



Financial Statements
December 31, 2012
City of Aberdeen

City Council

Expires

Mayor	Mike Levens	2014
NE District Council Member	Mark Remily	2017
NE District Council Member	Jeff Mitchell	2013
NW District Council Member	Todd Campbell	2012
NW District Council Member	Jennifer Slight-Hansen	2014
SE District Council Member	Clint Rux	2012
SE District Council Member	Laure Swanson	2015
SW District Council Member	David Bunsness	2015
SW District Council Member	Tom Agnitsch	2013

Appointive Officers

City Manager	Lynn A. Lander
Finance Officer	Karl M. Alberts
Deputy Finance Officer	Gerald L. Kost
Human Resource Director	Alan D. Ruhlman
City Attorney	Adam H. Altman
City Engineer/Public Works Director	Robin J. Bobzien
Public Works Assistant Director	Clarence J. Fjeldheim
Assistant City Engineer	Stuart A. Nelson
Transportation Director	Michael Wilson
Police Chief	Donald E. Lanpher, Jr.
Police Captain	Neil E. Bittner
Police Captain	David M. McNeil
Fire Chief	Kevin VanMeter
Battalion Chief	J.R. Huebner
Battalion Chief	Randy D. Meister
Battalion Chief	Todd A. Salfrank
Fire Marshal	Michael J. Thompson
Planning & Zoning Director	Brett E. Bill
Wastewater Treatment Superintendent	Peter S. Hesla
Wastewater Pretreatment Coordinator	Peggi L. Badten
Water Treatment Superintendent	Janel R. Ellingson
Water Treatment Chemist	Timothy J. Murray
Park/Recreation/Forestry Director	Douglas W. Johnson
Park Superintendent	Mark D. Hoven
Recreation Superintendent	Gene A. Morsching
Forester	Aaron J. Kiesz
Golf Course Superintendent	Charles Kornman
Cemetery Sexton	Kathie A. Allstot
Library Director	Shirley M. Arment
Mayor/City Manager/City Attorney's Secretary	Marie DeGroot

Governing Boards

Parks and Recreation Board (5 Years)

Expires

Sheryl Erickson, President	2016
Matt Prehn	2016
Brenda Stapp	2015
Paul Fauth	2015
Art Russo	2014
Bob Wilson	2013
Susan Bostian	2012
Todd Campbell, City Council Member	
Tom Agnitsch, City Council Member	

Airport Board (5 Years)

Expires

Mike Erickson, Chairperson	2015
Dr. Kennon Broadhurst	2016
Steve Kaiser	2014
Rolf Johnson	2013
Nate Zeeb	2012
Jeff Mitchell, City Council Member	
Mike Wiese, County Commissioner	

Library Board (3 Years)

Expires

Rob Ronayne, President	2012
Maeve King	2014
Cec Peters	2013
Troy McQuillen	2013
Sandy Andera	2012
Clint Rux, City Council Member	

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Independent Auditor's Report

The City Council
City of Aberdeen
Aberdeen, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Aberdeen, South Dakota as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 Audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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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 aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Aberdeen, South Dakota, as of December 31, 2012, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 15 and 56 through 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Aberdeen, South Dakota's financial statements. The combining and individual nonmajor fund financial statements and discretely presented component unit's statement of cash flows are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards on pages 68 and 69 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular *A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2013 on our consideration of City of Aberdeen's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Eide Bailly LLP

Aberdeen, South Dakota
June 7, 2013

The following is a discussion and analysis of the City of Aberdeen's (herein after referred to as the City) financial performance and position, providing an overview of the City's financial activities for the fiscal year ended December 31, 2012. In addition, this discussion and analysis provides comparisons with the previous year.

Financial Highlights

Government-Wide

The assets of the City exceeded its liabilities at the close of the fiscal year by \$128.998 million (reported as net position), an increase of \$2.235 million from the previous year.

Fund Level

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$6.697 million, with \$600,295 reported as unassigned, \$1.289 million reported as assigned, \$719,212 reported as committed, \$3.742 million reported as restricted, and the remaining amount of \$345,907 reported as nonspendable. At the end of the fiscal year, the fund balance for the General Fund was \$1.315 million, of which \$600,295 was unassigned, \$425,100 was assigned only to be used to fund fiscal year 2013 appropriations, and \$289,712 was reported as nonspendable.

Proprietary funds reported a total net position at year-end of \$41.252 million, an increase of \$849,776 during the year.

Long-Term Debt

The primary government's total long-term outstanding loans and bonded debt totaled \$53.016 million, a decrease of \$2.479 million from the previous year. Of the total outstanding loans and bonded debt, \$46.341 million is backed by the City. During 2012, the City issued the Series 2012 Water Revenue Refunding Bonds to replace a state revolving loan from the South Dakota Department of Environment and Natural Resources which resulted in a net increase in debt principal of \$248,675. The rest of the debt increase was for a state revolving loan from the South Dakota Department of Environment and Natural Resources for watershed projects in the amount of \$51,429. The decrease represents principal payments of \$2,670,494 of previous outstanding debt. Although unpledged, water charges are assumed to be responsible for repayment of the State Revolving Loan for water treatment improvements. Conversely, sewer charges have been pledged and will make the repayment of the State Revolving Loan for sewer treatment improvement. Sales tax revenues have been pledged for the repayment of the State Revolving Loan for automated water meter upgrades.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements and component unit financial statements; and, 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements (Reporting the City as a Whole)

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position that aids in assessing the City's economic condition at the end of the fiscal year. These statements include all non-fiduciary assets and liabilities, using the flow of economic resources measurement focus and the accrual basis of accounting. The current year's revenues and expenses are taken into account, regardless of when cash is received or paid. The government-wide financial statements include two statements:

- The statement of net position presents information on all of the City's assets and liabilities, with the difference between the two reported as "net position". Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The statement of activities presents information depicting how the City's net position changed during the most recent fiscal year. All changes in net position 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 this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both the statement of net position and the statement of activities segregate the activities of the City into three types:

- **Governmental Activities.** The governmental activities of the City include general government; parks, recreation, and forestry; airport; public works; public safety; health and welfare; library; conservation and economic development; interest expense; and, unallocated depreciation. Taxes, fees, unrestricted investment earnings, and intergovernmental revenues (federal and state grants) finance most of the costs of these activities.
- **Business-Type Activities.** The City charges fees to customers to help cover all or most of the cost of certain services it provides. Water, Sewer, Wylie Campground, Lee Park Golf, and Ambulance Fund are examples of business-type activities.
- **Discretely Presented Component Unit.** Component units are legally separate organizations for which the City is financially accountable, or the nature and significance of the unit's relationship with the City is such that exclusion of the unit would cause the City's financial statements to be misleading, or incomplete. The following entity is included in the component unit column of the City's government-wide financial statements:

- ✓ Housing and Redevelopment Commission

Fund Financial Statements and Component Unit Financial Statements

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by law, while others are established internally to maintain control over a particular activity. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds. It is important to note that these categories use different accounting approaches and should be interpreted differently.

Governmental Funds

Most of the City's basic services are reported in governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as the balances of spendable resources available at the end of the fiscal year. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. This short-term view of the City's financial position may be useful in determining whether the City has sufficient resources to cover expenditures for its basic services in the near future.

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 City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental funds financial statement.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Sales Tax Fund and Park and Recreation Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for some non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

Proprietary funds include enterprise funds and internal service funds and account for City's activities that operate much like private sector businesses. Like the government-wide financial statements, proprietary fund statements are presented using the full accrual basis of accounting.

Activities (e.g., Water Fund) that largely involve customers outside of city government are accounted for in enterprise funds, and are the same functions reported as business-type activities in the government-wide financial statements. Activities (e.g., City Self-Funded Health Insurance) that largely involve other City agencies are accounted for in internal service funds. The internal service fund activities are consolidated with the governmental activities in the government-wide financial statement because those services predominantly benefit governmental rather than business-type activities.

The City maintains five individual proprietary funds, of which the City presents two (Water and Sewer) as major funds. The five proprietary funds are as follows: Water Fund, Sewer Fund, Wylie Campground Fund, Lee Park Golf, and Ambulance Fund. These proprietary funds are presented separately in the proprietary funds statement of net position and statement of revenues, expenses, and changes in fund net position.

Fiduciary Funds

Fiduciary funds are used to report activities when the City acts as trustee or fiduciary to hold resources for the benefit of parties outside City government. The full accrual basis of accounting is used for fiduciary funds and is similar to the accounting used for proprietary funds. The government-wide financial statements exclude fiduciary fund activities and balances because these assets are restricted in purpose and cannot be used by the City to finance operations.

The City's fiduciary funds include private purpose trust funds, and agency funds. Individual fund detail, if applicable, is included in the combining financial statements elsewhere in this report.

Component Unit

As mentioned above, component units are legally separate organizations for which the City is financially accountable. Since there is only one component unit, the government-wide financial statements present information for the component unit (a) in a single column on the statement of net assets, and (b) in a single column on the statement of activities. The statement of cash flows for the component unit is also provided.

Notes to the Financial Statements

The notes provide additional narrative and financial information essential to fully understand the data provided in the government-wide financial statements, fund financial statements, and component unit financial statements. The notes to the financial statements are located immediately following the statement of cash flows for proprietary funds.

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information. This section includes a Budgetary Comparison Schedule, and related notes, for the General Fund and for each major special revenue fund that has a legally adopted annual budget. The special revenue funds that fit this criterion, and where the programs and/or budgetary fund types are identifiable to a major fund, are the Special Sales Tax Fund and the Park and Recreation Fund.

The Budgetary Comparison Schedule presents both the original and the final appropriated budgets for fiscal year ending December 31. The Budgetary Comparison Schedule also lists the actual outflows and balances stated on a budgetary basis. A variance column is included to compare the final appropriated budget with the actual budget results.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

Government-Wide Financial Analysis

Net Position

As presented in the following table, total assets of the City on December 31, 2012 were \$184.744 million, while total liabilities were \$55.747 million, resulting in combined net position (governmental and business-type activities) of \$128.998 million.

	City of Aberdeen Net Position					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 11,151,976	\$ 11,502,776	\$ 11,903,648	\$ 10,392,571	\$ 23,055,624	\$ 21,895,347
Capital Assets	102,153,297	102,910,535	59,535,583	61,148,163	161,688,880	164,058,698
Total Assets	<u>113,305,273</u>	<u>114,413,311</u>	<u>71,439,231</u>	<u>71,540,734</u>	<u>184,744,504</u>	<u>185,954,045</u>
Long-Term Liabilities Outstanding	23,351,459	24,909,235	29,664,332	30,585,867	53,015,791	55,495,102
Other Liabilities	2,208,418	3,143,637	522,661	552,407	2,731,079	3,696,044
Total Liabilities	<u>25,559,877</u>	<u>28,052,872</u>	<u>30,186,993</u>	<u>31,138,274</u>	<u>55,746,870</u>	<u>59,191,146</u>
Net Position:						
Net Investment in Capital Assets	87,394,181	87,169,059	29,991,973	30,690,458	117,386,154	117,859,517
Restricted	4,164,050	4,075,691	1,400,580	1,387,213	5,564,630	5,462,904
Unrestricted	(3,812,835)	(4,884,311)	9,859,685	8,324,789	6,046,850	3,440,478
Total Net Position	<u><u>\$87,745,396</u></u>	<u><u>\$86,360,439</u></u>	<u><u>\$41,252,238</u></u>	<u><u>\$40,402,460</u></u>	<u><u>\$128,997,634</u></u>	<u><u>\$126,762,899</u></u>

The largest component of the City's net position, 91% (down from 93% in 2011), is investments in capital assets (land; land improvements; land improvements – roads; buildings; equipment; vehicles; infrastructure; and construction in progress), less depreciation and all outstanding debt that was issued to buy or build those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

Restricted net assets comprise 4.3% (equal to 4.3% in 2011) of total net assets. These net assets are subject to restrictions either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws/regulations of other governments; or, (b) imposed by law through constitutional provisions or enabling legislation.

The remaining balance, \$6.047 million, is unrestricted net assets that may be used to meet the City's ongoing obligations to citizens and creditors. However, certain resources within this balance have internally imposed limitations as explained below. These assets are not reported as restricted net assets because the limitations are imposed internally by the City, not externally imposed by sources such as creditors. Internally imposed limitations on the use of unrestricted assets include, but may not be limited to, funding fiscal year 2013 appropriations in the General Fund (\$425,100).

Changes in Net Position

The following table summarizes financial information derived from the government-wide statement of activities and reflects how the City's net position changed during fiscal years 2012 and 2011.

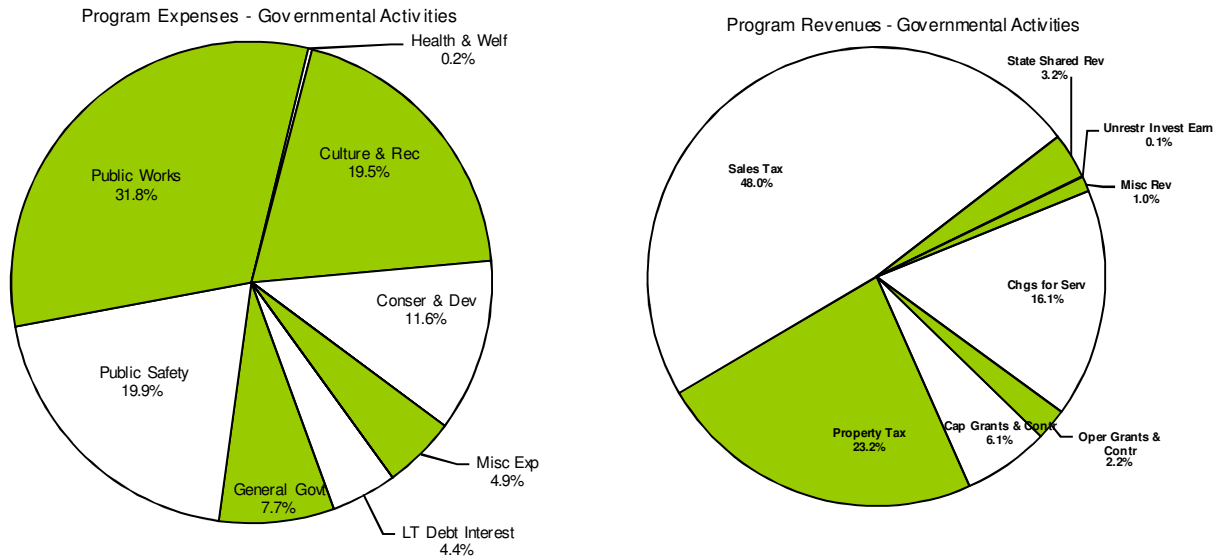
Changes in Net Position Fiscal Year Ended December 31

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 5,773,515	\$ 5,752,044	\$ 9,936,666	\$ 8,533,508	\$ 15,710,181	\$ 14,285,552
Operating Grants and Contributions	795,868	1,024,742	20,328	88,720	816,196	1,113,462
Capital Grants and Contributions	2,176,074	3,836,418	247,456	224,866	2,423,530	4,061,284
General Revenues:						
Property Taxes	8,306,681	7,852,749	-	-	8,306,681	7,852,749
Sales Taxes	17,179,715	16,008,499	-	-	17,179,715	16,008,499
State Shared Revenues	1,157,663	905,220	-	-	1,157,663	905,220
Unrestricted Investment Earnings	22,932	39,632	17,728	27,594	40,660	67,226
Miscellaneous	372,515	455,324	13,225	9,047	385,740	464,370
Total Revenues	<u>35,784,963</u>	<u>35,874,629</u>	<u>10,235,403</u>	<u>8,883,735</u>	<u>46,020,366</u>	<u>44,758,363</u>
Program Expenses:						
General Government	2,698,507	2,803,407	-	-	2,698,507	2,803,407
Public Safety	6,927,480	6,831,308	-	-	6,927,480	6,831,308
Public Works	11,071,272	11,999,727	-	-	11,071,272	11,999,727
Health and Welfare	81,959	81,756	-	-	81,959	81,756
Cultural and Recreation	6,803,839	6,277,356	-	-	6,803,839	6,277,356
Conservation and Development	4,040,481	2,548,087	-	-	4,040,481	2,548,087
Miscellaneous Expenditures	1,699,860	1,554,082	-	-	1,699,860	1,554,082
Interest on Long-term Debt	1,537,419	1,622,897	-	-	1,537,419	1,622,897
Water	-	-	4,281,003	4,328,349	4,281,003	4,328,349
Sewer	-	-	2,850,271	2,729,578	2,850,271	2,729,578
Campground	-	-	229,081	227,332	229,081	227,332
Golf	-	-	575,834	455,414	575,834	455,414
Ambulance	-	-	988,625	1,034,972	988,625	1,034,972
Total Expenses	<u>34,860,817</u>	<u>33,718,619</u>	<u>8,924,814</u>	<u>8,775,647</u>	<u>43,785,631</u>	<u>42,494,266</u>
Excess (Deficiency) Before Transfers	924,146	2,156,010	1,310,589	108,088	2,234,735	2,264,098
Transfers	460,813	63,366	(460,813)	(63,366)	-	-
Change in Net Position	1,384,959	2,219,376	849,776	44,722	2,234,735	2,264,098
Net Position – Beginning	86,360,437	84,141,063	40,402,462	40,357,738	126,762,899	124,498,801
Net Position – Ending	<u>\$87,745,396</u>	<u>\$86,360,439</u>	<u>\$41,252,238</u>	<u>\$40,402,460</u>	<u>\$128,997,634</u>	<u>\$126,762,899</u>

Governmental Activities

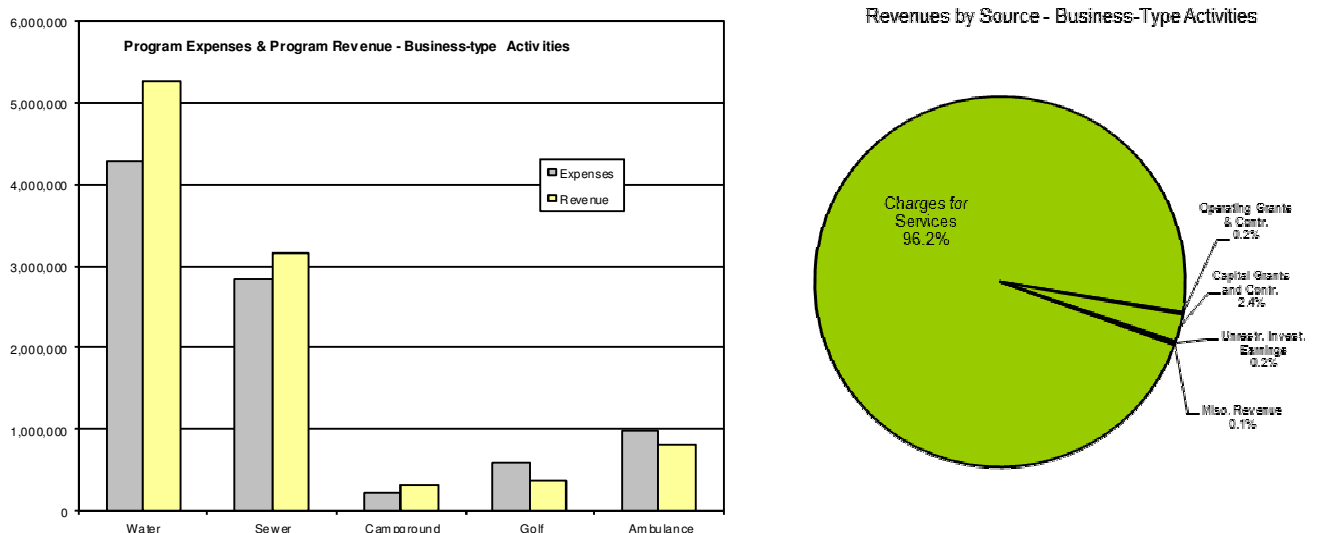
Governmental activities increased the City's net position by \$1,384,959. Factors contributing to these results include:

- An increase in capital grants for projects in the Special Sales Tax (2nd Street Overpass) and Airport Funds.



