

**FINANCIAL STATEMENTS
DECEMBER 31, 2008**

CITY OF ABERDEEN

**CITY OF ABERDEEN
MUNICIPAL OFFICIALS
DECEMBER 31, 2008**

CITY COUNCIL

		<u>Term Expires</u>
Mayor / City Manager	Mike Levsen	2009
NE District Council Member	Jim Kraft	2012
NE District Council Member	Jeff Mitchell	2013
NW District Council Member	Todd Campbell	2012
NW District Council Member	Nancy Aman	2009
SE District Council Member	Clint Rux	2012
SE District Council Member	Lloyd Hodgin	2010
SW District Council Member	David Bunsness	2010
SW District Council Member	Tom Agnitsch	2013

APPOINTIVE OFFICERS

Finance Officer	Karl M. Alberts
Deputy Finance Officer	Gerald L. Kost
Personnel 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	David L. Osborn
Police Chief	Donald E. Lanpher, Jr.
Police Captain	Neil E. Bittner
Police Captain	David M. McNeil
Fire Chief	William T. Winter
Fire Shift Commander	Kevin L. VanMeter
Fire Shift Commander	Randy D. Meister
Fire Shift Commander	Todd A. Salfrank
Fire Preventive Bureau Chief	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	Gary L. Nelson
Cemetery Sexton	Kathie A. Allstot
Library Director	Shirley M. Arment
Mayor/City Manager's Secretary	Cathryn M. Feickert

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GOVERNING BOARDS

PARK AND RECREATION BOARD

(5 years)

Art Russo, President	2009
Bob Wilson	2013
Susan Bostian	2012
Rob Keil	2011
Sheryl Erickson	2011
Mike Opp	2010
Paul Fauth	2010
Todd Campbell, City Council Member	
Tom Agnitsch, City Council Member	

AIRPORT BOARD

(5 years)

Mike Erickson, Chairperson	2010
Rolf Johnson	2013
Nathan Zeeb	2012
Charles Bensen	2011
Steve Kaiser	2009
Jeff Mitchell, City Council Member	
Mike Wiese, County Commissioner	

LIBRARY BOARD

(3 years)

Richard Thomas, President	2010
Kathy Stuck	2013
Cec Peters	2000
Sandy Andera	2009
Rob Ronayne	2009
Clint Rux, City Council Member	

CITY OF ABERDEEN

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CPAs & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Aberdeen
Aberdeen, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Aberdeen's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the **City of Aberdeen**, South Dakota, as of December 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2009 on our consideration of the **City of Aberdeen's** internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying required supplementary information including management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 48 through 52, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Aberdeen's** basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the **City of Aberdeen's** basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Eric Sully LLP". The signature is written in black ink and is positioned above the typed address and date.

Aberdeen, South Dakota
November 2, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2008. 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 \$122.839 million (reported as net assets), an increase of \$10.54 million from the previous year. The component unit reported net assets of \$6.019 million, an increase of \$298,000 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 \$17.6 million, with \$17.2 million reported as *unreserved fund balance* and the remaining amount of \$352,140 reserved for specific purposes (debt service and non-current assets). At the end of the fiscal year, unreserved fund balance for the General Fund was \$3.88 million, of which \$433,960 was designated only to be used to fund fiscal year 2009 appropriations.
- Proprietary funds reported net assets at year-end of \$41.597 million, an increase of \$998,245 during the year.

Long-Term Debt

- The primary government's total long-term outstanding loans and bonded debt totaled \$54.1 million, an increase of \$4.5 million from the previous year. Of the total outstanding loans and bonded debt, \$45.5 million is backed by the City. The increase represents the issuance of tax increment financing revenue bonds in the amount of \$5,248,856 for TIF Districts #6 and #8, an installment purchase contract in the amount of \$43,430 for a front-wheel loader, and a State Revolving Loan from the South Dakota Department of Environment and Natural Resources in the amount of \$1,312,876 for wastewater treatment plant improvements. The decrease represents principal payments of \$3,008,880 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.

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 Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
- The Statement of Activities presents information depicting how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in 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 assets 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 Housing and Redevelopment Commission is included in the component unit column of the City's government-wide financial statements.

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, Airport Fund, and the Public Safety Projects 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 assets and statement of revenues, expenses, and changes in fund net assets.

- **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 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 Airport 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 results on a budgetary basis.

Because accounting principles used to present budgetary basis differ significantly from those used to present financial statements in conformity with Generally Accepted Accounting Principles (GAAP), a Budget-to-GAAP Reconciliation can be found immediately following the Budgetary Comparison Schedule. The Budget-to-GAAP reconciliation explains the differences between budgetary outflows and GAAP expenditures.

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 Assets. As presented in the following table, total assets of the City on December 31, 2008 were \$181.451 million, while total liabilities were \$58.612 million, resulting in combined net assets (governmental and business-type activities) of \$122.839 million.

	City of Aberdeen Net Assets					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 23,232,723	\$ 24,705,829	\$ 9,148,180	\$ 9,067,265	\$ 32,380,902	\$ 33,773,094
Capital Assets	89,096,943	72,554,005	59,973,696	58,563,946	149,070,639	131,117,951
Total Assets	112,329,666	97,259,834	69,121,876	67,631,211	181,451,541	164,891,045
Long-Term Liabilities Outstanding	27,804,213	23,609,379	26,295,826	26,005,144	54,100,039	49,614,523
Other Liabilities	3,284,271	1,957,848	1,228,166	1,026,430	4,512,437	2,984,278
Total Liabilities	31,088,484	25,567,227	27,523,992	27,031,574	58,612,476	52,598,801
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	74,436,038	64,875,420	33,782,516	32,667,596	108,218,554	97,543,016
Restricted	10,651,715	9,464,729	-	-	10,651,715	9,464,729
Unrestricted (deficit)	(3,846,571)	(2,647,543)	7,815,366	7,932,041	3,968,795	5,284,498
Total Net Assets	\$81,241,182	\$71,692,606	\$41,597,882	\$40,599,637	\$122,839,064	\$112,292,243

The largest component of the City's net assets, 88.3% (up slightly from 86.9% in 2007), 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 8.67% (up from 8.42% in 2007) 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, \$3.968 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 2009 appropriations (\$433,960).

Changes in Net Assets. The following table summarizes financial information derived from the government-wide statement of activities and reflects how the City's net assets changed during fiscal years 2008 and 2007.

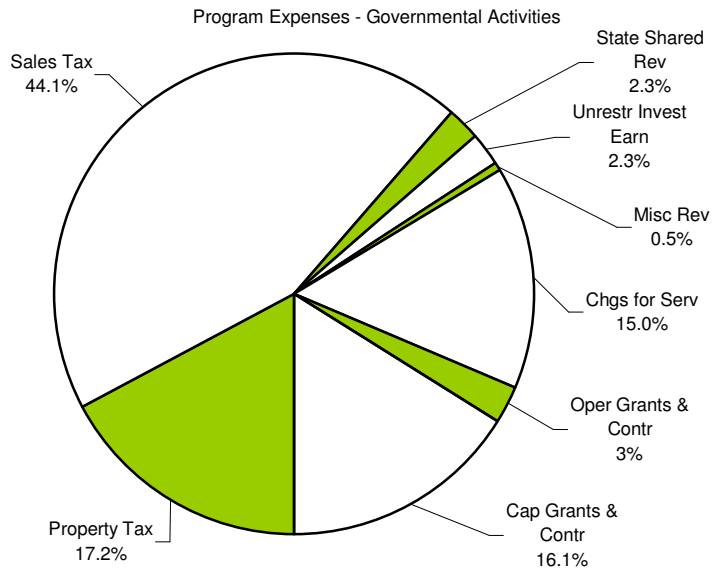
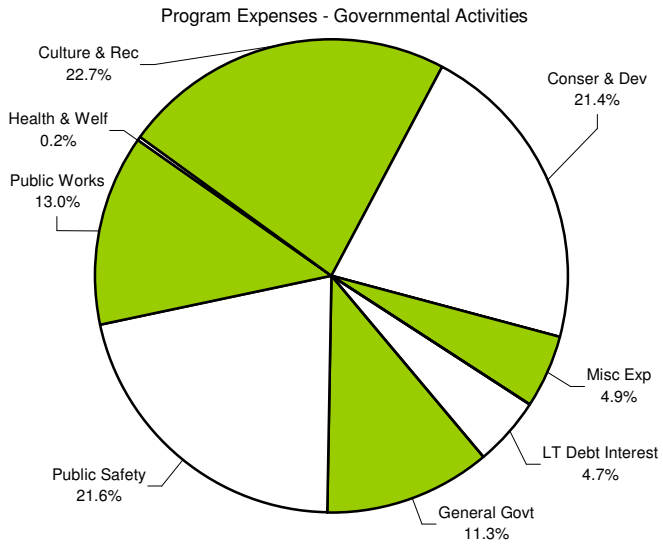
City of Aberdeen
Changes in Net Assets
Fiscal Year Ended December 31

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program Revenues:						
Charges for Services	\$ 5,311,871	\$ 5,227,612	\$ 7,621,485	\$ 7,241,528	\$ 12,933,356	\$ 12,469,140
Operating Grants and Contributions	913,519	1,314,632	39,016	139,752	952,535	1,454,384
Capital Grants and Contributions	5,699,210	2,004,616	1,797,650	1,175,520	7,496,860	3,180,136
General Revenues:						
Property Taxes	6,092,069	5,655,814	-	-	6,092,069	5,655,814
Sales Taxes	15,654,515	14,193,245	-	-	15,654,515	14,193,245
State Shared Revenues	827,356	784,360	-	-	827,356	784,360
Unrestricted Investment Earnings	555,296	567,129	255,905	295,267	811,200	862,396
Miscellaneous	242,398	698,891	(54,106)	(77,724)	188,291	621,167
Total Revenues	35,296,233	30,446,299	9,659,949	8,774,343	44,956,182	39,220,642
Program Expenses:						
General Government	2,905,440	2,912,682	-	-	2,905,440	2,912,682
Public Safety	5,534,732	5,322,816	-	-	5,534,732	5,322,816
Public Works	3,343,963	9,270,962	-	-	3,343,963	9,270,962
Health and Welfare	63,323	63,788	-	-	63,323	63,788
Cultural and Recreation	5,835,449	6,303,101	-	-	5,835,449	6,303,101
Conservation and Development	5,490,800	3,247,562	-	-	5,490,800	3,247,562
Intergovernmental Expenditures	-	-	-	-	-	-
Miscellaneous Expenditures	1,267,024	1,362,695	-	-	1,267,024	1,362,695
Interest on Long-term Debt	1,209,974	723,462	-	-	1,209,974	723,462
Water	-	-	4,187,741	3,873,210	4,187,741	3,873,210
Sewer	-	-	2,688,653	1,816,286	2,688,653	1,816,286
Campground	-	-	207,133	216,282	207,133	216,282
Golf	-	-	460,585	342,844	460,585	342,844
Ambulance	-	-	694,464	635,454	694,464	635,454
Total Expenses	25,650,705	29,207,068	8,238,576	6,884,076	33,889,281	36,091,144
Excess (Deficiency) Before Special Items and Transfers	9,645,528	1,239,231	1,421,372	1,890,267	11,066,901	3,129,498
Capitalization Policy Change	(520,080)	-	-	-	(520,080)	-
Transfers	423,127	225,000	(423,127)	(225,000)	-	-
Change in Net Assets	9,548,576	1,464,231	998,245	1,665,267	10,546,821	3,129,498
Net Assets – Beginning	71,692,606	70,228,375	40,599,637	38,934,370	112,292,243	109,162,745
Net Assets – Ending	\$81,241,182	\$71,692,606	\$41,597,882	\$40,599,637	\$122,839,064	\$112,292,243

Governmental Activities:

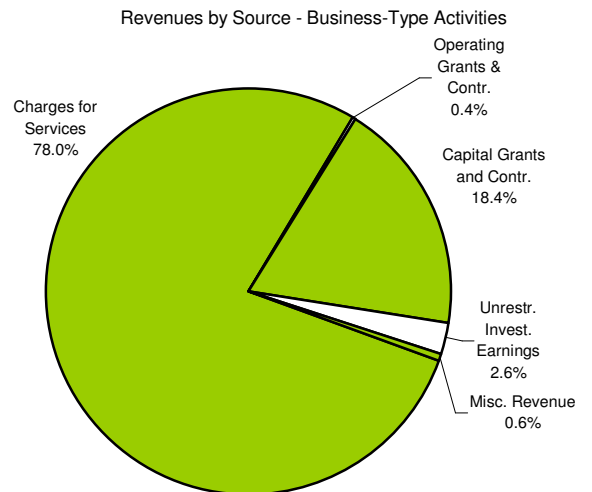
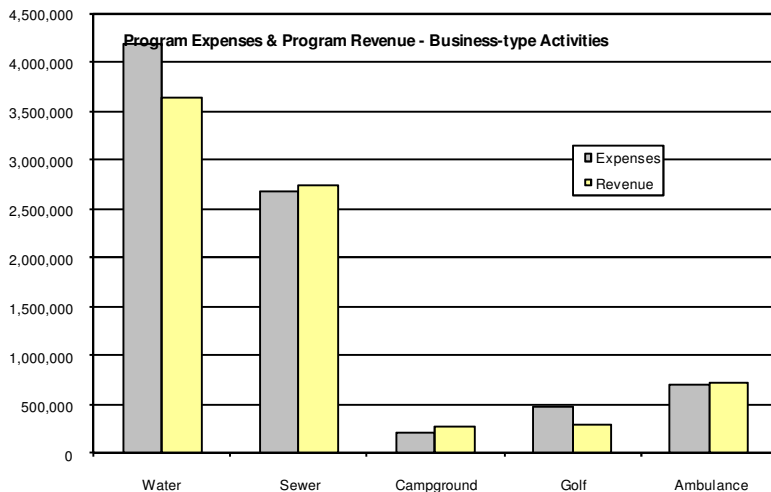
Governmental activities increased the City's net assets by \$9,548,576. Factors contributing to these results include:

- An excess of revenues over expenses, primarily due to federal and state grants (totaling \$6.6 million) for capital projects and public safety operating grants, and a vibrant local economy (general sales tax growth of 5.7%); and,
- Net transfers totaling \$423,127.



Business-Type Activities:

Net assets of the business-type activities increased by \$998.2 thousand during 2008, as compared to a \$1.665 million increase in 2007. Factors contributing to this decrease include additional depreciation, increased other expenses, and transfers out.



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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. 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 2008, the City's governmental funds reported combined ending fund balances of \$17.6 million, a decrease of \$3.2 million in comparison with the prior year.

Approximately 2.0%, or \$352,140 of the combined ending fund balances, is reserved to indicate that it is not available for new spending because it has already been committed as a variety of non-current assets.

Approximately 21.7%, or \$3,817,298 of the combined ending fund balances, is designated as a General and Special Revenue Fund Budget Reserve to indicate that it has been designated through internally imposed limitations to be used only to fund 2009 appropriations.

