\$6,080,978
Business-Type Activities - Capital Assets, Net	\$6,252,842	\$(160,864)	\$ -	\$6,091,978

NOTE 10: INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances as of December 31, 2005, is as follows:

INTERFUND RECEIVABLES/PAYABLES:

Receivable Fund	Payable Fund	Amount
Sales Tax Operating	1-1-04 Rosewood Phase II	\$362,028
Sales Tax Operating	5-1-97 Flood Phase I	23,124
Sales Tax Operating	2-2-02 16th Ave. North	364,169
Total		\$749,321

NOTE 11: TRANSFERS

The following is reconciliation between transfers in and transfers out as reported in the basic financial statements for the year ended December 31, 2005:

Fund	Transfers In	Transfers Out
Major Funds:		
General Fund	\$ 408,765	\$ 310,602
Sales Tax Operating Fund	-	288,594
Sales Tax Reserve	-	30,000
Capital Improvements	214,572	-
Water Enterprise Funds	-	262,681
Nonmajor Funds:		
Special Revenue Funds	254,245	163,001
Debt Service Funds	483,033	199,269
Capital Projects Funds	-	197,497
Nonmajor Enterprise Fund:		
Component Unit - Library	91,030	-
Total Transfers	\$1,451,644	\$1,451,644

CITY OF WAHPETON

Notes to the Financial Statements - Continued

Transfers are used to 1) move unrestricted general fund revenues to finance various programs, 2) move sales tax revenues to fund programs and projects and 3) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due.

NOTE 12: CAPITAL LEASES

The government has entered into a lease agreement as lessee for financing the acquisition of equipment. These lease agreements qualify as capital leases for accounting purposes.

The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2005, were as follows:

Year Ending December 31	Amount
2006	\$22,145
Less: Amount Representing Interest	(94)
Present Value of Minimum Lease Payments	\$22,051

NOTE 13: DEFERRED REVENUE

Deferred revenue in the governmental fund modified accrual basis financial statements as of December 31, 2005 for the city consisted of the following:

Delinquent property taxes receivable (general fund)	\$ 40,718
Delinquent special assessments receivable (debt service funds)	122,958
Delinquent property taxes receivable (nonmajor funds)	141,918
Total Deferred Revenue	\$305,594

NOTE 14: LONG-TERM LIABILITIES

During the year ended December 31, 2005, the following changes occurred in long-term liabilities of the city:

PRIMARY GOVERNMENT

Governmental Activities:

Governmental Activities:	Balance 1-1-05	Increases	Decreases	Balance 12-31-05	Due Within One Year
Special Assessment Bonds	\$8,430,000	\$2,000,000	\$1,025,898	\$9,404,102	\$ 977,697
Loans Payable	424,251	-	98,500	325,751	103,376
Leases Payable	43,008	-	20,957	22,051	22,051
Compensated Absences *	117,398	-	25,003	92,395	-
Total Governmental Activities	\$9,014,657	\$2,000,000	\$1,170,358	\$9,844,299	\$1,103,124

Business-Type Activities (Proprietary Funds):

Business-Type Activities:	Balance 1-1-05	Increases	Decreases	Balance 12-31-05	Due Within One Year
Revenue Bonds/Drawdowns	\$3,002,962	\$117,538	\$120,022	\$3,000,478	\$182,303
Compensated Absences *	16,132	2,695	-	18,827	-
Total Governmental Activities	\$3,019,094	\$120,233	\$120,022	\$3,019,305	\$182,303

* - The change in compensated absences is shown as a net change because changes in salary prohibit exact calculations of additions and reductions at a reasonable cost.

CITY OF WAHPETON**Notes to the Financial Statements - Continued**

Special Assessment Debt: The city has issued special assessment bonds to provide funds for the cost of various improvement districts within the city. Special assessments on benefited property are used to pay for the cost of these improvements. The city is required to levy a special assessment deficiency tax, in the event that collections of special assessments and other revenues are insufficient for the repayment of the bonds.

Long-term debt of the governmental activities at December 31, 2005, is comprised of the following individual issues:

Special Assessment Bonds:

