



Financial Statement
December 31, 2009

City of Aberdeen

**CITY OF ABERDEEN
MUNICIPAL OFFICIALS
DECEMBER 31, 2009**

CITY COUNCIL

		<u>Expires</u>
Mayor	Mike Levsen	2014
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	Jennifer Slight-Hansen	2014
SE District Council Member	Clint Rux	2012
SE District Council Member	Lloyd Hodgins	2010
SW District Council Member	David Bunsness	2010
SW District Council Member	Tom Agnitsch	2013

APPOINTIVE OFFICERS

City Manager	Lynn A. Lander
Finance Officer	Karl M. Alberts
Deputy Finance Officer	Gerald L. Kost
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 / City Attorney's Secretary	Cathryn M. Feickert

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GOVERNING BOARDS

PARK AND RECREATION BOARD

(5 years)

	<u>Expires</u>
Paul Fauth, President	2010
Art Russo	2014
Bob Wilson	2013
Susan Bostian	2012
Rob Keil	2011
Sheryl Erickson	2011
Mike Opp	2010
Todd Campbell, City Council Member	
Tom Agnitsch, City Council Member	

AIRPORT BOARD

(5 years)

	<u>Expires</u>
Mike Erickson, Chairperson	2010
Steve Kaiser	2014
Rolf Johnson	2013
Nathan Zeeb	2012
Charles Bensen	2011
Jeff Mitchell, City Council Member	
Mike Wiese, County Commissioner	

LIBRARY BOARD

(3 years)

	<u>Expires</u>
Rob Ronayne, President	2012
Sandy Andera	2012
Kathy Stuck	2011
Cec Peters	2010
Richard Thomas	2010
Clint Rux, City Council Member	

CITY OF ABERDEEN

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT		1
MANAGEMENT'S DISCUSSION AND ANALYSIS		3
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets	I	14
Statement of Activities	II	15
Balance Sheet – Governmental Funds	III	16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets		17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	IV	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-wide Statement of Activities		20
Statement of Net Assets – Proprietary Funds	V	21
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	VI	23
Statement of Cash Flows – Proprietary Funds	VII	24
Notes to Financial Statements		26
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		47
Budgetary Comparison Schedule – Special Revenue Fund – Special Sales Tax Fund		49
Notes to Required Supplementary Information		50
SUPPLEMENTARY INFORMATION		
Primary Government:		
Combining Balance Sheet – Nonmajor Governmental Funds		51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds		52
Combining Statement of Net Assets – Nonmajor Enterprise Funds		53
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds		54
Combining Statement of Cash Flows – Nonmajor Enterprise Funds		55
Discretely Presented Component Unit:		
Statement of Cash Flows		56
Schedule of Expenditures of Federal Awards		57

(continued on next page)

	<u>Page</u>
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	59
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	60
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	62
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	64
CORRECTIVE ACTION PLAN	69



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, 2009, 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, 2009, 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 July 22, 2010 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 47 through 50, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting 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.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed address and date.

Aberdeen, South Dakota
July 22, 2010

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, 2009. 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 \$125.993 million (reported as net assets), an increase of \$3.154 million from the previous year. The component unit reported net assets of \$5.764 million, a decrease of \$255,000 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 \$10.7 million, with \$10.4 million reported as *unreserved fund balance* and the remaining amount of \$348,907 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 \$3.32 million, of which \$518,175 was designated only to be used to fund fiscal year 2009 appropriations.
- Proprietary funds reported net assets at year-end of \$41.29 million, a decrease of \$306,710 during the year.

Long-Term Debt

- The primary government's total long-term outstanding loans and bonded debt totaled \$55.931 million, an increase of \$1.831 million from the previous year. Of the total outstanding loans and bonded debt, \$46.87 million is backed by the City. The increase represents a State Revolving Loan from the South Dakota Department of Environment and Natural Resources in the amount of \$3,875,829 for wastewater treatment plant improvements. The decrease represents principal payments of \$2,082,298 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 following entity is included in the component unit column of the City's government-wide financial statements:
 - ✓ Housing and Redevelopment Commission

Fund Financial Statements and Component Unit Financial Statements

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the City's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the page immediately following each governmental funds financial statement.

The City maintains several individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Special Sales Tax Fund and Public Safety Capital 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 only special revenue fund that fits this criterion, and where the programs and/or budgetary fund types are identifiable to a major fund, is the Special Sales Tax Fund.

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

Other Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. As presented in the following table, total assets of the City on December 31, 2009 were \$185.636 million, while total liabilities were \$59.6 million, resulting in combined net assets (governmental and business-type activities) of \$125.99 million.

	City of Aberdeen Net Assets					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 15,812,814	\$ 23,232,723	\$ 9,017,114	\$ 9,148,180	\$ 24,829,929	\$ 32,380,902
Capital Assets	98,441,732	89,096,943	62,364,575	59,973,696	160,806,308	149,070,639
Total Assets	114,254,547	112,329,666	71,381,689	69,121,876	185,636,235	181,451,542
Long-Term Liabilities Outstanding	26,862,222	27,804,213	29,068,866	26,295,826	55,931,087	54,100,040
Other Liabilities	2,690,753	3,284,271	1,021,652	1,228,166	3,712,406	4,512,436
Total Liabilities	29,552,975	31,088,484	30,090,517	27,523,992	59,643,492	58,612,476
Net Assets:						
Invested in Capital Assets, Net of Related Debt	81,200,637	74,436,038	33,407,847	33,782,516	114,608,484	108,218,554
Restricted	4,270,518	5,553,919	-	-	4,270,518	5,553,919
Unrestricted	(769,583)	1,251,225	7,883,326	7,815,366	7,113,742	9,066,591
Total Net Assets	\$84,701,572	\$81,241,182	\$41,291,172	\$41,597,882	\$125,992,744	\$122,839,064

The largest component of the City's net assets, 90.96% (up slightly from 88.3% in 2008), 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 3.39% (down from 4.52% in 2008) 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, \$7.113 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 (\$518,175).

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 2009 and 2008.

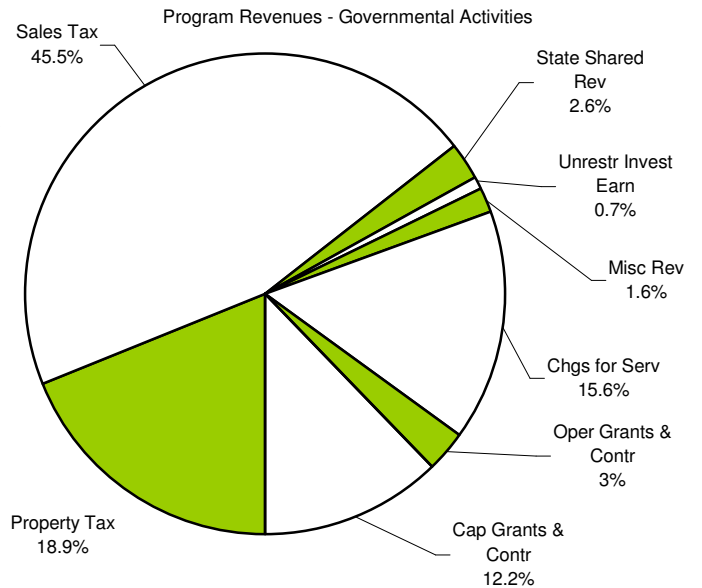
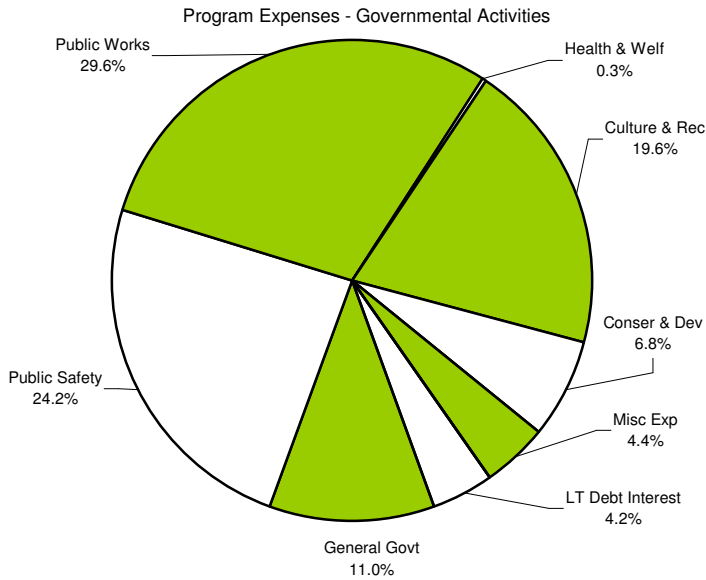
City of Aberdeen
Changes in Net Assets
Fiscal Year Ended December 31

	Governmental		Business-type		Total Primary	
	Activities		Activities		Government	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program Revenues:						
Charges for Services	\$ 5,386,181	\$ 5,311,871	\$ 7,829,342	\$ 7,621,485	\$ 13,215,522	\$ 12,933,356
Operating Grants and Contributions	1,026,149	913,519	6,629	39,016	1,032,778	952,535
Capital Grants and Contributions	4,211,143	5,699,210	409,777	1,797,650	4,620,920	7,496,860
General Revenues:						
Property Taxes	6,557,101	6,092,069	-	-	6,557,101	6,092,069
Sales Taxes	15,738,110	15,654,515	-	-	15,738,110	15,654,515
State Shared Revenues	902,483	827,356	-	-	902,483	827,356
Unrestricted Investment Earnings	234,117	555,296	115,448	255,905	349,565	811,200
Miscellaneous	568,849	242,398	3,531	(54,106)	572,380	188,291
Total Revenues	34,624,133	35,296,233	8,364,727	9,659,949	42,988,860	44,956,182
Program Expenses:						
General Government	3,475,288	2,905,440	-	-	3,475,288	2,905,440
Public Safety	7,665,319	5,534,732	-	-	7,665,319	5,534,732
Public Works	9,364,159	3,343,963	-	-	9,364,159	3,343,963
Health and Welfare	97,862	63,323	-	-	97,862	63,323
Cultural and Recreation	6,196,877	5,835,449	-	-	6,196,877	5,835,449
Conservation and Development	2,147,627	5,490,800	-	-	2,147,627	5,490,800
Intergovernmental Expenditures	-	-	-	-	-	-
Miscellaneous Expenditures	1,387,162	1,267,024	-	-	1,387,162	1,267,024
Interest on Long-term Debt	1,318,371	1,209,974	-	-	1,318,371	1,209,974
Water	-	-	4,062,447	4,187,741	4,062,447	4,187,741
Sewer	-	-	2,541,234	2,688,653	2,541,234	2,688,653
Campground	-	-	280,075	207,133	280,075	207,133
Golf	-	-	448,629	460,585	448,629	460,585
Ambulance	-	-	850,131	694,464	850,131	694,464
Total Expenses	31,652,665	25,650,705	8,182,516	8,238,576	39,835,180	33,889,282
Excess (Deficiency) Before						
Special Items and Transfers	2,971,468	9,645,528	182,211	1,421,373	3,153,680	11,066,900
Capitalization Policy Change	-	(520,080)	-	-	-	(520,080)
Transfers	488,921	423,127	(488,921)	(423,127)	-	-
Change in Net Assets	3,460,390	9,548,576	(306,710)	998,245	3,153,679	10,546,821
Net Assets – Beginning	81,241,182	71,692,606	41,597,882	40,599,637	122,839,064	112,292,243
Prior Period Adjustment	-	-	-	-	-	-
Net Assets – Ending	\$84,701,572	\$81,241,182	\$41,291,172	\$41,597,882	\$125,992,744	\$122,839,064