The remaining 76.3%, or \$13.44 million 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 2008 were the General Fund, the Special Sales Tax Fund, Airport Fund, and the Public Safety Capital Project Fund. The General Fund is the chief operating fund of the City. At the end of the fiscal year, unreserved fund balance of the General Fund was \$3.879 million, of which \$433,960 was designated only to be used to fund 2009 appropriations. Total fund balance at the end of the current fiscal year was \$4.169 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance (including the unreserved designated amount) and total fund balance represents 31.23% (22.44% in 2007) of the total General Fund operating expenditures.

Overall, the fund balance of the City's General Fund increased by \$1,150,548 during the current fiscal year. This is a 38.1% increase from the prior year fund balance. The increase primarily resulted from unanticipated revenues in general sales tax collections of approximately \$365,000, underspending of original budget by departments of approximately \$449,000, and reimbursement of TIF #6 project costs from bond proceeds of \$900,000. These increases were offset by less than expected federal grants of approximately \$267,000 and higher than anticipated transfers to other funds for operations of \$155,000.

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, unreserved fund balance of the Special Sales Tax Fund was \$5,206,311. Total fund balance at the end of the current fiscal year was also \$5,206,311.

Overall, the fund balance of the City's Special Sales Tax Fund increased by \$956,148 during the current fiscal year. This is a 22.5% increase in fund balance from the prior year. The increase primarily resulted from unanticipated sales tax revenues of approximately \$147,400 and several projects which were not completed.

The Airport Fund is the fund maintained by the City to account for the revenues and expenditures associated with the operations and capital improvements at the Aberdeen Regional Airport as provided for in South Dakota Codified Law 50-6-14. At the end of the fiscal year, unreserved fund balance of the Airport Fund was (\$244,923). Total fund balance at the end of the current fiscal year was also (\$244,923). Overall, the fund balance of the Airport Fund decreased by \$512,437 during the current fiscal year.

This is a 191.5% decrease in fund balance from the prior year. The increase primarily resulted from several Airport Improvement Projects (AIP's) completed during 2008 that required city matching funds. These funds were budgeted in and will be transferred from the Special Sales Tax Fund to the Airport Fund in 2009.

The Public Safety Capital Project Fund is the fund created by the City to account for the new Police Department building, new Fire Station #2, and renovation of Fire Stations #1 and #3. At the end of the fiscal year, unreserved fund balance of the Public Safety Capital Project Fund was \$4,248,518. Total fund balance at the end of the current fiscal year was also \$4,248,518.

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 2008:

- **Water Fund.** At the end of fiscal year 2008, the Water Fund reported total net assets of \$21.364 million, an increase of \$78,150 (0.37%) in comparison with the prior year. During 2008, the Water Fund produced an operating loss (before contributions and operating transfers) in the amount of \$11,624 on total operating revenue of \$3.638 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$174,724 on total revenue of \$3.489 million. The increase in total net assets was largely the result of ongoing operations of the Water Fund.
- **Sewer Fund.** At the end of fiscal year 2008, the Sewer Fund reported total net assets of \$18.268 million, an increase of \$978.8 thousand (5.7%) in comparison with the prior year. During 2008, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$281,555 on total operating revenue of \$2.731 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$837,975 on total revenue of \$2.452 million. The increase in total net assets was largely the result of rate increases required by SRF loan agreements with SD DENR for improvements at the Wastewater Treatment Plant.

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 \$1.292 million (or 7.5%) of increases in appropriations and can be summarized as follows:

- \$135,200 in supplemental appropriations to General Government for 1) costs associated with the annual audit 2) costs associated with postage and training, 3) higher than anticipated telephone costs, 4) new building permit and business licensing software, and 5) radio repairs and portable equipment for Engineering.
- \$233,500 in supplemental appropriations to Public Safety to account 1) for Fire Department training reimbursed by grants and water consumption 2) for Police radio equipment reimbursed by grants.
- \$482,000 in supplemental appropriations to Public Works departments for 1) higher fuel, electric, and natural gas during the year, 2) water consumption expenses, 3) fall/winter snow removal expenses, and 4) increased fuel and telephone expenses and two vans (80% grant) for Rideline.
- \$280,000 in supplemental appropriations to Economic Development relating to the newly formed Business Improvement District #2 occupancy tax.

- \$155,000 in supplemental appropriations for transfers to the Parks, Recreation, and Forestry Fund storm and flood repairs accounted for in that fund.
- Other budget adjustments in the form of FY 2008 supplemental appropriations were not considered to be significant variations, or to have a significant effect on future services or liquidity.

Actual spending was less than the original budget for General Fund total operating expenditures by \$448,728 and was less than the final amended budget by over \$1.585 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, 2008 is \$149.1 million (net of accumulated depreciation) as compared to \$131.1 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	
	2008	2007	2008	2007	2008	2007
Land	\$ 7,115,980	\$ 5,982,356	\$ 701,396	\$ 701,396	\$ 7,817,376	\$ 6,683,752
Buildings	25,454,867	24,112,523	55,240,486	54,018,537	80,695,353	78,131,060
Improvements other than Buildings	83,811,776	71,329,250	23,892,569	21,836,876	107,704,345	93,166,126
Equipment/Vehicles	13,654,934	13,930,451	6,292,255	6,166,038	19,947,189	20,096,489
Construction in Progress	4,706,377	502,761	1,368,245	1,624,348	6,074,622	2,127,109
Total Capital Assets	<u>134,743,934</u>	<u>115,857,341</u>	<u>87,494,951</u>	<u>84,347,195</u>	<u>222,238,885</u>	<u>200,204,536</u>
Accumulated Depreciation	<u>45,646,991</u>	<u>43,303,336</u>	<u>27,521,255</u>	<u>25,783,249</u>	<u>73,168,246</u>	<u>69,086,585</u>
Total Capital Assets, Net	<u>\$89,096,943</u>	<u>\$72,554,005</u>	<u>\$59,973,696</u>	<u>\$58,563,946</u>	<u>\$149,070,639</u>	<u>\$131,117,951</u>

The City's investment in capital assets (net of accumulated depreciation) changed from fiscal year 2008 to 2007 by approximately 13.69%. Governmental construction projects completed during 2008 include street improvements at a total cost of about \$6,182,600, stormwater mains at a total cost of about \$719,400, Airport AIP projects at a total cost of about \$5,729,500, and Fire Station #2 at a total cost of about \$1,762,151. The governmental Construction in Progress includes \$3,714,964 for the new Police Building, \$866,855 for Fire Station #1 and #3 renovations, and \$124,558 for Storybook Land Visitors Center. Business-type construction projects completed during 2008 include wastewater treatment plant and collection system improvements at a total of about \$2,186,691 and water main improvements at a total cost of about \$1,105,523. The business-type Construction in Progress includes \$1,368,245 for Wastewater Treatment Plant Improvements.

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 2008 general-purpose debt limitation for the City is \$56,453,713, which is \$17,743,141 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 \$27,804,213 and business-type activities had total note and bonded debt outstanding of \$26,295,826. During the current fiscal year, the City incurred \$6,002,993 of new long-term general indebtedness under governmental activities and incurred \$1,491,403 of indebtedness in business-type activities. The increase in governmental indebtedness related to TIF Districts #6 and #8 and the installment contract for a front wheel loader for Parks and business-type indebtedness related to the State Revolving Loan associated with the Wastewater Treatment Plants improvements. The City retired \$3,008,880 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, versalift and police vehicle installment contracts, the purchase of the old Central High School Complex, 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 2008 has helped to maintain steady revenue streams for the City. 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 4% in 2008). As a sign of economic stability, the sales tax collections within the City have grown steadily from 1998 to 2008, for a total increase of 75.7% for those ten years and an annual average of 7.57%. Sales tax collections in 2008 increased by an annual rate of 5.81%. This is under the ten year average and the statewide taxable sales increase of 6.7% in calendar year 2008. Another sign of favorable economic growth is the increasing issuance of building permits for commercial and residential construction and remodeling. Revenue from building permits has increase by an average of 57.5% for the past ten years and increased 13.3% in 2008.

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 its own separate financial statements. These statements may be obtained by directly contacting the individual component unit.

CITY OF ABERDEEN
STATEMENT OF NET ASSETS
DECEMBER 31, 2008

EXHIBIT I

	Primary Government			Component Unit Housing and Redevelopment Commission
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 15,353,349	\$ 4,773,031	\$ 20,126,380	\$ 673,573
Investments	4,650,290	2,364,571	7,014,861	-
Accounts receivable, net	2,928,732	1,530,161	4,458,893	413,716
Internal balances	(154,663)	154,663	-	-
Inventories	12,429	325,754	338,183	-
Deferred charges	152,874	-	152,874	-
Other assets	-	-	-	250,868
Restricted assets:				
Cash and cash equivalents	-	-	-	246,150
Deposits	289,712	-	289,712	2,689,744
Capital assets:				
Land, improvements, and construction in process	11,822,357	2,069,641	13,891,998	621,729
Other capital assets, net of depreciation	77,274,586	57,904,055	135,178,641	2,620,233
Total assets	<u>\$ 112,329,666</u>	<u>\$ 69,121,876</u>	<u>\$ 181,451,542</u>	<u>\$ 7,516,013</u>
LIABILITIES				
Accounts payable	\$ 1,815,336	\$ 715,595	\$ 2,530,931	\$ 80,260
Deferred revenue	125,026	159,386	284,412	337
Other current liabilities	1,343,909	353,185	1,697,094	102,916
Noncurrent liabilities:				
Due within one year	972,017	1,080,756	2,052,773	62,326
Due in more than one year	26,832,196	25,215,070	52,047,266	1,250,742
Total liabilities	<u>31,088,484</u>	<u>27,523,992</u>	<u>58,612,476</u>	<u>1,496,581</u>
NET ASSETS				
Invested in capital assets, net of related debt	74,436,038	33,782,517	108,218,555	1,928,894
Restricted for:				
Capital projects	1,239,698	-	1,239,698	-
Debt service	2,601,922	-	2,601,922	-
Perpetual care:				
Expendable	124,378	-	124,378	-
Permanently nonexpendable	50,000	-	50,000	-
Other purposes	6,635,717	-	6,635,717	2,935,894
Unrestricted	(3,846,571)	7,815,367	3,968,796	1,154,644
	<u>81,241,182</u>	<u>41,597,884</u>	<u>122,839,066</u>	<u>6,019,432</u>
	<u>\$ 112,329,666</u>	<u>\$ 69,121,876</u>	<u>\$ 181,451,542</u>	<u>\$ 7,516,013</u>

CITY OF ABERDEEN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008

EXHIBIT II

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets			Component Unit Housing and Redevelopment Commission	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
Primary government:								
Governmental activities:								
General government	\$ 2,905,440	\$ 614,310	\$ -	\$ -	\$ (2,291,130)	\$ -	\$ (2,291,130)	\$ -
Public safety	5,534,732	102,094	153,412	-	(5,279,226)	-	(5,279,226)	-
Public works	3,343,963	1,685,853	380,547	5,491,710	4,214,147	-	4,214,147	-
Health and welfare	63,323	4,705	-	-	(58,618)	-	(58,618)	-
Culture and recreation	5,835,449	1,036,924	375,890	-	(4,422,635)	-	(4,422,635)	-
Conservation and development	5,490,800	-	3,670	-	(5,487,130)	-	(5,487,130)	-
Intergovernmental expenditures	-	-	-	207,500	207,500	-	207,500	-
Miscellaneous expenditures	1,267,024	1,867,986	-	-	600,962	-	600,962	-
Interest on long-term debt	1,209,974	-	-	-	(1,209,974)	-	(1,209,974)	-
Total governmental activities	25,650,705	5,311,872	913,519	5,699,210	(13,726,104)	-	(13,726,104)	-
Business-type activities:								
Water	4,187,741	3,638,330	39,016	824,885	-	314,490	314,490	-
Sewer	2,688,653	2,731,628	-	972,765	-	1,015,740	1,015,740	-
Campground	207,133	261,649	-	-	-	54,516	54,516	-
Golf	460,585	283,545	-	-	-	(177,040)	(177,040)	-
Ambulance	694,464	706,333	-	-	-	11,869	11,869	-
Total business-type activities	8,238,576	7,621,485	39,016	1,797,650	-	1,219,575	1,219,575	-
Total primary government	\$ 33,889,281	\$ 12,933,357	\$ 952,535	\$ 7,496,860	(13,726,104)	1,219,575	(12,506,529)	-
Component Unit:								
Housing and Redevelopment Commission	\$ 2,780,897	\$ 696,844	\$ 2,123,245	\$ 100,000	-	-	-	139,192
General revenues:								
Taxes:								
Property taxes	-	-	-	-	6,092,069	-	6,092,069	-
Sales taxes	-	-	-	-	15,654,515	-	15,654,515	-
State shared revenue	-	-	-	-	827,356	-	827,356	-
Unrestricted investment earnings	-	-	-	-	555,296	255,905	811,201	145,533
Grants and contributions not restricted to specific programs	-	-	-	-	-	-	-	-
Miscellaneous revenue	-	-	-	-	242,398	(54,106)	188,292	13,536
Special items:								
Capital assets capitalization policy change	-	-	-	-	(520,080)	-	(520,080)	-
Extraordinary items	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	423,127	(423,127)	-	-
Total general revenues, special items, extraordinary items, and transfers	-	-	-	-	23,274,681	(221,328)	23,053,353	159,069
Change in net assets	-	-	-	-	9,548,576	998,245	10,546,821	298,261
Net assets - beginning	-	-	-	-	71,692,606	40,599,639	112,292,245	5,721,171
NET ASSETS - ENDING	\$ -	\$ -	\$ -	\$ -	\$ 81,241,182	\$ 41,597,884	\$ 122,839,066	\$ 6,019,432

See Notes to Financial Statements.