Business-Type Activities

Net position of the business-type activities increased by \$849,776 during 2012, as compared to a \$44,722 increase in 2011. Factors contributing to these results include higher water sales due to dry summer conditions (approximately \$762,000) and incremental increases to charges for services (approximately \$188,000) offset by slightly higher operating costs (approximately \$150,000).



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by law, while others are established internally to maintain control over a particular activity.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows and outflows during the fiscal year and on balances of spendable resources as of fiscal year-end. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. However, this measure must be used with care because large portions of the balance may relate to internally imposed limitations, such as statutory language, which could limit resource use.

At the end of fiscal year 2012, the City's governmental funds reported combined ending fund balances of \$6.697 million, an increase of approximately \$681,000 in comparison with the prior year.

Approximately 5.17%, or \$345,907 of the combined ending fund balances, is reported as nonspendable to indicate that it is not available for new spending because it has already been committed as a variety of non-current assets.

Approximately 55.87%, or \$3,741,972 of the combined ending fund balances, is reported as restricted to indicate that it is constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts constrained due to constitutional provisions or enabling legislation.

Approximately 10.74%, or \$719,212 of the combined ending fund balances, is reported as committed to indicate that it is intended to be used for specific purposes as legislated by the City Council.

Approximately 19.26%, or \$1,289,711 of the combined ending fund balances, is reported as assigned to indicate that it is intended to be used for specific purposes that are neither considered restricted or committed. \$425,100 of this amount is assigned to be used only for 2013 appropriations.

The remaining 8.96%, or \$600,295 of the combined ending fund balances, constitutes unreserved fund balance that may be used to meet the City's ongoing obligations to citizens and creditors.

The governmental funds that are major funds and had significant changes in fund balances during fiscal year 2012 were the General Fund, the Special Sales Tax Fund, and the Park and Recreation Fund. The General Fund is the chief operating fund of the City. At the end of the fiscal year, the assigned and unassigned fund balance of the General Fund was \$1.025 million, of which \$425,100 was assigned only to be used to fund 2013 appropriations. Total fund balance at the end of the current fiscal year was \$1.315 million. As a measure of the General Fund's liquidity, it may be useful to compare the assigned and unassigned fund balances to total fund expenditures. Assigned and unassigned fund balances represent 6.12% (14.18% in 2011) of the total General Fund operating expenditures.

Overall, the fund balance of the City's General Fund decreased by \$1.175 million (From Exh. IV) during the current fiscal year. This is a 47.2% decrease from the prior year fund balance. The decrease primarily resulted from use of the General Fund to fund Tax Increment District #14 (HAPI Eighth Subdivision) (approximately \$601,814) and Tax Increment District #15 (HAPI Central Subdivision) (approximately \$1,504,109) which will be reimbursed from the incremental revenue, and less than expected general property tax collections (approximately \$108,600). These decreases were offset by higher than expected general sales tax collections (approximately \$491,900) and higher than expected transfers from other departments (approximately \$57,000).

The Special Sales Tax Fund is the fund maintained by the City to account for the proceeds from the second penny sales tax. The City has adopted ordinances to designate the use of these proceeds to capital improvements, land acquisition, and certain public safety uses. At the end of the fiscal year, committed fund balance of the Special Sales Tax Fund was \$719,212. Total fund balance at the end of the current fiscal year was also \$719,212.

Overall, the fund balance of the City's Special Sales Tax Fund increased by \$1,321,971 during the current fiscal year. This is a 219.3% increase in fund balance from the prior year. The increase primarily resulted from higher than anticipated sales tax revenues (approximately \$514,270), a state grant for future repairs to the 2nd Street overpass (\$591,524), and completion of projects under original budget (approximately \$168,000).

The Park and Recreation Fund is the fund created by the City to account for the activities associated with those departments. At the end of the fiscal year, restricted fund balance of the Park and Recreation Fund was \$313,449. Total fund balance at the end of the current fiscal year was also \$313,449.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The following proprietary funds are reported as major funds and had significant changes to net assets during fiscal year 2012:

Water Fund

At the end of fiscal year 2012, the Water Fund reported total net assets of \$19.03 million, an increase of \$566,454 (3.07%) in comparison with the prior year. During 2012, the Water Fund produced an operating income (before contributions and operating transfers) in the amount of \$1,389,843 on total operating revenue of \$5.283 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$409,700 on total operating revenue of \$4.242 million. The increase in total net position was largely the result of increased water consumption due to unusually dry summer conditions.

Sewer Fund

At the end of fiscal year 2012, the Sewer Fund reported total net assets of \$19.343 million, an increase of \$314,316 (1.65%) in comparison with the prior year. During 2012, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$705,519 on total operating revenue of \$3.152 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$2,357,354 on total operating revenue of \$2.893 million. The increase in total net position was largely the result of higher sewer usage.

Budgetary Highlights – General Fund

The following analysis is based on the Budgetary Comparison Schedules included in the Required Supplementary Information that immediately follows the basic financial statements.

General Fund

The difference between the original budget and the final amended budget was \$2,820,500 (or 14.49%) of increases in appropriations and can be summarized as follows:

- \$122,000 in supplemental appropriations to General Government for 1) costs associated with rental housing shortage efforts by the Aberdeen Housing Authority, 2) cost associated with insurance proceeds from the Roosevelt Building, 3) water consumption costs, and 4) Engineering personal services.
- \$186,000 in supplemental appropriations to Public Safety for 1) Fire Department personal services, building repairs, training and equipment reimbursed by grants, motor supplies, and water consumption 2) Police vehicle repairs and water.
- \$257,500 in supplemental appropriations to Public Works departments for 1) personal services, 2) water consumption expenses, 3) additional mill and overlay, 4) additional street lighting expense, 5) “hot box” for patching, and 6) signage and motor supplies.
- \$5,000 in supplemental appropriations to Culture and Recreation departments for water consumption at the Library.
- \$650,000 in supplemental appropriations to Economic Development relating to TIF #14 project costs.
- \$1,600,000 in supplemental appropriations to Economic Development relating to TIF #15 project costs.

Actual spending was more than the original budget for General Fund total operating expenditures by \$1,235,264 and was less than the final amended budget by over \$1.58 million.

Overall, there were no overexpenditures by City departments in the General Fund.

Capital Assets and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2012 is \$161.689 million (net of accumulated depreciation) as compared to \$164.058 million the previous year. This investment in capital assets includes land; land improvements; land improvements – roads; buildings; equipment; vehicles; infrastructure; and construction in progress.

	City of Aberdeen					
	Capital Assets - Primary Government					
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 9,150,160	\$ 8,732,521	\$ 721,396	\$ 721,396	\$ 9,871,556	\$ 9,453,917
Buildings	35,266,903	35,197,927	61,151,618	61,151,618	96,418,521	96,349,545
Improvements other than Buildings	102,103,585	99,207,119	25,842,348	25,579,258	127,945,933	124,786,377
Equipment/Vehicles	15,577,773	15,256,778	6,874,706	6,808,861	22,452,479	22,065,639
Construction in Progress	415,734	557,253	-	-	415,734	557,253
Total Capital Assets	<u>162,514,155</u>	<u>158,951,598</u>	<u>94,590,068</u>	<u>94,261,133</u>	<u>257,104,223</u>	<u>253,212,731</u>
Accumulated Depreciation	<u>60,360,858</u>	<u>56,041,063</u>	<u>35,054,485</u>	<u>33,112,970</u>	<u>95,415,343</u>	<u>89,154,033</u>
Total Capital Assets, Net	<u>\$102,153,297</u>	<u>\$102,910,535</u>	<u>\$59,535,583</u>	<u>\$61,148,163</u>	<u>\$161,688,880</u>	<u>\$164,058,698</u>

The City's investment in capital assets (net of accumulated depreciation) changed from fiscal year 2012 to 2011 by -1.4%. Governmental construction projects completed during 2012 include street improvements at the Airport at a total cost of about \$117,133, a Tin Man slide at Wylie Park at a total cost of about \$68,976, and Park, Recreation, and Forestry trail improvements at a total cost of about \$105,690. The governmental Construction in Progress includes \$415,734 for Airport Terminal renovations and approach survey. Business-type construction projects completed during 2012 include sewer mains at a total cost of about \$144,000 and a new wastewater conveyor system at a total cost of about \$73,094.

More detailed information on the City's capital assets can be found in Note 5 in the Notes to the Financial Statements.

Debt Administration

The authority of the City to incur debt is described in South Dakota Codified Law Section 9-25-1. Generally, the State Constitution prohibits the City from having general obligation indebtedness in excess of 5% of the assessed valuation of the taxable property within the City for the year preceding that in which the indebtedness is incurred. Currently, all of the City's debt is classified as general-purpose debt. The 2012 general-purpose debt limitation for the City is \$71,344,842, which is \$36,744,840 in excess of the City's outstanding bonded debt classified as general-purpose debt.

At the end of the current fiscal year, primary government - governmental activities had total note and bonded debt outstanding of \$23,351,459 and business-type activities had total note and bonded debt outstanding of \$29,664,331. During the current fiscal year, the City incurred a net increase of \$248,675 in new long-term general indebtedness related to a refunding of the State Revolving Loan (SRL) associated with Water Treatment Plant Improvements under business-type activities and incurred \$51,429 of indebtedness in business-type activities. The increase in business-type indebtedness related to the State Revolving Loan associated with the non-point source improvements. The City retired \$2,770,537 of general obligation debt which included the annual principal payments associated with TIF revenue bonds, the ARCC Renovations bonds, Aquatics Center bonds, Public Safety Improvements bonds, campground expansion bonds, log loader, mower and striper installment contracts, and State Revolving Loan associated with the Water and Wastewater Treatment Plants improvements.

Additional information on the City's long-term debt obligations is located in Note 6 in the Notes to the Financial Statements.

Economic Condition and Outlook

Steady economic and property growth annually from calendar years 1998 to 2009 helped to maintain steady revenue streams for the City; however, 2010 was the first time since the early 1990's that Aberdeen saw a decrease in sales tax revenue amounting to about a 1.0% decrease. The sales tax revenue increased in 2011 and 2012 by about 2.1% and 7.57%, respectively. Aberdeen's growth in property tax valuation due to new construction and changes to existing property has consistently averaged between 2.5 - 3% annually (over 3.8% in 2012.).

Future Construction Activity

During 2013, the City continues work on re-constructing the Kline Street storm sewer system. This portion of the storm water sewer system is decades old and appears to be one source of inflow and infiltration (I&I) with the City sanitary system. This I&I problem caused extreme volumes of storm water entering the City's sanitary system during flooding in 2007, 2009, 2010 and 2011, resulting in emergency releases of highly diluted raw sewage into Moccasin Creek. These releases constituted a violation of the City's surface water discharge permit, as outlined in a Notice of Violation and Order (Notice) from the South Dakota Department of Environment and Natural Resources (DENR). Included in the Notice are Orders by DENR outlining a corrective action plan, of which the Kline Street storm water sewer system reconstruction is a major component. The Kline Street project is an aggressive multi-year project with several funding sources, including City funds and state and federal grants and loans. Each segment of the project will be bid separately. As the project is completed, it may require additional reconstruction that may be time sensitive. The City has alternative funding sources (including issuance of sales tax revenue bonds) to address these additional project costs if and when they may occur.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report, or need additional financial information, please contact the Finance Office, 123 South Lincoln Street, Aberdeen, South Dakota 57401, (605) 626-7045.

The City's discretely presented component unit issues their own separate financial statements. These statements may be obtained by directly contacting the individual component unit.

City of Aberdeen
Statement of Net Position—Exhibit I
December 31, 2012

	Primary Government		Total	Component Unit Housing and Redevelopment Commission
	Governmental Activities	Business-Type Activities		
Assets				
Cash and cash equivalents	\$ 2,973,961	\$ 8,358,753	\$ 11,332,714	\$ 681,820
Investments	3,193,643	2,123,660	5,317,303	-
Accounts receivable, net	4,567,916	894,188	5,462,104	458,902
Inventories	6,196	364,321	370,517	-
Deferred charges	120,548	34,197	154,745	-
Other assets	-	128,529	128,529	711,641
Restricted assets:				
Cash and cash equivalents	-	-	-	36,263
Deposits	289,712	-	289,712	2,745,454
Capital assets:				
Land, improvements, and construction in progress	9,565,894	721,396	10,287,290	521,186
Other capital assets, net of depreciation	92,587,403	58,814,187	151,401,590	1,619,237
	<u>\$ 113,305,273</u>	<u>\$ 71,439,231</u>	<u>\$ 184,744,504</u>	<u>\$ 6,774,503</u>
Liabilities				
Accounts payable	\$ 1,510,650	\$ 292,609	\$ 1,803,259	\$ 288,617
Deferred revenue	-	-	-	7,718
Other current liabilities	697,768	230,052	927,820	117,291
Noncurrent liabilities:				
Due within one year	2,087,364	1,910,035	3,997,399	87,460
Due in more than one year	21,264,095	27,754,297	49,018,392	941,264
	<u>25,559,877</u>	<u>30,186,993</u>	<u>55,746,870</u>	<u>1,442,350</u>
Net Position				
Net investment in capital assets	87,394,181	29,991,973	117,386,154	1,111,699
Restricted for:				
Debt service	2,256,860	1,400,580	3,657,440	-
Perpetual care:				
Expendable	133,593	-	133,593	-
Permanently nonexpendable	50,000	-	50,000	-
Other purposes	235,347	-	235,347	-
Other purposes - Promotion Fund	99,873	-	99,873	-
Other purposes - Park and Recreation Fund	313,448	-	313,448	-
Other purposes - Park and Recreation Trust Fund	592,375	-	592,375	-
Other purposes - Parking District Fund	192,842	-	192,842	-
Other purposes - General Fund - SD Public Assurance Alliance	289,712	-	289,712	-
Other purposes - component unit	-	-	-	2,781,717
Unrestricted	<u>(3,812,835)</u>	<u>9,859,685</u>	<u>6,046,850</u>	<u>1,438,737</u>
	<u>87,745,396</u>	<u>41,252,238</u>	<u>128,997,634</u>	<u>5,332,153</u>
	<u>\$ 113,305,273</u>	<u>\$ 71,439,231</u>	<u>\$ 184,744,504</u>	<u>\$ 6,774,503</u>