Governmental Activities:

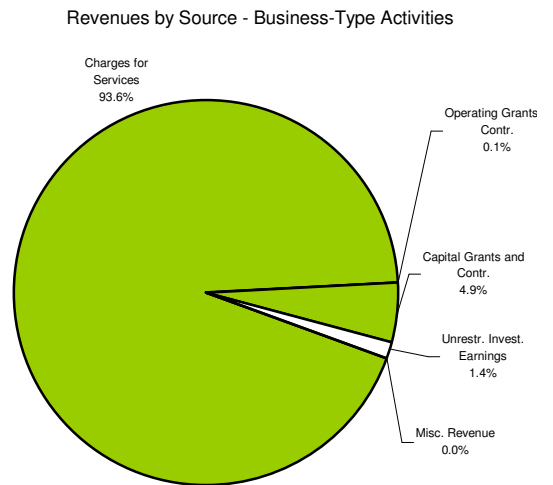
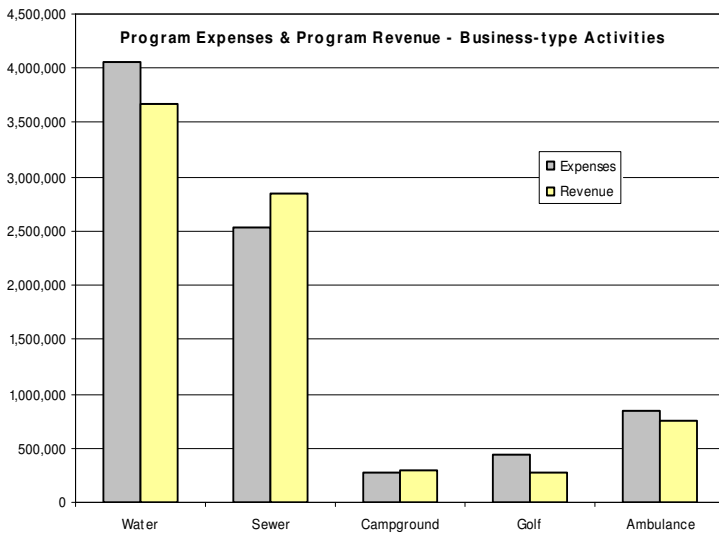
Governmental activities increased the City's net assets by \$2,971,468. Factors contributing to these results include:

- An excess of revenues over expenses, primarily due to federal and state grants (totaling \$3.5 million) for airport and street capital projects and public safety operating grants; and,
- Net transfers totaling \$488,921.



Business-Type Activities:

Net assets of the business-type activities decreased by \$306.7 thousand during 2009, as compared to a \$998.2 thousand increase in 2008. Factors contributing to these results 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 2009, the City's governmental funds reported combined ending fund balances of \$10.7 million, a decrease of \$6.9 million in comparison with the prior year.

Approximately 3.25%, or \$348,907 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 12.7%, or \$1,362,075 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 84.05%, or \$9.02 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 2009 were the General Fund, the Special Sales Tax 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 \$3.324 million, of which \$518,175 was designated only to be used to fund 2009 appropriations. Total fund balance at the end of the current fiscal year was \$3.614 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 21.7% (31.23% in 2008) of the total General Fund operating expenditures.

Overall, the fund balance of the City's General Fund decreased by \$554,636 during the current fiscal year. This is a 13.3% decrease from the prior year fund balance. The decrease primarily resulted from less than expected general sales tax collections (approximately \$22,870), less than expected license and permit revenue (approximately \$217,800), less than expected investment earnings (approximately \$97,000), overspending of original budget by departments (approximately \$492,587) and higher than anticipated transfers to other funds for operations (\$288,033). These decreases were offset by higher than expected transfers from other departments (approximately \$42,400) and sale of municipal property (approximately \$122,000).

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 \$2,607,099. Total fund balance at the end of the current fiscal year was also \$2,607,099.

Overall, the fund balance of the City's Special Sales Tax Fund decreased by \$2,599,211 during the current fiscal year. This is a 49.9% decrease in fund balance from the prior year. The decrease primarily resulted from completion of several projects which anticipated use of the unreserved fund balance (approximately \$885,000), transfer of Airport capital project funds to the Airport Fund (approximately \$619,000), and completion of several projects which were not completed in 2008.

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 \$207,280. Total fund balance at the end of the current fiscal year was also \$207,280.

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 2009:

- **Water Fund.** At the end of fiscal year 2009, the Water Fund reported total net assets of \$20.572 million, an decrease of \$791,873 (3.7%) in comparison with the prior year. During 2009, the Water Fund produced an operating income (before contributions and operating transfers) in the amount of \$121,464 on total operating revenue of \$3.666 million, compared to the previous fiscal year's operating loss (before contributions and operating transfers) in the amount of \$11,624 on total revenue of \$3.638 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 2009, the Sewer Fund reported total net assets of \$18.659 million, an increase of \$390.2 thousand (2.1%) in comparison with the prior year. During 2009, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$612,623 on total operating revenue of \$2.852 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$281,555 on total operating revenue of \$2.731 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 \$1.56 million (or 10.5%) of increases in appropriations and can be summarized as follows:

- \$360,000 in supplemental appropriations to General Government for 1) costs associated with rental housing shortage efforts by the Aberdeen Housing Authority, 2) cost associated with the strategic planning session, 3) costs associated with water damage repair at the Roosevelt Building, 4) costs associated with personal services, 5) higher than anticipated telephone costs, 6) new building permit and business licensing software, 7) costs associated with Knight Foundation computer grant, and 8) code enforcement related expenses.
- \$501,550 in supplemental appropriations to Public Safety to account 1) for Fire Department personal services, equipment repairs, electricity, training reimbursed by grants and water consumption 2) for Police personal services, furniture, electricity, heat, and building maintenance.
- \$438,775 in supplemental appropriations to Public Works departments for 1) street sweeper ordered in 2008, 2) water consumption expenses, 3) fall/winter snow removal expenses, and 4) van (80% grant) for Rideline.
- \$187,700 in supplemental appropriations to Economic Development relating to the a new building constructed by Aberdeen Development Corporation for Molded Fiberglass.

- \$196,000 in supplemental appropriations for transfers to the Parks, Recreation, and Forestry Fund for grant related expenses in that fund.
- \$100,000 in supplemental appropriations for transfers to the Ambulance Fund for cash flow needs in that fund.
- Other budget adjustments in the form of FY 2009 supplemental appropriations were not considered to be significant variations, or to have a significant effect on future services or liquidity.

Actual spending was more than the original budget for General Fund total operating expenditures by \$492,587 and was less than the final amended budget by just under \$1.07 million.

Overall, the only overexpenditure by City departments in the General Fund was in Public Works-Transit, where budget was exceeded by \$353,007 for work approved and paid for by the State of South Dakota for a grant related project at the RideLine bus barn.

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, 2009 is \$160.8 million (net of accumulated depreciation) as compared to \$149.3 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	
	2009	2008	2009	2008	2009	2008
Land	\$ 7,176,232	\$ 7,115,980	\$ 701,396	\$ 701,396	\$ 7,877,628	\$ 7,817,376
Buildings	35,037,389	25,454,867	60,340,627	55,240,486	95,378,016	80,695,353
Improvements other than Buildings	90,154,552	83,811,776	24,219,812	23,892,569	114,374,364	107,704,345
Equipment/Vehicles	14,743,879	13,654,934	6,481,619	6,292,255	21,225,498	19,947,189
Construction in Progress	224,873	4,706,377	-	1,368,245	224,873	6,074,622
Total Capital Assets	<u>147,336,925</u>	<u>134,743,934</u>	<u>91,743,454</u>	<u>87,494,951</u>	<u>239,080,379</u>	<u>222,238,885</u>
Accumulated Depreciation	<u>48,895,193</u>	<u>45,646,991</u>	<u>29,378,879</u>	<u>27,521,255</u>	<u>78,274,072</u>	<u>73,168,246</u>
Total Capital Assets, Net	<u>\$98,441,732</u>	<u>\$89,096,943</u>	<u>\$62,364,575</u>	<u>\$59,973,696</u>	<u>\$160,806,307</u>	<u>\$149,070,639</u>

The City's investment in capital assets (net of accumulated depreciation) changed from fiscal year 2009 to 2008 by approximately 7.7%. Governmental construction projects completed during 2009 include street improvements at a total cost of about \$2,836,810, stormwater mains at a total cost of about \$992,871, Airport AIP projects at a total cost of about \$1,136,280, Police Station at a total cost of about \$6,695,375, and Park, Recreation, and Forestry improvements at a total cost of about \$2,591,705. The governmental Construction in Progress includes \$212,581 for the 15th Avenue NE extension and \$12,292 for the Airport Lift Station. Business-type construction projects completed during 2009 include wastewater treatment plant and collection system improvements at a total of about \$5,100,141.

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 2009 general-purpose debt limitation for the City is \$62,890,420, which is \$24,372,927 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 \$26,862,222 and business-type activities had total note and bonded debt outstanding of \$29,068,865. During the current fiscal year, the City incurred no new long-term general indebtedness under governmental activities and incurred \$3,875,829 of indebtedness in business-type activities. The increase in business-type indebtedness related to the State Revolving Loan associated with the Wastewater Treatment Plants improvements. The City retired \$2,082,298 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 wheeled loader installment contracts, and State Revolving Loan associated with the Water and Wastewater Treatment Plants improvements.