CITY OF ABERDEEN
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2008

EXHIBIT III

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Airport Fund</u>	<u>Public Safety Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS						
Cash and cash equivalents	\$ 2,932,419	\$ 3,505,716	\$ 183,824	\$ 5,160,996	\$ 3,145,260	\$ 14,928,215
151 Investments	1,214,386	1,350,937	-	-	1,484,967	4,050,290
110 Taxes receivable, delinquent	82,801	-	100	-	692	83,593
115 Accounts receivable, net	39,286	-	18,595	-	4,504	62,385
121 Special assessments receivable, current	26,225	4,040	-	-	3,042	33,307
122 Special assessments receivable, delinquent	46,595	-	-	-	-	46,595
123 Special assessments receivable, deferred	-	2,958	-	-	-	2,958
131 Due from airport fund	-	578,877	-	-	-	578,877
132 Due from Federal/State/County governments	338,865	181,258	483,283	-	37,409	1,040,815
141 Inventory of supplies	-	-	-	-	12,429	12,429
154 Deposits	289,712	-	-	-	-	289,712
TOTAL ASSETS	<u>\$ 4,970,289</u>	<u>\$ 5,623,786</u>	<u>\$ 685,802</u>	<u>\$ 5,160,996</u>	<u>\$ 4,688,303</u>	<u>\$ 21,129,176</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
202 Accounts payable	\$ 504,733	\$ 365,452	\$ 113,970	\$ 547,306	\$ 264,421	\$ 1,795,882
207 Contracts payable, retained percentage	-	49,065	227,623	365,172	-	641,860
208 Due to water fund	19,790	-	3,479	-	131,394	154,663
208 Due to special sales tax fund	-	-	578,877	-	-	578,877
216 Accrued wages payable	172,063	-	6,776	-	36,630	215,469
220 Customer deposits	6,480	-	-	-	-	6,480
224 Deferred revenue	98,258	2,958	-	-	23,809	125,025
Total liabilities	<u>801,324</u>	<u>417,475</u>	<u>930,725</u>	<u>912,478</u>	<u>456,254</u>	<u>3,518,256</u>
Fund balances:						
261 Reserved for:						
261.02 Inventory	-	-	-	-	12,429	12,429
261.15 Cemetery perpetual care	-	-	-	-	50,000	50,000
261.16 Cumulative reserve fund, SDPAA	289,712	-	-	-	-	289,712

262	Unreserved fund balances:						
262.01	Designated for next year's appropriation	433,960	905,000	36,000	2,200,000	-	3,574,960
	Reported in nonmajor special revenue funds	-	-	-	-	31,338	31,338
	Reported in nonmajor debt service funds	-	-	-	-	211,000	211,000
262.02	Designated for other purposes:						
	Reported in nonmajor permanent funds	-	-	-	-	124,378	124,378
262.09	Undesignated	3,445,293	4,301,311	(280,923)	2,048,518	-	9,514,199
	Reported in nonmajor special revenue funds	-	-	-	-	1,174,771	1,174,771
	Reported in nonmajor debt service funds	-	-	-	-	2,390,922	2,390,922
	Reported in nonmajor capital project funds	-	-	-	-	237,211	237,211
	Total fund balances	<u>4,168,965</u>	<u>5,206,311</u>	<u>(244,923)</u>	<u>4,248,518</u>	<u>4,232,049</u>	<u>17,610,920</u>
	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,970,289</u>	<u>\$ 5,623,786</u>	<u>\$ 685,802</u>	<u>\$ 5,160,996</u>	<u>\$ 4,688,303</u>	<u>\$ 21,129,176</u>

CITY OF ABERDEEN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
DECEMBER 31, 2008

	<u>Total</u>
Total fund balances - governmental funds	\$ 17,610,920
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the funds.	89,096,943
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.	(27,804,213)
Unamortized balance of deferred charges for debt issuance costs are not considered financial resources and; therefore, are not reported as assets in the funds.	152,874
Unamortized balance of premiums and discounts are not due and payable in the current period and; therefore, are not reported in the funds.	(205,349)
Taxes collected after year-end, but not available soon enough to pay for current period expenditures.	1,659,079
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(153,250)
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 assets.	<u>884,180</u>
Net assets - governmental funds	<u>\$ 81,241,182</u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2008

EXHIBIT IV

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Airport Fund</u>	<u>Public Safety Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
310 Taxes:						
311 General property taxes	\$ 5,511,304	\$ -	\$ -	\$ -	\$ 543,011	\$ 6,054,315
312 Airflight property taxes	-	-	29,703	-	-	29,703
313 General sales and use taxes	7,365,322	7,146,985	-	-	795,215	15,307,522
319 Penalties and interest on delinquent taxes	7,852	-	51	-	148	8,051
320 Licenses and permits	532,715	-	-	-	-	532,715
330 Intergovernmental revenue:						
331 Federal grants	344,141	207,500	5,372,437	-	14,670	5,938,748
334 State grants	64,274	-	113,112	-	6,500	183,886
335 State shared revenue:						
335.01 Bank franchise tax	67,974	-	-	-	-	67,974
335.02 Motor vehicle commercial prorate	20,122	-	-	-	-	20,122
335.03 Liquor tax reversion	188,201	-	-	-	-	188,201
335.04 Motor vehicle licenses (5%)	84,757	-	-	-	-	84,757
335.06 Fire insurance premiums reversion	60,605	-	-	-	-	60,605
335.08 Local government highway and bridge fund	312,875	-	-	-	-	312,875
335.20 Other	77,228	-	9,401	-	-	86,629
336 State payments in lieu of taxes	6,193	-	-	-	-	6,193
338 County shared revenue:						
338.02 County HBR tax (25%)	20,440	-	-	-	-	20,440
338.03 County wheel tax	7,664	-	-	-	-	7,664
340 Charges for goods and services:						
341 General government	81,596	-	-	-	-	81,596
342 Public safety	79,469	-	-	-	-	79,469
343 Highways and streets	114,760	-	-	-	-	114,760
344 Sanitation	1,178,565	-	-	-	386,135	1,564,700
345 Health	4,705	-	-	-	-	4,705
346 Culture and recreation	2,658	-	-	-	1,012,574	1,015,232
348 Cemetery	-	-	-	-	2,353	2,353
349 Other	193,740	-	285,346	-	-	479,086
350 Fines and forfeits:						
351 Court fines and costs	22,624	-	-	-	-	22,624
354 Library	-	-	-	-	21,691	21,691
359 Other	608	-	2,263	-	-	2,871
360 Miscellaneous revenue:						
361 Investment earnings	112,372	182,056	1,731	140,869	118,268	555,296
362 Rentals	175,182	-	-	-	1,080	176,262
363 Special assessments	-	4,040	-	-	-	4,040
367 Contributions and donations from private sources	22,010	-	-	-	348,812	370,822
369 Other	40,221	-	24	-	8,410	48,655
Total revenue	<u>16,700,177</u>	<u>7,540,581</u>	<u>5,814,068</u>	<u>140,869</u>	<u>3,258,867</u>	<u>33,454,562</u>

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – page 2**

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Airport Fund</u>	<u>Public Safety Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Expenditures						
410 General government:						
412 Executive	219,819	-	-	-	-	219,819
414 Financial administration	1,484,425	-	-	-	-	1,484,425
419 Other	1,289,474	-	-	-	-	1,289,474
Total general government	<u>2,993,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,993,718</u>
420 Public safety:						
421 Police	3,084,291	-	-	3,631,711	-	6,716,002
422 Fire	2,210,640	-	-	2,195,048	-	4,405,688
423 Protective inspection	177,163	-	-	-	-	177,163
429 Other protection	-	242,350	-	-	-	242,350
Total public safety	<u>5,472,094</u>	<u>242,350</u>	<u>-</u>	<u>5,826,759</u>	<u>-</u>	<u>11,541,203</u>
430 Public works:						
431 Highways and streets	1,853,931	3,192,642	-	-	411,252	5,457,825
432 Sanitation	1,005,695	44,093	-	-	-	1,049,788
433 Water	-	607,197	-	-	-	607,197
435 Airport	-	-	6,737,200	-	-	6,737,200
436 Parking facilities	-	-	-	-	42,838	42,838
437 Cemeteries	-	-	-	-	28,567	28,567
439 Transit	517,730	-	-	-	-	517,730
Total public works	<u>3,377,356</u>	<u>3,843,932</u>	<u>6,737,200</u>	<u>-</u>	<u>482,657</u>	<u>14,441,145</u>
440 Health and welfare:						
445 Drug education	58,323	-	-	-	-	58,323
449 Other	5,000	-	-	-	-	5,000
Total health and welfare	<u>63,323</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>63,323</u>
450 Culture and recreation						
451 Recreation	27,651	-	-	-	2,833,784	2,861,435
452 Parks	-	171,412	-	-	1,658,939	1,830,351
455 Libraries	911,482	25,000	-	-	37,955	974,437
457 Historical preservation	-	-	-	-	9,976	9,976
Total culture and recreation	<u>939,133</u>	<u>196,412</u>	<u>-</u>	<u>-</u>	<u>4,540,654</u>	<u>5,676,199</u>
460 Conservation and development:						
463 Urban redevelopment and housing	-	-	-	-	335,708	335,708
465 Economic development and assistance (industrial development)	464,370	405,000	-	-	4,285,722	5,155,092
Total conservation and development	<u>464,370</u>	<u>405,000</u>	<u>-</u>	<u>-</u>	<u>4,621,430</u>	<u>5,490,800</u>
470 Debt service	<u>39,843</u>	<u>173,739</u>	<u>-</u>	<u>-</u>	<u>2,078,883</u>	<u>2,292,465</u>
Total expenditures	<u>13,349,837</u>	<u>4,861,433</u>	<u>6,737,200</u>	<u>5,826,759</u>	<u>11,723,624</u>	<u>42,498,853</u>
Excess of revenue over (under) expenditures	<u>3,350,340</u>	<u>2,679,148</u>	<u>(923,132)</u>	<u>(5,685,890)</u>	<u>(8,464,757)</u>	<u>(9,044,291)</u>
Other Financing Sources (Uses)						
391.01 Transfers in	1,259,170	-	410,695	-	5,181,339	6,851,204
511 Transfers out	(3,509,770)	(1,723,000)	-	-	(1,195,307)	(6,428,077)
391.02 Proceeds of general long-term debt issued	-	-	-	-	5,292,286	5,292,286
391.03 Sale of municipal property	35,130	-	-	-	-	35,130
391.04 Compensation for loss or damage to capital assets	15,678	-	-	-	36,489	52,167
Total other financing sources (uses)	<u>(2,199,792)</u>	<u>(1,723,000)</u>	<u>410,695</u>	<u>-</u>	<u>9,314,807</u>	<u>5,802,710</u>
Net change in fund balances	1,150,548	956,148	(512,437)	(5,685,890)	850,050	(3,241,581)
Fund balance - beginning	<u>3,018,417</u>	<u>4,250,163</u>	<u>267,513</u>	<u>9,934,408</u>	<u>3,382,000</u>	<u>20,852,501</u>
FUND BALANCE - ENDING	<u>\$ 4,168,965</u>	<u>\$ 5,206,311</u>	<u>\$ (244,924)</u>	<u>\$ 4,248,518</u>	<u>\$ 4,232,050</u>	<u>\$ 17,610,920</u>

CITY OF ABERDEEN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2008

	<u>Total</u>
Net change in fund balances - total governmental funds	\$ (3,241,581)
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.	17,218,058
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.	(675,120)
Repayment of other long-term debt principal is an expenditure in the government funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,119,557
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(22,104)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	346,993
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.	(28,983)
Proceeds from issuance of long-term debt recorded as an other financing source in governmental funds.	(5,292,286)
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 if reported with governmental activities.	<u>121,268</u>
Change in net assets of governmental activities	<u>\$ 9,548,576</u>

CITY OF ABERDEEN
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2008

EXHIBIT V

	<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	\$ 3,297,077	\$ 890,749	\$ 585,204	\$ 4,773,030	\$ 425,135
151 Investments	1,339,941	1,024,630	-	2,364,571	600,000
115 Accounts receivable, net	52,456	47,301	136,185	235,942	-
117 Unbilled accounts receivable	457,314	451,205	-	908,519	-
121 Special assessments receivable, current	4,994	-	-	4,994	-
122 Special assessments receivable, delinquent	2,403	-	-	2,403	-
131.1 Due from general fund	19,790	-	-	19,790	-
131.2 Due from park and recreation fund	128,772	-	-	128,772	-
131.3 Due from airport fund	3,479	-	-	3,479	-
131.4 Due from storm water fund	2,622	-	-	2,622	-
131.5 Due from sewer fund	33,148	-	-	33,148	-
131.6 Due from golf fund	75,905	-	-	75,905	-
132 Due from federal/state/county governments	4,125	374,176	-	378,301	-
141 Inventory of supplies	304,077	21,678	-	325,755	-
Total current assets	<u>5,726,103</u>	<u>2,809,739</u>	<u>721,389</u>	<u>9,257,231</u>	<u>1,025,135</u>
Noncurrent assets:					
Capital assets:					
160 Land	311,427	59,469	330,500	701,396	-
162 Buildings	27,775,644	26,622,447	842,395	55,240,486	-
164 Improvements other than buildings	14,636,954	9,031,837	223,778	23,892,569	-
166 Machinery and equipment	3,983,920	1,431,455	876,880	6,292,255	-
168 Construction work in progress	-	1,368,245	-	1,368,245	-
Less accumulated depreciation	(15,669,467)	(11,010,498)	(841,290)	(27,521,255)	-
Total noncurrent assets	<u>31,038,478</u>	<u>27,502,955</u>	<u>1,432,263</u>	<u>59,973,696</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 36,764,581</u></u>	<u><u>\$ 30,312,694</u></u>	<u><u>\$ 2,153,652</u></u>	<u><u>\$ 69,230,927</u></u>	<u><u>\$ 1,025,135</u></u>

(continued on next page)

STATEMENT OF NET ASSETS – PROPRIETARY FUNDS – page 2

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
LIABILITIES					
Current liabilities:					
201 Claims payable	\$ 3,161	\$ -	\$ -	\$ 3,161	\$ -
202 Accounts payable	89,893	557,226	65,316	712,435	19,454
206 Contracts payable	-	-	14,454	14,454	-
207 Contracts payable, retained percentage	-	104,452	-	104,452	-
208 Due to water fund	-	33,148	75,905	109,053	-
213 Incurred but not reported claims	-	-	-	-	121,501
215 Accrued interest payable	120,443	50,647	-	171,090	-
216 Accrued wages payable	20,633	14,494	12,029	47,156	-
223 Revenue collected in advance	16,032	-	-	16,032	-
224 Deferred revenue	84,200	75,186	-	159,386	-
226 Bonds payable current:					
226.02 Revenue	633,770	446,986	-	1,080,756	-
Total current liabilities	<u>968,132</u>	<u>1,282,139</u>	<u>167,704</u>	<u>2,417,975</u>	<u>140,955</u>
Noncurrent liabilities					
231 Bonds payable:					
231.02 Revenue	14,380,828	10,729,595	-	25,110,423	-
233 Accrued leave payable	51,214	32,135	21,298	104,647	-
Total noncurrent liabilities	<u>14,432,042</u>	<u>10,761,730</u>	<u>21,298</u>	<u>25,215,070</u>	<u>-</u>
NET ASSETS					
253.10 Invested in capital assets, net of related debt	16,023,880	16,326,373	1,432,263	33,782,516	-
253.90 Unrestricted net assets	5,340,527	1,942,452	532,387	7,815,366	884,180
Total net assets	<u>21,364,407</u>	<u>18,268,825</u>	<u>1,964,650</u>	<u>41,597,882</u>	<u>884,180</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 36,764,581</u>	<u>\$ 30,312,694</u>	<u>\$ 2,153,652</u>	<u>\$ 69,230,927</u>	<u>\$ 1,025,135</u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENSES AND
AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2008