\$550,000 2003B Refunding Improvement Bonds #10003, due in annual installments of \$30,000 to \$110,000 through 2009; interest at 1.35% to 2.4%.	\$ 219,102
\$2,375,000 1999B Refunding Improvement Serial Bonds #9698, due in annual installments of \$155,000 to \$160,000 through 2014, interest at 4.25% to 4.95%.	1,415,000
\$810,000 Refunding Improvement Bonds #9800, due in an annual installment of \$10,000 to \$55,000 through 2016, with interest at 4.8% to 5.35%.	540,000
\$2,050,000 2003D Refunding Improvement Bonds #10303, due in annual installments of \$135,000 to \$150,000 through 2019, with interest at 3.0% to 4.0%.	1,950,000
\$1,760,000 2003 Refunding Improvement Bonds #9902, due in annual installments of \$120,000 to \$125,000 through 2017, with interest at 2.4% to 4.25%.	1,450,000
\$520,000 1999A Refunding Improvement Bonds, due in annual installments of \$25,000 to \$75,000 through 2007, with interest at 4.5% to 4.6%.	100,000
\$2,000,000 2005 Refunding Improvement Bonds, due in annual installments of \$110,000 to \$170,000 through 2020, with interest at 3.75% to 4.0%.	2,000,000
\$1,180,000 1995 Refunding Improvement Bonds #9395, due in annual installments of \$70,000 to \$75,000 through 2011, with interest at 5.0% to 5.5%.	435,000
\$1,600,000 Refunding Improvement Bonds of 1997, due in annual installments of \$70,000 to \$125,000 through 2017, with interest at 4.85% to 5.125%.	1,135,000
\$1,070,000 1995 Refunding Improvement Bonds #9495, due in annual installments of \$50,000 to \$55,000 through 2008, with interest at 5.0% to 5.2%.	<u>160,000</u>
Total Special Assessment Bonds	<u>\$ 9,404,102</u>
 Loans Payable:	
\$424,252 Loan from Norwest Investment Services, due in annual installments of \$98,501 to \$113,881 through 2008, with interest at 4.95%.	<u>\$ 325,751</u>
Total Governmental Fund Long-Term Debt	<u>\$ 9,729,853</u>

CITY OF WAHPETON
Notes to the Financial Statements - Continued

Governmental activities debt service requirements to maturity (excluding compensated absences and leases payable) at December 31, 2005 are as follows:

GOVERNMENTAL ACTIVITIES						
Year Ending December 31	Special Assessment Bonds Payable		Loans Payable		Total Debt Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 972,697	\$ 357,553	\$103,376	\$16,125	\$1,076,073	\$ 373,678
2007	884,776	332,219	108,493	11,007	993,269	343,226
2008	846,349	298,467	113,864	5,637	960,212	304,104
2009	760,281	266,498	17	1	760,298	266,499
2010	740,000	235,964	-	-	740,000	235,964
2011 - 2015	3,385,000	725,424	-	-	3,385,000	725,424
2016 - 2020	1,815,000	146,752	-	-	1,815,000	146,752
Totals	\$9,404,102	\$2,362,877	\$325,751	\$32,770	\$9,729,853	\$2,395,647

Proprietary Funds – Revenue Bonds:

The city issues bonds where the city pledges income derived from the operations to pay debt service. The proceeds of the bonds are used to finance various capital improvement projects. The Refunding Revenue Bonds are special obligations of the city payable solely from, and secured as to payment of principle and interest by a pledge of, the receipts from revenues of the water, sewer and garbage utility systems.

The general taxing power of the city is not pledged to the payment of these bonds either as to principal or interest. The bonds do not constitute a general obligation of the city, nor will they exceed the debt limit of the city within the meaning of any constitutional, statutory or charter provision, limitation or restriction.

Enterprise Revenue Bonds – Set Payment Schedules:

\$520,000 of 1999 Revenue Bonds with the North Dakota Municipal Bond Bank State Revolving Fund; due in annual installments of \$15,000 to \$20,000 through 2018, with interest at 2.5%.	\$ 250,000
\$1,062,366 of 1993 Revenue Bonds, due in annual installments of \$55,000 to \$62,366 through 2014, with interest at 2.5%.	522,366
\$1,890,000 of 2003 Revenue Bonds with the North Dakota Municipal Bond Bank State Revolving Fund Program. Due in annual installments of \$80,000 to \$118,000 through 2022, with interest at 2.5%.	1,842,214
\$374,065 of 2003 Revenue Bonds with the North Dakota Municipal Bond Bank State Revolving Fund Program. Due in annual installments of \$15,000 to \$25,000 through 2023, with interest at 2.5%.	345,000
\$550,000 of 2003 Refunding Improvement Bonds Series B, due in annual installments of \$30,000 to \$110,000 through 2009, with interest at 1.35% to 2.4%.	<u>40,898</u>
Total Enterprise Revenue Bonds	<u>\$3,000,478</u>

CITY OF WAHPETON

Notes to the Financial Statements - Continued

Revenue bond debt service requirements with set payment schedules to maturity are as follows:

BUSINESS-TYPE ACTIVITIES		
Year Ending December 31	Revenue Bonds Payable	
	Principal	Interest
2006	\$ 182,303	\$ 70,080
2007	177,225	65,746
2008	181,652	61,388
2009	180,719	56,916
2010	185,366	52,459
2011 - 2015	913,000	191,287
2016 - 2020	697,000	89,325
2021- 2025	422,000	12,400
TOTALS	\$2,939,264	\$599,601

NOTE 15: CDBG LOAN PAYABLE

The city has obtained Community Development Block Grant (CDBG) Loans to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The grants are secured by property financed and are payable solely from the payments received on the underlying mortgage grants. Upon repayment of the grants, ownership of the acquired facilities transfers to the private-sector entity served by the grant.

As of December 31, 2005, there were three CDBG loans outstanding, with an aggregate principal amount payable of \$105,200.