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

ECONOMIC CONDITION AND OUTLOOK

Steady economic and property growth annually from calendar years 1998 to 2009 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 2009). As a sign of economic stability, the general sales tax collections within the City have grown steadily from 1998 to 2009, for a total increase of 79.2% for those eleven years and an annual average of 7.9%. Sales tax collections in 2009 increased by an annual rate of 2.8%. This is under the ten year average but well over the statewide taxable sales decrease of 3.5% in calendar year 2009.

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 units issue their 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, 2009

EXHIBIT I

	Primary Government			Component Unit Housing and Redevelopment Commission
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 4,314,204	\$ 3,477,241	\$ 7,791,445	\$ 780,930
Investments	7,633,583	4,383,690	12,017,273	
Accounts receivable, net	3,421,328	800,280	4,221,608	379,439
Other noncurrent assets	-	-	-	467,683
Internal balances	-	-	-	-
Inventories	9,195	355,903	365,098	-
Deferred charges	144,793	-	144,793	-
Other assets	-	-	-	-
Restricted assets:				
Cash and cash equivalents	-	-	-	193,175
Deposits	289,712	-	289,712	2,733,408
Capital assets:				
Land, improvements, and construction in progress	7,401,105	701,396	8,102,501	521,186
Other capital assets, net of depreciation	91,040,627	61,663,180	152,703,807	2,317,438
Total assets	\$ 114,254,547	\$ 71,381,690	\$ 185,636,237	\$ 7,393,259
LIABILITIES				
Accounts payable	\$ 1,900,581	\$ 451,878	\$ 2,352,459	\$ 129,373
Deferred revenue	-	-	-	134,272
Other current liabilities	790,172	569,774	1,359,946	114,392
Noncurrent liabilities:				
Due within one year	1,793,237	1,382,359	3,175,596	67,835
Due in more than one year	25,068,985	27,686,506	52,755,491	1,182,908
Total liabilities	29,552,975	30,090,517	59,643,492	1,628,780
NET ASSETS				
Invested in capital assets, net of related debt	81,200,637	33,407,847	114,608,484	1,587,881
Restricted for:				
Capital projects	234,918	-	234,918	-
Debt service	2,307,227	-	2,307,227	-
Perpetual care:				
Expendable	126,469	-	126,469	-
Permanently nonexpendable	50,000	-	50,000	-
Other purposes	67,359	-	67,359	-
Other purposes - Promotion Fund	181,923	-	181,923	-
Other purposes - Park and Recreation Fund	258,082	-	258,082	-
Other purposes - Park and Recreation Trust Fund	402,871	-	402,871	-
Other purposes - Parking Fund	351,957	-	351,957	-
Other purposes - General Fund - SD Public Assurance Alliance	289,712	-	289,712	-
Other purposes - component unit	-	-	-	2,733,408
Unrestricted	(769,583)	7,883,326	7,113,743	1,443,190
	84,701,572	41,291,173	125,992,745	5,764,479
	\$ 114,254,547	\$ 71,381,690	\$ 185,636,237	\$ 7,393,259

CITY OF ABERDEEN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

EXHIBIT II

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets						
		Program Revenues			Primary Government			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission
Primary government:								
Governmental activities:								
General government	\$ 3,475,288	\$ 435,102	\$ -	\$ -	\$ (3,040,186)	\$ -	\$ (3,040,186)	\$ -
Public safety	7,665,319	111,615	326,855	76,500	(7,150,349)	-	(7,150,349)	-
Public works	9,364,159	1,849,170	275,641	2,293,439	(4,945,909)	-	(4,945,909)	-
Health and welfare	97,862	5,240	-	1,645,204	1,552,582	-	1,552,582	-
Culture and recreation	6,196,878	1,120,869	421,181	-	(4,654,828)	-	(4,654,828)	-
Conservation and development	2,147,627	-	2,474	-	(2,145,153)	-	(2,145,153)	-
Intergovernmental expenditures	-	-	-	196,000	196,000	-	196,000	-
Miscellaneous expenditures	1,387,162	1,864,184	-	-	477,022	-	477,022	-
Depreciation expense - unallocated	-	-	-	-	-	-	-	-
Interest on long-term debt	1,318,371	-	-	-	(1,318,371)	-	(1,318,371)	-
Total governmental activities	<u>31,652,666</u>	<u>5,386,180</u>	<u>1,026,151</u>	<u>4,211,143</u>	<u>(21,029,192)</u>	<u>-</u>	<u>(21,029,192)</u>	<u>-</u>
Business-type activities:								
Water	4,062,447	3,666,011	6,629	166,528	-	(223,279)	(223,279)	-
Sewer	2,541,234	2,851,945	-	118,299	-	429,010	429,010	-
Campground	280,075	285,758	-	-	-	5,683	5,683	-
Golf	448,629	279,357	-	-	-	(169,272)	(169,272)	-
Ambulance	850,131	746,271	-	124,950	-	21,090	21,090	-
Total business-type activities	<u>8,182,516</u>	<u>7,829,342</u>	<u>6,629</u>	<u>409,777</u>	<u>-</u>	<u>63,232</u>	<u>63,232</u>	<u>-</u>
Total primary government	<u>\$ 39,835,182</u>	<u>\$ 13,215,522</u>	<u>\$ 1,032,780</u>	<u>\$ 4,620,920</u>	<u>(21,029,192)</u>	<u>63,232</u>	<u>(20,965,960)</u>	<u>-</u>
Component Unit:								
Housing and Redevelopment Commission	<u>\$ 3,276,931</u>	<u>\$ 749,666</u>	<u>\$ 2,047,763</u>	<u>\$ 112,000</u>				<u>(367,502)</u>
General revenues:								
Taxes:								
Property taxes					6,557,101	-	6,557,101	-
Sales taxes					15,738,110	-	15,738,110	-
State shared revenue					902,483	-	902,483	-
Unrestricted investment earnings					234,117	115,448	349,565	112,549
Grants and contributions not restricted to specific programs					-	-	-	-
Miscellaneous revenue					568,849	3,531	572,380	-
Special items:								
Capital assets capitalization policy change					-	-	-	-
Extraordinary items					-	-	-	-
Transfers					488,921	(488,921)	-	-
Total general revenues, special items, extraordinary items, and transfers					<u>24,489,581</u>	<u>(369,942)</u>	<u>24,119,639</u>	<u>112,549</u>
Change in net assets					3,460,389	(306,710)	3,153,679	(254,953)
Net assets - beginning					<u>81,241,183</u>	<u>41,597,883</u>	<u>122,839,066</u>	<u>6,019,432</u>
NET ASSETS - ENDING					<u>\$ 84,701,572</u>	<u>\$ 41,291,173</u>	<u>\$ 125,992,745</u>	<u>\$ 5,764,479</u>

See Notes to Financial Statements.

CITY OF ABERDEEN
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2009

EXHIBIT III

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Public Safety Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,416,428	\$ 397,277	\$ -	\$ 2,058,945	\$ 3,872,650
151 Investments	1,770,023	2,672,480	272,758	2,318,322	7,033,583
110 Taxes receivable, delinquent	118,285	-	-	2,090	120,375
115 Accounts receivable, net	37,135	134,578	-	30,897	202,610
121 Special assessments receivable, current	17,782	3,195	-	500	21,477
122 Special assessments receivable, delinquent	61,264	-	-	2,604	63,868
132 Due from Federal/State/County governments	598,962	288,176	-	467,073	1,354,211
141 Inventory of supplies	-	-	-	9,195	9,195
154 Deposits	289,712	-	-	-	289,712
TOTAL ASSETS	<u>\$ 4,309,591</u>	<u>\$ 3,495,706</u>	<u>\$ 272,758</u>	<u>\$ 4,889,626</u>	<u>\$ 12,967,681</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
202 Accounts payable	\$ 484,231	\$ 834,104	\$ 43,854	\$ 507,186	\$ 1,869,375
207 Contracts payable, retained percentage	-	54,503	21,624	25,459	101,586
216 Accrued wages payable	204,592	-	-	52,291	256,883
220 Customer deposits	6,440	-	-	-	6,440
Total liabilities	<u>695,263</u>	<u>888,607</u>	<u>65,478</u>	<u>584,936</u>	<u>2,234,284</u>
Fund balances:					
261 Reserved for:					
261.02 Inventory	-	-	-	9,195	9,195
261.15 Permanently reserved purposes	-	-	-	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	518,175	741,000	-	-	1,259,175
	Reported in nonmajor special revenue funds	-	-	-	33,000	33,000
	Reported in nonmajor debt service funds	-	-	-	69,900	69,900
262.02	Designated for other purposes:					
	General fund	-	-	-	-	-
262.09	Undesignated	2,806,441	1,866,099	207,280	-	4,879,820
	Reported in nonmajor special revenue funds	-	-	-	1,751,161	1,751,161
	Reported in nonmajor debt service funds	-	-	-	2,237,327	2,237,327
	Reported in nonmajor capital project funds	-	-	-	27,638	27,638
	Reported in nonmajor permanent funds	-	-	-	126,469	126,469
	Total fund balances	<u>3,614,328</u>	<u>2,607,099</u>	<u>207,280</u>	<u>4,304,690</u>	<u>10,733,397</u>
	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 4,309,591</u>	<u>\$ 3,495,706</u>	<u>\$ 272,758</u>	<u>\$ 4,889,626</u>	<u>\$ 12,967,681</u>

CITY OF ABERDEEN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
DECEMBER 31, 2009

	<u>Total</u>
Total fund balances - governmental funds	\$ 10,733,397
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.	98,441,733
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.	(26,862,222)
Unamortized balance of deferred charges for debt issuance costs are not considered financial resources and; therefore, are not reported as assets in the funds.	144,793
Unamortized balance of premiums and discounts are not due and payable in the current period and; therefore, are not reported in the funds.	(194,493)
Taxes collected after year-end, but not available soon enough to pay for current period expenditures.	1,658,787
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(137,770)
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>917,349</u>
Net assets - governmental funds	<u>\$ 84,701,572</u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2009