EXHIBIT VI

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Operating revenue:					
380 Charges for goods and services	\$ 3,488,509	\$ 2,704,525	\$ 1,239,179	\$ 7,432,213	\$ 1,357,539
369 Miscellaneous	149,821	27,103	12,348	189,272	106
Total operating revenue	<u>3,638,330</u>	<u>2,731,628</u>	<u>1,251,527</u>	<u>7,621,485</u>	<u>1,357,645</u>
Operating expenses:					
410 Personal services	1,079,760	698,012	737,558	2,515,330	-
420 Other current expenses	1,610,803	949,095	523,887	3,083,785	1,267,024
426.2 Materials (cost of goods sold)	(21,135)	1,388	-	(19,747)	-
457 Depreciation	980,526	801,578	100,737	1,882,841	-
Total operating expenses	<u>3,649,954</u>	<u>2,450,073</u>	<u>1,362,182</u>	<u>7,462,209</u>	<u>1,267,024</u>
Operating income (loss)	<u>(11,624)</u>	<u>281,555</u>	<u>(110,655)</u>	<u>159,276</u>	<u>90,621</u>
Nonoperating revenue (expense):					
330 Operating grants	39,016	-	-	39,016	-
361 Investment earnings	169,593	77,125	9,186	255,904	30,647
470 Interest expense and fiscal charges	(537,788)	(238,580)	-	(776,368)	-
(492) 366 Gain (loss) on disposition of assets	-	2,000	1,448	3,448	-
(429) 369.01 Other	(21,895)	(7,566)	(28,093)	(57,554)	-
Total nonoperating revenue (expense)	<u>(351,074)</u>	<u>(167,021)</u>	<u>(17,459)</u>	<u>(535,554)</u>	<u>30,647</u>
Income (loss) before contributions, special items, and extraordinary items	(362,698)	114,534	(128,114)	(376,278)	121,268
391.07 Capital contributions	824,885	972,765	-	1,797,650	-
391.1 Transfers in	-	-	143,300	143,300	-
511 Transfers out	(384,037)	(108,500)	(73,890)	(566,427)	-
Change in net assets	78,150	978,799	(58,704)	998,245	121,268
Net assets - beginning	<u>21,286,257</u>	<u>17,290,026</u>	<u>2,023,354</u>	<u>40,599,637</u>	<u>762,912</u>
NET ASSETS - ENDING	<u>\$ 21,364,407</u>	<u>\$ 18,268,825</u>	<u>\$ 1,964,650</u>	<u>\$ 41,597,882</u>	<u>\$ 884,180</u>

See Notes to Financial Statements.

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2008

EXHIBIT VII

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Cash flows from operating activities					
Receipt from customers	\$ 3,478,548	\$ 2,684,480	\$ 1,247,013	\$ 7,410,041	\$ 1,357,539
Payments to suppliers	(1,576,884)	(916,413)	(486,759)	(2,980,056)	-
Payments to employees	(1,077,123)	(696,832)	(731,160)	(2,505,115)	-
Internal activity - payment to other funds	-	33,148	75,905	109,053	-
Claims paid	-	-	-	-	(1,271,677)
Cash receipts for interfund services provided	(56,459)	-	-	(56,459)	-
Other receipts (payments)	149,821	27,103	12,348	189,272	106
Net cash from operating activities	<u>917,903</u>	<u>1,131,486</u>	<u>117,347</u>	<u>2,166,736</u>	<u>85,968</u>
Cash flows from (used by) noncapital financing activities					
Transfers from other funds	-	-	143,300	143,300	-
Transfers to other funds	(384,037)	(108,500)	(73,890)	(566,427)	-
Operating grants	39,016	-	-	39,016	-
Other noncapital receipts	-	-	-	-	-
Net cash from (used by) noncapital financing activities	<u>(345,021)</u>	<u>(108,500)</u>	<u>69,410</u>	<u>(384,111)</u>	<u>-</u>
Cash flows used by capital and related financing activities					
Proceeds from capital debt	-	1,172,965	-	1,172,965	-
Capital contributions	824,885	972,765	-	1,797,650	-
Purchase of capital assets	(978,777)	(2,196,221)	(60,239)	(3,235,237)	-
Principal paid on capital debt	(612,065)	(405,981)	-	(1,018,046)	-
Interest paid on capital debt	(538,958)	(233,574)	-	(772,532)	-
Other receipts (payments)	47,256	-	-	47,256	-
Net cash used by capital and related financing activities	<u>(1,257,659)</u>	<u>(690,046)</u>	<u>(60,239)</u>	<u>(2,007,944)</u>	<u>-</u>

(continued on next page)

STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS – page 2

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Other Enterprise Funds</u>	<u>Totals</u>	<u>Internal Service Funds</u>
Cash flows from investing activities					
Purchase of investment securities	(1,339,941)	(1,024,630)	-	(2,364,571)	(600,000)
Proceeds from sales and maturities of investments	3,100,830	1,490,622	-	4,591,452	600,000
Interest earnings	169,593	77,125	9,186	255,904	30,647
Net Cash from Investing Activities	<u>1,930,482</u>	<u>543,117</u>	<u>9,186</u>	<u>2,482,785</u>	<u>30,647</u>
Net increase (decrease) in cash and cash equivalents	1,245,705	876,057	135,704	2,257,466	116,615
Balances - beginning	<u>2,051,372</u>	<u>14,692</u>	<u>449,500</u>	<u>2,515,564</u>	<u>308,520</u>
Balances - ending	<u>\$ 3,297,077</u>	<u>\$ 890,749</u>	<u>\$ 585,204</u>	<u>\$ 4,773,030</u>	<u>\$ 425,135</u>
Cash from operating activities					
Operating income (loss)	\$ (11,624)	\$ 281,555	\$ (110,655)	\$ 159,276	\$ 90,621
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation expense	980,526	801,578	100,737	1,882,841	-
Change in assets and liabilities:					
Receivables	(8,707)	(29,143)	7,834	(30,016)	-
Due from other funds	(56,459)	-	-	(56,459)	-
Inventories	21,135	(1,388)	-	19,747	-
Accounts and other payables	(8,352)	35,458	37,128	64,234	(4,653)
Due to water fund	-	33,148	75,905	109,053	-
Accrued wages payable	6,503	4,323	3,537	14,363	-
Accrued leave payable	(3,865)	(3,143)	2,861	(4,147)	-
Revenue collected in advance	(2,234)	-	-	(2,234)	-
Deferred revenue	980	9,098	-	10,078	-
Net cash from operating activities	<u>\$ 917,903</u>	<u>\$ 1,131,486</u>	<u>\$ 117,347</u>	<u>\$ 2,166,736</u>	<u>\$ 85,968</u>
Noncash investing, capital and financing activities:					
Loss on disposal of capital assets not affecting operating income	<u>\$ 21,895</u>	<u>\$ 7,566</u>	<u>\$ 32,787</u>	<u>\$ 62,248</u>	<u>\$ -</u>

CITY OF ABERDEEN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. FINANCIAL REPORTING ENTITY

The City of Aberdeen is a municipality chartered under the constitution of the State of South Dakota and is governed by a Council, including a full time Mayor/City Manager 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 of Aberdeen 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

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 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.

NOTES TO FINANCIAL STATEMENTS

C. FINANCIAL STATEMENTS PRESENTATION

Government-Wide Statements: The Statement of Net Assets 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.

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.

NOTES TO FINANCIAL STATEMENTS

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.

The enterprise funds do not apply any FASB Statements and Interpretations issued after November 30, 1989.

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

The 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.

NOTES TO FINANCIAL STATEMENTS

Special Revenue Fund - Special Sales Tax Fund – to account for any revenue received under section 23-35 of the revised ordinance of the City (enabling legislation) 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.

Special Revenue Fund – Airport Fund – The Airport Fund was established to account for activities of the Aberdeen Regional Airport operations. The Airport Fund operates under an elected chairperson board.

Capital Project Fund – Public Safety Projects Fund – to account for financial resources to be used for the construction of various public safety projects.

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.

D. 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.

NOTES TO FINANCIAL STATEMENTS

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 thirty 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.

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

E. 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 \$47,566 at December 31, 2008.

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

F. 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).

NOTES TO FINANCIAL STATEMENTS

G. CAPITAL ASSETS

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, 2008 balance of governmental activities capital assets includes approximately 28% 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 Assets. 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:

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

***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.

NOTES TO FINANCIAL STATEMENTS

H. 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.

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 assets and is displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTES TO FINANCIAL STATEMENTS

Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between “Reserved” and “Unreserved” components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. RESTRICTED ASSETS

Restricted assets of the City consist of the vested balance in the reserve fund of the South Dakota Public Assurance Alliance (see note 11). In addition the component unit, Housing and Redevelopment Commission has escrow deposits restricted by their mortgage lender and other cash deposits restricted by HUD.

M. 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.

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 – 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.

NOTES TO FINANCIAL STATEMENTS

The actual bank balances at December 31, 2008 were as follows:

	<u>Bank Balance</u>
<u>Primary Government:</u>	
Insured (FDIC/NCUA)	\$ 1,796,386
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution.	<u>25,671,184</u>
Total deposits	<u>\$ 27,467,570</u>

The carrying amount of deposits on the December 31, 2008 statement of net assets was \$26,926,380.

Investments – In general, SDCL 4-5-6 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, 2008, the City's deposits in financial institutions were not exposed to any custodial credit risk. As of December 31, 2008, the City's total deposits of \$27,467,570 (carrying value of \$26,926,380) were covered by insurance or collateral in accordance with the City's deposit policy.

Investments – As of December 31, 2008, the City had the following investments:

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
First American Treasury Class D Money Market	Not Rated	\$ 261	\$ 261
U.S. Treasury Note (Matures on 01/08/09)	NA	214,600	<u>214,600</u>
Total Investments			<u>\$214,861</u>

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.

NOTES TO FINANCIAL STATEMENTS

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.

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	\$5.30
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NOTE 4 - DUE FROM OTHER GOVERNMENTS

GENERAL FUND - \$24,977 due from federal government for grants; \$15,200 due from state government for grant; \$177,032 due from state government for 1% city sales tax; \$56,116 due from state government for local government highway/bridge funds; \$36,140 due from state government for liquor tax reversion funds; and \$29,400 due from county government for taxes.

PROMOTION FUND - \$27,162 due from state government for 1% city sales tax.

PARKS AND RECREATION FUND - \$4,000 due from federal government for grants; and \$3,250 due from state government for grant.

BUSINESS IMPROVEMENT DISTRICT FUND - \$114 due from county government for taxes.

AIRPORT FUND - \$9,401 due from state government for gas tax reversion funds; \$360,771 due from federal government for grants; \$113,112 due from state government for grants.

SPECIAL SALES TAX FUND - \$4,226 due from state government for grants; and \$177,032 due from state government for 1% city sales tax.

PARKING DISTRICT FUND - \$55 due from county government for taxes.

TAX INCREMENT FINANCING (TIF) DISTRICT #2 BONDS FUND - \$2,828 due from county government for taxes.

WATER FUND - \$4,116 due from federal government for grant; and \$8 due from county government for special assessments.

SEWER FUND - \$374,176 due from state government for DENR state revolving loan.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2008 is as follows:

	Balance 01/01/08	Increases	Decreases	Balance 12/31/08
Governmental activities:				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 5,982,356	\$ 1,141,387	\$ (7,763)	\$ 7,115,980
Construction work in progress	502,761	4,443,729	(240,113)	4,706,377
Total capital assets, not being depreciated	<u>6,485,117</u>	<u>5,585,116</u>	<u>(247,876)</u>	<u>11,822,357</u>
Capital assets, being depreciated:				
Buildings	24,112,523	1,762,151	(419,807)	25,454,867
Improvements other than buildings	71,329,250	12,952,393	(469,867)	83,811,776
Machinery and equipment	13,930,451	963,621	(1,239,138)	13,654,934
Total	<u>109,372,224</u>	<u>15,678,165</u>	<u>(2,128,812)</u>	<u>122,921,577</u>
Less accumulated depreciation for:				
Buildings	(6,861,852)	(439,944)	219,941	(7,081,855)
Improvements other than buildings	(28,047,193)	(2,255,526)	469,867	(29,832,852)
Machinery and equipment	(8,394,291)	(1,033,269)	695,276	(8,732,284)
Total accumulated depreciation	<u>(43,303,336)</u>	<u>(3,728,739)</u>	<u>1,385,084</u>	<u>(45,646,991)</u>
Total capital assets, being depreciated, net	<u>66,068,888</u>	<u>11,949,426</u>	<u>(743,728)</u>	<u>77,274,586</u>
Governmental activity capital assets, net	<u>\$ 72,554,005</u>	<u>\$ 17,534,542</u>	<u>\$ (991,604)</u>	<u>\$ 89,096,943</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 86,133
Public safety	199,945
Public works	2,710,082
Culture and recreation	<u>732,579</u>
Total depreciation expense - governmental activities	<u>\$ 3,728,739</u>

NOTES TO FINANCIAL STATEMENTS

	Balance 01/01/08	Increases	Decreases	Balance 12/31/08
Business-type activities:				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 701,396	\$ -	\$ -	\$ 701,396
Construction work in progress	1,624,348	1,286,232	(1,542,335)	1,368,245
Total capital assets, not being depreciated	<u>2,325,744</u>	<u>1,286,232</u>	<u>(1,542,335)</u>	<u>2,069,641</u>
Capital assets, being depreciated:				
Buildings	54,018,537	1,221,949	-	55,240,486
Improvements other than buildings	21,836,876	2,105,858	(50,165)	23,892,569
Machinery and equipment	6,166,038	283,136	(156,919)	6,292,255
Total	<u>82,021,451</u>	<u>3,610,943</u>	<u>(207,084)</u>	<u>85,425,310</u>
Less accumulated depreciation for:				
Buildings	(13,579,337)	(1,062,186)	-	(14,641,523)
Improvements other than buildings	(10,261,656)	(427,513)	45,773	(10,643,396)
Machinery and equipment	(1,942,256)	(393,143)	99,063	(2,236,336)
Total accumulated depreciation	<u>(25,783,249)</u>	<u>(1,882,842)</u>	<u>144,836</u>	<u>(27,521,255)</u>
Total capital assets, being depreciated, net	<u>56,238,202</u>	<u>1,728,101</u>	<u>(62,248)</u>	<u>57,904,055</u>
Business-type activity capital assets, net	<u>\$ 58,563,946</u>	<u>\$ 3,014,333</u>	<u>\$ (1,604,583)</u>	<u>\$ 59,973,696</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 980,526
Sewer	801,579
Campground	15,819
Golf	48,090
Ambulance	<u>36,828</u>
Total depreciation expense - business-type activities	<u>\$ 1,882,842</u>

The City has active construction projects as of December 31, 2008. At year end the City's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitment
Public Safety - Police Building	\$ 3,714,964	\$ 2,804,939
Public Safety - Main Fire Station #1 Building	22,010	22,750
Airport - Fire and Rescue Station #3 Building	844,845	70,067
Park and Rec - Storybook Land Visitor Center	124,558	1,125,411
Wastewater - Treatment Plant Improvements	<u>1,368,245</u>	<u>3,456,995</u>
Total	<u>\$ 6,074,622</u>	<u>\$ 7,480,162</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM LIABILITIES