NOTE 16: CONDUIT DEBT**Industrial Development Revenue Bonds:**

From time to time, the city has issued Industrial Revenue Bonds to provide financial assistance to private sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the city, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2005, there was one series of Industrial Revenue Bonds outstanding, with an aggregate principal amount payable of \$1,836,000.

NOTE 17: RISK MANAGEMENT

The City of Wahpeton 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.

In 1986, state agencies and political subdivisions of the State of North Dakota joined together to form the North Dakota Insurance Reserve Fund (NDRF), a public entity risk pool currently operating as a common risk management and insurance program for the state and over 2,000 political subdivisions. The City pays an annual premium to NDRF for its general liability, auto, and inland marine insurance coverage. The coverage by NDRF is limited to losses of two million dollars per occurrence for general liability, one million dollars per occurrence for automobile coverage and up to \$2,056,643 for inland marine coverage.

The City of Wahpeton also participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund. The city pays an annual premium to the Fire and Tornado Fund to cover property damage to buildings and personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a 12-month period. The State Bonding Fund currently provides political subdivisions with blanket fidelity bond coverage in the amount of \$1,500,000 for the city employees. The State Bonding Fund does not currently charge any premium for this coverage.

The city has workers compensation with the North Dakota Workforce Safety and Insurance. The city provides employees with health insurance. Contributions to the insurance plan are based on years of employment with the city.

Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 18: PENSION PLAN

Defined Contribution Plan

The City of Wahpeton participates in an IRS 457 deferred compensation plan. Each employee has the option to join and any participant may withdraw from the retirement 457 plan anytime upon 30 days notice in writing. Each employee who has completed at least 6 months of employment is eligible to contribute 4% of his or her base salary to the retirement plan. Once an employee has reached 120 months (10 years) of service, he or she may elect to increase the individual contribution to 5% of base pay. The City matches from 1% to 5% of employee base salaries depending upon months of service.

The city's required contributions for the years ended December 31, 2005, 2004 and 2003, were \$127,997, \$85,672 and \$88,185, respectively.

NOTE 19: FUND DEFICITS

The following funds were in a deficit position at December 31, 2005:

	Balance
<u>Capital Projects Funds:</u>	
5-2-97 – Flood Phase I	\$ (183,592)
2-2-02 - 16 th Avenue North	(364,169)
Center St. South Refab	(58)
1-1-04 Rosewood Project	(362,028)
4-1-04 Rosewood Lighting	(5,737)
<u>Enterprise Fund:</u>	
1-2-02 – 11 th St S Water Tower Refab	(253,938)

The city will relieve the deficits in the construction funds with future special assessment collections. The remaining fund deficits will be relieved with future tax collections, transfers and/or fees collected.

CITY OF WAHPETON

Notes to the Financial Statements - Continued

NOTE 20: PRIOR PERIOD ADJUSTMENTS

The City of Wahpeton improperly reported capital assets of the governmental activities and business-type activities in the prior year. Reconciliation of the beginning net assets equity to the proper amounts for the governmental and business-type funds consists of the following adjustments.

Governmental Activities:	Amounts
Net Assets as previously reported	\$13,367,387
Adjustments to restate the December 31, 2004 beginning net assets equity::	
Capital Assets Errors	436,360
Special Assessment Bonds Payable Reclassification	62,920
Net Assets - January 1 as restated	\$13,866,667

Business-Type Activities:	Water	Other
Net Assets as previously reported	\$1,083,598	\$2,540,676
Adjustments to restate the December 31, 2004 beginning net assets equity::		
Capital Assets Errors	127,738	141,335
Special Assessment Bonds Payable Reclassification		(62,920)
Debt Removed (improperly reported prior report)	564,331	53,952
Net Assets - January 1 as restated	\$1,775,667	\$2,673,043

NOTE 21: CONSTRUCTION COMMITMENTS

The City of Wahpeton had the following open construction contracts on various projects with balances owing at December 31, 2005:

Project	Contractor	Contract Amount	Total Completed	Retainage	Remaining Balance
Rosewood II	Kvamsdale Constr.	\$ 645,952	\$314,378	\$31,438	\$363,012
Rosewood II	Interstate Engineering	43,279	38,141	-	5,138
11 th St. Tower	Champion Coatings, Inc.	279,550	235,771	-	43,779
11 th St. Tower	Interstate Engineering	31,706	17,327	-	14,379
	Total	\$1,000,487	\$605,617	\$31,438	\$426,308