City of Aberdeen
Statement of Activities–Exhibit II
Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit Housing and Redevelopment Commission
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-Type Activities		
Primary Government								
Governmental activities:								
General government	\$ 2,698,507	\$ 519,384	\$ -	\$ 107,900	\$ (2,071,223)	\$ -	\$ (2,071,223)	\$ -
Public safety	6,927,480	105,893	201,308	-	(6,620,279)	-	(6,620,279)	-
Public works	11,071,272	1,812,879	317,924	1,998,174	(6,942,295)	-	(6,942,295)	-
Health and welfare	81,959	8,020	-	-	(73,939)	-	(73,939)	-
Culture and recreation	6,803,839	1,330,600	274,182	70,000	(5,129,057)	-	(5,129,057)	-
Conservation and development	4,040,481	-	2,454	-	(4,038,027)	-	(4,038,027)	-
Miscellaneous expenditures	1,699,860	1,996,739	-	-	296,879	-	296,879	-
Interest on long-term debt	1,537,419	-	-	-	(1,537,419)	-	(1,537,419)	-
Total governmental activities	<u>34,860,817</u>	<u>5,773,515</u>	<u>795,868</u>	<u>2,176,074</u>	<u>(26,115,360)</u>	<u>-</u>	<u>(26,115,360)</u>	<u>-</u>
Business-type activities:								
Water	4,281,003	5,282,716	20,328	104,687	-	1,126,728	1,126,728	-
Sewer	2,850,271	3,151,709	-	126,564	-	428,002	428,002	-
Campground	229,081	328,546	-	-	-	99,465	99,465	-
Golf	575,834	369,825	-	16,205	-	(189,804)	(189,804)	-
Ambulance	988,625	803,870	-	-	-	(184,755)	(184,755)	-
Total business-type activities	<u>8,924,814</u>	<u>9,936,666</u>	<u>20,328</u>	<u>247,456</u>	<u>-</u>	<u>1,279,636</u>	<u>1,279,636</u>	<u>-</u>
Total primary government	<u>\$ 43,785,631</u>	<u>\$ 15,710,181</u>	<u>\$ 816,196</u>	<u>\$ 2,423,530</u>	<u>(26,115,360)</u>	<u>1,279,636</u>	<u>(24,835,724)</u>	<u>-</u>
Component Unit								
Housing and Redevelopment Commission	<u>\$ 3,285,508</u>	<u>\$ 904,699</u>	<u>\$ 1,688,014</u>	<u>\$ -</u>				<u>(692,795)</u>
General Revenues								
Taxes:								
Property taxes					8,306,681	-	8,306,681	-
Sales taxes					17,179,715	-	17,179,715	-
State shared revenue					1,157,663	-	1,157,663	-
Unrestricted investment earnings					22,932	17,728	40,660	109,753
Miscellaneous revenue					372,515	13,225	385,740	-
Transfers					460,813	(460,813)	-	-
Total general revenues and transfers					<u>27,500,319</u>	<u>(429,860)</u>	<u>27,070,459</u>	<u>109,753</u>
Change in Net Position					<u>1,384,959</u>	<u>849,776</u>	<u>2,234,735</u>	<u>(583,042)</u>
Net Position - Beginning					<u>86,360,437</u>	<u>40,402,462</u>	<u>126,762,899</u>	<u>5,915,195</u>
Net Position - Ending					<u>\$ 87,745,396</u>	<u>\$ 41,252,238</u>	<u>\$ 128,997,634</u>	<u>\$ 5,332,153</u>

City of Aberdeen
Balance Sheet—Governmental Funds—Exhibit III
December 31, 2012

	General Fund	Park and Recreation Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 126,703	\$ 528,086	\$ 506,175	\$ 1,410,435	\$ 2,571,399
151 Investments	494,087	-	-	2,099,556	2,593,643
110 Taxes receivable, delinquent	155,027	-	-	24,192	179,219
115 Accounts receivable, net	45,715	-	-	38,567	84,282
121 Special assessments receivable, current	17,213	901	-	-	18,114
122 Special assessments receivable, delinquent	77,142	-	-	-	77,142
131 Due from promotion fund	-	-	-	57,975	57,975
132 Due from federal/state/county governments	1,668,230	-	1,437,545	1,103,385	4,209,160
141 Inventory of supplies	-	-	-	6,195	6,195
154 Deposits	289,712	-	-	-	289,712
	<u>\$ 2,873,829</u>	<u>\$ 528,987</u>	<u>\$ 1,943,720</u>	<u>\$ 4,740,305</u>	<u>\$ 10,086,841</u>
Liabilities and Fund Balances					
Liabilities					
202 Accounts payable	\$ 572,843	\$ 166,624	\$ 460,147	\$ 205,106	\$ 1,404,720
207 Contracts payable, retained percentage	-	-	21,497	31,897	53,394
208 Due to storm water maintenance fund	-	-	-	57,975	57,975
209 Due to state government	-	2,417	-	-	2,417
216 Accrued wages payable	243,015	46,497	-	19,828	309,340
224 Deferred revenue	742,864	-	742,864	76,170	1,561,898
	<u>1,558,722</u>	<u>215,538</u>	<u>1,224,508</u>	<u>390,976</u>	<u>3,389,744</u>
Fund Balances					
263 Nonspendable	289,712	-	-	56,195	345,907
264 Restricted	-	313,449	-	3,428,523	3,741,972
265 Committed	-	-	719,212	-	719,212
266 Assigned	425,100	-	-	864,611	1,289,711
267 Unassigned	600,295	-	-	-	600,295
	<u>1,315,107</u>	<u>313,449</u>	<u>719,212</u>	<u>4,349,329</u>	<u>6,697,097</u>
	<u>\$ 2,873,829</u>	<u>\$ 528,987</u>	<u>\$ 1,943,720</u>	<u>\$ 4,740,305</u>	<u>\$ 10,086,841</u>

City of Aberdeen
 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
 Year Ended December 31, 2012

	Total
Total Fund Balances - Governmental Funds	\$ 6,697,097
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds.	102,153,297
Long-term liabilities, including bonds payable and accrued leave payable are not due and payables in the current period and; therefore, are not reported in the funds.	(23,351,459)
Unamortized balance of deferred charges for debt issuance costs are not considered financial resources and; therefore, are not reported as assets in the funds.	120,548
Unamortized balance of premiums and discounts are not due and payable in the current period and; therefore, are not reported in the funds.	(161,927)
Taxes collected after year-end, but not available soon enough to pay for current period expenditures.	1,561,897
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(119,095)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	845,038
Net Position - Governmental Funds	\$ 87,745,396

City of Aberdeen
Statement of Revenues, Expenditures and Changes in Fund Balances—Exhibit IV
Year Ended December 31, 2012

	General Fund	Park and Recreation Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
310 Taxes:					
311 General property taxes	\$ 6,718,709	\$ -	\$ -	\$ 1,542,244	\$ 8,260,953
312 Airflight property taxes	-	-	-	26,021	26,021
313 General sales and use taxes	8,251,886	-	7,914,270	941,255	17,107,411
319 Penalties and interest on delinquent taxes	18,229	-	-	1,479	19,708
320 Licenses and permits	456,827	-	-	-	456,827
330 Intergovernmental revenue:					
331 Federal grants	428,902	11,500	177,900	1,337,675	1,955,977
334 State grants	79,329	-	591,524	83,594	754,447
335 State shared revenue:					
335.01 Bank franchise tax	79,297	-	-	-	79,297
335.02 Motor vehicle commercial prorated	27,492	-	-	-	27,492
335.03 Liquor tax reversion	156,987	-	-	-	156,987
335.04 Motor vehicle licenses (5%)	127,481	-	-	-	127,481
335.06 Fire insurance premiums reversion	63,402	-	-	-	63,402
335.08 Local government highway and bridge fund	466,863	-	-	-	466,863
335.20 Other	113,602	-	-	117,133	230,735
336 State payments in lieu of taxes	5,405	-	-	-	5,405
338 County shared revenue:					
338.02 County HBR tax (25%)	20,440	-	-	-	20,440
338.03 County wheel tax	8,532	-	-	-	8,532
340 Charges for goods and services:					
341 General government	62,556	-	-	-	62,556
342 Public safety	76,540	-	-	-	76,540
343 Highways and streets	128,775	-	-	-	128,775
344 Sanitation	1,194,737	-	-	487,362	1,682,099
345 Health	8,020	-	-	-	8,020
346 Culture and recreation	3,448	609,352	-	701,312	1,314,112
348 Cemetery	-	-	-	2,005	2,005
349 Other	184,615	-	-	291,767	476,382
350 Fines and forfeits:					
351 Court fines and costs	29,353	-	-	-	29,353
354 Library	-	-	-	16,488	16,488
359 Other	613	-	-	1,172	1,785
360 Miscellaneous revenue:					
361 Investment earnings	5,190	92	576	17,075	22,933
362 Rentals	192,278	-	-	15,087	207,365
367 Contributions and donations from private sources	16,991	-	5,669	238,860	261,520
369 Other	25,229	-	5,041	181	30,451
Total revenues	<u>18,951,728</u>	<u>620,944</u>	<u>8,694,980</u>	<u>5,820,710</u>	<u>34,088,362</u>
Expenditures					
410 General government:					
412 Executive	429,768	-	-	-	429,768
414 Financial administration	959,264	-	-	-	959,264
419 Other	1,256,273	-	6,045	-	1,262,318
Total general government	<u>2,645,305</u>	<u>-</u>	<u>6,045</u>	<u>-</u>	<u>2,651,350</u>

City of Aberdeen
Statement of Revenues, Expenditures and Changes in Fund Balances—Exhibit IV
Year Ended December 31, 2012

	General Fund	Park and Recreation Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
420 Public safety:					
421 Police	3,836,951	-	-	-	3,836,951
422 Fire	2,323,844	-	-	-	2,323,844
423 Protective inspection	170,182	-	-	-	170,182
429 Other protection	-	-	263,325	-	263,325
Total public safety	<u>6,330,977</u>	<u>-</u>	<u>263,325</u>	<u>-</u>	<u>6,594,302</u>
430 Public works:					
431 Highways and streets	2,318,276	-	4,195,752	401,918	6,915,946
432 Sanitation	1,171,052	-	261,059	-	1,432,111
433 Water	-	-	135,569	-	135,569
435 Airport	-	-	-	1,962,928	1,962,928
436 Parking facilities	-	-	-	50,256	50,256
437 Cemeteries	-	-	-	2,559	2,559
439 Transit	577,970	-	-	-	577,970
Total public works	<u>4,067,298</u>	<u>-</u>	<u>4,592,380</u>	<u>2,417,661</u>	<u>11,077,339</u>
440 Health and welfare:					
445 Drug education	54,524	-	-	-	54,524
449 Other	27,435	-	-	-	27,435
Total health and welfare	<u>81,959</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,959</u>
450 Culture and recreation					
451 Recreation	26,322	2,574,932	-	394,944	2,996,198
452 Parks	-	1,447,911	361,617	474,818	2,284,346
455 Libraries	954,294	-	164,958	7,927	1,127,179
457 Historical preservation	-	-	-	2,815	2,815
Total culture and recreation	<u>980,616</u>	<u>4,022,843</u>	<u>526,575</u>	<u>880,504</u>	<u>6,410,538</u>
460 Conservation and development:					
465 Economic development and assistance (industrial development)	2,602,673	-	405,000	1,032,808	4,040,481
Total conservation and development	<u>2,602,673</u>	<u>-</u>	<u>405,000</u>	<u>1,032,808</u>	<u>4,040,481</u>
470 Debt service	51,085	53,572	-	2,990,488	3,095,145
Total expenditures	<u>16,759,913</u>	<u>4,076,415</u>	<u>5,793,325</u>	<u>7,321,461</u>	<u>33,951,114</u>
Excess of Revenue over (under) Expenditures	<u>2,191,815</u>	<u>(3,455,471)</u>	<u>2,901,655</u>	<u>(1,500,751)</u>	<u>137,248</u>
Other Financing Sources (Uses)					
391.01 Transfers in	492,260	3,435,710	428,316	2,286,923	6,643,209
511 Transfers out	(3,942,330)	-	(2,008,000)	(232,066)	(6,182,396)
391.03 Sale of municipal property	25,286	-	-	-	25,286
391.04 Compensation for loss or damage to capital assets	57,117	-	-	700	57,817
Total other financing sources (uses)	<u>(3,367,667)</u>	<u>3,435,710</u>	<u>(1,579,684)</u>	<u>2,055,557</u>	<u>543,916</u>
Net Change in Fund Balances	(1,175,852)	(19,761)	1,321,971	554,806	681,164
Fund Balance - Beginning	2,490,959	333,210	(602,759)	3,794,523	6,015,933
Fund Balance - Ending	<u>\$ 1,315,107</u>	<u>\$ 313,449</u>	<u>\$ 719,212</u>	<u>\$ 4,349,329</u>	<u>\$ 6,697,097</u>

City of Aberdeen
 Reconciliation of the Statement of Revenues, Expenditures and Changes to the Government-Wide Statement of
 Activities
 Year Ended December 31, 2012

	Total
Net Change in Fund Balances - Total Governmental Funds	\$ 681,164
Amounts Reported for Governmental Activities in the Statement of Activities are 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/contributions exceeded depreciation in the current period.	(731,002)
In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the disposal of fixed assets is not reflected.	(26,236)
Repayment of other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	1,556,340
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	1,436
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	72,303
Accrued interest reported in the statement of activities does not require the use of current financial resources and; therefore, are not reported as expenditures in governmental funds.	9,468
Governmental funds report debt issuance costs as expenditures. However, in the statement of activities, these costs are deferred and allocated over the life of the related debt and reported as amortization expense. This is the amount amortized in the current period.	(8,081)
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the amount amortized in the current period.	10,855
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	(181,288)
Change in Net Position of Governmental Activities	\$ 1,384,959

City of Aberdeen
Statement of Net Position—Proprietary Funds—Exhibit V
December 31, 2012

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Assets					
Current Assets					
Cash and cash equivalents	\$ 3,409,217	\$ 4,613,529	\$ 336,007	\$ 8,358,753	\$ 402,563
151 Investments	950,752	1,172,908	-	2,123,660	600,000
115 Accounts receivable, net	53,566	43,103	175,659	272,328	-
117 Unbilled accounts receivable	317,825	291,973	-	609,798	-
121 Special assessments receivable, current	4,507	-	-	4,507	-
122 Special assessments receivable, delinquent	4,393	-	-	4,393	-
132 Due from federal/state/county governments	3,162	-	-	3,162	-
141 Inventory of supplies	330,630	33,691	-	364,321	-
Total current assets	<u>5,074,052</u>	<u>6,155,204</u>	<u>511,666</u>	<u>11,740,922</u>	<u>1,002,563</u>
Noncurrent Assets					
157 Unamortized discounts on bonds sold	128,529	-	-	128,529	-
159 Deferred charges	34,197	-	-	34,197	-
Capital assets:					
160 Land	311,427	59,469	350,500	721,396	-
162 Buildings	27,775,644	32,363,857	1,012,117	61,151,618	-
164 Improvements other than buildings	15,376,112	9,511,531	954,705	25,842,348	-
166 Machinery and equipment	4,019,531	1,570,250	1,284,925	6,874,706	-
Less accumulated depreciation	<u>(19,356,723)</u>	<u>(14,557,036)</u>	<u>(1,140,726)</u>	<u>(35,054,485)</u>	<u>-</u>
Total noncurrent assets	<u>28,288,717</u>	<u>28,948,071</u>	<u>2,461,521</u>	<u>59,698,309</u>	<u>-</u>
	<u>\$ 33,362,769</u>	<u>\$ 35,103,275</u>	<u>\$ 2,973,187</u>	<u>\$ 71,439,231</u>	<u>\$ 1,002,563</u>

City of Aberdeen
Statement of Net Position—Proprietary Funds—Exhibit V
December 31, 2012

	Water Fund	Sewer Fund	Other Enterprise Funds	Totals	Internal Service Funds
Liabilities					
Current Liabilities					
201 Claims payable	\$ 3,528	\$ -	\$ -	\$ 3,528	\$ -
202 Accounts payable	125,418	110,435	53,227	289,080	105,930
213 Incurred but not reported claims	-	-	-	-	51,595
215 Accrued interest payable	64,465	83,033	-	147,498	-
216 Accrued wages payable	25,676	18,470	19,494	63,640	-
223 Revenue collected in advance	18,915	-	-	18,915	-
226 Bonds payable current:					
226.02 Revenue	975,440	813,874	-	1,789,314	-
Total current liabilities	1,213,442	1,025,812	72,721	2,311,975	157,525
Noncurrent Liabilities					
231 Bonds payable:					
231.02 Revenue	13,058,676	14,695,621	-	27,754,297	-
233 Accrued leave payable	57,909	39,240	23,572	120,721	-
Total noncurrent liabilities	13,116,585	14,734,861	23,572	27,875,018	-
Net Position					
253.10 Net investment in capital assets	14,091,875	13,438,577	2,461,521	29,991,973	-
253.20 Restrictd net position, restricted for:					
253.21 Revenue bond debt service	-	1,400,580	-	1,400,580	-
253.90 Unrestricted net position	4,940,867	4,503,445	415,373	9,859,685	845,038
Total net position	19,032,742	19,342,602	2,876,894	41,252,238	845,038
	\$ 33,362,769	\$ 35,103,275	\$ 2,973,187	\$ 71,439,231	\$ 1,002,563

City of Aberdeen
Statement of Revenues, Expenses and Changes in Net Position—Proprietary Funds—Exhibit VI
Year Ended December 31, 2012

	Water Fund	Sewer Fund	Other Enterprise Funds	Totals	Internal Service Funds
Operating Revenue					
380 Charges for goods and services	\$ 5,021,832	\$ 1,730,627	\$ 1,468,500	\$ 8,220,959	\$ 1,511,415
380 Debt service surcharge	-	1,400,580	-	1,400,580	-
369 Miscellaneous	260,884	20,502	33,741	315,127	-
Total operating revenue	<u>5,282,716</u>	<u>3,151,709</u>	<u>1,502,241</u>	<u>9,936,666</u>	<u>1,511,415</u>
Operating Expenses					
410 Personal services	1,054,090	784,636	883,707	2,722,433	-
420 Other current expenses	1,798,068	709,894	737,991	3,245,953	1,699,860
426.2 Materials (cost of goods sold)	29,885	(1)	-	29,884	-
457 Depreciation	1,010,830	951,661	171,841	2,134,332	-
Total operating expenses	<u>3,892,873</u>	<u>2,446,190</u>	<u>1,793,539</u>	<u>8,132,602</u>	<u>1,699,860</u>
Operating Income (Loss)	<u>1,389,843</u>	<u>705,519</u>	<u>(291,298)</u>	<u>1,804,064</u>	<u>(188,445)</u>
Nonoperating Revenue (Expense)					
330 Operating grants	20,328	-	-	20,328	-
361 Investment earnings	6,322	11,218	187	17,727	7,157
470 Interest expense and fiscal charges	(388,130)	(404,081)	-	(792,211)	-
(492) 366 Gain (loss) on disposition of assets	7,924	-	(2,435)	5,489	-
(429) 369.01 Other	240	-	7,496	7,736	-
Total nonoperating revenue (expense)	<u>(353,316)</u>	<u>(392,863)</u>	<u>5,248</u>	<u>(740,931)</u>	<u>7,157</u>
Income (Loss) Before Contributions and Transfers	1,036,527	312,656	(286,050)	1,063,133	(181,288)
391.07 Capital contributions	104,687	126,564	16,205	247,456	-
391.1 Transfers in	180,000	18,326	372,591	570,917	-
511 Transfers out	(754,760)	(143,230)	(133,740)	(1,031,730)	-
Change in Net Position	566,454	314,316	(30,994)	849,776	(181,288)
Net Position - Beginning	18,466,288	19,028,286	2,907,888	40,402,462	1,026,326
Net Position - Ending	<u>\$ 19,032,742</u>	<u>\$ 19,342,602</u>	<u>\$ 2,876,894</u>	<u>\$ 41,252,238</u>	<u>\$ 845,038</u>