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

Primary Government:

	January 1, 2008	Increases	Decreases	December 31, 2008	Due Within One Year	Interest Paid
Governmental activities:						
Tax increment revenue bonds #2	\$ 3,420,000	\$ -	\$ (195,000)	\$ 3,225,000	\$ 155,000	\$ 180,440
Tax increment revenue bonds #4	126,268	-	(5,801)	120,467	6,178	8,207
Tax increment revenue bonds #6	-	1,448,856	-	1,448,856	-	-
Tax increment revenue bonds #8	-	3,800,000	-	3,800,000	-	107,983
Sales tax revenue bonds, ARCC	2,410,000	-	(140,000)	2,270,000	145,000	116,688
Sales tax revenue bonds, aquatic center	7,055,000	-	(265,000)	6,790,000	275,000	323,320
Sales tax revenue bonds, public safety buildings	9,865,000	-	(275,000)	9,590,000	335,000	423,002
Compensated absences	459,707	710,707	(688,602)	481,812	-	-
Installment purchase contract, versalift	67,650	-	(33,002)	34,648	34,648	3,376
Installment purchase contract, police cars	38,214	-	(38,214)	-	-	1,630
Installment purchase contract, wheel loader	-	43,430	-	43,430	21,191	-
Contract for deed, central complex	167,540	-	(167,540)	-	-	6,199
Total governmental activities	<u>23,609,379</u>	<u>6,002,993</u>	<u>(1,808,159)</u>	<u>27,804,213</u>	<u>972,017</u>	<u>1,170,845</u>
Business-type activities:						
Water revenue bonds	15,626,663	-	(612,065)	15,014,598	633,770	538,958
Sewer revenue bonds	10,269,687	1,312,876	(405,981)	11,176,582	446,986	233,574
Compensated absences	108,794	178,527	(182,675)	104,646	-	-
Total business-type activities	<u>26,005,144</u>	<u>1,491,403</u>	<u>(1,200,721)</u>	<u>26,295,826</u>	<u>1,080,756</u>	<u>772,532</u>
Total primary government	<u>\$ 49,614,523</u>	<u>\$ 7,494,396</u>	<u>\$ (3,008,880)</u>	<u>\$ 54,100,039</u>	<u>\$ 2,052,773</u>	<u>\$ 1,943,377</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.

Liabilities payable at December 31, 2008 is comprised of the following (excluding compensated absences):

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 5.50% beginning December 2003 from the Debt Service Fund, final payment due December 2022. \$ 3,225,000

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 6.50% beginning February 2005 from Debt Service Fund, final payment due August 2021. 120,467

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. 1,448,856

NOTES TO FINANCIAL STATEMENTS

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 5.50% beginning November 2008 from Debt Service Fund, final payment due May 2027. 3,800,000

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 2.70% - 5.25% from the Debt Service Fund, final payment due January 2021. 2,270,000

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 4.00% - 5.13% from the Debt Service Fund, final payment due November 2025. 6,790,000

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% - 5.50% from the Debt Service Fund, final payment due November 2027. 9,590,000

Installment Purchase Contracts:

The City entered into a Purchase Agreement for \$67,650 with De Lage Landen Public Finance LLC in 2007 to purchase a versalift for the Parks, Recreation & Forestry Department. This debt requires annual payments of \$36,377 (this payment includes the interest at 4.99%) from the Park and Recreation Fund beginning in February 2008 with final payment due February 2009. 34,648

The City entered into a Purchase Agreement for \$43,430 with Kansas State Bank of Manhattan in 2008 to purchase a wheel loader for the Parks, Recreation & Forestry Department. This debt requires annual payments of \$23,340 (this payment includes the interest at 4.95%) from the Park and Recreation Fund beginning in January 2009, final payment due January 2010. 43,430

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 \$285,259 beginning July 2006, including interest at 3.50% from the Water Fund, final payment due April 2026. 15,014,598

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. The debt is payable at an interest rate of 2.25% for 20 years with an Initial Amortization Date of October 2007. As of December 31, 2008, the amount drawn on the loan was \$11,582,563, requiring quarterly payments ranging from \$92,976 to \$168,763 beginning January 2008, including interest at 2.25% from the Sewer Fund, final payment due October 2027. 11,176,582

NOTES TO FINANCIAL STATEMENTS

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 2027, 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 2008 were \$1,151,023 and \$3,481,406, respectively. For the Sewer Revenue Bonds, principal and interest paid and total customer revenues for 2008 were \$639,555 and \$2,704,385, 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, 2008, the City was not in compliance with the net revenues available for debt service on the Water Revenue Bonds. As such, during 2008, the City increased the monthly minimum and usage charges and changed its billing practices in an attempt to meet the compliance requirement in 2009. In addition, the City has received a letter dated July 30, 2009 from the South Dakota Department of Environment and Natural Resources (DENR) indicating they do not intend to call the loan for failure to comply with the rate covenant and that monthly reports are being reviewed by DENR until coverage has reached the minimum level specified in the agreement.

In April 2007, the City passed Resolution 07-04-04R to apply for and enter into a "Clean Water State Revolving Fund" loan in an amount up to \$6,000,000. In July 2007, the State approved a loan for \$6,000,000 at an interest rate of 3.25% for a 20 year term. As of December 31, 2008, no amounts had been advanced on the loan, nor have any revenue bonds been issued by the City.

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. Total principal and interest remaining on the bonds is \$4,701,095, payable through August 2021. For 2008, principal and interest paid and total incremental property tax revenues were \$375,440 and \$336,977, 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 \$182,107, payable through December 2016. For 2008, principal and interest paid and total incremental property tax revenues were \$14,008 and \$16,271, respectively.

NOTES TO FINANCIAL STATEMENTS

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 \$1,969,837, payable through May 2027. For 2008, principal and interest paid and total incremental property tax revenues were \$0 and \$0, 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 \$6,174,907, payable through December 2022. For 2008, principal and interest paid and total incremental property tax revenues were \$107,983 and \$0, 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 future tax increment payments received and other revenues derived by the City from the Tax Increment Revenue, District Nos. 2, 4, 6, and 8.

The annual requirements to maturity for all debt outstanding as of December 31, 2008, excluding compensated absences are as follows:

Year Ending 12/31	Tax Increment Revenue Bonds		Sales Tax Revenue Bonds		Installment Purchase Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 161,178	\$ 493,154	\$ 755,000	\$ 820,325	\$ 55,839	\$ 3,879
2010	469,160	473,828	790,000	790,488	22,239	1,101
2011	493,391	446,157	825,000	759,262	-	-
2012	528,827	417,026	855,000	726,263	-	-
2013	555,547	385,806	890,000	690,412	-	-
2014-2018	2,759,043	1,413,376	5,085,000	280,881	-	-
2019-2023	2,555,119	683,153	5,610,000	1,536,963	-	-
2024-2027	1,072,058	121,124	3,840,000	358,090	-	-
	<u>\$ 8,594,323</u>	<u>\$ 4,433,624</u>	<u>\$ 18,650,000</u>	<u>\$ 5,962,684</u>	<u>\$ 78,078</u>	<u>\$ 4,980</u>

NOTES TO FINANCIAL STATEMENTS

Year Ending 12/31	Water Revenue		Sewer Revenue	
	Bonds		Bonds	
	Principal	Interest	Principal	Interest
2009	\$ 633,770	\$ 517,253	\$ 446,986	\$ 186,573
2010	656,245	494,778	493,114	239,172
2011	679,516	471,507	504,303	227,983
2012	703,613	447,409	515,745	216,541
2013	728,565	422,458	527,448	204,838
2014-2018	4,049,190	1,705,925	2,822,286	839,144
2019-2023	4,819,912	935,203	3,157,347	504,083
2024-2027	2,743,787	133,770	2,709,353	135,447
	<u>\$ 15,014,598</u>	<u>\$ 5,128,303</u>	<u>\$ 11,176,582</u>	<u>\$ 2,553,781</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. Neither the City of Aberdeen, the State of South Dakota, nor 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, 2008, there were seven revenue bond issues of this type outstanding. The balance of the six revenue bonds issued after July 1, 1995, was \$11,170,378. 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

Interfund balances as of December 31, 2008 consist of the following fo:

	<u>Purpose</u>	<u>Balance</u>
Due to Water Fund	Water used	\$263,716
Due from General Fund	Water used	19,790
Due from Parks and Recreation Fund	Water used	128,772
Due from Airport Fund	Water used	3,479
Due from Storm Water Maintenance Fund	Water used	2,622
Due from Sewer Fund	Water used	33,148
Due from Golf Fund	Water used	75,905
Due to Special Sales Tax Fund	AIP Project Costs	578,877
Due from Airport Fund	AIP Project Costs	578,877

NOTES TO FINANCIAL STATEMENTS

Transfers to/from other funds during the year ended December 31, 2008 consist of the following:

From the General Fund to Park and Recreation Fund to supplement other funds sources	\$ 3,024,075
From the General Fund to the Airport Fund supplement other funds sources	410,695
From the General Fund to Golf Fund to supplement other funds sources	75,000
From the Parks and Recreation Fund to the Golf Fund to supplement other funds sources	15,300
From the Special Sales Tax Fund to debt service funds to supplement other funds sources	1,570,000
From the Special Sales Tax Fund to the Parks and Recreation Fund to supplement other funds sources	100,000
From the Special Sales Tax Fund to the Golf Fund to supplement other funds sources	53,000
From the TIF District No. 6 Projects Fund to the General Fund to supplement other funds sources	900,000
From the TIF District No. 6 Projects Fund to the TIF District No. 6 Bonds Fund to supplement other funds sources	248,182
From the Water Fund to the Parks and Recreation Fund to supplement other funds sources	207,257
From the Water Fund to the General Fund to supplement other funds sources	176,780
From the Sewer Fund to the General Fund to supplement other funds sources	108,500
From other enterprise funds to the General Fund to supplement other funds sources	73,890
Other transfers between governmental funds	31,825
	<u>\$ 6,994,504</u>

NOTE 9 – RESTRICTED NET ASSETS

The following table shows the net assets restricted for other purposes as shown on the Statement of Net Assets:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Promotion Fund	State Law	\$ 206,438
Park and Recreation Fund	State Law	24,338
Park Recreation Trust Fund	State Law	665,936
Business Improvement District Fund	State Law	467
Special Sales Tax Fund	Enabling Legislation	5,097,796
Parking Fund	State Law	297,999
Library Fines Fund	State Law	45,673
Aberdeen Landmark Commission	State Law	7,358
General Fund - SD Public Assurance Alliance	Contractual Agreement	289,712
		<u>\$ 6,635,717</u>
Total restricted net assets for other purposes		<u>\$ 6,635,717</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – DESIGNATION OF FUND BALANCE

At the end of the fiscal year, unreserved fund balance of the General Fund was \$3,879,253, of which \$433,960 was designated only to be used to fund 2009 appropriations.

NOTE 11 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2008, 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. Also, the City provided a “Wellness/Preventative Care Program” to assist employees and covered dependents in addressing wellness/preventative care in advance of serious medical conditions from January 1, 2008 through November 30, 2008. The benefit under this program was \$300 for single coverage, \$450 for two-party coverage, and \$600 for family coverage as outlined in the statement of policy.

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 \$45,000 per individual with an aggregate of approximately \$1,595,089.

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 \$45,000 per individual. A reserve of \$881,739 is available for future claims and premium increases and is reported as a designation of the Self-Funded Insurance Fund net assets. The amount of claim liabilities for the fiscal year ended December 31, 2008, 2007 and 2006 were \$121,501, \$117,947 and \$139,402, respectively.

NOTES TO FINANCIAL STATEMENTS

Changes in the amount of claims liabilities in 2008, 2007 and 2006 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>
2008	\$ 117,947	\$ 905,608	\$ 902,054	\$ 121,501
2007	139,402	1,025,844	1,047,299	117,947
2006	148,946	932,435	941,979	139,402

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	1,000
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, 2008, the City has vested balance in the cumulative reserve fund of \$289,712.

NOTES TO FINANCIAL STATEMENTS

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 City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays for the first \$600,000 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 never exceeded the liability coverage.

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 designated equity in the Unemployment Compensation Fund in the amount of \$2,441 for the payment of future unemployment benefits.

During the year ended December 31, 2008, claim benefits of \$78 were paid and there were no outstanding claims.

NOTE 12 – 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 percent of their salary to the plan, while Class B, public safety and judicial employees contribute at 8 percent and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal year ended December 31, 2008, 2007 and 2006 were \$679,478, \$638,675 and \$604,252, respectively, equal to the required contributions each year.