CITY OF WAHPETON
Wahpeton, North Dakota

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Taxes	\$ 614,103	\$ 612,551	\$ 674,373	\$ 61,822
Licenses, permits and fees	367,800	376,702	376,180	(522)
Intergovernmental	647,736	827,199	895,165	67,966
Charges for services	3,150	3,085	7,828	4,743
Fines	143,200	182,914	161,850	(21,064)
Interest income	58,000	91,255	90,952	(303)
Miscellaneous	23,900	29,631	29,747	116
Total Revenues	\$ 1,857,889	\$ 2,123,337	\$ 2,236,095	\$ 112,758
<u>Expenditures:</u>				
Current:				
General government	\$ 426,386	\$ 410,164	\$ 410,164	\$ -
Public safety	1,136,874	1,130,273	1,130,273	-
Public works	530,680	507,847	507,847	-
Culture and recreation	75,245	82,365	82,365	-
Other	15,000	6,659	6,659	-
Total Expenditures	\$ 2,184,185	\$ 2,137,308	\$ 2,137,308	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ (326,296)	\$ (13,971)	\$ 98,787	\$ 112,758
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 441,330	\$ 408,765	\$ 408,765	\$ -
Transfers out	(115,034)	(318,838)	(310,602)	8,236
Total Other Financing Sources and Uses	\$ 326,296	\$ 89,927	\$ 98,163	\$ 8,236
Net Change in Fund Balances	\$ -	\$ 16,637	\$ 196,950	\$ 120,994
Fund Balance - January 1	\$ 207,904	\$ 207,904	\$ 207,904	\$ -
Fund Balance - December 31	\$ 207,904	\$ 224,541	\$ 404,854	\$ 120,994

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

CITY OF WAHPETON
Wahpeton, North Dakota

BUDGETARY COMPARISON SCHEDULE
CAPITAL IMPROVEMENTS FUND
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Intergovernmental	\$ -	\$ 3,993	\$ 6,955	\$ 2,962
Interest income	11,827	8,152	7,812	(340)
Miscellaneous income	-	7,187	9,701	2,514
Total Revenues	\$ 11,827	\$ 19,332	\$ 24,468	\$ 5,136
<u>Expenditures:</u>				
Current:				
Capital Outlay	\$ 260,025	\$ 232,424	\$ 232,424	\$ -
Debt service:				
Principal	20,011	20,957	20,957	-
Interest	2,139	1,188	1,188	-
Total Expenditures	\$ 282,175	\$ 254,569	\$ 254,569	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ (270,348)	\$ (235,237)	\$ (230,101)	\$ 5,136
<u>Other Financing Sources (Uses):</u>				
Transfers in	\$ 96,504	\$ 214,571	\$ 214,571	\$ -
Net Change in Fund Balances	\$ (173,844)	\$ (20,666)	\$ (15,530)	\$ 5,136
Fund Balance - January 1	\$ 686,395	\$ 686,395	\$ 686,395	\$ -
Fund Balance - December 31	\$ 512,551	\$ 665,729	\$ 670,865	\$ 5,136

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

CITY OF WAHPETON
Wahpeton, North Dakota

BUDGETARY COMPARISON SCHEDULE
SALES TAX OPERATING FUND
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Sales Taxes	\$ 650,000	\$ 440,501	\$ 474,515	\$ 34,014
Interest income	2,600	29,707	29,707	-
Miscellaneous	6,890	21,009	20,655	(354)
Total Revenues	\$ 659,490	\$ 491,217	\$ 524,877	\$ 33,660
<u>Expenditures:</u>				
Current:				
Economic Development	\$ 177,900	\$ 104,055	\$ 104,055	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 481,590	\$ 387,162	\$ 420,822	\$ 33,660
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ (266,500)	\$ (288,594)	\$ (288,594)	\$ -
Net Change in Fund Balances	\$ 215,090	\$ 98,568	\$ 132,228	\$ 33,660
Fund Balance - January 1	\$ 1,365,867	\$ 1,365,867	\$ 1,365,867	\$ -
Fund Balance - December 31	\$ 1,580,957	\$ 1,464,435	\$ 1,498,095	\$ 33,660

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

CITY OF WAHPETON
Wahpeton, North Dakota

BUDGETARY COMPARISON SCHEDULE
SALES TAX RESERVE FUND
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Sales taxes	\$ -	\$ 220,250	\$ 237,257	\$ 17,007
Interest income	20,000	7,202	7,202	-
Total Revenues	\$ 20,000	\$ 227,452	\$ 244,459	\$ 17,007
<u>Expenditures:</u>				
Current:				
Economic Development	\$ -	\$ 3,819	\$ 3,819	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 20,000	\$ 223,633	\$ 240,640	\$ 17,007
<u>Other Financing Sources (Uses):</u>				
Transfers out	\$ -	\$ (30,000)	\$ (30,000)	\$ -
Net Change in Fund Balances	\$ 20,000	\$ 193,633	\$ 210,640	\$ 17,007
Fund Balance - January 1	\$ 995,872	\$ 995,872	\$ 995,872	\$ -
Fund Balance - December 31	\$ 1,015,872	\$ 1,189,505	\$ 1,206,512	\$ 17,007

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

CITY OF WAHPETON
Wahpeton, North Dakota

BUDGETARY COMPARISON SCHEDULE
REVOLVING LOAN FUND
For the Year Ended December 31, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget
<u>Revenues:</u>				
Interest income	\$ 24,000	\$ 20,315	\$ 20,315	\$ -
Miscellaneous	-	8,956	9,735	779
Total Revenues	\$ 24,000	\$ 29,271	\$ 30,050	\$ 779
<u>Expenditures:</u>				
Current:				
Economic Development	\$ -	\$ 13,682	\$ 13,682	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 24,000	\$ 15,589	\$ 16,368	\$ 779
Fund Balance - January 1	\$ 1,364,859	\$ 1,364,859	\$ 1,364,859	\$ -
Fund Balance - December 31	\$ 1,388,859	\$ 1,380,448	\$ 1,381,227	\$ 779