City of Aberdeen
Statement of Cash Flows—Proprietary Funds—Exhibit VII
Year Ended December 31, 2012

	Water Fund	Sewer Fund	Other Enterprise Funds	Totals	Internal Service Funds
Cash Flows from (used for) Operating Activities					
Receipt from customers	\$ 4,577,800	\$ 3,055,625	\$ 1,457,223	\$ 9,090,648	\$ 1,511,415
Payments to suppliers	(1,867,146)	(680,271)	(627,693)	(3,175,110)	-
Payments to employees	(1,055,809)	(780,080)	(889,032)	(2,724,921)	-
Internal activity - payment to other funds	-	(18,326)	(98,591)	(116,917)	-
Claims paid	-	-	-	-	(1,627,410)
Cash receipts for interfund services provided	360,500	-	-	360,500	-
Other receipts	260,884	20,502	33,741	315,127	-
Net Cash from (used for) Operating Activities	<u>2,276,229</u>	<u>1,597,450</u>	<u>(124,352)</u>	<u>3,749,327</u>	<u>(115,995)</u>
Cash Flows from (used for) Noncapital Financing Activities					
Transfers from other funds	180,000	18,326	372,591	570,917	-
Transfers to other funds	(754,760)	(143,230)	(133,740)	(1,031,730)	-
Operating grants	20,328	-	-	20,328	-
Other noncapital receipts	240	-	7,496	7,736	-
Net Cash from (used for) Noncapital Financing Activities	<u>(554,192)</u>	<u>(124,904)</u>	<u>246,347</u>	<u>(432,749)</u>	<u>-</u>
Cash Flows from (used for) Capital and Related Financing Activities					
Proceeds from capital debt	12,945,000	51,429	-	12,996,429	-
Capital contributions	104,687	126,564	16,205	247,456	-
Purchase of capital assets	(239,216)	(217,088)	(59,959)	(516,263)	-
Principal paid on capital debt	(13,153,057)	(757,467)	-	(13,910,524)	-
Interest paid on capital debt	(431,558)	(405,711)	-	(837,269)	-
Other receipts (payments)	(163,624)	-	-	(163,624)	-
Net Cash from (used for) Capital and Related Financing Activities	<u>(937,768)</u>	<u>(1,202,273)</u>	<u>(43,754)</u>	<u>(2,183,795)</u>	<u>-</u>
Cash Flows from (used for) Investing Activities					
Interest earnings	6,322	11,218	187	17,727	7,157
Net Cash from (used for) Investing Activities	<u>6,322</u>	<u>11,218</u>	<u>187</u>	<u>17,727</u>	<u>7,157</u>

City of Aberdeen
Statement of Cash Flows—Proprietary Funds—Exhibit VII
Year Ended December 31, 2012

	Water Fund	Sewer Fund	Other Enterprise Funds	Totals	Internal Service Funds
Net Change in Cash and Cash Equivalents	790,591	281,491	78,428	1,150,510	(108,838)
Balances - Beginning	3,569,378	5,504,946	257,579	9,331,903	1,111,401
Balances - Ending	<u>\$ 4,359,969</u>	<u>\$ 5,786,437</u>	<u>\$ 336,007</u>	<u>\$ 10,482,413</u>	<u>\$ 1,002,563</u>
Cash and Cash Equivalents Consist of:					
Cash and cash equivalents	\$ 3,409,217	\$ 4,613,529	\$ 336,007	\$ 8,358,753	\$ 402,563
Investments	950,752	1,172,908	-	2,123,660	600,000
	<u>\$ 4,359,969</u>	<u>\$ 5,786,437</u>	<u>\$ 336,007</u>	<u>\$ 10,482,413</u>	<u>\$ 1,002,563</u>
Cash from Operating Activities					
Operating income (loss)	\$ 1,389,843	\$ 705,519	\$ (291,298)	\$ 1,804,064	\$ (188,445)
Adjustments to reconcile operating income to net cash from (used for) operating activities:					
Depreciation expense	1,010,830	951,661	171,841	2,134,332	-
Change in assets and liabilities:					
Receivables	(80,198)	(75,582)	(11,277)	(167,057)	-
Inventories	(29,884)	-	-	(29,884)	-
Accounts and other payables	(9,309)	11,296	11,707	13,694	72,450
Accrued wages payable	1,798	2,641	513	4,952	-
Accrued leave payable	(3,517)	1,915	(5,838)	(7,440)	-
Revenue collected in advance	(3,334)	-	-	(3,334)	-
Net Cash from (used for) Operating Activities	<u>\$ 2,276,229</u>	<u>\$ 1,597,450</u>	<u>\$ (124,352)</u>	<u>\$ 3,749,327</u>	<u>\$ (115,995)</u>
Noncash Investing, Capital and Financing Activities:					
Loss on disposal of capital assets not affecting operating income	\$ -	\$ -	\$ (2,642)	\$ (2,642)	\$ -
Other	7,924	-	207	8,131	-

City of Aberdeen
Statement of Net Position—Fiduciary Funds—Exhibit VIII
Year Ended December 31, 2012

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 429,902</u>
	<u>\$ 429,902</u>
Liabilities	
Amounts held for others	<u>\$ 429,902</u>
	<u>\$ 429,902</u>

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of Aberdeen (the City) is a municipality chartered under the constitution of the State of South Dakota and is governed by a Council, including a part-time Mayor who is vested with the executive and administrative powers of the City, as well as eight part-time Council members who serve in a policymaking and legislative capacity.

The reporting entity consists of the City as the primary government and its discretely presented component unit. Discretely presented component units are entities that are legally separate from the City for which the City is considered to be financially accountable or for which the nature and significance of their relationship with the City are such that exclusion would cause the City’s financial statements to be misleading or incomplete. The City is financially accountable if its City Council appoints a voting majority of another organization’s governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City. The following table describes the City’s component unit:

<u>Component Unit</u>	<u>Criteria for Inclusion</u>
Housing and Redevelopment Commission of the City of Aberdeen, South Dakota	City has legal authority to impose its will on the Commission The Commission members are appointed by the Mayor of the City of Aberdeen

This discretely presented component unit is displayed in a separate column in the government-wide financial statements to emphasize their legal separateness from the City. Major component units are determined based on the component unit’s significance relevant to the other component units and to the primary government. Based on evaluation of these criteria, the Housing and Redevelopment Commission of the City of Aberdeen (the Commission) is considered to be a major component unit.

The financial statements are available upon request from the City or The Housing and Redevelopment Commission at 2324 3rd Avenue SE, Aberdeen, SD 57401.

B. Basis of Presentation

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. In order to minimize the grossing-up effect on asset and liabilities within the governmental and business-type funds activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities which are presented as Internal Balances. These statements distinguish between the governmental and business-type activities of the City and between the City and its discretely presented component unit. 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 the different business-type activities of the City and 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) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund category-governmental and proprietary-are presented.

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 fund types of the financial reporting entity are described below:

Governmental Funds

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

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

Capital Project Funds – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City’s programs - that is for the benefit of the City and its citizenry. The permanent fund balance is for cemetery perpetual care.

Proprietary Funds

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The primary purpose of the funds is to account for self-funded health and unemployment insurance.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the City’s enterprise funds and of the government’s internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10% of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5% of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund’s operations.

The City reports the following major governmental funds:

- General Fund - Is the general operating fund of the City. The General Fund is always considered to be a major fund.
- Special Revenue Funds:
 - Park and Recreation Fund – To account for the proceeds from park and recreation revenue sources that are legally restricted to expenditures for park and recreation purposes.

- Special Sales Tax Fund – To account for any revenue received under section 23-35 of the revised ordinance of the City in excess of the amount received, if the rate of tax in such section were one percent, may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, public hospitals or nonprofit hospitals with fifty or fewer licensed beds, other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund authorized by SDCL 34-45-12, the purchasing of firefighting vehicles and equipment, debt retirement, and the minor or major rehabilitation or reconstruction of streets as defined in the June 1994 State Department of Transportation Pavement Condition Survey Guide for city streets. These expenditures may be financed through a sale-leaseback agreement. The council may, by resolution passed by at least a two-thirds majority, transfer amounts to other funds for projects specified in the resolution.

The City reports the following Major Enterprise Funds:

- Water Fund – Financed primarily by user charges this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1)
- Sewer Fund – Financed primarily by user charges this fund accounts for the construction and operation of the municipal sewer system and related facilities. (SDCL 9-48-2)

All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Fiduciary Funds

Agency Fund – Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City has one agency fund in which amounts are held until it can be determined if any is owed to the City or needs to be refunded back to the payor.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “how” transactions are recorded within the various financial statements. Basis of accounting refers to “when” revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

The government-wide, proprietary fund financial statements and component unit activities are reported using the economic resources measurement focus and 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. Revenues from grants, entitlements and donations are recognized in the fiscal year that all eligibility requirements have been satisfied.

In the fund financial statements, the 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 significant revenues reported in the governmental funds to be available if the revenues are collected within twenty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt 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 general 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, categorical block 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, followed by general revenues.

D. Receivables

Business-type activities receivables are composed of amounts owed the City by municipal residents for water and sewer services rendered. All trade receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles on trade accounts receivables is equal to 5% of the outstanding receivable balance with the exception of the allowance for the Ambulance Fund which totals \$90,964 at December 31, 2012.

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered "available spendable resources." Interfund receivables and payables between funds within governmental activities are eliminated in the statement of net position.

E. Inventory

Inventory in the General Fund and special revenue funds consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory acquired for resale in the proprietary funds is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

The cost of inventory is recognized as an expense in both the fund and the government-wide financial statements when used (consumption method).

F. Capital Assets

Primary Government

Capital assets include land, buildings, improvements other than buildings, machinery and equipment, infrastructure and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets, including roads and bridges are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. General infrastructure assets consist of the road network assets, airport runways, storm sewer system, bridges, parking lots and recreation trails and are reported at estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

All capital assets are valued at historical cost or estimated cost if actual historical cost could not be determined. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use.

For governmental funds, interest costs incurred during construction of capital assets are not capitalized along with other capital asset costs. For enterprise funds, the interest costs incurred during construction of capital are capitalized with the cost of the asset.

The total December 31, 2012 balance of governmental activities capital assets includes approximately 22.7% of capital assets that are valued at estimated historical cost. These estimated original costs were primarily established by deflated current replacement costs.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (the dollar values at which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	***	***	***
Buildings	\$ 5,000	Straight-line	10-50 years
Improvements other than buildings	5,000	Straight-line	10-50 years
Machinery and equipment	5,000	Straight-line	5-20 years

***Land, an inexhaustible capital asset, is all capitalized and is not depreciated.

The accounting treatment over capital assets depends on whether those assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for, on the accrual basis, the same as in the government-wide statements.

Component Unit

Capital assets, which include land, buildings, and equipment, are reported in the basic financial statements. The Commission defines capital assets as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Expenditures for renewals and improvements that will significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense currently. When depreciable properties are retired or sold, the cost and related accumulated depreciation are eliminated from the accounts and the resultant gain or loss is reflected in income. Depreciation is computed using the straight-line method over estimated useful lives ranges based on the major asset category as listed below:

<u>Major Asset Category</u>	<u>Estimated Useful Life</u>
Land	N/A
Buildings and improvements	5-50 years
Furniture, equipment, and machinery - dwelling	3-20 years
Furniture, equipment, and machinery - nondwelling	3-20 years

G. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist primarily of sales tax revenue bonds payable, tax increment financing (TIF) bonds payable, accrued leave payable, and installment purchase agreements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. In addition, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The accounting for proprietary fund is on the accrual basis, the same in the fund statement as it is in the government-wide statements.

H. Program Revenues

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

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

I. Deferred Revenue

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

J. Cash Flows

For the purposes of the statement of cash flows, the City considers checking, money market funds, cash management pools, and all highly liquid securities with a maturity date of three months or less to be cash equivalents.

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

- Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt”.

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between “Nonspendable”, “Restricted”, “Committed”, “Assigned”, and “Unassigned” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position

It is the City’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

M. Fund Balance Classification Policies and Procedures

The City follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance - Amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. Restricted assets of the City consist of the vested balance in the reserve fund of the South Dakota Public Assurance Alliance (see Note 10). In addition the component unit, Housing and Redevelopment Commission has escrow deposits restricted by their mortgage lender and other cash deposits restricted by HUD.
- Committed Fund Balance - Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.
- Assigned Fund Balance - Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the City would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The City does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Sales Tax Fund	Sales taxes
Park and Recreation Fund	Activity fees

A schedule of fund balances reported on the balance sheet of the governmental funds is provided as follows:

	<u>General Fund</u>	<u>Park and Recreation Fund</u>	<u>Special Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances					
Nonspendable:					
Public assurance alliance reserve	\$ 289,712	\$ -	\$ -	\$ -	\$ 289,712
Inventory	-	-	-	6,195	6,195
Cemetery perpetual care	-	-	-	50,000	50,000
Restricted for:					
Promotion	-	-	-	23,702	23,702
Park and recreation	-	313,449	-	-	313,449
Park and recreation trust	-	-	-	592,375	592,375
Business improvement district	-	-	-	1,789	1,789
Parking	-	-	-	192,842	192,842
Storm water maintenance	-	-	-	133,759	133,759
Library fines	-	-	-	79,215	79,215
Landmark commission	-	-	-	14,388	14,388
Debt service reserve	-	-	-	2,256,860	2,256,860
Cemetery perpetual care	-	-	-	133,593	133,593
Committed to:					
Special sales tax	-	-	719,212	-	719,212
Assigned to:					
Applied to next year's budget	425,100	-	-	-	425,100
Cemetery improvement	-	-	-	6,226	6,226
Airport	-	-	-	858,385	858,385
Unassigned	600,295	-	-	-	600,295
	<u>\$ 1,315,107</u>	<u>\$ 313,449</u>	<u>\$ 719,212</u>	<u>\$ 4,349,329</u>	<u>\$ 6,697,097</u>
Total fund balances	<u>\$ 1,315,107</u>	<u>\$ 313,449</u>	<u>\$ 719,212</u>	<u>\$ 4,349,329</u>	<u>\$ 6,697,097</u>

N. Rounding

Computer generated rounding variances exist in the basic financial statements and supplementary information. The variances result from values being entered with cents rather than as whole numbers.

O. Recent Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65 *Items Previously Reported as Assets and Liabilities* will result in a reclassification of some financial statement line items on the balance sheet of governments. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as expenses or revenues, such as debt issuance costs, fees and costs associated with mortgage banking activities, lending activities and loan purchases. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012. Accounting changes adopted to conform to the provisions of this Statement will be applied retroactively by restating financial statements for all periods presented. The City is currently evaluating the impact this statement will have on financial reporting.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27*. The statement amends the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and Statement No. 50, *Pension Disclosures*, as they relate to government employers that account for pensions provided through trusts, or equivalent arrangements, that meet certain criteria. The statement includes accounting guidance for employers participating in single-employer and multiple-employer defined benefit pension plans, cost-sharing plans and defined contribution plans. The statement also addresses note disclosure and required supplementary information for employers whose employees are provided with defined benefit pensions through trusts. GASB 27 and 50 will remain applicable to employers whose pensions are not covered by the scope of this new statement.

Under the new statements, a cost-sharing employer whose employees receive pensions through a trust will report a net pension asset or liability, deferred outflows or inflows of resources related to pensions and pension expense based on its proportionate share of the collective net pension liability of all employers in the plan. The share of collective net pension liability recognized by an individual employer should be based on the employer's relationship to all employers and non-employer contributing entities in the plan. The employer's proportion should be consistent with how contributions are determined; the use of the long-term contribution effort of the employer is encouraged. The measurement of collective net pension liability, pension expense and other key information will follow the same standards that apply to single and agent employers. The effects of changes to an employer's expected proportion of total employer-related contributions—as well as the effects of differences between the expected and actual proportionate share of total employer-related contributions each period—will be reported as a deferred outflow or inflow of resources and recognized in the employer's pension expense in a systematic and rational manner over a closed period representative of the average expected remaining service lives of employees, beginning with the period of adoption. Under the current standards, governments recognize only the portion of cost-sharing pension obligations related to their annual required contributions.

GASB 68 will be effective for fiscal years beginning after June 15, 2014, with earlier application is encouraged. The City is currently evaluating the impact this statement will have on financial reporting.

Note 2 - Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

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

Deposits - Primary Government

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

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

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

The actual bank balances at December 31, 2012 were as follows:

Primary Government	Bank Balance
Insured (FDIC/NCUA)	\$ 7,607,339
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	9,221,182
Total deposits	\$ 16,828,521

The carrying amount of deposits on the December 31, 2012 statement of net position was \$16,854,213.

Investments – Primary Government

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City's deposit policy follows state statute which requires deposits in excess of the Depository Insurance maximums must be collateralized 100%. As of December 31, 2012, the City's deposits in financial institutions were not exposed to any custodial credit risk. As of December 31, 2012, the City's total deposits of \$16,828,521 (carrying value of \$16,854,213) were covered by insurance or collateral in accordance with the City's deposit policy.

Investments – As of December 31, 2012, the City had the following investments:

Investment	Credit Rating	Maturities	Fair Value
US Bank - First American Treasury Class D Money Market	Not Rated	\$ 1,394	\$ 1,394
US Bank - U.S. Treasury Note (matures on 05/30/13)	AAA	215,909	215,909
Total investments			\$ 217,303

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

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

Concentration of Credit Risk – The City places no limit on the amount that may be invested in any one issuer. Except for the investment listed above, all of the City’s deposits are with local banks located within the City.