NOTE 13 - 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 14 – VIOLATIONS OF FINANCE RELATED LEGAL AND CONTRACTUAL PROVISIONS

The City is prohibited by statute from spending in excess of amounts appropriated. For the year ended December 31, 2008, the City appropriated certain airport expenditures in the Special Sales Tax Fund instead of the Airport Fund, resulting in an overdraft in the Airport Fund and excess budget authority in the Special Sales Tax Fund. Management will more closely monitor approval of budget appropriations and expenditures and will utilize supplemental budgets as needed to ensure overdrafts do not occur in the future and that supplemental budgets are adopted timely. The following represents the significant overdrafts of the expenditures that occurred:

	Year Ended <u>12/31/08</u>
Airport Fund	\$5,826,954

NOTE 15 – 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 2009 thru 2016; for a total of \$2,000,000.
- b. Clark Swisher Athletic Complex: \$155,200 annually for 2009 thru 2014; for a total of \$931,200.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERDEEN

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2008

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
310 Taxes				
311 General property taxes	\$ 5,638,500	\$ 5,638,500	\$ 5,511,304	\$ (127,196)
313 General sales and use taxes	7,000,000	7,000,000	7,365,322	365,322
319 Penalties and interest on delinquent taxes	10,000	10,000	7,852	(2,148)
320 Licenses and permits	358,500	358,500	532,715	174,215
330 Intergovernmental revenue:				
331 Federal grants	611,000	611,000	344,141	(266,859)
334 State grants	-	-	64,274	64,274
335 State shared revenue:				
335.01 Bank franchise tax	50,000	50,000	67,974	17,974
335.02 Motor vehicle commercial prorate	18,000	18,000	20,122	2,122
335.03 Liquor tax reversion	130,000	130,000	188,201	58,201
335.04 Motor vehicle licenses (5%)	75,000	75,000	84,757	9,757
335.06 Fire insurance premiums reversion	48,000	48,000	60,605	12,605
335.08 Local government highway and bridge fund	290,000	290,000	312,875	22,875
335.20 Other	63,500	63,500	77,228	13,728
336 State payments in lieu of taxes	-	-	6,193	6,193
338 County shared revenue:				
338.02 County HBR tax	20,500	20,500	20,440	(60)
338.03 County wheel tax	7,500	7,500	7,664	164
340 Charge for goods and services:				
341 General government	46,300	46,300	81,596	35,296
342 Public safety	125,000	125,000	79,469	(45,531)
343 Highways and streets	115,000	115,000	114,760	(240)
344 Sanitation	1,133,500	1,133,500	1,178,565	45,065
345 Health	4,000	4,000	4,705	705
346 Culture and recreation	2,500	2,500	2,658	158
349 Other	164,900	164,900	193,740	28,840
350 Fines and forfeits:				
351 Court fines and costs	25,000	25,000	22,624	(2,376)
359 Other	1,000	1,000	608	(392)
360 Miscellaneous revenue:				
361 Investment earnings	150,000	150,000	112,372	(37,628)
362 Rentals	162,000	162,000	175,182	13,182
367 Contributions and donations from private sources	20,000	20,000	22,010	2,010
369 Other	13,200	13,200	40,221	27,021
Total revenue	16,282,900	16,282,900	16,700,177	417,277

(continued on next page)

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – page 2

	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		300,000
Amount transferred				
412 Executive	213,650	221,650	219,819	1,831
414 Financial administration	1,500,450	1,544,150	1,484,425	59,725
419 Other	1,292,050	1,375,550	1,289,474	86,076
Total general government	<u>3,306,150</u>	<u>3,441,350</u>	<u>2,993,718</u>	<u>447,632</u>
420 Public safety:				
421 Police	3,154,380	3,203,380	3,084,291	119,089
422 Fire	2,127,400	2,310,400	2,210,640	99,760
423 Protective inspection	180,400	181,900	177,163	4,737
Total public safety	<u>5,462,180</u>	<u>5,695,680</u>	<u>5,472,094</u>	<u>223,586</u>
430 Public works:				
431 Highways and streets	1,911,900	2,222,900	1,853,931	368,969
432 Sanitation	1,120,600	1,120,600	1,005,695	114,905
439 Transit	573,300	744,300	517,730	226,570
Total public works	<u>3,605,800</u>	<u>4,087,800</u>	<u>3,377,356</u>	<u>710,444</u>
440 Health and welfare:				
445 Drug education	58,950	58,950	58,323	627
449 Other	5,000	5,000	5,000	-
Total health and welfare	<u>63,950</u>	<u>63,950</u>	<u>63,323</u>	<u>627</u>
450 Culture and recreation:				
451 Recreation	27,965	27,965	27,651	314
455 Libraries	1,015,200	1,015,200	911,482	103,718
Total culture and recreation	<u>1,043,165</u>	<u>1,043,165</u>	<u>939,133</u>	<u>104,032</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	283,400	563,400	464,370	99,030
Total conservation and development	<u>283,400</u>	<u>563,400</u>	<u>464,370</u>	<u>99,030</u>
470 Debt service	<u>33,920</u>	<u>40,120</u>	<u>39,843</u>	<u>277</u>
Total expenditures	<u>13,798,565</u>	<u>14,935,465</u>	<u>13,349,837</u>	<u>1,585,628</u>
Excess of revenue over (under) expenditures	<u>2,484,335</u>	<u>1,347,435</u>	<u>3,350,340</u>	<u>2,002,905</u>
Other financing sources (uses):				
391.01 Transfers in	359,170	1,259,170	1,259,170	-
511 Transfers out	(3,354,770)	(3,509,770)	(3,509,770)	-
391.03 Sale of municipal property	20,000	20,000	35,130	(15,130)
391.04 Compensation for loss or damage to capital assets	-	-	15,678	(15,678)
Total other financing sources (uses)	<u>(2,975,600)</u>	<u>(2,230,600)</u>	<u>(2,199,792)</u>	<u>(30,808)</u>
Net change in fund balances	(491,265)	(883,165)	1,150,548	2,033,713
Fund balance - beginning	<u>3018416</u>	<u>3,018,416</u>	<u>3,018,416</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,527,151</u>	<u>\$ 2,135,251</u>	<u>\$ 4,168,964</u>	<u>\$ 2,033,713</u>

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE –
SPECIAL REVENUE FUND – SPECIAL SALES TAX FUND
YEAR ENDED DECEMBER 31, 2008

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
310 Taxes				
313 General sales and use taxes	\$ 7,000,000	\$ 7,000,000	\$ 7,146,985	\$ 146,985
330 Intergovernmental revenue:				
331 Federal grants	1,674,900	1,674,900	207,500	(1,467,400)
334 State grants	74,440	74,440	-	(74,440)
360 Miscellaneous revenue:				
361 Investment earnings	200,000	200,000	182,056	(17,944)
363 Special assessments	200,000	200,000	4,040	(195,960)
Total revenue	9,149,340	9,149,340	7,540,581	(1,608,759)
Expenditures:				
410 General government:				
419 Other	113,060	113,060	-	113,060
Total general government	113,060	113,060	-	113,060
420 Public safety:				
422 Fire	200,000	200,000	-	200,000
429 Other protection	250,000	250,000	242,350	7,650
Total public safety	450,000	450,000	242,350	207,650
430 Public works:				
431 Highways and streets	3,850,000	5,130,000	3,192,642	1,937,358
432 Sanitation	172,000	172,000	44,093	127,907
433 Water	111,000	611,000	607,197	3,803
435 Airport	1,914,340	6,964,340	-	6,964,340
Total public works	6,047,340	12,877,340	3,843,932	9,033,408
450 Culture and recreation:				
452 Parks	265,000	839,000	171,412	667,588
455 Libraries	125,000	125,000	25,000	100,000
Total culture and recreation	390,000	964,000	196,412	767,588
460 Conservation and development:				
465 Economic development and assistance (industrial development)	405,200	405,200	405,000	200
Total conservation and development	405,200	405,200	405,000	200
470 Debt service	173,740	173,740	173,739	1
Total expenditures	7,579,340	14,983,340	4,861,433	10,121,907
Excess of revenue over (under) expenditures	1,570,000	(5,834,000)	2,679,148	8,513,148
Other financing sources (uses):				
511 Transfers out	(1,570,000)	(1,823,000)	(1,723,000)	(100,000)
Total other financing sources (uses)	(1,570,000)	(1,823,000)	(1,723,000)	(100,000)
Net change in fund balances	-	(7,657,000)	956,148	8,413,148
Fund balance - beginning	4,250,163	4,250,163	4,250,163	-
FUND BALANCE - ENDING	\$ 4,250,163	\$ (3,406,837)	\$ 5,206,311	\$ 8,413,148

CITY OF ABERDEEN

BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND - AIRPORT FUND YEAR ENDED DECEMBER 31, 2008

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
310 Taxes				
312 Airflight property tax	\$ 15,000	\$ 15,000	\$ 29,703	\$ 14,703
319 Penalties and interest on delinquent taxes	-	-	51	51
330 Intergovernmental revenue:				
331 Federal grants	-	-	5,372,437	5,372,437
334 State grants	-	-	113,112	113,112
335 State shared revenue:				
335.20 Other	-	-	9,401	9,401
340 Charge for goods and services:				
349 Other	202,750	202,750	285,346	82,596
350 Fines and forfeits:				
359 Other	-	-	2,263	2,263
360 Miscellaneous revenue:				
361 Investment earnings	1,500	1,500	1,731	231
369 Other	-	-	23	23
Total revenue	<u>219,250</u>	<u>219,250</u>	<u>5,814,067</u>	<u>5,594,817</u>
Expenditures:				
430 Public works:				
435 Airport	<u>629,945</u>	<u>910,245</u>	<u>6,737,199</u>	<u>(5,826,954)</u>
Total public works	<u>629,945</u>	<u>910,245</u>	<u>6,737,199</u>	<u>(5,826,954)</u>
Total expenditures	<u>629,945</u>	<u>910,245</u>	<u>6,737,199</u>	<u>(5,826,954)</u>
Excess of revenue over (under) expenditures	<u>(410,695)</u>	<u>(690,995)</u>	<u>(923,132)</u>	<u>(232,137)</u>
Other financing sources (uses):				
391.01 Transfers in	<u>410,695</u>	<u>410,695</u>	<u>410,695</u>	<u>-</u>
Total other financing sources (uses)	<u>410,695</u>	<u>410,695</u>	<u>410,695</u>	<u>-</u>
Net change in fund balances	-	(280,300)	(512,437)	(232,137)
Fund balance - beginning	<u>267,513</u>	<u>267,513</u>	<u>267,513</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 267,513</u>	<u>\$ (12,787)</u>	<u>\$ (244,924)</u>	<u>\$ (232,137)</u>

CITY OF ABERDEEN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2008

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 percent 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, 2007 or December 31, 2008.

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.

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CITY OF ABERDEEN

CITY OF ABERDEEN
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2008

	Promotion Fund	Park and Recreation Fund	Park and Recreation Trust Fund	Cemetery Improvement Fund	Business Improvement District Fund	Parking District Fund	Storm Water Maintenance Fund	Library Fines Fund	Aberdeen Landmark Commission Fund
ASSETS									
Cash and cash equivalents	\$ 176,252	\$ 328,085	\$ 441,801	\$ 29,705	\$ -	\$ 297,606	\$ 25,699	\$ 45,673	\$ 7,358
151 Investments	-	-	257,917	-	-	-	-	-	-
110 Taxes receivable, delinquent	-	-	-	-	354	338	-	-	-
115 Accounts receivable, net	-	-	-	-	-	-	4,504	-	-
121 Special assessments receivable, net	-	3,042	-	-	-	-	-	-	-
132 Due from federal/state/county government	27,162	7,250	-	-	114	55	-	-	-
141 Inventory of supplies	-	-	-	-	-	-	12,429	-	-
TOTAL ASSETS	\$ 203,414	\$ 338,377	\$ 699,718	\$ 29,705	\$ 468	\$ 297,999	\$ 42,632	\$ 45,673	\$ 7,358
LIABILITIES AND FUND BALANCES									
Liabilities:									
202 Accounts payable	\$ 63,084	\$ 153,769	\$ 32,429	\$ -	\$ 1	\$ -	\$ 5,690	\$ -	\$ -
208 Due to water fund	-	128,772	-	-	-	-	2,622	-	-
216 Accrued wages payable	-	31,498	1,353	-	-	-	3,779	-	-
224 Deferred revenue	-	-	-	-	-	-	23,809	-	-
Total liabilities	63,084	314,039	33,782	-	1	-	35,900	-	-
Fund balances:									
261 Reserved for:									
261.02 Inventory	-	-	-	-	-	-	12,429	-	-
261.15 Permanently reserved purposes	-	-	-	-	-	-	-	-	-
262 Unreserved fund balances:									
262.01 Designated for next year's appropriation:									
Special revenue funds	-	24,338	-	7,000	-	-	-	-	-
Debt service funds	-	-	-	-	-	-	-	-	-
262.09 Undesignated									
Reported in nonmajor special revenue funds	140,330	-	665,936	22,705	467	297,999	(5,697)	45,673	7,358
Reported in nonmajor debt service funds	-	-	-	-	-	-	-	-	-
Reported in nonmajor capital project funds	-	-	-	-	-	-	-	-	-
Reported in nonmajor permanent funds	-	-	-	-	-	-	-	-	-
Total fund balances	140,330	24,338	665,936	29,705	467	297,999	6,732	45,673	7,358
TOTAL LIABILITIES AND FUND BALANCES	\$ 203,414	\$ 338,377	\$ 699,718	\$ 29,705	\$ 468	\$ 297,999	\$ 42,632	\$ 45,673	\$ 7,358

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	Cemetery Perpetual Care Fund	Tax Increment Financing District No. 3 Project Fund	Park and Rec ARCC Project Fund	Park and Rec Aquatic Center Project Fund	Total Nonmajor Governmental Funds
\$ 19,323	\$ 10,569	\$ 250,045	\$ -	\$ 403,703	\$ 770,000	\$ -	\$ 174,378	\$ 9,836	\$ 144,717	\$ 10,510	\$ 3,145,260
214,861	-	21,681	601,055	-	94,051	213,806	-	-	-	81,596	1,484,967
-	-	-	-	-	-	-	-	-	-	-	692
-	-	-	-	-	-	-	-	-	-	-	4,504
-	-	-	-	-	-	-	-	-	-	-	3,042
2,828	-	-	-	-	-	-	-	-	-	-	37,409
-	-	-	-	-	-	-	-	-	-	-	12,429
<u>\$ 237,012</u>	<u>\$ 10,569</u>	<u>\$ 271,726</u>	<u>\$ 601,055</u>	<u>\$ 403,703</u>	<u>\$ 864,051</u>	<u>\$ 213,806</u>	<u>\$ 174,378</u>	<u>\$ 9,836</u>	<u>\$ 144,717</u>	<u>\$ 92,106</u>	<u>\$ 4,688,303</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,741	\$ 7,707	\$ 264,421
-	-	-	-	-	-	-	-	-	-	-	131,394
-	-	-	-	-	-	-	-	-	-	-	36,630
-	-	-	-	-	-	-	-	-	-	-	23,809
-	-	-	-	-	-	-	-	-	1,741	7,707	456,254
-	-	-	-	-	-	-	-	-	-	-	12,429
-	-	-	-	-	-	-	50,000	-	-	-	50,000
-	-	-	-	-	-	-	-	-	-	-	31,338
2,000	-	-	-	-	-	209,000	-	-	-	-	211,000
-	-	-	-	-	-	-	-	-	-	-	1,174,771
235,012	10,569	271,726	601,055	403,703	864,051	4,806	-	-	-	-	2,390,922
-	-	-	-	-	-	-	-	9,836	142,976	84,399	237,211
-	-	-	-	-	-	-	124,378	-	-	-	124,378
<u>237,012</u>	<u>10,569</u>	<u>271,726</u>	<u>601,055</u>	<u>403,703</u>	<u>864,051</u>	<u>213,806</u>	<u>174,378</u>	<u>9,836</u>	<u>142,976</u>	<u>84,399</u>	<u>4,232,049</u>
<u>\$ 237,012</u>	<u>\$ 10,569</u>	<u>\$ 271,726</u>	<u>\$ 601,055</u>	<u>\$ 403,703</u>	<u>\$ 864,051</u>	<u>\$ 213,806</u>	<u>\$ 174,378</u>	<u>\$ 9,836</u>	<u>\$ 144,717</u>	<u>\$ 92,106</u>	<u>\$ 4,688,303</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2008