EXHIBIT IV

	<u>General Fund</u>	<u>Special Sales Tax 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	\$ 6,016,873	\$ -	\$ -	\$ 503,593	\$ 6,520,466
312 Airflight property taxes	-	-	-	27,812	27,812
313 General sales and use taxes	7,610,810	7,293,130	-	834,462	15,738,402
319 Penalties and interest on delinquent taxes	8,547	-	-	276	8,823
320 Licenses and permits	379,191	-	-	-	379,191
330 Intergovernmental revenue:					
331 Federal grants	1,147,675	861,934	-	1,454,435	3,464,044
334 State grants	63,757	-	-	29,813	93,570
335 State shared revenue:					
335.01 Bank franchise tax	66,881	-	-	-	66,881
335.02 Motor vehicle commercial prorated	21,860	-	-	-	21,860
335.03 Liquor tax reversion	149,862	-	-	-	149,862
335.04 Motor vehicle licenses (5%)	92,840	-	-	-	92,840
335.06 Fire insurance premiums reversion	55,629	-	-	-	55,629
335.08 Local government highway and bridge fund	338,932	-	-	-	338,932
335.20 Other	79,910	-	-	90,599	170,509
336 State payments in lieu of taxes	5,970	-	-	-	5,970
338 County shared revenue:					
338.02 County HBR tax (25%)	20,440	-	-	-	20,440
338.03 County wheel tax	8,041	-	-	-	8,041
340 Charges for goods and services:					
341 General government	55,912	-	-	-	55,912
342 Public safety	72,098	-	-	-	72,098
343 Highways and streets	98,527	-	-	-	98,527
344 Sanitation	1,181,424	-	-	430,305	1,611,729
345 Health	5,240	-	-	-	5,240
346 Culture and recreation	3,020	-	-	1,102,206	1,105,226
348 Cemetery	-	-	-	1,142	1,142
349 Other	173,447	-	-	268,551	441,998
350 Fines and forfeits:					
351 Court fines and costs	39,517	-	-	-	39,517
354 Library	-	-	-	15,643	15,643
359 Other	609	-	-	1,247	1,856
360 Miscellaneous revenue:					
361 Investment earnings	52,921	74,475	35,074	71,647	234,117
362 Rentals	182,025	-	-	1,080	183,105
363 Special assessments	-	137,773	-	-	137,773
367 Contributions and donations from private sources	142,255	-	-	971,842	1,114,097
369 Other	12,607	-	-	4,514	17,121
Total revenue	<u>18,086,820</u>	<u>8,367,312</u>	<u>35,074</u>	<u>5,809,167</u>	<u>32,298,373</u>

(continued on next page)

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

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Public Safety Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Expenditures					
410 General government:					
412 Executive	357,333	-	-	-	357,333
414 Financial administration	1,520,431	-	-	-	1,520,431
419 Other	1,350,660	189,750	-	-	1,540,410
Total general government	<u>3,228,424</u>	<u>189,750</u>	<u>-</u>	<u>-</u>	<u>3,418,174</u>
420 Public safety:					
421 Police	3,453,927	-	3,292,749	-	6,746,676
422 Fire	2,198,698	830,227	783,563	-	3,812,488
423 Protective inspection	173,854	-	-	-	173,854
429 Other protection	-	-	-	-	-
Total public safety	<u>5,826,479</u>	<u>830,227</u>	<u>4,076,312</u>	<u>-</u>	<u>10,733,018</u>
430 Public works:					
431 Highways and streets	2,431,195	5,906,923	-	388,254	8,726,372
432 Sanitation	1,096,191	233,628	-	-	1,329,819
435 Airport	-	-	-	2,098,843	2,098,843
436 Parking facilities	-	-	-	27,445	27,445
437 Cemeteries	-	-	-	9,936	9,936
439 Transit	911,532	-	-	-	911,532
Total public works	<u>4,438,918</u>	<u>6,140,551</u>	<u>-</u>	<u>2,524,478</u>	<u>13,103,947</u>
440 Health and welfare:					
445 Drug education	55,603	-	-	-	55,603
449 Other	42,259	-	-	-	42,259
Total health and welfare	<u>97,862</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>97,862</u>
450 Culture and recreation					
451 Recreation	26,935	-	-	3,111,816	3,138,751
452 Parks	-	1,241,996	-	2,799,081	4,041,077
455 Libraries	902,419	-	-	9,223	911,642
457 Historical preservation	-	-	-	1,200	1,200
Total culture and recreation	<u>929,354</u>	<u>1,241,996</u>	<u>-</u>	<u>5,921,320</u>	<u>8,092,670</u>
460 Conservation and development:					
465 Economic development and assistance (industrial development)	808,316	405,000	-	934,311	2,147,627
Total conservation and development	<u>808,316</u>	<u>405,000</u>	<u>-</u>	<u>934,311</u>	<u>2,147,627</u>
470 Debt service	-	-	-	2,297,786	2,297,786
Total expenditures	<u>15,329,353</u>	<u>8,807,524</u>	<u>4,076,312</u>	<u>11,677,895</u>	<u>39,891,084</u>
Excess of revenue over (under) expenditures	<u>2,757,467</u>	<u>(440,212)</u>	<u>(4,041,238)</u>	<u>(5,868,728)</u>	<u>(7,592,711)</u>
Other Financing Sources (Uses)					
391.01 Transfers in	424,905	-	-	6,269,074	6,693,979
511 Transfers out	(3,963,278)	(2,159,000)	-	(82,780)	(6,205,058)
391.03 Sale of municipal property	142,071	-	-	-	142,071
391.04 Compensation for loss or damage to capital assets	84,198	-	-	-	84,198
Total other financing sources (uses)	<u>(3,312,104)</u>	<u>(2,159,000)</u>	<u>-</u>	<u>6,186,294</u>	<u>715,190</u>
Net change in fund balances	(554,637)	(2,599,212)	(4,041,238)	317,566	(6,877,521)
Fund balance - beginning	4,168,965	5,206,311	4,248,518	3,987,124	17,610,918
FUND BALANCE - ENDING	<u>\$ 3,614,328</u>	<u>\$ 2,607,099</u>	<u>\$ 207,280</u>	<u>\$ 4,304,690</u>	<u>\$ 10,733,397</u>

CITY OF ABERDEEN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2009

	<u>Total</u>
Net change in fund balances - total governmental funds	\$ (6,877,521)
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.	9,417,047
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.	(72,258)
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.	972,017
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(30,026)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(293)
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.	15,480
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>33,169</u>
Change in net assets of governmental activities	<u>\$ 3,460,389</u>

CITY OF ABERDEEN
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2009

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	\$ 1,382,192	\$ 1,611,695	\$ 483,354	\$ 3,477,241	\$ 441,554
151 Investments	3,015,212	1,368,478	-	4,383,690	600,000
115 Accounts receivable, net	43,944	40,365	153,453	237,762	-
117 Unbilled accounts receivable	295,063	260,073	-	555,136	-
121 Special assessments receivable, current	4,318	-	-	4,318	-
122 Special assessments receivable, delinquent	2,657	-	-	2,657	-
132 Due from federal/state/county governments	407	-	-	407	-
141 Inventory of supplies	330,132	25,771	-	355,903	-
Total current assets	<u>5,073,925</u>	<u>3,306,382</u>	<u>636,807</u>	<u>9,017,114</u>	<u>1,041,554</u>
Noncurrent assets:					
Capital assets:					
160 Land	311,427	59,469	330,500	701,396	-
162 Buildings	27,775,644	31,722,588	842,395	60,340,627	-
164 Improvements other than buildings	14,824,127	9,171,907	223,778	24,219,812	-
166 Machinery and equipment	3,997,907	1,455,855	1,027,857	6,481,619	-
Less accumulated depreciation	(16,631,290)	(11,818,227)	(929,361)	(29,378,878)	-
Total noncurrent assets	<u>30,277,815</u>	<u>30,591,592</u>	<u>1,495,169</u>	<u>62,364,576</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 35,351,740</u></u>	<u><u>\$ 33,897,974</u></u>	<u><u>\$ 2,131,976</u></u>	<u><u>\$ 71,381,690</u></u>	<u><u>\$ 1,041,554</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	\$ 4,664	\$ -	\$ -	\$ 4,664	\$ -
202 Accounts payable	170,908	248,121	28,185	447,214	31,206
207 Contracts payable, retained percentage	-	270,507	-	270,507	-
213 Incurred but not reported claims	-	-	-	-	92,999
215 Accrued interest payable	121,089	96,097	-	217,186	-
216 Accrued wages payable	23,815	16,309	17,046	57,170	-
223 Revenue collected in advance	24,911	-	-	24,911	-
226 Bonds payable current:					
226.02 Revenue	656,245	613,977	-	1,270,222	-
Total current liabilities	<u>1,001,632</u>	<u>1,245,011</u>	<u>45,231</u>	<u>2,291,874</u>	<u>124,205</u>
Noncurrent liabilities					
231 Bonds payable:					
231.02 Revenue	13,724,583	13,961,923	-	27,686,506	-
233 Accrued leave payable	52,991	32,012	27,134	112,137	-
Total noncurrent liabilities	<u>13,777,574</u>	<u>13,993,935</u>	<u>27,134</u>	<u>27,798,643</u>	<u>-</u>
NET ASSETS					
253.10 Invested in capital assets, net of related debt	15,896,986	16,015,692	1,495,169	33,407,847	-
253.90 Unrestricted net assets	4,675,548	2,643,336	564,442	7,883,326	917,349
Total net assets	<u>20,572,534</u>	<u>18,659,028</u>	<u>2,059,611</u>	<u>41,291,173</u>	<u>917,349</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 35,351,740</u>	<u>\$ 33,897,974</u>	<u>\$ 2,131,976</u>	<u>\$ 71,381,690</u>	<u>\$ 1,041,554</u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENSES AND
AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

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	\$ 3,525,361	\$ 2,832,551	\$ 1,279,864	\$ 7,637,776	\$ 1,410,724
369 Miscellaneous	140,651	19,395	31,521	191,567	644
Total operating revenue	<u>3,666,012</u>	<u>2,851,946</u>	<u>1,311,385</u>	<u>7,829,343</u>	<u>1,411,368</u>
Operating expenses:					
410 Personal services	1,049,505	727,143	902,976	2,679,624	-
420 Other current expenses	1,470,326	657,484	574,457	2,702,267	1,387,162
426.2 Materials (cost of goods sold)	26,056	4,093	-	30,149	-
457 Depreciation	998,661	850,602	101,402	1,950,665	-
Total operating expenses	<u>3,544,548</u>	<u>2,239,322</u>	<u>1,578,835</u>	<u>7,362,705</u>	<u>1,387,162</u>
Operating income (loss)	<u>121,464</u>	<u>612,624</u>	<u>(267,450)</u>	<u>466,638</u>	<u>24,206</u>
Nonoperating revenue (expense):					
330 Operating grants	6,629	-	-	6,629	-
361 Investment earnings	77,336	35,783	2,328	115,447	8,963
470 Interest expense and fiscal charges	(517,899)	(301,912)	-	(819,811)	-
(492) 366 Gain (loss) on disposition of assets	-	-	2,881	2,881	-
(429) 369.01 Other	650	-	-	650	-
Total nonoperating revenue (expense)	<u>(433,284)</u>	<u>(266,129)</u>	<u>5,209</u>	<u>(694,204)</u>	<u>8,963</u>
Income (loss) before contributions, special items, and extraordinary items	(311,820)	346,495	(262,241)	(227,566)	33,169
391.07 Capital contributions	166,528	118,299	124,950	409,777	-
391.1 Transfers in	-	51,559	313,881	365,440	-
511 Transfers out	(646,581)	(126,150)	(81,630)	(854,361)	-
Change in net assets	(791,873)	390,203	94,960	(306,710)	33,169
Net assets - beginning	<u>21,364,407</u>	<u>18,268,825</u>	<u>1,964,651</u>	<u>41,597,883</u>	<u>884,180</u>
NET ASSETS - ENDING	<u>\$ 20,572,534</u>	<u>\$ 18,659,028</u>	<u>\$ 2,059,611</u>	<u>\$ 41,291,173</u>	<u>\$ 917,349</u>

See Notes to Financial Statements.