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

Deposits - Component Unit

The Commission’s deposits are made and held in qualified public depositories. Qualified depositories are required by South Dakota Codified Law 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100% of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA” or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota. The Commission has entered into a general depository agreement in which deposits in excess of the amounts insured by the FDIC shall be fully and continually secured by the bank by the deposit or setting aside of collateral of the types and in the manner as is prescribed by State law for the security of public funds.

The Commission’s policy is to credit all income from deposits to the fund which makes the deposits.

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a failure of a depository financial institution, the Commission’s deposits may not be returned. The Commission does not have a formal investment policy in regard to custodial credit risk. All deposits are held in the Commission’s name by US Bank.

At December 31, 2012, the actual bank balances were as follows:

	<u>Bank Balance</u>
Insured (FDIC)	\$ 500,000
Uninsured, collateral held by the Commission or the Commission's agent in the Commission's name	299,524
Total deposits	\$ 799,524
The Commission's carrying amount of deposits at December 31	\$ 754,967

Investments – Component Unit

The Commission does not have a formal investment policy that addresses custodial credit risk, interest rate risk, or credit risk.

The Commission, through Sherman Apartments, is required under the regulatory agreement with South Dakota Housing Development Authority (SDHDA) to maintain various mortgage escrows and reserve deposits for mortgage payments, payments in lieu of taxes (PILOT-property taxes), hazard insurance, property and equipment replacements, and residual receipts. SDHDA invests these restricted deposits in securities limited to direct general obligations of the U.S. Government, U.S. Government Agencies, direct and general obligations of any state within the United States rated in the two highest categories by a national rating agency, mutual funds invested in securities mentioned above and investment agreements secured by securities mentioned above. Investments issued by or explicitly guaranteed by the U.S. Government are not considered to have a credit risk. The Commission's restricted deposits totaled \$2,745,454 as of December 31, 2012.

Note 3 - Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year. The county bills and collects the City's taxes and remits them to the City.

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

General Fund	\$5.600
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Note 4 - Due from Other Governments

- General Fund - \$63,190 due from federal government for grants; \$15,000 due from state government for grants; \$1,437,544 due from state government for 1% city sales tax; \$90,096 due from state government for local government highway/bridge funds; \$37,101 due from state government for liquor tax reversion funds; and \$25,299 due from county government for taxes and licenses.
- Promotion Fund - \$160,347 due from state government for 1% city sales tax.
- Parks Recreation Trust Fund - \$1,042 due from federal government for grant.
- Airport Fund - \$843,471 due from federal government for grant; \$96,281 due from state government for grants.
- Special Sales Tax Fund - \$1,437,545 due from state government for 1% city sales tax.
- TIF District No. 11 Bond Fund - \$2,243 due from county government for taxes.
- Water Fund - \$3,159 due from federal government for grant; and \$3 due from county government for special assessments.

Note 5 - Changes in Capital Assets

A summary of changes in capital assets of the primary government for the year ended December 31, 2012 is as follows:

<u>Primary Government</u>	<u>Balance 01/01/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/12</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 8,732,521	\$ 417,639	\$ -	\$ 9,150,160
Construction work in progress	557,253	415,734	(557,253)	415,734
Total capital assets, not being depreciated	<u>9,289,774</u>	<u>833,373</u>	<u>(557,253)</u>	<u>9,565,894</u>
Capital assets, being depreciated:				
Buildings	35,197,927	68,976	-	35,266,903
Improvements other than buildings	99,207,119	3,188,341	(291,875)	102,103,585
Machinery and equipment	15,256,778	650,415	(329,420)	15,577,773
Total	<u>149,661,824</u>	<u>3,907,732</u>	<u>(621,295)</u>	<u>152,948,261</u>
Less accumulated depreciation for:				
Buildings	(8,939,342)	(701,866)	-	(9,641,208)
Improvements other than buildings	(36,798,891)	(3,188,521)	291,875	(39,695,537)
Machinery and equipment	(10,302,830)	(960,425)	239,142	(11,024,113)
Total accumulated depreciation	<u>(56,041,063)</u>	<u>(4,850,812)</u>	<u>531,017</u>	<u>(60,360,858)</u>
Total capital assets, being depreciated, net	<u>93,620,761</u>	<u>(943,080)</u>	<u>(90,278)</u>	<u>92,587,403</u>
Governmental activity capital assets, net	<u>\$ 102,910,535</u>	<u>\$ (109,707)</u>	<u>\$ (647,531)</u>	<u>\$ 102,153,297</u>
Depreciation expense was charged to functions as follows:				
Governmental activities:				
General government				\$ 100,161
Public safety				407,725
Public works				3,526,483
Culture and recreation				816,443
Total depreciation expense - governmental activities				<u>\$ 4,850,812</u>

City of Aberdeen
Notes to Financial Statements
December 31, 2012

Primary Government	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
Business-Type Activities:				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 721,396	\$ -	\$ -	\$ 721,396
Total capital assets, not being depreciated	721,396	-	-	721,396
Capital assets, being depreciated:				
Buildings	61,151,618	-	-	61,151,618
Improvements other than buildings	25,579,258	315,719	(52,629)	25,842,348
Machinery and equipment	6,808,861	200,544	(134,699)	6,874,706
Total	93,539,737	516,263	(187,328)	93,868,672
Less accumulated depreciation for:				
Buildings	(18,096,309)	(1,187,719)	-	(19,284,028)
Improvements other than buildings	(11,845,894)	(496,247)	52,629	(12,289,512)
Machinery and equipment	(3,170,767)	(450,366)	140,188	(3,480,945)
Total accumulated depreciation	(33,112,970)	(2,134,332)	192,817	(35,054,485)
Total capital assets, being depreciated, net	60,426,767	(1,618,069)	5,489	58,814,187
Business-type activity capital assets, net	\$ 61,148,163	\$ (1,618,069)	\$ 5,489	\$ 59,535,583
Depreciation expense was charged to functions as follows:				
Business-type activities:				
Water				\$ 1,010,830
Sewer				951,661
Campground				43,492
Golf				52,007
Ambulance				76,342
Total depreciation expense - business-type activities				\$ 2,134,332

The City has active construction projects as of December 31, 2012. At year end the City's commitments with contractors are as follows:

Project	Spent-to-Date	Remaining Commitment
Airport - Terminal Renovations	\$ 379,968	\$ 313,207
Airport - Approach Survey	35,766	51,467
	\$ 415,734	\$ 364,674

A summary of changes in capital assets of the component unit for the year ended December 31, 2012 is as follows:

<u>Component Unit</u>	<u>Balance 1/1/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/12</u>
Capital assets, not being depreciated				
Land	\$ 521,186	\$ -	\$ -	\$ 521,186
Capital assets, being depreciated:				
Buildings and improvements	7,329,752	3,062	-	7,332,814
Furniture, equipment and machinery - dwelling	270,212	4,009	(2,730)	271,491
Furniture, equipment and machinery - nondwelling	275,722	5,844	(8,221)	273,345
Construction in progress	-	215,808	-	215,808
Total capital assets, being depreciated	<u>7,875,686</u>	<u>228,723</u>	<u>(10,951)</u>	<u>8,093,458</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,712,370)	(269,566)	-	(5,981,936)
Furniture, equipment and machinery - dwelling	(196,654)	(17,486)	2,244	(211,896)
Furniture, equipment and machinery - nondwelling	(249,425)	(40,394)	9,430	(280,389)
Total accumulated depreciation	<u>(6,158,449)</u>	<u>(327,446)</u>	<u>11,674</u>	<u>(6,474,221)</u>
Total capital assets being depreciated, net	<u>1,717,237</u>	<u>(98,723)</u>	<u>723</u>	<u>1,619,237</u>
Capital assets, net	<u>\$ 2,238,423</u>	<u>\$ (98,723)</u>	<u>\$ 723</u>	<u>\$ 2,140,423</u>

Note 6 - Long-Term Liabilities

A summary of the changes in long-term liabilities follows:

Primary Government	January 1, 2012	Increases	Decreases	December 31, 2012	Due Within One Year	Interest Paid
Governmental activities:						
Tax increment revenue bonds #2	\$ 2,770,000	\$ -	\$ (115,000)	\$ 2,655,000	\$ 105,000	\$ 146,090
Tax increment revenue bonds #4	100,703	-	(7,462)	93,241	7,948	6,546
Tax increment revenue bonds #6	1,099,792	-	(192,315)	907,477	205,239	73,906
Tax increment revenue bonds #8	3,275,359	-	(256,518)	3,018,841	177,277	176,767
Sales tax revenue bonds, ARCC	1,920,000	-	(165,000)	1,755,000	205,000	93,975
Sales tax revenue bonds, aquatic center	5,925,000	-	(310,000)	5,615,000	325,000	278,120
Sales tax revenue bonds, public safety buildings	8,540,000	-	(380,000)	8,160,000	395,000	354,168
Sales tax revenue bonds, campground expansion	540,000	-	(30,000)	510,000	30,000	20,213
Compensated absences	561,698	853,284	(854,721)	560,261	560,261	-
Installment purchase contract, log loader	25,089	-	(25,089)	-	-	1,127
Installment purchase contract, mower	49,424	-	(23,870)	25,554	25,554	3,486
Installment purchase contract, striper	102,170	-	(51,085)	51,085	51,085	-
Total government activities	<u>24,909,235</u>	<u>853,284</u>	<u>(2,411,060)</u>	<u>23,351,459</u>	<u>2,087,364</u>	<u>1,154,398</u>
Business-type activities:						
Water sales tax and revenue bonds	14,242,173	12,945,000	(13,153,057)	14,034,116	975,440	424,881
Sewer revenue bonds	16,215,532	51,429	(757,467)	15,509,494	813,874	405,711
Compensated absences	128,161	200,757	(208,197)	120,721	120,721	-
Total business-type activities	<u>30,585,866</u>	<u>13,197,186</u>	<u>(14,118,721)</u>	<u>29,664,331</u>	<u>1,910,035</u>	<u>830,592</u>
Total primary government	<u>\$ 55,495,101</u>	<u>\$ 14,050,470</u>	<u>\$ (16,529,781)</u>	<u>\$ 53,015,790</u>	<u>\$ 3,997,399</u>	<u>\$ 1,984,990</u>
<u>Component Unit</u>						
Mortgage payable	\$ 1,109,081	\$ -	\$ (80,357)	\$ 1,028,724	\$ 87,460	\$ 91,189
Compensated absences	17,806	3,307	-	21,113	21,113	-
	<u>\$ 1,126,887</u>	<u>\$ 3,307</u>	<u>\$ (80,357)</u>	<u>\$ 1,049,837</u>	<u>\$ 108,573</u>	<u>\$ 91,189</u>

No anticipated reduction in compensated absences is foreseen for next year, continued minor growth should be seen for governmental and business-type activities. Compensated absences typically have been liquidated in either the General Fund or Enterprise Funds.

Current Refunding

On June 15, 2012, the City issued \$12,945,000 of Water Revenue Refunding Bonds with a \$133,803 discount, issuance costs of \$35,600, with interest rates 1.00% to 2.90%, and a maturity in April, 2026. The proceeds of this issue were used to currently refund the Series DW01A and Series DW01B Water Revenue Bonds in the amount of \$12,696,325, both with interest rates of 3.50%, and maturities in April, 2026. The intent of this refunding was to accommodate the lower interest rates. The new issue will have an economic gain (difference between the present value of the debt service on the old and the new bonds) of approximately \$742,182 for the City.

Liabilities payable at December 31, 2012 is comprised of the following (excluding compensated absences):

Primary Government

Tax Increment Revenue Bonds

Tax Increment Revenue Bonds, District No. 2 totaling \$3,195,000 were issued in 2003. Additional Tax Increment Revenue Bonds, District No. 2 totaling \$510,000 were issued in 2006. The bonds require annual payments ranging from \$105,000 to \$505,000 beginning December 2005, including interest ranging from 5.22% to 5.5% beginning December 2003 from the Debt Service Fund, final payment due December 2022. In 2011 the Series 2003B and 2006C bonds of \$1,250,000 were refunded by Series 2011 Bonds of \$1,250,000 to change the final payment of \$80,000 plus interest to December 2029. \$ 2,655,000

Tax Increment Revenue Bonds, District No. 4 totaling \$136,829 were issued in 2004. The bonds require annual payments ranging from \$5,114 to \$13,154 beginning August 2006, including interest at 6.5% beginning February 2005 from Debt Service Fund, final payment due August 2021. 93,241

Tax Increment Revenue Bonds, District No. 6 totaling \$1,448,856 were issued in 2008. The bonds require annual payments ranging from \$168,858 to \$249,458 beginning December 2010, including interest at 6.72% beginning June 2009 from Debt Service Fund, final payment due December 2016. 907,477

Tax Increment Revenue Bonds, District No. 8 totaling \$3,800,000 were issued in 2008. The bonds require annual payments ranging from \$65,954 to \$165,893 beginning May 2010, including interest at 5.5% beginning November 2008 from Debt Service Fund, final payment due May 2027. 3,018,841

Sales Tax Revenue Bonds

Sales Tax Revenue Bonds, Park and Recreation ARCC renovations, totaling \$2,835,000 were issued in 2005. The bonds require annual payments ranging from \$160,000 to \$245,000 beginning January 2006, including interest ranging from 2.7% to 5.25% from the Debt Service Fund, final payment due January 2021. In 2011, \$1,755,000 of bonds were issued to advance refund \$1,650,000 of these bonds, changing the final payment to \$240,000 and interest rates ranging from 1.20% to 3.25%, final payment remains January 2021. 1,755,000

Sales Tax Revenue Bonds, Park and Recreation aquatic center, totaling \$7,505,000 were issued in 2005. The bonds require annual payments ranging from \$195,000 to \$565,000 beginning November 2006, including interest ranging from 4% to 5.13% from the Debt Service Fund, final payment due November 2025. 5,615,000

Sales Tax Revenue Bonds, Public Safety projects (police and fire), totaling \$9,865,000 were issued in 2007. The bonds require annual payments ranging from \$275,000 to \$730,000 beginning November 2008, including interest ranging from 3.75% to 5.5% from the Debt Service Fund, final payment due November 2027. 8,160,000

Sales Tax Revenue Bonds, Parks and Recreation Wylie Park campground expansion, totaling \$580,000, were issued in 2010. The bonds require annual payments ranging from \$10,000 to \$50,000 beginning December 2010, including interest ranging from 2.5% to 4.25% from the Debt Service Fund, final payment due December 2025.	510,000
Installment Purchase Contracts	
The City entered into a Purchase Agreement for \$49,424 with Western Finance & Lease of Devils Lake, ND in 2011 to purchase a mower for the Parks, Recreation & Forestry Department. This debt requires annual payments of \$27,356 (this payment includes the interest at 6.83%) from the Park and Recreation Fund beginning in March 2012, final payment due March 2013.	25,554
 The City entered into a Purchase Agreement for \$102,170 with EZ-Liner Industries of Orange City, IA in 2011 to purchase a striper for the Traffic Control Department. This debt requires annual payments of \$51,085 at zero (0) % interest from the General Fund beginning in May 2012, final payment due May 2013.	51,085
Water Revenue Bonds	
The City passed Resolution 03-05-04R, amended in January 2004, to enter into a “Drinking Water State Revolving Fund” loan agreement for up to \$16,760,000 in July 2003. The debt on the loan agreement totaling \$16,484,258, requires quarterly payments ranging from \$132,666 to \$287,756 beginning July 2006, including interest at 3.5% from the Water Fund, final payment due April 2026. In 2012, \$12,945,000 of bonds were issued to refund \$12,696,325 of the loan agreement balance remaining. The bonds require annual payments ranging from \$865,000 to \$1,065,000 beginning April 2013, including interest ranging from 1.00% to 2.90% from the Water Fund, final payment due April 2026.	12,945,000
Water Sales Tax Revenue Bonds	
The City passed Ordinance 09-08-04, to enter into a “Drinking Water State Revolving Fund” loan agreement for up to \$1,750,000 in September 2009. The debt on the loan agreement totaling \$1,197,106, requires quarterly payments ranging from \$26,771 to \$33,317 beginning January 2012, including interest at 2.25% from the Water Fund, final payment due October 2021.	1,089,116
Sewer Revenue Bonds	
The City passed Resolution 05-02-02R, to enter into a “Clean Water State Revolving Fund” loan agreement for up to \$13,218,859 in April 2005. As of December 31, 2012, the amount drawn on the loan was \$13,218,859, currently requiring quarterly payments ranging from \$92,976 to \$208,617 beginning January 2008, including interest at 2.25% from the Sewer Fund, final payment due October 2027.	10,658,178
 The City passed Resolution 07-04-04R, to enter into a “Clean Water State Revolving Fund” loan agreement for up to \$6,000,000 in April 2007. The debt on the loan agreement totaling \$5,201,739, requires quarterly payments ranging from \$53,247 to \$90,410 beginning July 2010, including interest at 3.25% from the Sewer Fund, final payment due April 2030.	4,851,316

Component Unit

Sherman Apartments - SDHDA Project No. SD 99-H001-089, 8.5% mortgage payable in monthly installments of \$14,295, including principal and interest, through May 2021	\$ 1,028,724
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The debt instruments for both the Water Revenue Bonds and Sewer Revenue Bonds, which were issued for the purpose of improving each system, contain provisions which pledge the future revenues of the respective drinking water and wastewater systems as security for the principal and interest payments on the related debt. The amount of the revenue pledged approximates the remaining principal and interest payments on the Water Revenue and Sewer Revenue Bonds, which will not be available for other purposes until approximately 2026 and 2030, respectively. Approximately 100% of each system's usage and service revenues are considered pledged. For the Water Revenue Bonds, principal and interest paid and total customer revenues for 2012 were \$881,613 and \$5,003,293, respectively. For the Sewer Revenue Bonds, principal and interest paid and total customer revenues for 2012 were \$1,163,178 and \$3,127,326, respectively.