	Promotion Fund	Park and Recreation Fund	Park and Recreation Trust Fund	Cemetery Improvement Fund	Business Improvement District 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	\$ -	\$ -	\$ -	\$ -	\$ 90,926	\$ 89,120	\$ -	\$ -	\$ -	\$ 336,931
312 Airlight property tax	-	-	-	-	-	-	-	-	-	-
313 General sales and use taxes	795,215	-	-	-	-	-	-	-	-	-
319 Penalties and interest on delinquent taxes	-	-	-	-	54	41	-	-	-	47
330 Intergovernmental revenue:										
331 Federal grants	-	11,000	-	-	-	-	-	-	3,670	-
334 State grants	-	6,500	-	-	-	-	-	-	-	-
335 State shared revenue:										
335.20 Other	-	-	-	-	-	-	-	-	-	-
340 Charges for goods and services:										
344 Sanitation	-	-	-	-	-	-	386,135	-	-	-
346 Culture and recreation	-	580,003	432,572	-	-	-	-	-	-	-
348 Cemetery	-	-	-	2,353	-	-	-	-	-	-
349 Other	-	-	-	-	-	-	-	-	-	-
350 Fines and forfeits:										
354 Library	-	-	-	-	-	-	-	21,691	-	-
360 Miscellaneous revenue:										
361 Investment earnings	1,708	381	17,421	3,610	-	5,331	1,133	362	136	8,994
362 Rentals	-	-	-	-	-	1,080	-	-	-	-
367 Contributions and donations from private sources	-	-	344,890	-	-	-	-	-	-	-
369 Other	-	-	-	-	-	-	8,410	-	-	-
Total revenue	<u>796,923</u>	<u>597,884</u>	<u>794,883</u>	<u>5,963</u>	<u>90,980</u>	<u>95,572</u>	<u>395,678</u>	<u>22,053</u>	<u>3,806</u>	<u>345,972</u>
Expenditures:										
430 Public works:										
431 Highways and streets	-	-	-	-	-	-	411,252	-	-	-
435 Airport	-	-	-	-	-	-	-	-	-	-
436 Parking facilities	-	-	-	-	-	42,838	-	-	-	-
437 Cemeteries	-	-	-	28,567	-	-	-	-	-	-
Total public works	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,567</u>	<u>-</u>	<u>42,838</u>	<u>411,252</u>	<u>-</u>	<u>-</u>	<u>-</u>
450 Culture and recreation:										
451 Recreation	-	2,381,815	316,979	-	-	-	-	-	-	-
452 Parks	-	1,365,634	293,305	-	-	-	-	-	-	-
455 Libraries	-	-	-	-	-	-	-	37,955	-	-
457 Historical preservation	-	-	-	-	-	-	-	-	9,976	-
Total culture and recreation	<u>-</u>	<u>3,747,449</u>	<u>610,284</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,955</u>	<u>9,976</u>	<u>-</u>
460 Conservation and development:										
463 Urban redevelopment and housing	-	-	-	-	-	-	-	-	-	-
465 Economic development and assistance (industrial development)	708,718	-	-	-	90,789	-	-	-	-	-
Total conservation and development	<u>708,718</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,789</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
470 Debt service	-	36,377	-	-	-	-	-	-	-	375,957
Total expenditures	<u>708,718</u>	<u>3,783,826</u>	<u>610,284</u>	<u>28,567</u>	<u>90,789</u>	<u>42,838</u>	<u>411,252</u>	<u>37,955</u>	<u>9,976</u>	<u>375,957</u>
Excess of revenue over (under) expenditures	<u>88,205</u>	<u>(3,185,942)</u>	<u>184,599</u>	<u>(22,604)</u>	<u>191</u>	<u>52,734</u>	<u>(15,574)</u>	<u>(15,902)</u>	<u>(6,170)</u>	<u>(29,985)</u>
Other financing sources (uses):										
391.01 Transfers in	-	3,331,332	27,825	-	-	-	-	-	4,000	-
511 Transfers out	(4,000)	(43,125)	-	-	-	-	-	-	-	-
391.02 Proceeds of general long-term debt issued	-	43,430	-	-	-	-	-	-	-	-
391.04 Compensation for loss or damage to capital assets	-	36,489	-	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>(4,000)</u>	<u>3,368,126</u>	<u>27,825</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,000</u>	<u>-</u>
Net change in fund balances	84,205	182,184	212,424	(22,604)	191	52,734	(15,574)	(15,902)	(2,170)	(29,985)
Fund balance - beginning	56,125	(157,847)	453,512	52,309	277	245,265	22,305	61,575	9,527	266,997
FUND BALANCE - ENDING	<u>\$ 140,330</u>	<u>\$ 24,337</u>	<u>\$ 665,936</u>	<u>\$ 29,705</u>	<u>\$ 468</u>	<u>\$ 297,999</u>	<u>\$ 6,731</u>	<u>\$ 45,673</u>	<u>\$ 7,357</u>	<u>\$ 237,012</u>

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	Cemetery Perpetual Care Fund	Tax Increment Financing District No. 3 Project Fund	Park and Rec ARCC Project Fund	Park and Rec Aquatic Center Project Fund	Tax Increment Financing District No. 6 Project Fund	Tax Increment Financing District No. 8 Project Fund	Total Nonmajor Governmental Funds
\$ 16,271	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,763	\$ -	\$ -	\$ -	\$ -	\$ 543,011
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	795,215
-	-	-	-	-	-	-	7	-	-	-	-	149
-	-	-	-	-	-	-	-	-	-	-	-	14,670
-	-	-	-	-	-	-	-	-	-	-	-	6,500
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	386,135
-	-	-	-	-	-	-	-	-	-	-	-	1,012,575
-	-	-	-	-	-	-	-	-	-	-	-	2,353
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	21,691
11	10,032	20,722	551	25,436	8,003	-	66	2,540	5,779	6,050	-	118,266
-	-	-	-	-	-	-	-	-	-	-	-	1,080
-	-	-	-	-	-	3,922	-	-	-	-	-	348,812
-	-	-	-	-	-	-	-	-	-	-	-	8,410
<u>16,282</u>	<u>10,032</u>	<u>20,722</u>	<u>551</u>	<u>25,436</u>	<u>8,003</u>	<u>3,922</u>	<u>9,836</u>	<u>2,540</u>	<u>5,779</u>	<u>6,050</u>	<u>-</u>	<u>3,258,867</u>
-	-	-	-	-	-	-	-	-	-	-	-	411,252
-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	42,838
-	-	-	-	-	-	-	-	-	-	-	-	28,567
-	-	-	-	-	-	-	-	-	-	-	-	482,657
-	-	-	-	-	-	-	-	60,545	74,445	-	-	2,833,784
-	-	-	-	-	-	-	-	-	-	-	-	1,658,939
-	-	-	-	-	-	-	-	-	-	-	-	37,955
-	-	-	-	-	-	-	-	-	-	-	-	9,976
-	-	-	-	-	-	-	-	<u>60,545</u>	<u>74,445</u>	<u>-</u>	<u>-</u>	<u>4,540,654</u>
-	-	-	-	-	-	-	-	-	-	335,708	-	335,708
-	-	-	-	-	-	-	-	-	-	-	3,486,214	4,285,721
-	-	-	-	-	-	-	-	-	-	335,708	3,486,214	4,621,429
14,008	257,188	588,820	-	698,502	107,983	-	-	-	-	49	-	2,078,884
14,008	257,188	588,820	-	698,502	107,983	-	-	60,545	74,445	335,757	3,486,214	11,723,624
2,274	(247,156)	(568,098)	551	(673,066)	(99,980)	3,922	9,836	(58,005)	(68,666)	(329,707)	(3,486,214)	(8,464,757)
-	250,000	550,000	248,182	770,000	-	-	-	-	-	-	-	5,181,339
-	-	-	154,970	-	313,786	-	-	-	-	(1,148,182)	-	(1,195,307)
-	-	-	-	-	-	-	-	-	-	1,293,886	3,486,214	5,292,286
-	-	-	-	-	-	-	-	-	-	-	-	36,489
-	<u>250,000</u>	<u>550,000</u>	<u>403,152</u>	<u>770,000</u>	<u>313,786</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>145,704</u>	<u>3,486,214</u>	<u>9,314,807</u>
2,274	2,844	(18,098)	403,703	96,934	213,806	3,922	9,836	(58,005)	(68,666)	(184,003)	-	850,050
8,296	268,882	619,152	-	767,117	-	170,456	-	200,981	153,065	184,002	-	3,381,996
<u>\$ 10,570</u>	<u>\$ 271,726</u>	<u>\$ 601,054</u>	<u>\$ 403,703</u>	<u>\$ 864,051</u>	<u>\$ 213,806</u>	<u>\$ 174,378</u>	<u>\$ 9,836</u>	<u>\$ 142,976</u>	<u>\$ 84,399</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ 4,232,046</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2008

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 372,882	\$ 127,263	\$ 85,059	\$ 585,204
115 Accounts receivable, net	-	-	136,185	136,185
Total current assets	<u>372,882</u>	<u>127,263</u>	<u>221,244</u>	<u>721,389</u>
Noncurrent assets:				
Capital assets:				
160 Land	-	330,500	-	330,500
162 Buildings	656,697	185,698	-	842,395
164 Improvements other than buildings	-	223,778	-	223,778
166 Machinery and equipment	26,850	367,204	482,826	876,880
Less accumulated depreciation (credit)	(125,335)	(425,741)	(290,214)	(841,290)
Total noncurrent assets	<u>558,212</u>	<u>681,439</u>	<u>192,612</u>	<u>1,432,263</u>
TOTAL ASSETS	<u>\$ 931,094</u>	<u>\$ 808,702</u>	<u>\$ 413,856</u>	<u>\$ 2,153,652</u>
LIABILITIES				
Current liabilities:				
202 Accounts payable	\$ 12,442	\$ 40,185	\$ 12,689	\$ 65,316
206 Contracts payable	-	14,454	-	14,454
208 Due to water fund	-	75,905	-	75,905
216 Accrued wages payable	23	1,841	10,165	12,029
Total current liabilities	<u>12,465</u>	<u>132,385</u>	<u>22,854</u>	<u>167,704</u>
Noncurrent liabilities:				
233 Accrued leave payable	-	5,087	16,211	21,298
Total noncurrent liabilities	<u>-</u>	<u>5,087</u>	<u>16,211</u>	<u>21,298</u>
NET ASSETS				
253.10 Invested in capital assets, net of related debt	558,212	681,439	192,612	1,432,263
253.90 Unrestricted net assets (deficit)	360,417	(10,209)	182,179	532,387
Total net assets	<u>918,629</u>	<u>671,230</u>	<u>374,791</u>	<u>1,964,650</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 931,094</u>	<u>\$ 808,702</u>	<u>\$ 413,856</u>	<u>\$ 2,153,652</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2008

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Operating revenue:				
380 Charges for goods and services	\$ 261,649	\$ 283,545	\$ 693,985	\$ 1,239,179
369 Miscellaneous	-	-	12,348	12,348
Total operating revenue	<u>261,649</u>	<u>283,545</u>	<u>706,333</u>	<u>1,251,527</u>
Operating expenses:				
410 Personal services	64,430	178,837	494,291	737,558
420 Other current expenses	126,885	233,657	163,345	523,887
457 Depreciation	15,819	48,090	36,828	100,737
Total operating expenses	<u>207,134</u>	<u>460,584</u>	<u>694,464</u>	<u>1,362,182</u>
Operating income (loss)	<u>54,515</u>	<u>(177,039)</u>	<u>11,869</u>	<u>(110,655)</u>
Nonoperating revenue:				
361 Investment earnings	6,731	669	1,786	9,186
(492) 366 Gain (loss) on disposition of assets	-	1,448	-	1,448
(429) 369.01 Other	(3,444)	(2,042)	(22,607)	(28,093)
Total nonoperating revenue (expense)	<u>3,287</u>	<u>75</u>	<u>(20,821)</u>	<u>(17,459)</u>
Income (loss) before contributions, special items, extraordinary items	57,802	(176,964)	(8,952)	(128,114)
391.1 Transfers in	-	143,300	-	143,300
511 Transfers out	(29,530)	(14,350)	(30,010)	(73,890)
Change in net assets	28,272	(48,014)	(38,962)	(58,704)
Net assets - beginning	<u>890,355</u>	<u>719,245</u>	<u>413,754</u>	<u>2,023,354</u>
NET ASSETS - ENDING	<u>\$ 918,629</u>	<u>\$ 671,231</u>	<u>\$ 374,791</u>	<u>\$ 1,964,650</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2008

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Cash Flows from (used by) Operating Activities				
Receipt from customers	\$ 261,648	\$ 283,545	\$ 701,820	\$ 1,247,013
Payments to suppliers	(121,863)	(201,804)	(163,092)	(486,759)
Payments to employees	(64,406)	(176,171)	(490,583)	(731,160)
Internal activity	-	75,905	-	75,905
Other receipts (payments)	-	-	12,348	12,348
Net cash from (used by) operating activities	<u>75,379</u>	<u>(18,525)</u>	<u>60,493</u>	<u>117,347</u>
Cash Flows from (used by) Noncapital Financing Activities				
Transfers from other funds	-	143,300	-	143,300
Transfers to other funds	(29,530)	(14,350)	(30,010)	(73,890)
Net cash from (used by) noncapital financing activities	<u>(29,530)</u>	<u>128,950</u>	<u>(30,010)</u>	<u>69,410</u>
Cash Flows used by Capital and Related Financing Activities				
Purchase of capital assets	-	(39,944)	(20,295)	(60,239)
Net cash used by capital and related financing activities	<u>-</u>	<u>(39,944)</u>	<u>(20,295)</u>	<u>(60,239)</u>
Cash Flows from Investing Activities				
Interest earnings	6,731	669	1,786	9,186
Net cash from investing activities	<u>6,731</u>	<u>669</u>	<u>1,786</u>	<u>9,186</u>
Net increase (decrease) in cash and cash equivalents	52,580	71,150	11,974	135,704
Balance - beginning	<u>320,301</u>	<u>56,113</u>	<u>73,086</u>	<u>449,500</u>
Balance - ending	<u>\$ 372,881</u>	<u>\$ 127,263</u>	<u>\$ 85,059</u>	<u>\$ 585,204</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used by) Operating Activities:				
Operating income (loss)	\$ 54,515	\$ (177,039)	\$ 11,869	\$ (110,655)
Adjustments to reconcile operating income (loss) to net cash from (used by) operating activities:				
Depreciation expense	15,819	48,090	36,828	100,737
Changes in assets and liabilities:				
Receivables	-	-	7,834	7,834
Accounts and other payables	5,022	31,853	253	37,128
Due to water fund	-	75,905	-	75,905
Accrued wages payable	23	454	3,060	3,537
accrued leave payable	-	2,212	649	2,861
Net cash from (used by) operating activities	<u>\$ 75,379</u>	<u>\$ (18,525)</u>	<u>\$ 60,493</u>	<u>\$ 117,347</u>
Noncash Investing, Capital and Financing Activities:				
Loss on disposal of capital assets not affecting operating income	<u>\$ 3,444</u>	<u>\$ 6,736</u>	<u>\$ 22,607</u>	<u>\$ 32,787</u>