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2009

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 (used by) operating activities					
Receipt from customers	\$ 3,413,070	\$ 2,955,435	\$ 1,262,596	\$ 7,631,101	\$ 1,410,724
Payments to suppliers	(1,439,919)	(570,113)	(568,066)	(2,578,098)	-
Payments to employees	(1,044,546)	(725,450)	(892,123)	(2,662,119)	-
Internal activity - payment to other funds	-	(51,559)	(133,881)	(185,440)	-
Claims paid	-	-	-	-	(1,403,912)
Cash receipts for interfund services provided	471,871	-	-	471,871	-
Other receipts	140,650	19,394	31,521	191,565	643
Net cash from (used by) operating activities	<u>1,541,126</u>	<u>1,627,707</u>	<u>(299,953)</u>	<u>2,868,880</u>	<u>7,455</u>
Cash flows from (used by) noncapital financing activities					
Transfers from other funds	-	51,559	313,881	365,440	-
Transfers to other funds	(646,581)	(126,150)	(81,630)	(854,361)	-
Operating grants	6,629	-	-	6,629	-
Other noncapital receipts	650	-	-	650	-
Net cash from (used by) noncapital financing activities	<u>(639,302)</u>	<u>(74,591)</u>	<u>232,251</u>	<u>(481,642)</u>	<u>-</u>
Cash flows used by capital and related financing activities					
Proceeds from capital debt	-	4,250,005	-	4,250,005	-
Capital contributions	166,528	118,299	124,950	409,777	-
Purchase of capital assets	(237,998)	(4,159,435)	(161,427)	(4,558,860)	-
Principal paid on capital debt	(633,770)	(476,511)	-	(1,110,281)	-
Interest paid on capital debt	(517,253)	(256,463)	-	(773,716)	-
Other receipts	3,718	-	-	3,718	-
Net cash used by capital and related financing activities	<u>(1,218,775)</u>	<u>(524,105)</u>	<u>(36,477)</u>	<u>(1,779,357)</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 (used by) investing activities					
Purchase of investment securities	-	-	-	-	(600,000)
Proceeds from sales and maturities of investments	1,339,941	1,024,630	-	2,364,571	600,000
Interest earnings	77,336	35,783	2,328	115,447	8,963
Net cash from (used by) investing activities	<u>1,417,277</u>	<u>1,060,413</u>	<u>2,328</u>	<u>2,480,018</u>	<u>8,963</u>
Net increase (decrease) in cash and cash equivalents	1,100,326	2,089,424	(101,851)	3,087,899	16,418
Balances - beginning	<u>3,297,078</u>	<u>890,749</u>	<u>585,205</u>	<u>4,773,032</u>	<u>425,136</u>
Balances - ending	<u>\$ 4,397,404</u>	<u>\$ 2,980,173</u>	<u>\$ 483,354</u>	<u>\$ 7,860,931</u>	<u>\$ 441,554</u>
Cash and cash equivalents consist of:					
Cash and cash equivalents	\$ 1,382,192	\$ 1,611,695	\$ -	\$ 2,993,887	\$ -
Investments	<u>3,015,212</u>	<u>1,368,478</u>	<u>-</u>	<u>4,383,690</u>	<u>-</u>
	<u>\$ 4,397,404</u>	<u>\$ 2,980,173</u>	<u>\$ -</u>	<u>\$ 7,377,577</u>	<u>\$ -</u>
Cash from operating activities					
Operating income (loss)	\$ 121,464	\$ 612,624	\$ (267,450)	\$ 466,638	\$ 24,206
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation expense	998,661	850,602	101,402	1,950,665	-
Change in assets and liabilities:					
Receivables	171,186	198,068	(17,268)	351,986	-
Inventories	(26,056)	(4,093)	-	(30,149)	-
Accounts and other payables	82,518	77,146	(51,585)	108,079	(16,750)
Due to water fund	263,716	(33,148)	(75,905)	154,663	-
Accrued wages payable	3,182	1,816	5,017	10,015	-
Accrued leave payable	1,777	(122)	5,836	7,491	-
Revenue collected in advance	8,878	-	-	8,878	-
Deferred revenue	(84,200)	(75,186)	-	(159,386)	-
Net cash from operating activities	<u>\$ 1,541,126</u>	<u>\$ 1,627,707</u>	<u>\$ (299,953)</u>	<u>\$ 2,868,880</u>	<u>\$ 7,456</u>
Noncash investing, capital and financing activities:					
Gain on disposal of capital assets not affecting operating income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,880</u>	<u>\$ 2,880</u>	<u>\$ -</u>

CITY OF ABERDEEN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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 part-time Mayor who is vested with the executive and administrative powers of the City, as well as eight part-time Council members who serve in a policymaking and legislative capacity.

The reporting entity consists of the City 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 The members commission are appointed by the Mayor of the City of Aberdeen

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

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 \$70,997 at December 31, 2009.

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, 2009 balance of governmental activities capital assets includes approximately 25.6% 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, 2009 were as follows:

<u>Primary Government:</u>	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 1,302,872
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	<u>18,287,058</u>
Total deposits	<u>\$ 19,589,930</u>

The carrying amount of deposits on the December 31, 2009 statement of net assets was \$19,591,445.

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

Custodial Credit Risk – Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City's deposit policy follows state statute which requires deposits in excess of the Depository Insurance maximums must be collateralized 100%. As of December 31, 2009, the City's deposits in financial institutions were not exposed to any custodial credit risk. As of December 31, 2009, the City's total deposits of \$19,589,930 (carrying value of \$19,591,445) were covered by insurance or collateral in accordance with the City's deposit policy.

Investments – As of December 31, 2009, the City had the following investments:

<u>Investment</u>	<u>Credit Rating</u>	<u>Maturities</u>	<u>Fair Value</u>
US Bank - First American Treasury Class D Money Market	Not Rated	\$ 212	\$ 212
US Bank - FNMA Discount Note (matures on 05/27/10)	AAA	217,061	<u>217,061</u>
Total investments			<u>\$ 217,273</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.

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.

NOTES TO FINANCIAL STATEMENTS

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	\$5.298
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NOTE 4 - DUE FROM OTHER GOVERNMENTS

GENERAL FUND - \$277,068 due from federal government for grants; \$15,000 due from state government for grant; \$186,977 due from state government for 1% city sales tax; \$65,738 due from state government for local government highway/bridge funds; \$38,517 due from state government for liquor tax reversion funds; and \$15,662 due from county government for taxes.

PROMOTION FUND - \$23,659 due from state government for 1% city sales tax.

PARKS RECREATION TRUST FUND - \$620 due from federal government for grants.

BUSINESS IMPROVEMENT DISTRICT FUND - \$419 due from county government for taxes.

AIRPORT FUND - \$298,968 due from federal government for grants; and \$142,925 due from state government for grants.

SPECIAL SALES TAX FUND - \$96,972 due from federal government for grants; \$4,226 due from state government for grants; and \$186,978 due from state government for 1% city sales tax.

PARKING DISTRICT FUND - \$482 due from county government for taxes.

WATER FUND - \$393 due from federal government for grant; and \$13 due from county government for special assessments.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2009 is as follows:

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 7,115,980	\$ 65,852	\$ (5,600)	\$ 7,176,232
Construction work in progress	4,706,377	224,873	(4,706,377)	224,873
Total capital assets, not being depreciated	11,822,357	290,725	(4,711,977)	7,401,105
Capital assets, being depreciated:				
Buildings	25,454,867	9,622,932	(40,410)	35,037,389
Improvements other than buildings	83,811,776	6,651,609	(308,833)	90,154,552
Machinery and equipment	13,654,934	1,869,607	(780,662)	14,743,879
Total	122,921,577	18,144,148	(1,129,905)	139,935,820
Less accumulated depreciation for:				
Buildings	(7,081,855)	(514,393)	40,410	(7,555,838)
Improvements other than buildings	(29,832,852)	(2,665,627)	303,573	(32,194,906)
Machinery and equipment	(8,732,284)	(1,015,662)	603,497	(9,144,449)
Total accumulated depreciation	(45,646,991)	(4,195,682)	947,480	(48,895,193)
Total capital assets, being depreciated, net	77,274,586	13,948,466	(182,425)	91,040,627
Governmental activity capital assets, net	\$ 89,096,943	\$ 14,239,191	\$ (4,894,402)	\$ 98,441,732

Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 97,564
Public safety	236,227
Public works	3,107,767
Culture and recreation	754,124
Total depreciation expense—governmental activities	\$ 4,195,682