The loan agreements for both the Water Revenue Bonds and Sewer Revenue Bonds contain requirements for the City to comply with certain covenants relating to net revenues available for debt service. As of December 31, 2012, the City was in compliance with the net revenues available for debt service on both the Water Revenue Bonds and Sewer Revenue Bonds.

Tax Incremental Revenue Bonds

In July 2002, the City passed a resolution creating Tax Increment District No. 2. In September 2003, a resolution was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 2 in the amount of \$3,195,000. In June 2006, a resolution was passed authorizing an additional issuance of Tax Increment Revenue Bonds for District No. 2 in the amount of \$510,000. Bonds in the amount \$3,705,000 have been issued with the proceeds used to liquidate liabilities arising from public improvements relating to the Tax Increment District No. 2. Incremental property taxes were projected to produce 106% of the debt service requirements over the life of the bonds. In 2011 the Series 2003B and 2006C bonds of \$1,250,000 were refunded by Series 2011 Bonds of \$1,250,000 to change the final payment of \$80,000 plus interest due to December 2029. Total principal and interest remaining on the bonds is \$4,042,835, payable through December 2029. For 2012, principal and interest paid and total incremental property tax revenues were \$261,090 and \$299,651, respectively.

In October 2003, the City passed a resolution creating Tax Increment District No. 4. In February 2004, a resolution was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 4 in the amount of \$136,829. Bonds in the amount \$136,829 have been issued with the proceeds used to liquidate liabilities arising from public improvements relating to the Tax Increment District No. 4. Incremental property taxes were projected to produce 107% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$126,075, payable through August 2021. For 2012, principal and interest paid and total incremental property tax revenues were \$14,008 and \$13,125, respectively.

In April 2007, the City passed a resolution creating Tax Increment District No. 6. In August 2008, an ordinance was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 6 not to exceed \$1,600,000. In October 2008, an ordinance was passed to amend the amount of the authorized issuance of Tax Increment Revenue Bonds for District No. 6 to \$1,448,856. Bonds in the amount \$1,448,856 have been issued with the proceeds used to liquidate liabilities arising from public improvements relating to the Tax Increment District No. 6. Incremental property taxes were projected to produce 116% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$1,064,885, payable through December 2016. For 2012, principal and interest paid and total incremental property tax revenues were \$266,221 and \$315,054, respectively.

In November 2007, the City passed a resolution creating Tax Increment District No. 8. In December 2007, a resolution was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 8 in the amount of \$3,500,000. In January 2008, a resolution was passed to amend the project plan and an ordinance was then passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 8 in the amount of \$4,500,000. Bonds in the amount of \$3,800,000 have been issued with the proceeds used to liquidate liabilities arising from public improvements and infrastructure relating to the Tax Increment District No. 8. Incremental property taxes were projected to produce 105% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$4,194,937, payable through May 2025. For 2012, principal and interest paid and total incremental property tax revenues were \$433,284 and \$425,833, respectively.

The Tax Increment Revenue Bonds, District Nos. 2, 4, 6, and 8 do not pledge the general credit or taxing powers of the City of Aberdeen. The bonds are payable solely from the tax increment payments received and other revenues derived by the City from the Tax Increment Revenue Bonds, District Nos. 2, 4, 6, and 8.

The annual requirements to maturity for all debt outstanding as of December 31, 2012, excluding compensated absences are as follows:

Year Ending December 31	Tax Increment Revenue Bonds		Sales Tax Revenue Bonds		Installment Purchase Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 495,464	\$ 304,625	\$ 955,000	\$ 665,188	\$ 76,639	\$ 1,802
2014	524,656	275,077	990,000	632,365	-	-
2015	555,361	243,763	1,025,000	597,565	-	-
2016	587,672	210,586	1,065,000	559,760	-	-
2017	360,470	175,447	1,105,000	510,281	-	-
2018-2022	2,232,700	562,564	5,795,000	1,811,035	-	-
2023-2027	1,628,236	57,612	5,105,000	580,142	-	-
2028-2031	290,000	-	-	-	-	-
	<u>\$ 6,674,559</u>	<u>\$ 1,829,674</u>	<u>\$ 16,040,000</u>	<u>\$ 5,356,336</u>	<u>\$ 76,639</u>	<u>\$ 1,802</u>

Year Ending December 31	Water Revenue Bonds		Sewer Revenue Bonds		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 975,440	\$ 300,494	\$ 813,874	\$ 389,865	\$ 87,460	\$ 84,084
2014	937,946	288,507	834,479	369,260	95,190	76,354
2015	950,509	274,525	855,622	348,117	103,604	67,940
2016	968,129	258,204	877,317	326,422	112,762	58,782
2017	985,810	239,436	899,580	304,159	122,729	48,815
2018-2022	5,116,282	855,153	4,852,799	1,165,897	506,979	78,922
2023-2027	4,100,000	234,115	5,503,815	514,880	-	-
2028-2031	-	-	872,008	39,441	-	-
	<u>\$ 14,034,116</u>	<u>\$ 2,450,434</u>	<u>\$ 15,509,494</u>	<u>\$ 3,458,041</u>	<u>\$ 1,028,724</u>	<u>\$ 414,897</u>

Note 7 - Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property of the private-sector entity being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. The City of Aberdeen, the State of South Dakota, or any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements.

As of December 31, 2012, there were seven revenue bond issues of this type outstanding. The balance of the six revenue bonds issued after July 1, 1995, was \$8,505,148. The aggregate outstanding balance of the remaining one revenue bond issued before July 1, 1995, could not be practically determined; however, the original issue totaled \$500,000.

Note 8 - Interfund Balances and Activity

Transfers to/from other funds during the year ended December 31, 2012 consist of the following:

From the general fund to parks and recreation fund to supplement other funds sources	\$ 3,126,580
From the general fund to the airport fund to supplement other funds sources	541,750
From the general fund to the golf fund to supplement other funds sources	124,000
From the general fund to the ambulance fund to supplement other funds sources	150,000
From the parks and recreation trust fund to the general fund to supplement other funds sources	31,750
From the parks and recreation trust fund to the parks and recreation fund to supplement other funds sources	8,000
From the special sales tax fund to debt service funds to supplement other funds sources	1,679,000
From the special sales tax fund to the parks and recreation fund to supplement other funds sources	128,000
From the special sales tax fund to the airport fund to supplement other funds sources	21,000
From the special sales tax fund to the water fund to supplement other fund sources	180,000
From the parking fund to the special sales tax fund to supplement other funds sources	192,316
From the water fund to the general fund to supplement other funds sources	239,540
From the water fund to the parks and recreation fund to supplement other funds sources	213,130
From the water fund to the special sales tax fund to supplement other funds sources	180,000
From the water fund to the airport fund to supplement other funds sources	3,748
From the water fund to the storm water maintenance fund to supplement other funds sources	1,425
From the water fund to the sewer fund to supplement other funds sources	18,326
From the water fund to the golf fund to supplement other funds sources	98,591
From the sewer fund to the general fund to supplement other funds sources	143,230
From the campground fund to the general fund to supplement other funds sources	30,100
From the campground fund to the special sales tax fund to supplement other funds sources	56,000
From the golf fund to the general fund to supplement other funds sources	12,580
From the ambulance fund to the general fund to supplement other funds sources	35,060
	\$ 7,214,126

Note 9 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the government-wide statement of net position as of December 31, 2012:

Fund	Restricted By	Amount
Promotion fund	State Law	\$ 99,873
Park and recreation fund	State Law	313,448
Park recreation trust fund	State Law	592,375
Business improvement district fund	State Law	1,789
Parking fund	State Law	192,842
Storm water maintenance fund	State Law	139,955
Library fines fund	State Law	79,215
Aberdeen landmark commission	State Law	14,388
General fund - SD public assurance alliance	Contractual Agreement	289,712
Total restricted net position for other purposes		<u>\$ 1,723,597</u>

Note 10 - Risk Management

Primary Government

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2012, the City managed its risks as follows:

Employee Health Insurance

The City has established a Self-Funded Insurance Fund (an Internal Service Fund) to account for and finance its risks related to:

- a. Life Insurance - Maximum \$10,000
- b. Accidental Death and Dismemberment - Maximum \$20,000
- c. Prescription Drug - Insured co-payment per prescription: 20% generic and 30% non-generic
- d. Major Medical - Maximum \$2,000,000

Various rates of benefit coverages, deductibles, etc., are included in the insurance package provided for the covered employees and dependents. The City provided a "Fitness Program" to assist employees and covered spouses in addressing wellness/preventative care in advance of serious medical conditions from January 1, 2012 through December 31, 2012. The benefit under this program is reimbursement to the employee/spouse 50% of the fees incurred up to a maximum of \$25 per month as outlined in the statement of policy. Also the City has a "Disease Management" program for those diagnosed with diabetes, asthma, and heart conditions which is administered through Dakotacare at a monthly premium of \$10 per person and paid by the City's Self-Funded Insurance Fund.

The City purchases commercial insurance for the life insurance and accidental death and dismemberment coverages provided. The City purchases stop loss insurance on their health insurance coverage which limits their risk to \$75,000 per individual and \$240,000 on one identified individual with an aggregate of approximately \$1,667,806.

All funds of the City which pay employee wages participate in the program and make payments to the Self-Funded Insurance Fund. The Self-Funded Insurance Fund makes payments to Dakotacare Administrative Services (DAS) based on actual expenses needed to pay current claims and to purchase stop loss insurance coverage of \$75,000 per individual and \$240,000 on one identified individual. A reserve of \$830,575 is available for future claims and premium increases and is reported as a designation of the Self-Funded Insurance Fund net position. The amount of claim liabilities for the year ended December 31, 2012, 2011 and 2010 were \$51,595, \$51,110 and \$46,920, respectively.

Changes in the amount of claims liabilities in the last three years were as follows:

	<u>Balance at January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at December 31</u>
2012	\$ 51,110	\$ 1,311,339	\$ 1,310,854	\$ 51,595
2011	46,920	1,256,211	1,252,021	51,110
2010	92,999	1,061,235	1,107,314	46,920

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy and the premiums are accrued based in the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, official's liability, automobile liability, and law enforcement liability.

The agreement with the SDPAA provides that the above coverages will be provided to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance claims in excess of \$250,000 to the upper limit. The City carries the following deductibles for the coverages listed below:

<u>Coverage</u>	<u>Deductible</u>
General liability	\$ 250
Officials liability	2,500
Automobile liability	-
Law enforcement liability	3,000

The City is not liable for any claims exceeding the amount of payments paid to the fund; therefore, no liability for unpaid claims has been established. Stop loss insurance is provided to protect against catastrophic losses. Premiums are paid from the General, Special Revenue, and Enterprise Funds.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis:

End of City's first full year	50%
End of City's second full year	60%
End of City's third full year	70%
End of City's fourth full year	80%
End of City's fifth full year	90%
End of City's sixth full year	100%

As of December 31, 2012, the City has vested balance in the cumulative reserve fund of \$289,712.

Worker's Compensation

The City participates in the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate costs of the experience to date of the fund members. Coverage limits are set by state statute. The pool pays for the first \$750,000 of any claim per individual. The pool has reinsurance that covers the statutory benefit per individual per incident.

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

Unemployment Benefits

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

The City has reserved equity in the Unemployment Compensation Fund in the amount of \$14,462 for the payment of future unemployment benefits.

During the year ended December 31, 2012, no claim benefits were incurred and there were no outstanding claims.

Component Unit

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2012, the Commission managed its risks by purchasing liability insurance from a commercial carrier for risks related to torts, theft or damage of property, and errors and omissions; and liability insurance for workmen's compensation. The Commission provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

Note 11 - Retirement Plan

By City ordinance, all employees working full-time more than twenty hours per week and six months of service participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple-employer, public employee retirement system (PERS) established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of contributory service. Authority for establishing, administering, and amending plan provisions are found in South Dakota Codified Law (SDCL) 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Class A, general employees are required by state statute to contribute 6% of their salary to the plan, while Class B, public safety and judicial employees contribute at 8% and 9%, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal year ended December 31, 2012, 2011, and 2010 were \$764,034, \$755,539, and \$739,108, respectively, equal to the required contributions each year.

Note 12 - Litigation

The City is party to numerous legal proceedings, many of which occur in the normal course of governmental operations. Adverse judgment of these lawsuits could result in liabilities to the City. Based on prior experience, it is unlikely the outcome of these claims will materially affect the financial position of the City.

Note 13 - Commitments

The City has approved contributions from the Special Sales Tax Fund to the following:

- a. Northeast Regional Health and Fitness Center - \$250,000 annually for 2013 through 2016; for a total of \$1,000,000
- b. Clark Swisher Athletic Complex: \$155,200 annually for 2013 through 2014; for a total of \$310,400

The City is also financing the project costs for Tax Increment Financing (TIF) Districts #14 (HAPI Eighth Subdivision) and #15 (HAPI Central Subdivision) in an effort to keep financing costs low for the affordable housing program. As of December 31, 2012, the General Fund had paid \$1,234,817 and \$1,504,109 for TIFs #14 and #15, respectively. Through resolution passed by the City Council, the General Fund will be reimbursed from the proceeds of the incremental revenue of the districts, including interest at a rate of the 1-year LIBOR rate plus 2%, recalculated as project costs are paid or incremental revenue is received. It is estimated that TIF #14 project costs are complete and approximately \$40,000 of TIF #15 project costs will be paid in 2013 to complete the project.



Required Supplementary Information
December 31, 2012

City of Aberdeen

City of Aberdeen
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2012

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes:				
311 General property taxes	\$ 6,827,300	\$ 6,827,300	\$ 6,718,709	\$ (108,591)
313 General sales and use taxes	7,760,000	7,760,000	8,251,886	491,886
319 Penalties and interest on delinquent taxes	10,000	10,000	18,229	8,229
320 Licenses and permits	393,500	393,500	456,827	63,327
330 Intergovernmental revenue:				
331 Federal grants	450,000	450,000	428,902	(21,098)
334 State grants	65,000	65,000	79,329	14,329
335 State shared revenue:				
335.01 Bank franchise tax	60,000	60,000	79,297	19,297
335.02 Motor vehicle commercial prorated	22,000	22,000	27,492	5,492
335.03 Liquor tax reversion	150,000	150,000	156,987	6,987
335.04 Motor vehicle licenses (5%)	95,000	95,000	127,481	32,481
335.06 Fire insurance premiums reversion	60,000	60,000	63,402	3,402
335.08 Local government highway and bridge fund	360,000	360,000	466,863	106,863
335.20 Other	108,500	108,500	113,602	5,102
336 State payments in lieu of taxes	-	-	5,405	5,405
338 County shared revenue:				
338.02 County HBR tax	20,500	20,500	20,440	(60)
338.03 County wheel tax	8,500	8,500	8,532	32
340 Charge for goods and services:				
341 General government	58,500	58,500	62,556	4,056
342 Public safety	84,500	84,500	76,540	(7,960)
343 Highways and streets	110,000	110,000	128,775	18,775
344 Sanitation	1,237,000	1,237,000	1,194,737	(42,263)
345 Health	5,000	5,000	8,020	3,020
346 Culture and recreation	2,500	2,500	3,448	948
349 Other	180,350	180,350	184,615	4,265
350 Fines and forfeits:				
351 Court fines and costs	35,000	35,000	29,353	(5,647)
359 Other	-	-	613	613
360 Miscellaneous revenue:				
361 Investment earnings	35,000	35,000	5,190	(29,810)
362 Rentals	190,000	190,000	192,278	2,278
367 Contributions and donations from private sources	21,500	21,500	16,991	(4,509)
369 Other	38,500	38,500	25,229	(13,271)
Total revenues	<u>18,388,150</u>	<u>18,388,150</u>	<u>18,951,728</u>	<u>563,578</u>

City of Aberdeen
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2012

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures				
410 General government:				
411 Legislative				
411.5 Contingency	300,000	300,000		
Amount transferred				300,000
412 Executive	324,700	439,700	429,768	9,932
414 Financial administration	1,018,350	1,018,350	959,264	59,086
419 Other	1,466,300	1,473,300	1,256,273	217,027
Total general government	<u>3,109,350</u>	<u>3,231,350</u>	<u>2,645,305</u>	<u>586,045</u>
420 Public safety:				
421 Police	3,845,450	3,903,450	3,836,951	66,499
422 Fire	2,374,100	2,502,100	2,323,844	178,256
423 Protective inspection	194,600	194,600	170,182	24,418
Total public safety	<u>6,414,150</u>	<u>6,600,150</u>	<u>6,330,977</u>	<u>269,173</u>
430 Public works:				
431 Highways and streets	2,314,050	2,567,550	2,318,276	249,274
432 Sanitation	1,310,750	1,310,750	1,171,052	139,698
439 Transit	613,850	617,850	577,970	39,880
Total public works	<u>4,238,650</u>	<u>4,496,150</u>	<u>4,067,298</u>	<u>428,852</u>
440 Health and welfare:				
445 Drug education	63,550	63,550	54,524	9,026
449 Other	50,575	50,575	27,435	23,140
Total health and welfare	<u>114,125</u>	<u>114,125</u>	<u>81,959</u>	<u>32,166</u>
450 Culture and recreation:				
451 Recreation	28,040	28,040	26,322	1,718
455 Libraries	1,046,450	1,051,450	954,294	97,156
Total culture and recreation	<u>1,074,490</u>	<u>1,079,490</u>	<u>980,616</u>	<u>98,874</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	522,800	2,772,800	2,602,673	170,127
Total conservation and development	<u>522,800</u>	<u>2,772,800</u>	<u>2,602,673</u>	<u>170,127</u>
470 Debt service	51,085	51,085	51,085	-
Total expenditures	<u>15,524,650</u>	<u>18,345,150</u>	<u>16,759,913</u>	<u>1,585,237</u>
Excess of Revenue over (under) Expenditures	<u>2,863,500</u>	<u>43,000</u>	<u>2,191,815</u>	<u>2,148,815</u>
Other Financing Sources (Uses)				
391.01 Transfers in	435,230	522,980	492,260	(30,720)
511 Transfers out	(3,942,330)	(3,942,330)	(3,942,330)	-
391.03 Sale of municipal property	20,000	20,000	25,286	5,286
391.04 Compensation for loss or damage to capital assets	20,000	20,000	57,117	37,117
Total other financing sources (uses)	<u>(3,467,100)</u>	<u>(3,379,350)</u>	<u>(3,367,667)</u>	<u>11,683</u>
Net Change in Fund Balances	(603,600)	(3,336,350)	(1,175,852)	2,160,498
Fund Balance - Beginning	2,490,959	2,490,959	2,490,959	-
Fund Balance - Ending	<u>\$ 1,887,359</u>	<u>\$ (845,391)</u>	<u>\$ 1,315,107</u>	<u>\$ 2,160,498</u>