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2008

	<u>Housing and Redevelopment Commission</u>
Operating Activities	
Receipts from tenant payments	\$ 416,391
Receipts for management fees and other	306,905
Payments to employees	(534,913)
Housing assistance payments	(1,338,879)
Payments to suppliers and others	<u>(766,332)</u>
Net cash used by operating activities	<u>(1,916,828)</u>
Noncapital Financing Activities	
HUD grants received	<u>2,122,480</u>
Net cash from noncapital financing activities	<u>2,122,480</u>
Capital and Related Financing Activities	
Purchase of property and equipment	(247,563)
Proceeds from sale of equipment	5,643
Payments for interest	(114,281)
Principal payments on long-term debt	<u>(57,262)</u>
Net cash used by capital and related financing activities	<u>(413,463)</u>
Investing Activities	
Interest received	135,233
Investment in limited partnership	<u>(24,389)</u>
Net cash from investing activities	<u>110,844</u>
Net change in cash	(96,967)
Cash beginning of year	<u>3,741,837</u>
Cash end of year	<u>\$ 3,644,870</u>
Reconciliation of Operating Loss to Net Cash Used By Operating Activities:	
Operating loss	\$ (1,959,249)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	331,713
Amortization	1,113
Change in assets and liabilities:	
Rental accounts receivable	(552)
Other receivables	(218,229)
Prepaid expenses	426
Accounts payable and other accrued liabilities	(71,163)
Tenant security deposits	(1,109)
Deferred revenues	<u>222</u>
Net cash from (used by) operating activities	<u>\$ (1,916,828)</u>

CITY OF ABERDEEN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2008

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Environmental Protection Agency:			
Indirect Federal Funding:			
SD Department of Environment and Natural Resources:			
Nonpoint Source Implementation Grants	66.460	*****	\$ 39,016
Department of Interior:			
Indirect Federal Funding:			
SD Department of Tourism and State Development:			
Historic Preservation Fund Grants-in-Aid	15.904	SD-07-024	3,670
Department of Transportation:			
Direct Federal Funding:			
Airport Improvement Program (3-46-001-27)	20.106	3-46-0001-27-2007	5,007,583
Airport Improvement Program (3-46-001-28)	20.106	3-46-0001-28-2008	364,854
			5,372,437
Indirect Federal Funding:			
SD Department of Public Safety:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	*****	8,301
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	*****	6,400
			14,701
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	*****	38,715
SD Department of Transportation:			
Federal Transit - Capital Investment Grants (Section 5309)	20.500	810833 & 810861	5,306
Formula Grants for Other Than Urbanized Areas (Section 55311 & RTAP)	20.509	810841 & 810898 & RTAP	170,733
			176,039
Total Department of Transportation			5,601,892
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	810841 & 810898	16,699
Department of Housing and Urban Development:			
Indirect Federal Funding:			
SD Governor's Office of Economic Development:			
Community Development Block Grants/State's Program	14.228	0708-501	207,500
General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency:			
Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	24
National Endowment for the Arts:			
Indirect Federal Funding:			
SD Arts Council:			
Promotion of the Arts - Partnership Agreements	45.025	*****	7,000
Department of Agriculture:			
Indirect Federal Funding:			
SD Department of Agriculture, Cooperative Forestry Assistance	10.664	2007-UCF-001 & 2008-UCF-001	4,000

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 2

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Homeland Security:			
Direct Federal Funding:			
Assistance to Firefighters Grant	97.044	EMW-2006-FG-18319	28,008
Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR001	31,767
Indirect Federal Funding:			
SD Department of Public Safety:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DSR 1702	25,520
Homeland Security Grant Program	97.067	*****	8,842
Total Department of Homeland Security			94,137
Department of Justice:			
Direct Federal Funding:			
Bulletproof Vest Partnership Program	16.607	*****	2,878
Indirect Federal Funding:			
SD Department of Public Safety:			
Enforcing Underage Drinking Laws Program	16.727	*****	972
Total Department of Justice			3,850
Total Expenditures of Federal Awards			\$ 5,977,788
***** "NO" PASS-THROUGH ENTITY IDENTIFYING NUMBER GIVEN			

Note 1: This schedule of expenditures of federal awards includes the federal grant activity of the municipality 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 municipality.

CITY OF ABERDEEN
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2008

FEDERAL AWARD PROGRAM FINDINGS

2007-3 Reporting

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Economic Development Initiative – Special Project, Neighborhood Initiative, and Miscellaneous Grants – CFDA No. 14.251; Grant Numbers B-06-SP-SD-0944 and B-06-SP-SD-0946; Grant Period: Year Ended December 31, 2007.

Condition: The City of Aberdeen did not submit all required reports or submissions required by the grant agreement to HUD.

Status: As of December 31, 2008, this finding has been resolved.

FINANCIAL STATEMENT FINDINGS

2006-1 & 2007-1 Fraud Risk Assessment Program

Condition: Through inquires of management, it was noted that the City of Aberdeen does not have a formal documented fraud risk assessment program in place.

Status: As of December 31, 2008, this finding has not been resolved and has been restated as current year finding 2008-1.

2007-2 Financial Statement Adjustments

Condition: During the 2007 audit, the auditors identified certain items during their audit procedures that required adjustment to the financial statements and related notes that were material.

Status: As of December 31, 2008, this finding has not been resolved and has been restated as current year finding 2008-2.



CPAs & BUSINESS ADVISORS

**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***

To the City Council
City of Aberdeen
Aberdeen, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, 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, 2008, which collectively comprise the City of Aberdeen's basic financial statements and have issued our report thereon dated November 2, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Aberdeen's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Aberdeen's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness on the City of Aberdeen's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as items 2008-1, 2008-2, 2008-3, and 2008-4 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above as 2008-2 is a material weakness.

Compliance and Other Matters

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

The City of Aberdeen's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City of Aberdeen's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, others within the entity, City Council, the South Dakota Department of Legislative Audit, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Eric Sully LLP".

Aberdeen, South Dakota
November 2, 2009



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO
EACH MAJOR PROGRAM AND INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the City Council
City of Aberdeen
Aberdeen, South Dakota

Compliance

We have audited the compliance of the City of Aberdeen, South Dakota, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2008. The City of Aberdeen's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Aberdeen's management. Our responsibility is to express an opinion on the City of Aberdeen's compliance based on our audit.

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 types of 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 of Aberdeen'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. Our audit does not provide a legal determination of the City of Aberdeen's compliance with those requirements.

In our opinion, the City of Aberdeen complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the City of Aberdeen is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Aberdeen's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 of Aberdeen's internal control over compliance.

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A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the entity, City Council, the South Dakota Department of Legislative Audit, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. As required by South Dakota Codified law 4-11-11, this report is a matter of public record and its distribution is not limited.

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

Aberdeen, South Dakota
November 2, 2009

**CITY OF ABERDEEN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2008**

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes 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: Unqualified

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

Indenification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
20.106	Airport Improvement Program

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

Significant Deficiency

Finding 2008-1 Fraud Risk Assessment Program

Condition: The City of Aberdeen does not have a formal documented fraud risk assessment program in place.

Criteria: Statements on Auditing Standards No. 112 (SAS 112) specifically lists an entity’s lack of a fraud risk assessment program as presumptively being a significant deficiency in internal control.

Effect: There could be unidentified internal control deficiencies at the City of Aberdeen that create opportunities for fraudulent activities to occur.

Cause: The City considers the controls over financial reporting currently in place in conjunction with oversight by the City Council to be sufficient in being able to detect actual fraud or internal control deficiencies that could lead to fraud.

Recommendation: While the City does have an informal risk assessment process in place, we recommend that the City further develop and document their program to assess all relevant risks, including any vulnerabilities to fraudulent activity, assess whether any of those exposures could result in any material misstatement of the financial statements, and subsequently identify and implement procedures, controls, and other procedures needed to mitigate identified risks.

Management response: The City of Aberdeen will complete and document a formal assessment of fraud risk which identifies potential areas of fraud and the exposure to material misstatements of the financial statements, identifying any processes in place or that may need to be implemented to mitigate identified risks.

Material Weakness

Finding 2008-2 Financial Statement Adjustments

Condition: During the audit, we identified certain items during our audit procedures that required adjustment to the financial statements and related notes that were material.

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: The City considers the controls over financial reporting currently in place to be sufficient in being able to detect material adjustments that need to be reflected in the financial statements.

Recommendation: This circumstance is not unusual in a City of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost of other considerations.

Management

response: The City of Aberdeen makes every attempt to include all material amounts and disclosures in its financial statements and related notes. However, with the volume of transactions completed every year, the need to implement additional procedures to ensure accurate recording and presentation is necessary. We will review our current procedures and implement additional procedures as necessary.

Significant Deficiency

Finding 2008-3 Computer Security Measures

Condition: The City of Aberdeen does not have a formal documented standard that defines the minimum password complexity for computer terminals. There is also no periodic password changes required for computer terminals.

Criteria: A system of internal accounting control contemplates the separation of duties and access authorizations to the respective computer terminals where those duties are performed.

Effect: Unauthorized use of passwords and or unauthorized access to network resources may occur which, effectively, could allow management's internal control environment to be compromised or circumvented through network data resources and or application systems.

Cause: The City of Aberdeen does not require employees with access to computer terminals to establish strong passwords for access into their terminals and there is no periodic change required to the passwords used to access the terminals.

Recommendation: The City should establish procedures to define password standards in a formal policy. These procedures should be considered to configure the domain and applications to require minimum password complexity. The procedures should also include steps that require the passwords to be changed on a periodic basis.

Management

response: The City of Aberdeen will complete and document a formal policy to define password standards and periodic changes to those passwords for all computer terminal access points.

Significant Deficiency

Finding 2008-4 Compliance with South Dakota Codified Law

Condition: The City of Aberdeen overspent the Airport Fund budget appropriation for the fiscal year.

Criteria: South Dakota Codified Law (SDCL) 9-21-9 requires the City spending to be within the amounts budgeted for each fund.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS – page 4

Effect: The budgeting process provides an oversight of the City’s annual expenditures. By not adopting a budget for the expenditures in the Airport Fund, this control measure was not utilized.

Cause: The City approved budget appropriations for the Airport Fund incorrectly to the Special Sales Tax Fund.

Recommendation: We recommend the City monitor the budget approval process closely to ensure the proper fund is designated in the appropriation and is incurring the appropriate expenditures. This will help to ensure the City remains in compliance with South Dakota Codified Law 9-21-9.

Management response: Management will be more aware of the budget appropriation process to ensure that proper authority for expenditures is given to the correct fund.

Part III - Findings and Questioned Costs for Federal Award Programs

None.



CITY OF ABERDEEN

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HUMAN RESOURCES
(605) 626-7013
FAX (605) 626-7042

CORRECTIVE ACTION PLAN

Cognizant or Oversight Agency for Audit

The City of Aberdeen respectfully submits the following corrective action plan for the year ended December 31, 2008.

Name and address of independent public accounting firm: Eide Bailly LLP
24 Second Avenue SW
PO Box 430
Aberdeen, SD 57402-0430

Audit Period: January 1, 2008 to December 31, 2008

The findings from the 2008 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS - FINANCIAL STATEMENT AUDIT

2008 - 1 *Fraud Risk Assessment Program*

Condition: The City of Aberdeen does not have a formal documented fraud risk assessment program in place.

Criteria: Statements on Auditing Standards No. 112 (SAS 112) specifically lists an entity's lack of a fraud risk assessment program as presumptively being a significant deficiency in internal control.

Effect: There could be unidentified internal control deficiencies at the City of Aberdeen that create opportunities for fraudulent activities to occur.

Cause: The City considers the controls over financial reporting currently in place in conjunction with oversight by the City Council to be sufficient in being able to detect actual fraud or internal control deficiencies that could lead to fraud.

Recommendation: While the City does have an informal risk assessment process in place, the auditors recommend that the City further develop and document their program to assess all relevant risks, including any vulnerabilities to fraudulent activity, assess whether any of those exposures could result in any material misstatement of the financial statements, and subsequently identify and implement procedures, controls, and other procedures needed to mitigate identified risks.

Management

response: The City of Aberdeen will complete and document a formal assessment of fraud risk which identifies potential areas of fraud and the exposure to material misstatements of the financial statements, identifying any processes in place or that may need to be implemented to mitigate identified risks.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2009

2008 - 2 *Financial Statement Adjustments*

Condition: During the audit, the auditors identified certain items during their audit procedures that required adjustment to the financial statements and related notes that were material.

Criteria: A system of internal accounting control contemplates accurate recording and presentation of amounts and disclosures in the financial statements.

Effect: The control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Cause: The City considers the controls over financial reporting currently in place to be sufficient in being able to detect material adjustments that need to be reflected in the financial statements.

Recommendation: This circumstance is not unusual in a City of our size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost of other considerations.

Management

response: The City of Aberdeen makes every attempt to include all material amounts and disclosures in its financial statements and related notes. However, with the volume of transactions completed every year, the need to implement additional procedures to ensure accurate recording and presentation is necessary. We will review our current procedures and implement additional procedures as necessary.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2009

Finding 2008-3 Computer Security Measures

Condition: The City of Aberdeen does not have a formal documented standard that defines the minimum password complexity for computer terminals. There is also no periodic password changes required for computer terminals.

Criteria: A system of internal accounting control contemplates the separation of duties and access authorizations to the respective computer terminals where those duties are performed.

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Effect: Unauthorized use of passwords and or unauthorized access to network resources may occur which, effectively, could allow management’s internal control environment to be compromised or circumvented through network data resources and or application systems.

Cause: The City of Aberdeen does not require employees with access to computer terminals to establish strong passwords for access into their terminals and there is no periodic change required to the passwords used to access the terminals.

Recommendation: The City should establish procedures to define password standards in a formal policy. These procedures should be considered to configure the domain and applications to require minimum password complexity. The procedures should also include steps that require the passwords to be changed on a periodic basis.

Management response: The City of Aberdeen will complete and document a formal policy to define password standards and periodic changes to those passwords for all computer terminal access points.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2009

Finding 2008-4 Compliance with South Dakota Codified Law

Condition: The City of Aberdeen overspent the Airport Fund budget appropriation for the fiscal year.

Criteria: South Dakota Codified Law (SDCL) 9-21-9 requires the City spending to be within the amounts budgeted for each fund.

Effect: The budgeting process provides an oversight of the City’s annual expenditures. By not adopting a budget for the expenditures in the Airport Fund, this control measure was not utilized.

Cause: The City approved budget appropriations for the Airport Fund incorrectly to the Special Sales Tax Fund.

Recommendation: We recommend the City monitor the budget approval process closely to ensure the proper fund is designated in the appropriation and is incurring the appropriate expenditures. This will help to ensure the City remains in compliance with South Dakota Codified Law 9-21-9.

Management response: Management will be more aware of the budget appropriation process to ensure that proper authority for expenditures is given to the correct fund.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2009

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If there are questions regarding this plan, please call Karl Alberts at (605) 626-7034 or address any correspondence to the above address. Thank you.

Sincerely,

A handwritten signature in black ink that reads "Karl Alberts". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Karl Alberts, CPA Inactive
Finance Officer