NOTES TO FINANCIAL STATEMENTS

	Balance 01/01/09	Increases	Decreases	Balance 12/31/09
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 701,396	\$ -	\$ -	\$ 701,396
Construction work in progress	1,368,245	-	(1,368,245)	-
Total capital assets, not being depreciated	<u>2,069,641</u>	<u>-</u>	<u>(1,368,245)</u>	<u>701,396</u>
Capital assets, being depreciated:				
Buildings	55,240,486	5,100,141	-	60,340,627
Improvements other than buildings	23,892,569	400,079	(72,836)	24,219,812
Machinery and equipment	6,292,255	211,189	(21,825)	6,481,619
Total	<u>85,425,310</u>	<u>5,711,409</u>	<u>(94,661)</u>	<u>91,042,058</u>
Less accumulated depreciation for:				
Buildings	(14,641,523)	(1,095,231)	-	(15,736,754)
Improvements other than buildings	(10,643,396)	(449,650)	72,836	(11,020,210)
Machinery and equipment	(2,236,336)	(405,784)	20,206	(2,621,914)
Total accumulated depreciation	<u>(27,521,255)</u>	<u>(1,950,665)</u>	<u>93,042</u>	<u>(29,378,878)</u>
Total capital assets, being depreciated, net	<u>57,904,055</u>	<u>3,760,744</u>	<u>(1,619)</u>	<u>61,663,180</u>
Business-type activity capital assets, net	<u>\$ 59,973,696</u>	<u>\$ 3,760,744</u>	<u>\$ (1,369,864)</u>	<u>\$ 62,364,576</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 998,661
Sewer	850,602
Campground	15,819
Golf	46,822
Ambulance	38,761
Total depreciation expense—business-type activities	<u>\$ 1,950,665</u>

The City has active construction projects as of December 31, 2009. At year end the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Public Works - Street Extension Project (15th Ave. NE)	\$ 212,581	\$ 175,502
Airport - Lift Station	12,292	38,212
Total	<u>\$ 224,873</u>	<u>\$ 213,714</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM LIABILITIES

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

Primary Government:

	January 1, 2009	Increases	Decreases	December 31, 2009	Due Within One Year	Interest Paid
Governmental Activities:						
Tax increment revenue bonds #2	\$ 3,225,000	\$ -	\$ (155,000)	\$ 3,070,000	\$ 160,000	\$ 170,035
Tax increment revenue bonds #4	120,467	-	(6,178)	114,289	6,579	7,830
Tax increment revenue bonds #6	1,448,856	-	-	1,448,856	168,858	106,288
Tax increment revenue bonds #8	3,800,000	-	-	3,800,000	133,723	209,000
Sales tax revenue bonds, ARCC	2,270,000	-	(145,000)	2,125,000	150,000	111,438
Sales tax revenue bonds, aquatic center	6,790,000	-	(275,000)	6,515,000	290,000	312,720
Sales tax revenue bonds, public safety bldgs	9,590,000	-	(335,000)	9,255,000	350,000	396,168
Compensated absences	481,812	808,684	(778,658)	511,838	511,838	-
Installment purchase contract, versalift	34,648	-	(34,648)	-	-	1,729
Installment purchase contract, wheel loader	43,430	-	(21,191)	22,239	22,239	2,150
Total government activities	27,804,213	808,684	(1,750,675)	26,862,222	1,793,237	1,317,358
Business-type Activities:						
Water Revenue Bonds	15,014,598	-	(633,770)	14,380,828	656,245	517,253
Sewer Revenue Bonds	11,176,582	3,875,829	(476,511)	14,575,900	613,977	256,463
Compensated absences	104,646	182,260	(174,769)	112,137	112,137	-
Total business-type activities	26,295,826	4,058,089	(1,285,050)	29,068,865	1,382,359	773,716
Total primary government	\$ 54,100,039	\$ 4,866,773	\$ (3,035,725)	\$ 55,931,087	\$ 3,175,596	\$ 2,091,074

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, 2009 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. \$ 3,070,000

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. 114,289

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

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

NOTES TO FINANCIAL STATEMENTS

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. 2,125,000

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. 6,515,000

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. 9,255,000

Installment Purchase Contract:

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. 22,239

Water Revenue Bonds:

The City passed Resolution 03-05-04R, amended in January 2004, to enter into a "Drinking Water State Revolving Fund" loan agreement for up to \$16,760,000 in July 2003. The debt on the loan agreement totaling \$16,484,258, requires quarterly payments ranging from \$132,666 to \$287,756 beginning July 2006, including interest at 3.50% from the Water Fund, final payment due April 2026. 14,380,828

Sewer Revenue Bonds:

The City passed Resolution 05-02-02R, to enter into a "Clean Water State Revolving Fund" loan agreement for up to \$13,218,859 in April 2005. As of December 31, 2009, the amount drawn on the loan was \$12,495,834, currently requiring quarterly payments ranging from \$92,976 to \$196,487 beginning January 2008, including interest at 2.25% from the Sewer Fund, final payment due October 2027. 11,613,342

The City passed Resolution 07-04-04R, to enter into a "Clean Water State Revolving Fund" loan agreement for up to \$6,000,000 in April 2007. The debt is payable at an interest rate of 3.25% for 20 years. As of December 31, 2009, the amount drawn on the loan was \$2,962,558, with no quarterly payment schedule yet established, which will include interest at 3.25% from the Sewer Fund. 2,962,558

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 2009 were \$1,151,023 and \$3,511,813, respectively. For the Sewer Revenue Bonds, principal and interest paid and total customer revenues for 2009 were \$732,974 and \$2,832,401, respectively.

NOTES TO FINANCIAL STATEMENTS

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, 2009, the City was not in compliance with the net revenues available for debt service on the Water Revenue Bonds. As such, during 2009, the City increased the monthly minimum and usage charges and changed its billing practices in an attempt to meet the compliance requirement in 2010. In addition, the City has received a letter dated April 27, 2010 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.

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 \$4,376,060, payable through December 2022. For 2009, principal and interest paid and total incremental property tax revenues were \$325,035 and \$324,939, 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 \$168,099, payable through August 2021. For 2009, principal and interest paid and total incremental property tax revenues were \$14,008 and \$15,756, respectively.

In April 2007, the City passed a resolution creating Tax Increment District No. 6. In August 2008, an ordinance was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 6 not to exceed \$1,600,000. In October 2008, an ordinance was passed to amend the amount of the authorized issuance of Tax Increment Revenue Bonds for District No. 6 to \$1,448,856. Bonds in the amount \$1,448,856 have been issued with the proceeds used to liquidate liabilities arising from public improvements relating to the Tax Increment District No. 6. Incremental property taxes were projected to produce 116% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$1,863,549, payable through December 2016. For 2009, principal and interest paid and total incremental property tax revenues were \$106,288 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 \$5,965,907, payable through May 2027. For 2009, principal and interest paid and total incremental property tax revenues were \$209,000 and \$0, respectively.

NOTES TO FINANCIAL STATEMENTS

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

The annual requirements to maturity for all debt outstanding as of December 31, 2009, 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
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	555,548	385,806	890,000	690,412	-	-
2014	588,629	352,969	930,000	652,300	-	-
2015-2019	2,649,921	1,254,318	5,325,000	2,566,881	-	-
2020-2024	2,361,434	544,329	5,620,000	1,287,198	-	-
2025-2027	786,235	66,037	2,660,000	196,755	-	-
	<u>\$ 8,433,145</u>	<u>\$ 3,940,470</u>	<u>\$ 17,895,000</u>	<u>\$ 7,669,559</u>	<u>\$ 22,239</u>	<u>\$ 1,101</u>

Year Ending 12/31	Water Revenue Bonds		Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 656,245	\$ 494,778	\$ 613,977	\$ 330,570
2011	679,516	471,507	657,446	339,993
2012	703,613	447,409	673,483	323,956
2013	728,565	422,458	689,922	307,518
2014	754,401	396,621	706,771	290,669
2015-2019	4,192,783	1,562,332	3,801,732	1,185,464
2020-2024	4,990,836	764,279	4,291,039	696,157
2025-2030	1,674,869	51,666	3,141,530	174,171
	<u>\$ 14,380,828</u>	<u>\$ 4,611,050</u>	<u>\$ 14,575,900</u>	<u>\$ 3,648,498</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.

NOTES TO FINANCIAL STATEMENTS

As of December 31, 2009, there were seven revenue bond issues of this type outstanding. The balance of the six revenue bonds issued after July 1, 1995, was \$10,517,881. The aggregate outstanding balance of the remaining one revenue bond issued before July 1, 1995, could not be practically determined; however, the original issue totaled \$500,000.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Transfers to/from other funds during the year ended December 31, 2009 consist of the following:

From the General Fund to Parks and Recreation Fund to supplement other funds sources	\$ 3,061,995
From the General Fund to the Airport Fund to supplement other funds sources	529,250
From the General Fund to the P & R ARCC Projects Fund to supplement other funds sources	188,033
From the General Fund to the Golf Fund to supplement other funds sources	80,000
From the General Fund to the Ambulance Fund to supplement other funds sources	100,000
From the Special Sales Tax Fund to debt service funds to supplement other funds sources	1,540,000
From the Special Sales Tax Fund to the Parks and Recreation Fund to supplement other funds sources	119,000
From the Special Sales Tax Fund to the Airport Fund to supplement other funds sources	500,000
From the P & R Aquatic Center Projects Fund to the Park and Recreation Fund to supplement other funds sources	81,780
From the Water Fund to the Parks and Recreation Fund to supplement other funds sources	233,068
From the Water Fund to the General Fund to supplement other funds sources	217,125
From the Water Fund to the Sewer Fund to supplement other funds sources	51,559
From the Water Fund to the Golf Fund to supplement other funds sources	133,881
From the Sewer Fund to the General Fund to supplement other funds sources	126,150
From other enterprise funds to the General Fund to supplement other funds sources	81,630
Other transfers between governmental funds	15,948
	<u>\$ 7,059,419</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 as of December 31, 2009:

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Promotion Fund	State Law	\$ 181,923
Park and Recreation Fund	State Law	258,082
Park Recreation Trust Fund	State Law	402,871
Business Improvement District Fund	State Law	1,413
Parking Fund	State Law	351,957
Library Fines Fund	State Law	52,274
Aberdeen Landmark Commission	State Law	13,672
General Fund - SD Public Assurance Alliance	Contractual Agreement	289,712
		<u>\$ 1,551,904</u>
Total Restricted Net Assets for Other Purposes		<u>\$ 1,551,904</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 \$3,324,617, of which \$518,175 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, 2009, 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, 2009 through November 30, 2009. 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 \$1,629,477.

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 \$914,544 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, 2009, 2008 and 2007 were \$92,999, \$121,501 and \$117,947, respectively.