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

CITY OF WAHPETON
Wahpeton, North Dakota

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2005

NOTE 1: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information:

The governing board adopts an annual budget on a basis consistent with GAAP for the general fund, each special revenue fund and each debt service fund of the municipality. The city is required to present the adopted and final amended revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the financial statements:

- On or before September 10th of the preceding fiscal year, the city prepares a preliminary budget for the next succeeding year beginning January 1st. The preliminary budget includes a detailed breakdown of the estimated revenues and appropriations.
- The governing board holds a public hearing where any taxpayer may testify in favor of or against any proposed disbursements or tax levies requested in the preliminary budget. After the budget hearing and on or before October 1st, the board adopts the final budget.
- The final budget must be filed with the county auditor by October 10th.
- No disbursement shall be made or liability incurred in excess of the total appropriation by fund. However, the governing board may amend the budget during the year for any revenue and appropriations not anticipated at the time the budget was prepared. The budget amendments must be approved by the board and the approval must be noted in the proceedings of the board.
- All annual appropriations lapse at year-end.

CITY OF WAHPETON
Wahpeton, North Dakota

SCHEDULE OF FUND ACTIVITY
CLIENT BASIS
For the Year Ended December 31, 2005

	Balance 1-1-05	Revenue	Transfers In	Debt Proceeds	Transfers Out	Expenditures	Balance 12-31-05
Major Funds:							
General Fund	\$ 174,507.51	\$ 2,115,101.00	\$ 408,764.95	\$ -	\$ 310,601.61	\$ 2,137,308.15	\$ 250,463.70
Sales Tax Operating Fund	\$ 1,365,513.76	\$ 491,216.77	\$ -	\$ -	\$ 288,593.87	\$ 104,055.20	\$ 1,464,081.46
Sales Tax Reserve	995,871.62	227,451.77	-	-	30,000.00	3,819.00	1,189,504.39
Capital Improvements	686,054.61	19,331.83	214,571.61	-	-	254,568.72	665,389.33
5-1-97 Flood Phase II	(1,784,794.71)	141,427.83	-	2,000,000.00	-	379,757.30	(23,124.18)
1-1-04 Rosewood II	(333.00)	-	-	-	-	361,695.50	(362,028.50)
Revolving Loan Fund	1,364,858.83	30,050.70	-	-	-	13,682.19	1,381,227.34
2-2-02 16th Ave. N.	(344,463.99)	19,829.78	-	-	-	39,535.07	(364,169.28)
Total Major Funds	\$ 2,457,214.63	\$ 3,044,409.68	\$ 623,336.56	\$ 2,000,000.00	\$ 629,195.48	\$ 3,294,421.13	\$ 4,201,344.26
Nonmajor Funds:							
Special Revenue Funds:							
Armory Operating	\$ 21,604.06	\$ 1,500.00	\$ 30,000.00	\$ -	\$ -	\$ 27,880.35	\$ 25,223.71
Fire Department Levy	128,205.18	237,278.52	-	-	-	152,527.50	212,956.20
Real Estate Levy	153,494.16	44,949.79	-	-	20,000.00	8,792.70	169,651.25
Codes Administration Fund	8,800.85	59,868.96	-	-	12,443.99	56,225.82	-
Job Development Levy	77,427.00	21,673.28	-	-	-	18,958.24	80,142.04
Sales Tax Default Reserve	107,628.11	927.37	-	-	-	-	108,555.48
Sales Tax Mini-Match Reserve	17,305.49	-	40,000.00	-	-	30,111.53	27,193.96
Sales Tax Help Housing	311,577.22	6,711.94	-	-	-	500.20	317,788.96
Clubhouse Maintenance	20,648.78	5,000.00	-	-	-	11,010.35	14,638.43
Lodging Tax	10,752.97	35,046.80	-	-	-	43,373.32	2,426.45
Vector Control	177.15	11,256.41	-	-	-	10,479.68	953.88
Advertising	10,679.57	11,052.68	7,500.00	-	-	15,482.80	13,749.45
Airport	4,295.32	47,876.44	-	-	-	49,262.36	2,909.40
Annual Reserve Withholding	-	41,524.15	-	-	-	38,262.98	3,261.17
Planning Commission	30,885.90	11,306.08	-	-	-	4,929.94	37,262.04
Band Levy	500.00	73.70	-	-	-	-	573.70
Social Security Levy	13,461.29	82,510.55	-	-	76,964.58	1,200.00	17,807.26
Retirement Levy	41,711.17	53,630.54	-	-	45,792.24	-	49,549.47
Health Insurance Reserve	17,272.09	172.32	-	-	-	993.60	16,450.81
Special Street Maintenance	118,139.10	74,178.85	-	-	-	28,901.33	163,416.62
Snow/Flood Emergency	43,188.26	10,863.15	-	-	-	15,355.67	38,695.74
Levee Maintenance	-	-	1,268.92	-	-	1,268.92	-
City Share of Specials	16,648.76	191,523.84	-	-	-	154,751.88	53,420.72
Ambulance Levy	489.38	10,863.15	15,000.00	-	-	24,486.00	1,866.53
Unemployment Reserve	43,253.13	189.46	-	-	-	402.61	43,039.98
Professional Development Planning	-	8,965.00	-	-	-	8,665.00	300.00
Miscellaneous Fund	68.55	8,794.78	-	-	-	8,794.78	68.55
Weed Maintenance Levy	27,801.22	24,801.34	-	-	7,800.00	14,154.97	30,647.59
Handicapped Parking Fines	-	300.00	-	-	-	300.00	-
Community Emergency Response	-	400.00	-	-	-	-	400.00
Employee Bonus/Retirement	56,389.02	-	-	-	-	419.28	55,969.74
Bulk Fuel	2,704.59	-	-	-	-	-	2,704.59
Downtown Cleanup Fund	11,962.15	-	-	-	-	-	11,962.15
Christmas Decorating Fund	169.00	-	-	-	-	-	169.00
Downtown Beautification	25,000.00	-	-	-	-	-	25,000.00
Sidewalk Maintenance	33,434.66	-	-	-	-	13.65	33,421.01
Local Law Enforcement Block Grant	490.77	3,322.84	-	-	-	3,808.46	5.15
Police Dept. Radio Sinking Fund	2,500.00	-	2,500.00	-	-	-	5,000.00
Police Dept. Canine Unit Fund	11,582.73	3,718.34	-	-	-	6,602.02	8,699.05
Economic Development	-	490.22	157,975.61	-	-	158,465.83	-
CDC	12,071.55	522.51	-	-	-	-	12,594.06
Total Special Revenue Funds	\$ 1,382,319.18	\$ 1,011,293.01	\$ 254,244.53	\$ -	\$ 163,000.81	\$ 896,381.77	\$ 1,588,474.14