City of Aberdeen
 Budgetary Comparison Schedule—Park and Recreation Fund
 Year Ended December 31, 2012

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
330 Intergovernmental revenue:				
331 Federal grants	\$ -	\$ -	\$ 11,500	\$ 11,500
340 Charge for goods and services:				
346 Culture and recreation	595,445	595,445	609,352	13,907
360 Miscellaneous revenue:				
361 Investment earnings	50	50	92	42
Total revenues	<u>595,495</u>	<u>595,495</u>	<u>620,944</u>	<u>25,449</u>
Expenditures				
450 Culture and recreation:				
451 Recreation	2,521,675	2,751,390	2,574,932	176,458
452 Parks	1,351,825	1,488,430	1,447,911	40,519
Total culture and recreation	<u>3,873,500</u>	<u>4,239,820</u>	<u>4,022,843</u>	<u>216,977</u>
470 Debt service	53,575	53,575	53,572	3
Total expenditures	<u>3,927,075</u>	<u>4,293,395</u>	<u>4,076,415</u>	<u>216,980</u>
Excess of Revenue over (under) Expenditures	<u>(3,331,580)</u>	<u>(3,697,900)</u>	<u>(3,455,471)</u>	<u>242,429</u>
Other Financing Sources (Uses)				
391.01 Transfers in	3,261,580	3,509,580	3,435,710	(73,870)
Total other financing sources (uses)	<u>3,261,580</u>	<u>3,509,580</u>	<u>3,435,710</u>	<u>(73,870)</u>
Net Change in Fund Balances	(70,000)	(188,320)	(19,761)	168,559
Fund Balance - Beginning	<u>333,210</u>	<u>333,210</u>	<u>333,210</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 263,210</u>	<u>\$ 144,890</u>	<u>\$ 313,449</u>	<u>\$ 168,559</u>

City of Aberdeen
 Budgetary Comparison Schedule—Special Revenue Fund—Special Sales Tax Fund
 Year Ended December 31, 2012

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes:				
313 General sales and use taxes	\$ 7,400,000	\$ 7,400,000	\$ 7,914,270	\$ 514,270
330 Intergovernmental revenue:				
331 Federal grants	70,000	70,000	177,900	107,900
334 State grants	-	-	591,524	591,524
360 Miscellaneous revenue:				
361 Investment earnings	30,000	30,000	576	(29,424)
363 Special assessments	200,000	200,000	-	(200,000)
367 Contributions and donations from private sources	-	-	5,669	5,669
369 Other	-	-	5,041	5,041
Total revenues	<u>7,700,000</u>	<u>7,700,000</u>	<u>8,694,980</u>	<u>994,980</u>
Expenditures				
410 General government:				
419 Other	50,000	50,000	6,045	43,955
Total general government	<u>50,000</u>	<u>50,000</u>	<u>6,045</u>	<u>43,955</u>
420 Public safety:				
422 Fire	200,000	200,000	-	200,000
429 Other protection	258,000	263,500	263,325	175
Total public safety	<u>458,000</u>	<u>463,500</u>	<u>263,325</u>	<u>200,175</u>
430 Public works:				
431 Highways and streets	4,235,800	6,185,800	4,195,752	1,990,048
432 Sanitation	210,000	285,000	261,059	23,941
433 Water	102,200	202,200	135,569	66,631
Total public works	<u>4,548,000</u>	<u>6,673,000</u>	<u>4,592,380</u>	<u>2,080,620</u>
450 Culture and recreation:				
452 Parks	399,800	441,300	361,617	79,683
455 Libraries	100,000	180,000	164,958	15,042
Total culture and recreation	<u>499,800</u>	<u>621,300</u>	<u>526,575</u>	<u>94,725</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	405,200	405,200	405,000	200
Total conservation and development	<u>405,200</u>	<u>405,200</u>	<u>405,000</u>	<u>200</u>
Total expenditures	<u>5,961,000</u>	<u>8,213,000</u>	<u>5,793,325</u>	<u>2,419,675</u>
Excess of Revenue over (under) Expenditures	<u>1,739,000</u>	<u>(513,000)</u>	<u>2,901,655</u>	<u>3,414,655</u>
Other Financing Sources (Uses)				
391.01 Transfers in	236,000	428,500	428,316	(184)
511 Transfers out	(1,975,000)	(2,015,000)	(2,008,000)	7,000
Total other financing sources (uses)	<u>(1,739,000)</u>	<u>(1,586,500)</u>	<u>(1,579,684)</u>	<u>6,816</u>
Net Change in Fund Balances	-	(2,099,500)	1,321,971	3,421,471
Fund Balance - Beginning	(602,759)	(602,759)	(602,759)	-
Fund Balance - Ending	<u>\$ (602,759)</u>	<u>\$ (2,702,259)</u>	<u>\$ 719,212</u>	<u>\$ 3,421,471</u>

Note 1 - Budgets and Budgetary Accounting

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

1. At the first regular Board meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the City Council.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund, special revenue funds and capital projects funds.

The City did not encumber any amounts at either December 31, 2011 or December 31, 2012.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds and capital project funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Note 2 - Budget Reconciliation

The City is reporting financial position, results of operations, and changes in fund balances in conformity with GAAP while the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual are presented on the budgetary basis to provide meaningful comparison of actual results with the budget. The major difference between the budgetary basis and the GAAP basis is that all capital outlay expenditures are recorded with other functional expenses for budget purposes rather than as a separate line item for GAAP purposes. There is no effect on the net change in fund balance.



Supplementary Information
December 31, 2012
City of Aberdeen

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	Promotion Fund	Park and Recreation Trust Fund	Cemetery Improvement Fund	Business Improvement District Fund	Airport Fund	Parking District Fund	Storm Water Maintenance Fund	Library Fines Fund	Aberdeen Landmark Commission Fund
Assets									
Cash and cash equivalents	\$ -	\$ 610,400	\$ 6,226	\$ -	\$ 103,114	\$ 191,182	\$ 77,151	\$ 79,215	\$ 14,388
151 Investments	-	-	-	-	-	-	-	-	-
110 Taxes receivable, delinquent	-	-	-	1,790	10,421	1,788	-	-	-
115 Accounts receivable, net	-	-	-	-	21,981	-	16,586	-	-
131 Due from promotion fund	-	-	-	-	-	-	57,975	-	-
132 Due from federal/state/county government	160,347	1,043	-	-	939,752	-	-	-	-
141 Inventory of supplies	-	-	-	-	-	-	6,194	-	-
	<u>\$ 160,347</u>	<u>\$ 611,443</u>	<u>\$ 6,226</u>	<u>\$ 1,790</u>	<u>\$ 1,075,268</u>	<u>\$ 192,970</u>	<u>\$ 157,906</u>	<u>\$ 79,215</u>	<u>\$ 14,388</u>
Liabilities and Fund Balances									
Liabilities									
202 Accounts payable	\$ 2,500	\$ 13,617	\$ -	\$ -	\$ 175,249	\$ 128	\$ 13,312	\$ -	\$ -
207 Contracts payable - retained percentage	-	-	-	-	31,897	-	-	-	-
208 Due to storm water maintenance fund	57,975	-	-	-	-	-	-	-	-
216 Accrued wages payable	-	5,451	-	-	9,737	-	4,640	-	-
224 Deferred revenue	76,170	-	-	-	-	-	-	-	-
	<u>136,645</u>	<u>19,068</u>	<u>-</u>	<u>-</u>	<u>216,883</u>	<u>128</u>	<u>17,952</u>	<u>-</u>	<u>-</u>
Fund Balances									
263 Nonspendable	-	-	-	-	-	-	6,195	-	-
264 Restricted	23,702	592,375	-	1,790	-	192,842	133,759	79,215	14,388
266 Assigned	-	-	6,226	-	858,385	-	-	-	-
	<u>23,702</u>	<u>592,375</u>	<u>6,226</u>	<u>1,790</u>	<u>858,385</u>	<u>192,842</u>	<u>139,954</u>	<u>79,215</u>	<u>14,388</u>
Total fund balances	<u>\$ 160,347</u>	<u>\$ 611,443</u>	<u>\$ 6,226</u>	<u>\$ 1,790</u>	<u>\$ 1,075,268</u>	<u>\$ 192,970</u>	<u>\$ 157,906</u>	<u>\$ 79,215</u>	<u>\$ 14,388</u>

City of Aberdeen
 Combining Balance Sheet–Nonmajor Governmental Funds
 December 31, 2012

Tax Increment Financing District No. 2 Bonds Fund	Tax Increment Financing District No. 4 Bonds Fund	Park and Rec ARCC Bonds Fund	Park and Rec Aquatic Center Bonds Funds	Tax Increment Financing District No.6 Bonds Fund	Public Safety Bonds Fund	Tax Increment Financing District No. 8 Bonds Fund	Tax Increment Financing District No.11 Bonds Fund	Wylie Park Campground Expansion Bonds Fund	Tax Increment Financing District No. 3 Project Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
\$ 49,116	\$ 15,147	\$ -	\$ -	\$ 80,904	\$ -	\$ 1	\$ -	\$ -	\$ -	\$ 183,591	\$ 1,410,435
217,303	-	282,249	589,396	-	951,442	-	-	59,167	-	-	2,099,557
-	-	-	-	2,828	-	-	7,175	-	190	-	24,192
-	-	-	-	-	-	-	-	-	-	-	38,567
-	-	-	-	-	-	-	-	-	-	-	57,975
-	-	-	-	-	-	-	2,243	-	-	-	1,103,385
-	-	-	-	-	-	-	-	-	-	-	6,194
<u>\$ 266,419</u>	<u>\$ 15,147</u>	<u>\$ 282,249</u>	<u>\$ 589,396</u>	<u>\$ 83,732</u>	<u>\$ 951,442</u>	<u>\$ 1</u>	<u>\$ 9,418</u>	<u>\$ 59,167</u>	<u>\$ 190</u>	<u>\$ 183,591</u>	<u>\$ 4,740,305</u>
\$ -	\$ -	\$ 300	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 205,106
-	-	-	-	-	-	-	-	-	-	-	31,897
-	-	-	-	-	-	-	-	-	-	-	57,975
-	-	-	-	-	-	-	-	-	-	-	19,828
-	-	-	-	-	-	-	-	-	-	-	76,170
-	-	300	-	-	-	-	-	-	-	-	390,976
-	-	-	-	-	-	-	-	-	-	50,000	56,195
266,419	15,147	281,949	589,396	83,732	951,442	1	9,418	59,167	190	133,591	3,428,523
-	-	-	-	-	-	-	-	-	-	-	864,611
<u>266,419</u>	<u>15,147</u>	<u>281,949</u>	<u>589,396</u>	<u>83,732</u>	<u>951,442</u>	<u>1</u>	<u>9,418</u>	<u>59,167</u>	<u>190</u>	<u>183,591</u>	<u>4,349,329</u>
<u>\$ 266,419</u>	<u>\$ 15,147</u>	<u>\$ 282,249</u>	<u>\$ 589,396</u>	<u>\$ 83,732</u>	<u>\$ 951,442</u>	<u>\$ 1</u>	<u>\$ 9,418</u>	<u>\$ 59,167</u>	<u>\$ 190</u>	<u>\$ 183,591</u>	<u>\$ 4,740,305</u>

	Promotion Fund	Park and Recreation Trust	Cemetery Improvement Fund	Business Improvement District Fund	Airport Fund	Parking District Fund	Storm Water Maintenance Fund	Library Fines Fund	Aberdeen Landmark Commission Fund	Tax Increment Financing District No. 2 Bonds Fund
Revenues										
310 Taxes:										
311 General property taxes	\$ -	\$ -	\$ -	\$ 62,780	\$ -	\$ 83,954	\$ -	\$ -	\$ -	\$ 299,630
312 Airflight property tax	-	-	-	-	26,021	-	-	-	-	-
313 General sales and use taxes	941,255	-	-	-	-	-	-	-	-	-
319 Penalties and interest on delinquent taxes	-	-	-	192	-	191	-	-	-	21
330 Intergovernmental revenue:										
331 Federal grants	-	12,164	-	-	1,323,056	-	-	-	2,455	-
334 State grants	-	-	-	-	83,594	-	-	-	-	-
335 State shared revenue:	-	-	-	-	-	-	-	-	-	-
335.20 Other	-	-	-	-	117,133	-	-	-	-	-
340 Charges for goods and services:										
344 Sanitation	-	-	-	-	-	-	487,362	-	-	-
346 Culture and recreation	-	701,312	-	-	-	-	-	-	-	-
348 Cemetery	-	-	2,005	-	-	-	-	-	-	-
349 Other	-	-	-	-	291,767	-	-	-	-	-
350 Fines and forfeits:										
354 Library	-	-	-	-	-	-	-	16,488	-	-
359 Other	-	-	-	-	1,172	-	-	-	-	-
360 Miscellaneous revenue:										
361 Investment earnings	9	423	128	-	75	193	80	61	9	6,541
362 Rentals	-	-	-	-	-	15,087	-	-	-	-
367 Contributions and donations from private sources	-	235,518	188	-	-	-	-	-	-	-
369 Other	-	-	-	-	181	-	-	-	-	-
Total revenues	941,264	949,417	2,321	62,972	1,842,999	99,425	487,442	16,549	2,464	306,192
Expenditures										
430 Public works:										
431 Highways and streets	-	-	-	-	-	-	401,918	-	-	-
435 Airport	-	-	-	-	1,962,928	-	-	-	-	-
436 Parking facilities	-	-	-	-	-	50,256	-	-	-	-
437 Cemeteries	-	-	2,559	-	-	-	-	-	-	-
Total public works	-	-	2,559	-	1,962,928	50,256	401,918	-	-	-
450 Culture and recreation:										
451 Recreation	-	394,944	-	-	-	-	-	-	-	-
452 Parks	-	474,818	-	-	-	-	-	-	-	-
455 Libraries	-	-	-	-	-	-	-	7,927	-	-
457 Historical preservation	-	-	-	-	-	-	-	-	2,815	-
Total culture and recreation	-	869,762	-	-	-	-	-	7,927	2,815	-
460 Conservation and development:										
465 Economic development and assistance (industrial development)	969,616	-	-	63,192	-	-	-	-	-	-
Total conservation and development	969,616	-	-	63,192	-	-	-	-	-	-
470 Debt service										
Total expenditures	969,616	869,762	2,559	63,192	1,962,928	50,256	401,918	7,927	2,815	261,602
Excess of revenue over (under) expenditures	(28,352)	79,655	(238)	(220)	(119,929)	49,169	85,524	8,622	(351)	44,590
Other Financing Sources (Uses)										
391.01 Transfers in	-	-	-	-	566,498	-	1,425	-	-	-
511 Transfers out	-	(39,750)	-	-	-	(192,316)	-	-	-	-
391.04 Compensation for loss or damage to capital assets	-	-	-	-	700	-	-	-	-	-
Total other financing sources (uses)	-	(39,750)	-	-	567,198	(192,316)	1,425	-	-	-
Net Change in Fund Balances	(28,352)	39,905	(238)	(220)	447,269	(143,147)	86,949	8,622	(351)	44,590
Fund Balance - Beginning	52,055	552,470	6,464	2,010	411,117	335,988	53,006	70,593	14,739	221,829
Fund Balance - Ending	\$ 23,703	\$ 592,375	\$ 6,226	\$ 1,790	\$ 858,386	\$ 192,841	\$ 139,955	\$ 79,215	\$ 14,388	\$ 266,419

City of Aberdeen

Combining Statement of Revenues, Expenditures and Changes in Fund Balances–Nonmajor Governmental Funds
Year Ended December 31, 2012