NOTES TO FINANCIAL STATEMENTS

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

	Balance at January 1	Claims and Changes in Estimates	Claim Payments	Balance at December 31
2009	\$ 121,501	\$ 960,285	\$ 988,787	\$ 92,999
2008	117,947	905,608	902,054	121,501
2007	139,402	1,025,844	1,047,299	117,947

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, 2009, 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 reserved equity in the Unemployment Compensation Fund in the amount of \$2,805 for the payment of future unemployment benefits.

During the year ended December 31, 2009, claim benefits of \$293 were incurred 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, 2009, 2008 and 2007 were \$718,872, \$679,478 and \$638,675, 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 – 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 2010 thru 2016; for a total of \$1,750,000.
- b. Clark Swisher Athletic Complex: \$155,200 annually for 2010 thru 2014; for a total of \$776,000.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERDEEN

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2009

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
310 Taxes				
311 General property taxes	\$ 6,076,000	\$ 6,076,000	\$ 6,016,873	\$ (59,127)
313 General sales and use taxes	7,676,000	7,676,000	7,610,810	(65,190)
319 Penalties and interest on delinquent taxes	10,000	10,000	8,547	(1,453)
320 Licenses and permits	597,000	597,000	379,191	(217,809)
330 Intergovernmental revenue:				
331 Federal grants	545,000	545,000	1,147,675	602,675
334 State grants	51,000	51,000	63,757	12,757
335 State shared revenue:				
335.01 Bank franchise tax	65,000	65,000	66,881	1,881
335.02 Motor vehicle commercial prorate	18,000	18,000	21,860	3,860
335.03 Liquor tax reversion	135,000	135,000	149,862	14,862
335.04 Motor vehicle licenses (5%)	80,000	80,000	92,840	12,840
335.06 Fire insurance premiums reversion	55,000	55,000	55,629	629
335.08 Local government highway and bridge fund	300,000	300,000	338,932	38,932
335.20 Other	78,500	78,500	79,911	1,411
336 State payments in lieu of taxes	-	-	5,970	5,970
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	8,041	541
340 Charge for goods and services:				
341 General government	51,500	51,500	55,912	4,412
342 Public safety	80,500	80,500	72,098	(8,402)
343 Highways and streets	105,000	105,000	98,527	(6,473)
344 Sanitation	1,166,000	1,166,000	1,181,424	15,424
345 Health	5,000	5,000	5,240	240
346 Culture and recreation	2,500	2,500	3,020	520
349 Other	175,860	175,860	173,447	(2,413)
350 Fines and forfeits:				
351 Court fines and costs	20,000	20,000	39,517	19,517
359 Other	1,000	1,000	609	(391)
360 Miscellaneous revenue:				
361 Investment earnings	150,000	150,000	52,922	(97,078)
362 Rentals	172,000	172,000	182,025	10,025
367 Contributions and donations from private sources	15,000	15,000	142,255	127,255
369 Other	14,700	14,700	12,607	(2,093)
Total revenue	<u>17,673,560</u>	<u>17,673,560</u>	<u>18,086,822</u>	<u>413,262</u>

(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		
Amount transferred				300,000
412 Executive	264,550	396,550	357,333	39,217
414 Financial administration	1,590,900	1,594,900	1,520,431	74,469
419 Other	1,431,700	1,655,700	1,350,660	305,040
Total general government	<u>3,587,150</u>	<u>3,947,150</u>	<u>3,228,424</u>	<u>718,726</u>
420 Public safety:				
421 Police	3,276,150	3,494,000	3,453,927	40,073
422 Fire	2,102,300	2,386,000	2,198,698	187,302
423 Protective inspection	188,700	188,700	173,854	14,846
Total public safety	<u>5,567,150</u>	<u>6,068,700</u>	<u>5,826,479</u>	<u>242,221</u>
430 Public works:				
431 Highways and streets	2,101,250	2,536,750	2,431,195	105,555
432 Sanitation	1,206,500	1,206,500	1,096,191	110,309
439 Transit	555,250	558,525	911,532	(353,007)
Total public works	<u>3,863,000</u>	<u>4,301,775</u>	<u>4,438,918</u>	<u>(137,143)</u>
440 Health and welfare:				
445 Drug education	58,950	58,950	55,603	3,347
449 Other	44,200	44,200	42,259	1,941
Total health and welfare	<u>103,150</u>	<u>103,150</u>	<u>97,862</u>	<u>5,288</u>
450 Culture and recreation:				
451 Recreation	27,965	27,965	26,935	1,030
455 Libraries	1,049,850	1,119,850	902,419	217,431
Total culture and recreation	<u>1,077,815</u>	<u>1,147,815</u>	<u>929,354</u>	<u>218,461</u>
460 Conservation and development:				
465 Economic development and assistance (industrial development)	632,800	822,550	808,316	14,234
Total conservation and development	<u>632,800</u>	<u>822,550</u>	<u>808,316</u>	<u>14,234</u>
470 Debt service	<u>5,700</u>	<u>5,700</u>	<u>-</u>	<u>5,700</u>
Total expenditures	<u>14,836,765</u>	<u>16,396,840</u>	<u>15,329,353</u>	<u>1,067,487</u>
Excess of revenue over (under) expenditures	<u>2,836,795</u>	<u>1,276,720</u>	<u>2,757,469</u>	<u>1,480,749</u>
Other financing sources (uses):				
391.01 Transfers in	382,490	452,564	424,905	(27,659)
511 Transfers out	(3,675,245)	(3,971,245)	(3,963,278)	(7,967)
391.03 Sale of municipal property	20,000	20,000	142,071	122,071
391.04 Compensation for loss or damage to capital assets	2,000	2,000	84,198	82,198
Total other financing sources (uses)	<u>(3,270,755)</u>	<u>(3,496,681)</u>	<u>(3,312,104)</u>	<u>168,643</u>
Net change in fund balances	(433,960)	(2,219,961)	(554,635)	1,649,392
Fund balance - beginning	<u>4,168,964</u>	<u>4,168,964</u>	<u>4,168,964</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 3,735,004</u>	<u>\$ 1,949,003</u>	<u>\$ 3,614,329</u>	<u>\$ 1,649,392</u>

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE –
SPECIAL REVENUE FUND – SPECIAL SALES TAX FUND
YEAR ENDED DECEMBER 31, 2009

	Budgetary Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
310 Taxes				
313 General sales and use taxes	\$ 7,316,000	\$ 7,316,000	\$ 7,293,130	\$ (22,870)
330 Intergovernmental revenue:				
331 Federal grants	2,895,000	2,895,000	861,934	(2,033,066)
334 State grants	40,000	40,000	-	(40,000)
360 Miscellaneous revenue:				
361 Investment earnings	100,000	100,000	74,475	(25,525)
363 Special assessments	200,000	200,000	137,773	(62,227)
Total revenue	10,551,000	10,551,000	8,367,312	(2,183,688)
Expenditures:				
410 General government:				
419 Other	228,800	418,550	189,750	228,800
Total general government	228,800	418,550	189,750	228,800
420 Public safety:				
422 Fire	850,000	865,000	830,227	34,773
Total public safety	850,000	865,000	830,227	34,773
430 Public works:				
431 Highways and streets	6,252,000	6,852,000	5,906,923	945,077
432 Sanitation	216,000	448,000	233,628	214,372
433 Water	139,000	139,000	-	139,000
435 Airport	1,100,000	1,100,000	-	1,100,000
Total public works	7,707,000	8,539,000	6,140,551	2,398,449
450 Culture and recreation:				
452 Parks	600,000	1,272,225	1,241,996	30,229
455 Libraries	125,000	125,000	-	125,000
Total culture and recreation	725,000	1,397,225	1,241,996	155,229
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
Total expenditures	9,916,000	11,624,975	8,807,524	2,817,451
Excess of revenue over (under) expenditures	635,000	(1,073,975)	(440,212)	633,763
Other financing sources (uses):				
511 Transfers out	(1,540,000)	(2,191,000)	(2,159,000)	(32,000)
Total other financing sources (uses)	(1,540,000)	(2,191,000)	(2,159,000)	(32,000)
Net change in fund balances	(905,000)	(3,264,975)	(2,599,212)	601,763
Fund balance - beginning	5,206,310	5,206,310	5,206,310	-
FUND BALANCE - ENDING	\$ 4,301,310	\$ 1,941,335	\$ 2,607,098	\$ 601,763

CITY OF ABERDEEN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2009

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, 2008 or December 31, 2009.

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, 2009

	Promotion Fund	Park and Recreation Fund	Park and Recreation Trust Fund	Cemetery Improvement Fund	Business Improvement District Fund	Airport Fund	Parking District Fund	Storm Water Maintenance Fund	Library Fines Fund	Aberdeen Landmark Commission Fund
ASSETS										
Cash and cash equivalents	\$ 168,714	\$ 507,363	\$ 425,053	\$ 22,062	\$ -	\$ 276,826	\$ 350,584	\$ -	\$ 52,274	\$ 13,672
151 Investments	-	-	-	-	-	-	-	51,669	-	-
110 Taxes receivable, delinquent	-	-	-	-	994	100	891	-	-	-
115 Accounts receivable, net	-	-	-	-	-	24,713	-	6,185	-	-
121 Special assessments receivable, net	-	924	-	-	-	-	-	-	-	-
132 Due from federal/state/county government	23,659	-	620	-	419	441,893	482	-	-	-
141 Inventory of supplies	-	-	-	-	-	-	-	9,195	-	-
TOTAL ASSETS	\$ 192,373	\$ 508,287	\$ 425,673	\$ 22,062	\$ 1,413	\$ 743,532	\$ 351,957	\$ 67,049	\$ 52,274	\$ 13,672
LIABILITIES AND FUND BALANCES										
Liabilities:										
202 Accounts payable	\$ 85,725	\$ 212,542	\$ 21,099	\$ -	\$ -	\$ 178,853	\$ -	\$ 8,966	\$ -	\$ -
207 Contracts payable - retained percentage	-	-	-	-	-	25,460	-	-	-	-
216 Accrued wages payable	-	37,663	1,703	-	-	8,920	-	4,005	-	-
Total liabilities	85,725	250,205	22,802	-	-	213,233	-	12,971	-	-
Fund balances:										
261 Reserved for:										
261.02 Inventory	-	-	-	-	-	-	-	9,195	-	-
261.15 Permanently reserved purposes	-	-	-	-	-	-	-	-	-	-
262 Unreserved fund balances:										
262.01 Designated for next year's appropriation:										
Reported in nonmajor special revenue funds	26,000	-	-	7,000	-	-	-	-	-	-
Reported in nonmajor debt service funds	-	-	-	-	-	-	-	-	-	-
262.09 Undesignated										
Reported in nonmajor special revenue funds	80,648	258,082	402,871	15,062	1,413	530,299	351,957	44,883	52,274	13,672
Reported in nonmajor debt service funds	-	-	-	-	-	-	-	-	-	-
Reported in nonmajor capital project funds	-	-	-	-	-	-	-	-	-	-
Reported in nonmajor permanent funds	-	-	-	-	-	-	-	-	-	-
Total fund balances	106,648	258,082	402,871	22,062	1,413	530,299	351,957	54,078	52,274	13,672
TOTAL LIABILITIES AND FUND BALANCES	\$ 192,373	\$ 508,287	\$ 425,673	\$ 22,062	\$ 1,413	\$ 743,532	\$ 351,957	\$ 67,049	\$ 52,274	\$ 13,672