Continued on next page...

CITY OF WAHPETON
Wahpeton, North Dakota

SCHEDULE OF FUND ACTIVITY
CLIENT BASIS
For the Year Ended December 31, 2005

	Balance 1-1-05	Revenue	Transfers in	Debt Proceeds	Transfers Out	Expenditures	Balance 12-31-05
CONTINUED.....							
Debt Service Funds:							
City Hall Building Sinking Fund	\$ 200,407.40	\$ 1.85	\$ 65,000.00	\$ -	\$ -	\$ 119,501.03	\$ 145,908.22
Special Assessment Deficiency	101,045.78	21,622.53	104,000.00	-	27,186.00	-	199,482.31
Street Lights Sinking Fund	-	70,170.23	-	-	68,083.14	2,087.09	-
R/I 8590 Sinking Fund	160,042.40	35,991.86	-	-	-	40,712.50	155,321.76
R/I 9295 Sinking Fund Pro Gold	41,482.49	-	90,618.26	-	-	132,100.75	-
Pro Gold Reserve Fund	104,000.00	-	-	-	104,000.00	-	-
R/I 9395 Sinking Fund	180,522.25	93,160.22	-	-	-	99,977.50	173,704.97
R/I 9495 Sinking Fund	22,123.24	54,648.72	-	-	-	69,950.00	6,821.96
R/I 9596 Sinking Fund	283,534.48	141,596.17	-	-	-	129,148.76	295,981.89
R/I 9698 Sinking Fund	16,304.33	28,865.95	27,186.00	-	-	51,505.04	20,851.24
R/I 9800 Sinking Fund	47,957.76	109,017.49	-	-	-	83,821.25	73,154.00
R/I 9902 Sinking Fund	276,408.69	194,094.31	-	-	-	178,657.50	291,845.50
R/I 10003 Sinking Fund	270,922.23	53,013.69	-	-	-	122,982.80	200,953.12
R/I 10303 Sinking Fund	241,531.00	321,391.67	-	-	-	168,924.00	393,998.67
R/I 10405 Sinking Fund	-	-	196,228.35	-	-	14,950.85	181,277.50
Total Debt Service Funds	\$ 1,946,282.05	\$ 1,123,574.69	\$ 483,032.61	\$ -	\$ 199,269.14	\$ 1,214,319.07	\$ 2,139,301.14
Capital Projects Funds:							
6-1-02 Imation	\$ (67,510.09)	\$ 77,205.24	\$ -	\$ -	\$ -	\$ 9,695.15	\$ -
4-1-04 Rosewood Lighting	(369.00)	-	-	-	-	5,368.00	(5,737.00)
Northside Streets	-	-	-	-	-	-	-
Center St. South Refab	-	-	-	-	-	58.14	(58.14)
1/2 Sales Tax Fund	483,589.54	440,500.58	-	-	197,497.27	176,797.46	549,795.39
Total Capital Projects Funds	\$ 415,710.45	\$ 517,705.82	\$ -	\$ -	\$ 197,497.27	\$ 191,918.75	\$ 544,000.25
Total Nonmajor Funds	\$ 3,744,311.68	\$ 2,652,573.52	\$ 737,277.14	\$ -	\$ 559,767.22	\$ 2,302,619.59	\$ 4,271,775.53
Total Governmental Activities	\$ 6,201,526.31	\$ 5,696,983.20	\$ 1,360,613.70	\$ 2,000,000.00	\$ 1,188,962.70	\$ 5,597,040.72	\$ 8,473,119.79
Major Enterprise Funds:							
Water Operating	\$ 885,100.29	\$ 988,540.04	\$ -	\$ -	\$ 262,681.00	\$ 812,536.28	\$ 798,423.05
Water Tower Reserve	50,000.00	-	-	-	-	-	50,000.00
1-2-02 Water Tower	(21,061.30)	-	-	117,538.00	-	5,004.87	91,471.83
1-2-02 11th St. Water Tower Refab	-	-	-	-	-	253,938.45	(253,938.45)
Meter Deposits	8,984.14	65.00	-	-	-	1,655.31	7,393.83
Total Water Operating - Major	\$ 923,023.13	\$ 988,605.04	\$ -	\$ 117,538.00	\$ 262,681.00	\$ 1,073,134.91	\$ 693,350.26
Nonmajor Enterprise Funds:							
Sewer Operating	\$ 212,370.01	\$ 358,763.02	\$ -	\$ -	\$ -	\$ 383,208.77	\$ 187,924.26
Waste Removal	\$ 38,161.79	\$ 193,906.96	\$ -	\$ -	\$ -	\$ 190,688.05	\$ 41,380.70
Waste Reduction	79,376.87	15,675.04	-	-	-	16,683.16	78,368.75