Tax Increment Financing District No. 4 Bonds Fund	Park and Rec ARCC Bonds Fund	Tax Increment Financing District No. 10 Bonds Fund	Park and Rec Aquatic Center Bonds Fund	Tax Increment Financing District No. 6 Bonds Fund	Public Safety Bonds Fund	Tax Increment Financing District No. 8 Bonds Fund	Tax Increment Financing District No. 11 Bonds Fund	Tax Increment Financing District No. 12 Bonds Fund	Wylie Park Campground Expansion Bonds Fund	Tax Increment Financing District No. 3 Bonds Fund	Cemetery Perpetual Care Fund	Total Nonmajor Governmental Funds
\$ 13,125	\$ -	\$ 15,667	\$ -	\$ 314,839	\$ -	\$ 425,833	\$ 150,106	\$ 86,342	\$ -	\$ 89,968	\$ -	\$ 1,542,244
-	-	-	-	-	-	-	-	-	-	-	-	26,021
-	-	154	-	214	-	-	582	36	-	89	-	941,255
-	-	-	-	-	-	-	-	-	-	-	-	1,479
-	-	-	-	-	-	-	-	-	-	-	-	1,337,675
-	-	-	-	-	-	-	-	-	-	-	-	83,594
-	-	-	-	-	-	-	-	-	-	-	-	117,133
-	-	-	-	-	-	-	-	-	-	-	-	487,362
-	-	-	-	-	-	-	-	-	-	-	-	701,312
-	-	-	-	-	-	-	-	-	-	-	-	2,005
-	-	-	-	-	-	-	-	-	-	-	-	291,767
-	-	-	-	-	-	-	-	-	-	-	-	16,488
-	-	-	-	-	-	-	-	-	-	-	-	1,172
7	-	1,499	-	2,765	71	4,931	4	-	279	-	-	17,075
-	-	-	-	-	-	-	-	-	-	-	-	15,087
-	-	-	-	-	-	-	-	-	-	-	-	238,860
-	-	-	-	-	-	-	-	-	-	-	3,154	181
<u>13,132</u>	<u>-</u>	<u>17,320</u>	<u>-</u>	<u>317,818</u>	<u>71</u>	<u>430,764</u>	<u>150,692</u>	<u>86,378</u>	<u>279</u>	<u>90,057</u>	<u>3,154</u>	<u>5,820,710</u>
-	-	-	-	-	-	-	-	-	-	-	-	401,918
-	-	-	-	-	-	-	-	-	-	-	-	1,962,928
-	-	-	-	-	-	-	-	-	-	-	-	50,256
-	-	-	-	-	-	-	-	-	-	-	-	2,559
-	-	-	-	-	-	-	-	-	-	-	-	2,417,661
-	-	-	-	-	-	-	-	-	-	-	-	394,944
-	-	-	-	-	-	-	-	-	-	-	-	474,818
-	-	-	-	-	-	-	-	-	-	-	-	7,927
-	-	-	-	-	-	-	-	-	-	-	-	2,815
-	-	-	-	-	-	-	-	-	-	-	-	880,504
-	-	-	-	-	-	-	-	-	-	-	-	1,032,808
-	-	-	-	-	-	-	-	-	-	-	-	1,032,808
14,008	260,275	15,820	588,620	266,221	734,668	433,284	148,568	86,378	50,711	130,333	-	2,990,488
14,008	260,275	15,820	588,620	266,221	734,668	433,284	148,568	86,378	50,711	130,333	-	7,321,461
(876)	(260,275)	1,500	(588,620)	51,597	(734,597)	(2,520)	2,124	-	(50,432)	(40,276)	3,154	(1,500,751)
-	258,000	-	625,000	-	740,000	-	-	-	56,000	40,000	-	2,286,923
-	-	-	-	-	-	-	-	-	-	-	-	(232,066)
-	-	-	-	-	-	-	-	-	-	-	-	700
-	258,000	-	625,000	-	740,000	-	-	-	56,000	40,000	-	2,055,557
(876)	(2,275)	1,500	36,380	51,597	5,403	(2,520)	2,124	-	5,568	(276)	3,154	554,806
16,023	282,725	-	550,251	34,828	941,178	7,447	7,298	-	53,600	464	180,438	3,794,523
<u>\$ 15,147</u>	<u>\$ 280,450</u>	<u>\$ 1,500</u>	<u>\$ 586,631</u>	<u>\$ 86,425</u>	<u>\$ 946,581</u>	<u>\$ 4,927</u>	<u>\$ 9,422</u>	<u>\$ -</u>	<u>\$ 59,168</u>	<u>\$ 188</u>	<u>\$ 183,592</u>	<u>\$ 4,349,329</u>

City of Aberdeen
Combining Statement of Net Position–Nonmajor Enterprise Funds
December 31, 2012

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Assets				
Current Assets				
Cash and cash equivalents	\$ 92,386	\$ 61,051	\$ 182,570	\$ 336,007
115 Accounts receivable, net	-	-	175,659	175,659
Total current assets	<u>92,386</u>	<u>61,051</u>	<u>358,229</u>	<u>511,666</u>
Noncurrent Assets				
Capital assets:				
160 Land	-	350,500	-	350,500
162 Buildings	826,419	185,698	-	1,012,117
164 Improvements other than buildings	730,927	223,778	-	954,705
166 Machinery and equipment	19,750	437,975	827,200	1,284,925
Less accumulated depreciation (credit)	<u>(225,419)</u>	<u>(550,895)</u>	<u>(364,412)</u>	<u>(1,140,726)</u>
Total noncurrent assets	<u>1,351,677</u>	<u>647,056</u>	<u>462,788</u>	<u>2,461,521</u>
	<u>\$ 1,444,063</u>	<u>\$ 708,107</u>	<u>\$ 821,017</u>	<u>\$ 2,973,187</u>
Liabilities				
Current Liabilities				
202 Accounts payable	\$ 3,654	\$ 9,775	\$ 39,798	\$ 53,227
216 Accrued wages payable	85	2,262	17,147	19,494
Total current liabilities	<u>3,739</u>	<u>12,037</u>	<u>56,945</u>	<u>72,721</u>
Noncurrent Liabilities				
233 Accrued leave payable	-	1,407	22,165	23,572
Total noncurrent liabilities	<u>-</u>	<u>1,407</u>	<u>22,165</u>	<u>23,572</u>
Net Position				
253.10 Net investment in capital assets	1,351,677	647,056	462,788	2,461,521
253.90 Unrestricted net position	<u>88,647</u>	<u>47,607</u>	<u>279,119</u>	<u>415,373</u>
Total net position	<u>1,440,324</u>	<u>694,663</u>	<u>741,907</u>	<u>2,876,894</u>
	<u>\$ 1,444,063</u>	<u>\$ 708,107</u>	<u>\$ 821,017</u>	<u>\$ 2,973,187</u>

City of Aberdeen

Combining Statement of Revenues, Expenses and Changes in Net Position–Nonmajor Enterprise Funds
Year Ended December 31, 2012

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Operating Revenue				
380 Charges for goods and services	\$ 328,546	\$ 369,825	\$ 770,129	\$ 1,468,500
369 Miscellaneous	-	-	33,741	33,741
Total operating revenue	<u>328,546</u>	<u>369,825</u>	<u>803,870</u>	<u>1,502,241</u>
Operating Expenses				
410 Personal services	65,705	159,474	658,528	883,707
420 Other current expenses	119,884	364,353	253,754	737,991
457 Depreciation	43,492	52,007	76,342	171,841
Total operating expenses	<u>229,081</u>	<u>575,834</u>	<u>988,624</u>	<u>1,793,539</u>
Operating Income (Loss)	<u>99,465</u>	<u>(206,009)</u>	<u>(184,754)</u>	<u>(291,298)</u>
Nonoperating Revenue				
361 Investment earnings	89	20	78	187
(492) 366 Gain (loss) on disposition of assets	(43)	-	(2,392)	(2,435)
(429) 369.01 Other	7,250	246	-	7,496
Total nonoperating revenue (expense)	<u>7,296</u>	<u>266</u>	<u>(2,314)</u>	<u>5,248</u>
Income (Loss) Before Contributions, Special Items and Extraordinary Items	106,761	(205,743)	(187,068)	(286,050)
397.07 Capital contributions	-	16,205	-	16,205
391.1 Transfers in	-	222,591	150,000	372,591
511 Transfers out	(86,100)	(12,580)	(35,060)	(133,740)
Change in Net Position	20,661	20,473	(72,128)	(30,994)
Net Position - Beginning	<u>1,419,662</u>	<u>674,190</u>	<u>814,036</u>	<u>2,907,888</u>
Net Position - Ending	<u>\$ 1,440,323</u>	<u>\$ 694,663</u>	<u>\$ 741,908</u>	<u>\$ 2,876,894</u>

City of Aberdeen
Combining Statement of Cash Flows–Nonmajor Enterprise Funds
Year Ended December 31, 2012

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Cash Flows from (used for) Operating Activities				
Receipt from customers	\$ 328,546	\$ 369,825	\$ 758,852	\$ 1,457,223
Payments to suppliers	(121,647)	(270,543)	(235,503)	(627,693)
Payments to employees	(65,628)	(163,760)	(659,644)	(889,032)
Internal activity - payments to other funds	-	(98,591)	-	(98,591)
Other receipts (payments)	-	-	33,741	33,741
Net Cash from (used for) Operating Activities	<u>141,271</u>	<u>(163,069)</u>	<u>(102,554)</u>	<u>(124,352)</u>
Cash Flows from (used for) Noncapital Financing Activities				
Transfers from other funds	-	222,591	150,000	372,591
Transfers to other funds	(86,100)	(12,580)	(35,060)	(133,740)
Other noncapital receipts	7,250	246	-	7,496
Net Cash from (used for) Noncapital Financing Activities	<u>(78,850)</u>	<u>210,257</u>	<u>114,940</u>	<u>246,347</u>
Cash Flows from (used for) Capital and Related Financing Activities				
Capital contributions	-	16,205	-	16,205
Purchase of capital assets	-	(47,672)	(12,287)	(59,959)
Net Cash from (used for) Capital and Related Financing Activities	<u>-</u>	<u>(31,467)</u>	<u>(12,287)</u>	<u>(43,754)</u>
Cash Flows from (used for) Investing Activities				
Interest earnings	89	20	78	187
Net Cash from (used for) Investing Activities	<u>89</u>	<u>20</u>	<u>78</u>	<u>187</u>
Net Change in Cash and Cash Equivalents	62,510	15,741	177	78,428
Balance - Beginning	<u>29,876</u>	<u>45,310</u>	<u>182,393</u>	<u>257,579</u>
Balance - Ending	<u>\$ 92,386</u>	<u>\$ 61,051</u>	<u>\$ 182,570</u>	<u>\$ 336,007</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities:				
Operating income (loss)	\$ 99,465	\$ (206,009)	\$ (184,754)	\$ (291,298)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:				
Depreciation expense	43,492	52,007	76,342	171,841
Changes in assets and liabilities:				
Receivables	-	-	(11,277)	(11,277)
Accounts and other payables	(1,763)	(4,781)	18,251	11,707
Accrued wages payable	77	(633)	1,069	513
Accrued leave payable	-	(3,653)	(2,185)	(5,838)
Net Cash from (used for) Operating Activities	<u>\$ 141,271</u>	<u>\$ (163,069)</u>	<u>\$ (102,554)</u>	<u>\$ (124,352)</u>
Noncash Investing, Capital and Financing Activities:				
Loss on disposal of capital assets not affecting operating income	\$ (250)	\$ -	\$ (2,392)	\$ (2,642)
Other	207	-	-	207

City of Aberdeen
Statement of Cash Flows—Discretely Presented Component Unit
Year Ended December 31, 2012

	<u>Housing and Redevelopment Commission</u>
Operating Activities	
Receipts from tenant payments	\$ 487,323
Receipts for management fees and other	231,446
Payments to employees	(568,301)
Housing assistance payments	(1,505,888)
Payments to suppliers and others	<u>(571,812)</u>
Net Cash used for Operating Activities	<u>(1,927,232)</u>
Noncapital Financing Activities	
HUD grants received	<u>1,688,014</u>
Net Cash from Noncapital Financing Activities	<u>1,688,014</u>
Capital and Related Financing Activities	
Purchase of property and equipment	(176,151)
Payments for interest	(91,189)
Principal payments on long-term debt	<u>(80,357)</u>
Net Cash used for Capital and Related Financing Activities	<u>(347,697)</u>
Investing Activities	
Payments received on notes receivable	20,672
Repayment of advance to limited partnership	13,297
Interest received	<u>87,149</u>
Net Cash from Investing Activities	<u>121,118</u>
Net Change in Cash	(465,797)
Cash Beginning of Year	<u>3,966,217</u>
Cash End of Year	<u><u>\$ 3,500,420</u></u>
Cash Consists of:	
Cash	\$ 681,820
Funded security deposits	36,883
Restricted cash	36,263
Restricted deposits	<u>2,745,454</u>
	<u><u>\$ 3,500,420</u></u>

City of Aberdeen
Statement of Cash Flows—Discretely Presented Component Unit
Year Ended December 31, 2012

	<u>Housing and Redevelopment Commission</u>
Reconciliation of Operating Loss to	
Net Cash used for Operating Activities:	
Operating loss	\$ (2,289,996)
Adjustments to reconcile operating loss to	
net cash used for operating activities:	
Loss on disposal of fixed assets	193
Depreciation	327,445
Amortization	1,113
Change in assets and liabilities:	
Rental accounts receivable	(2,059)
Other receivables	(191,322)
Prepaid expenses	13,242
Accounts payable and other accrued liabilities	206,894
Tenant security deposits	1,425
Deferred revenues	5,833
	<u>\$ (1,927,232)</u>
Net Cash used for Operating Activities	
Noncash Investing and Financing Transactions	
Note receivables issued for land transfer	\$ 53,180

City of Aberdeen
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number For Indirect Programs	Expenditures
Environmental Protection Agency Indirect Federal Funding: SD Department of Environment and Natural Resources: Nonpoint Source Implementation Grants	66.460	*****	\$ 20,328
Total Environmental Protection Agency			<u>20,328</u>
Department of Interior Indirect Federal Funding: SD Department of Tourism and State Development, Historic Preservation Fund Grants-in-Aid	15.904	SD-12-015	2,454
Total Department of Interior			<u>2,454</u>
Department of Transportation Direct Federal Funding: Airport Improvement Program (3-46-0001-30, 31, 32)	20.106	N/A	1,323,055
Indirect Federal Funding: SD Department of Public Safety: Highway Safety Cluster State and Community Highway Safety	20.600	*****	7,113
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	*****	555
Subtotal Highway Safety Cluster			<u>7,668</u>
SD Department of Game, Fish, and Parks: Highway Planning and Construction Cluster Recreational Trails Program	20.219	*****	70,000
SD Department of Transportation: Federal Transit Cluster Federal Transit - Capital Investment Grants (Section 5309)	20.500	811102-811173-811019-810939	14,011
Nonurbanized Area Formula Program Formula Grants for Other Than Urbanized Areas (Section 5311 & RTAP)	20.509	811122-811123-811194-RTAP	196,210
Transit Services Programs Cluster Capital Assistance Program for Elderly Persons and Persons with Disabilities (Section 5310)	20.513	811174	1,019
			<u>288,908</u>
Total Department of Transportation			<u>1,611,963</u>
Department of Health and Human Services: Indirect Federal Funding: SD Department of Transportation: Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	811122-811123-811194	17,814
General Services Administration: Indirect Federal Funding: SD Federal Property Agency: Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	12,448
National Endowment for the Arts: Indirect Federal Funding: SD Arts Council: Promotion of the Arts - Partnership Agreements	45.025	*****	12,085
Department of Agriculture: Indirect Federal Funding: SD Department of Agriculture: Cooperative Forestry Assistance	10.664	2011-UCF-009	1,500

City of Aberdeen
Schedule of Expenditures of Federal Awards
Year Ended December 31, 2012

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Energy:			
Direct Federal Funding:			
ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	<u>59,307</u>
Department of Homeland Security:			
Direct Federal Funding:			
Law Enforcement Officer Reimbursement Agreement Program	97.090	N/A	16,364
Indirect Federal Funding:			
SD Department of Public Safety:			
Emergency Management Performance Grants	97.042	*****	531
Homeland Security Grant Program	97.067	*****	<u>64,682</u>
Total Department of Homeland Security			<u>81,577</u>
Department of Justice:			
Direct Federal Funding:			
Bulletproof Vest Partnership Program	16.607	N/A	341
ARRA - Public Safety Partnership and Community Policing Grants	16.710	N/A	109,500
Indirect Federal Funding:			
SD Department of Public Safety:			
Enforcing Underage Drinking Laws Program	16.727	*****	10,079
SD Attorney General			
Missing Children's Assistance	16.543	2010-MC-CX-K023	<u>5,769</u>
Total Department of Justice			<u>125,689</u>
Total Expenditures of Federal Awards			<u>\$ 1,945,165</u>
***** "No" Pass-Through Entity Identifying Number Given			

Note 1 This schedule of expenditures of federal awards includes the federal grant activity of the City and is presented on the modified accrual/full accrual basis of accounting unless otherwise noted. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note 2 The amount reported represents 23.3% of the original acquisition cost of the federal surplus property received by the City.

Financial Statement Findings

2011-1 Financial Statement Adjustments

Condition: During the audit, the auditors identified certain items during their audit procedures that required adjustments to the financial statements, disclosures and the schedule of expenditures of federal awards.

Status: As of December 31, 2012 the finding has been resolved.

Federal Award Program Findings

Finding 2011-2 Program Income/Reporting

Department of Transportation

Pass-Through Entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years Ending September 30, 2011 and 2012

Condition: For the months January – September 2011, the internal control structure of the program did not identify that after hour fare income collected by the City should be included in the monthly reports that were submitted to the South Dakota Department of Transportation.

Status: As of December 31, 2012 the finding has been resolved.

Finding 2011-3 Allowable Costs/Reporting

Department of Transportation

Pass-Through Entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years Ending September 30, 2011 and 2012

Condition: During the year ended December 31, 2011, the internal control structure of the program had two different errors related to payroll being improperly recorded as well as one month's fuel expense being incorrectly reported on the monthly form submitted to the State. Specifically for payroll, a social security error was made for the entire year in which the employee portion was used instead of the appropriate employer's portion. The second payroll error relates to an employee's wages related to another department being incorrectly expensed as part of this grant on the monthly reimbursement reports.

Status: As of December 31, 2012 the finding has been resolved.



**Independent Auditor's 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***

The City Council
City of Aberdeen
Aberdeen, South Dakota

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Aberdeen as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 7, 2013.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

The image shows a handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
June 7, 2013



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with OMB Circular A-133

The City Council
City of Aberdeen
Aberdeen, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the City of Aberdeen’s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City’s major federal programs for the year ended December 31, 2012. The City’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on the compliance for each of the City’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City’s compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended December 31, 2012.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

The image shows a handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Aberdeen, South Dakota
June 7, 2013

Part I – Summary of Auditor’s Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes x no
- Significant deficiencies identified that are not considered to be material weaknesses? yes x none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes x no
- Significant deficiencies identified that are not considered to be material weaknesses? yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133? yes x no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program
20.509	Formula Grants for Other Than Urbanized Areas

Dollar threshold used to distinguish between type A and type B programs? \$ 300,000

Auditee qualified as low-risk auditee? yes x no

Part II – Findings Relating to the Financial Statements

None in current year.

Part III - Findings and Questioned Costs for Federal Award Programs

None in current year.