Total Waste Fund	\$ 117,538.66	\$ 209,582.00	\$ -	\$ -	\$ -	\$ 207,371.21	\$ 119,749.45
Vector Control	\$ 41,640.90	\$ 42,882.88	\$ -	\$ -	\$ -	\$ 33,686.86	\$ 50,836.92
Total Nonmajor Enterprise Funds	\$ 371,549.57	\$ 611,227.90	\$ -	\$ -	\$ -	\$ 624,266.84	\$ 358,510.63
Total Enterprise Funds	\$ 1,294,572.70	\$ 1,599,832.94	\$ -	\$ 117,538.00	\$ 262,681.00	\$ 1,697,401.75	\$ 1,051,860.89
Total Primary Government	\$ 7,496,099.01	\$ 7,296,816.14	\$ 1,360,613.70	\$ 2,117,538.00	\$ 1,451,643.70	\$ 7,294,442.47	\$ 9,524,980.68
Component Unit:							
Library	\$ 46,123.77	\$ 102,569.22	\$ 91,030.00	\$ -	\$ -	\$ 196,316.13	\$ 43,406.86
Total Reporting Entity	\$ 7,542,222.78	\$ 7,399,385.36	\$ 1,451,643.70	\$ 2,117,538.00	\$ 1,451,643.70	\$ 7,490,758.60	\$ 9,568,387.54

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OFFICE OF THE STATE AUDITOR
925 BASIN AVENUE
BISMARCK, ND 58504-6647

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

City Council
City of Wahpeton
Wahpeton, North Dakota

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Wahpeton, North Dakota, as of and for the year ended December 31, 2005 which collectively comprise City of Wahpeton, North Dakota's basic financial statements and have issued our report thereon dated July 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Wahpeton, North Dakota's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However we did note certain matters involving the internal control structure and its operation that we have reported to the City of Wahpeton in a separate letter dated July 13, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Wahpeton, North Dakota's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and city commission, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Bob Peterson".

Robert R. Peterson
State Auditor

July 13, 2006

CITY OF WAHPETON
Wahpeton, North Dakota

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended December 31, 2005

Section I - Summary of Auditor's Results

Financial Statements

Type of Report Issued?	
Governmental Activities	Unqualified
Business-Type Activities	Unqualified
Discretely Presented Component Unit	Unqualified
Major Governmental Funds	Unqualified
Major Business-type Funds	Unqualified
Aggregate Remaining Fund Information	Unqualified

Internal Control Over Financial Reporting:

Material Weaknesses Identified?	_____ Yes	<u> X </u> No
Reportable conditions identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported
Noncompliance material to financial statements noted?	_____ Yes	<u> X </u> No

Federal Awards

Internal Control Over Major Programs:

Material Weakness Identified?	_____ Yes	<u> X </u> No
Reportable conditions identified not considered to be material weaknesses?	_____ Yes	<u> X </u> None reported
Type of auditor's report issued on compliance for major program?	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	_____ Yes	<u> X </u> No

Section II - Financial Statement Findings

No matters were reported.

Section III - Federal Award Finding and Questioned Cost

None

COMMUNICATION WITH BOARD

CITY OF WAHPETON
WAHPETON, NORTH DAKOTA

FOR THE YEAR ENDED DECEMBER 31, 2005

OFFICE OF THE STATE AUDITOR
LOCAL GOVERNMENT DIVISION
925 BASIN AVENUE
BISMARCK, NORTH DAKOTA 58504-6647

STATE AUDITOR
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STATE OF NORTH DAKOTA
OFFICE OF THE STATE AUDITOR
925 BASIN AVENUE
BISMARCK, ND 58504-6647

MANAGEMENT LETTER

City Council
City of Wahpeton
Wahpeton, North Dakota

Our audit of the financial records of the City of Wahpeton, North Dakota for the year ended December 31, 2005 has disclosed opportunities for improvements in the operations of the city. The following items, which we believe should be brought to your attention, are set forth below:

BUDGET AMENDMENTS

The City makes a blanket motion after year-end to amend budgeted receipt and disbursement amounts to actual year-end financial results. The City amends both revenue and expenditure budgets, and amends expenditure budgets even for funds that are not overspent.

We recommend that detailed budget amendments are approved by the board when governmental funds are overspent. The detailed budget amendments should include the original budget of the fund, the amount of the amendment, and the ending amended budget by fund along with explanations for why budget amendments were necessary. Budgets should only be amended for appropriations not anticipated at the time the budget was prepared. It is not necessary to amend revenue/receipt amounts, nor amounts that aren't overspent.

CITY JUDGE - CASH PROCEDURES

During our audit of the municipal court, we noted the following:

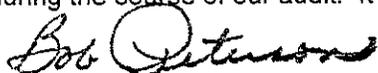
- Checks are not restrictively endorsed until taken to the bank;
- Receipts are not being used in numerical order or maintained in a way that enables them to be tracked;
- Cash received is not always entered into the computer in a timely manner and is not always placed in the locked bank bag;
- The bank account is not reconciled to a fixed dollar balance; amounts carried at the municipal court vary between \$2,000 and \$3,000;
- No supporting schedule is generated for or given to the city to document fines/amounts remitted to the city;
- Frequency of bank deposits varies from once per week to once per month.

To provide greater control over the cash and checks collected by the Municipal Court, we recommend the following:

- Checks should be restrictively endorsed when received;
- Pre-numbered receipts should be used in numerical order. Amounts brought in should be entered into the computer by receipt number, and any gaps in receipt numbers should be investigated and resolved;
- When received, all cash should be entered into the computer in a timely manner. All cash received should be placed in a secure location until taken to the bank;
- The municipal court should establish a fixed balance to keep in the bank account. The monthly bank statement should be reconciled to that balance, and discrepancies should be investigated;
- The municipal court should generate a supporting schedule to send to the city with the monthly remittance of fines/fees. The schedule should list individual fines received by receipt number, less bond refunds paid, resulting in the amount owed to the city;
- At the minimum, deposits should be taken to the bank weekly or more frequently if there is a large amount of cash on hand.

This report is intended for the information of the city council and management. However, this report is a matter of public record and its distribution is not limited.

Thank you and the employees of the City of Wahpeton for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve the City of Wahpeton.



Robert R. Peterson
State Auditor

July 13, 2006

STATE AUDITOR
ROBERT R. PETERSON
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(701) 328-2241



STATE OF NORTH DAKOTA
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City Council
City of Wahpeton
Wahpeton, North Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of City of Wahpeton, North Dakota for the year ended December 31, 2005 which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 13, 2006. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED
IN THE UNITED STATES OF AMERICA AND GOVERNMENT AUDITING STANDARDS**

As stated in our engagement letter dated October 31, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the basic financial statements are free of material misstatement. Because of the concept of reasonable assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, or fraud may exist and not be detected by us.

In planning and performing our audit, we considered the City of Wahpeton's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the City of Wahpeton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City of Wahpeton's compliance with those requirements.

SIGNIFICANT ACCOUNTING POLICIES

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Wahpeton are described in Note 1 to the basic financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2005. We noted no transactions entered into by City of Wahpeton during the year ended December 31, 2005 that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

SIGNIFICANT AUDIT ADJUSTMENTS

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. These adjustments may include those proposed by us but not recorded by City of Wahpeton that could potentially cause future financial statements to be materially misstated, even though we have concluded that such adjustments are not material to the current financial statements. We proposed no audit adjustments that could, in our judgment, either individually or in the aggregate, have a significant effect on City of Wahpeton's financial reporting process.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, or reporting matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

To the best of our knowledge, management has not consulted with or obtained opinions from other independent accountants during the past year that are subject to the requirements of Statement on Auditing Standards No. 50, "Reports on the Application of Accounting Principles".

MAJOR ISSUES DISCUSSED WITH MANAGEMENT PRIOR TO RETENTION

There were no major issues regarding the application of accounting principles and auditing standards discussed with management. Any discussions that occurred were in the normal course of our professional relationship and our responses were not a condition to our retention.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing our audit.

This letter is intended for the information and of the city council and management. We would be happy to meet with you and any member of your staff to discuss any of the items in this letter in more detail if you so desire.

Thank you and the employees of City of Wahpeton for the courteous and friendly assistance we received during the course of our audit. It is a pleasure for us to be able to serve City of Wahpeton.

Very truly yours,



Robert R. Peterson
State Auditor

November 22, 2006