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
\$ 26,073	\$ 12,322	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,469	\$ 27,533	\$ -	\$ -	\$ 2,058,945
217,272	-	271,273	578,358	295,553	896,968	7,229	-	-	-	-	2,318,322
-	-	-	-	-	-	-	-	105	-	-	2,090
-	-	-	-	-	-	-	-	-	-	-	30,898
2,180	-	-	-	-	-	-	-	-	-	-	3,104
-	-	-	-	-	-	-	-	-	-	-	467,073
-	-	-	-	-	-	-	-	-	-	-	9,195
<u>\$ 245,525</u>	<u>\$ 12,322</u>	<u>\$ 271,273</u>	<u>\$ 578,358</u>	<u>\$ 295,553</u>	<u>\$ 896,968</u>	<u>\$ 7,229</u>	<u>\$ 176,469</u>	<u>\$ 27,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,889,627</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 507,185
-	-	-	-	-	-	-	-	-	-	-	25,460
-	-	-	-	-	-	-	-	-	-	-	52,291
-	-	-	-	-	-	-	-	-	-	-	584,936
-	-	-	-	-	-	-	-	-	-	-	9,195
-	-	-	-	-	-	-	50,000	-	-	-	50,000
-	-	-	-	-	-	-	-	-	-	-	33,000
3,200	-	-	25,500	41,200	-	-	-	-	-	-	69,900
-	-	-	-	-	-	-	-	-	-	-	1,751,161
242,325	12,322	271,273	552,858	254,353	896,968	7,229	-	-	-	-	2,237,328
-	-	-	-	-	-	-	-	27,638	-	-	27,638
-	-	-	-	-	-	-	126,469	-	-	-	126,469
<u>245,525</u>	<u>12,322</u>	<u>271,273</u>	<u>578,358</u>	<u>295,553</u>	<u>896,968</u>	<u>7,229</u>	<u>176,469</u>	<u>27,638</u>	<u>-</u>	<u>-</u>	<u>4,304,691</u>
<u>\$ 245,525</u>	<u>\$ 12,322</u>	<u>\$ 271,273</u>	<u>\$ 578,358</u>	<u>\$ 295,553</u>	<u>\$ 896,968</u>	<u>\$ 7,229</u>	<u>\$ 176,469</u>	<u>\$ 27,638</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,889,627</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2009

	Promotion Fund	Park and Recreation Fund	Park and Recreation Trust Fund	Cemetery Improvement Fund	Business Improvement District Fund	Airport Fund	Parking District Fund	Storm Water Maintenance Fund	Library Fines Fund	Aberdeen Landmark Commission Fund
Revenues:										
310 Taxes:										
311 General property taxes	\$ -	\$ -	\$ -	\$ -	\$ 66,586	\$ -	\$ 78,637	\$ -	\$ -	\$ -
312 Airflight property tax	-	-	-	-	-	27,812	-	-	-	-
313 General sales and use taxes	834,462	-	-	-	-	-	-	-	-	-
319 Penalties and interest on delinquent taxes	-	-	-	-	114	-	116	-	-	-
330 Intergovernmental revenue:										
331 Federal grants	-	26,474	8,974	-	-	1,416,513	-	-	-	2,474
334 State grants	-	-	-	-	-	29,813	-	-	-	-
335 State shared revenue:										
335.20 Other	-	-	-	-	-	90,599	-	-	-	-
340 Charges for goods and services:										
344 Sanitation	-	-	-	-	-	-	-	430,305	-	-
346 Culture and recreation	-	546,381	555,825	-	-	-	-	-	-	-
348 Cemetery	-	-	-	1,142	-	-	-	-	-	-
349 Other	-	-	-	-	-	268,551	-	-	-	-
350 Fines and forfeits:										
354 Library	-	-	-	-	-	-	-	-	15,643	-
359 Other	-	-	-	-	-	1,246	-	-	-	-
360 Miscellaneous revenue:										
361 Investment earnings	413	746	2,455	1,039	-	279	1,570	836	181	40
362 Rentals	-	-	-	-	-	-	1,080	-	-	-
367 Contributions and donations from private sources	-	-	969,639	112	-	-	-	-	-	-
369 Other	-	-	-	-	-	3,514	-	-	-	1,000
Total revenue	<u>834,875</u>	<u>573,601</u>	<u>1,536,893</u>	<u>2,293</u>	<u>66,700</u>	<u>1,838,327</u>	<u>81,403</u>	<u>431,141</u>	<u>15,824</u>	<u>3,514</u>
Expenditures:										
430 Public works:										
431 Highways and streets	-	-	-	-	-	-	-	388,254	-	-
435 Airport	-	-	-	-	-	2,098,843	-	-	-	-
436 Parking facilities	-	-	-	-	-	-	27,445	-	-	-
437 Cemeteries	-	-	-	9,936	-	-	-	-	-	-
Total public works	-	-	-	<u>9,936</u>	-	<u>2,098,843</u>	<u>27,445</u>	<u>388,254</u>	-	-
450 Culture and recreation:										
451 Recreation	-	2,457,163	319,697	-	-	-	-	-	-	-
452 Parks	-	1,317,820	1,481,261	-	-	-	-	-	-	-
455 Libraries	-	-	-	-	-	-	-	-	9,223	-
457 Historical preservation	-	-	-	-	-	-	-	-	-	1,200
Total culture and recreation	-	<u>3,774,983</u>	<u>1,800,958</u>	-	-	-	-	-	<u>9,223</u>	<u>1,200</u>
460 Conservation and development:										
463 Urban redevelopment and housing	-	-	-	-	-	-	-	-	-	-
465 Economic development and assistance (industrial development)	868,557	-	-	-	65,754	-	-	-	-	-
Total conservation and development	<u>868,557</u>	-	-	-	<u>65,754</u>	-	-	-	-	-
470 Debt service										
	-	59,717	-	-	-	-	-	-	-	-
Total expenditures	<u>868,557</u>	<u>3,834,700</u>	<u>1,800,958</u>	<u>9,936</u>	<u>65,754</u>	<u>2,098,843</u>	<u>27,445</u>	<u>388,254</u>	<u>9,223</u>	<u>1,200</u>
Excess of revenue over (under) expenditures	<u>(33,682)</u>	<u>(3,261,099)</u>	<u>(264,065)</u>	<u>(7,643)</u>	<u>946</u>	<u>(260,516)</u>	<u>53,958</u>	<u>42,887</u>	<u>6,601</u>	<u>2,314</u>
Other financing sources (uses):										
391.01 Transfers in	-	3,495,843	1,000	-	-	1,035,738	-	4,460	-	4,000
511 Transfers out	-	(1,000)	-	-	-	-	-	-	-	-
391.02 Proceeds of general long-term debt issued	-	-	-	-	-	-	-	-	-	-
391.04 Compensation for loss or damage to capital assets	-	-	-	-	-	-	-	-	-	-
Total other financing sources (uses)	-	<u>3,494,843</u>	<u>1,000</u>	-	-	<u>1,035,738</u>	-	<u>4,460</u>	-	<u>4,000</u>
Net change in fund balances	(33,682)	233,744	(263,065)	(7,643)	946	775,222	53,958	47,347	6,601	6,314
Fund balance - beginning	140,330	24,338	665,936	29,705	467	(244,923)	297,999	6,731	45,673	7,358
FUND BALANCE - ENDING	<u>\$ 106,648</u>	<u>\$ 258,082</u>	<u>\$ 402,871</u>	<u>\$ 22,062</u>	<u>\$ 1,413</u>	<u>\$ 530,299</u>	<u>\$ 351,957</u>	<u>\$ 54,078</u>	<u>\$ 52,274</u>	<u>\$ 13,672</u>

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 Fund	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
\$ 324,902	\$ 15,756	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,712	\$ -	\$ -	\$ 503,593
-	-	-	-	-	-	-	-	-	-	-	27,812
37	-	-	-	-	-	-	-	10	-	-	834,462
-	-	-	-	-	-	-	-	-	-	-	277
-	-	-	-	-	-	-	-	-	-	-	1,454,435
-	-	-	-	-	-	-	-	-	-	-	29,813
-	-	-	-	-	-	-	-	-	-	-	90,599
-	-	-	-	-	-	-	-	-	-	-	430,305
-	-	-	-	-	-	-	-	-	-	-	1,102,206
-	-	-	-	-	-	-	-	-	-	-	1,142
-	-	-	-	-	-	-	-	-	-	-	268,551
-	-	-	-	-	-	-	-	-	-	-	15,643
-	-	-	-	-	-	-	-	-	-	-	1,246
9,115	5	6,484	15,524	4,544	24,584	2,423	-	81	165	1,163	71,647
-	-	-	-	-	-	-	-	-	-	-	1,080
-	-	-	-	-	-	-	2,091	-	-	-	971,842
-	-	-	-	-	-	-	-	-	-	-	4,514
<u>334,054</u>	<u>15,761</u>	<u>6,484</u>	<u>15,524</u>	<u>4,544</u>	<u>24,584</u>	<u>2,423</u>	<u>2,091</u>	<u>17,803</u>	<u>165</u>	<u>1,163</u>	<u>5,809,167</u>
-	-	-	-	-	-	-	-	-	-	-	388,254
-	-	-	-	-	-	-	-	-	-	-	2,098,843
-	-	-	-	-	-	-	-	-	-	-	27,445
-	-	-	-	-	-	-	-	-	-	-	9,936
-	-	-	-	-	-	-	-	-	-	-	2,524,478
-	-	-	-	-	-	-	-	-	331,174	3,782	3,111,816
-	-	-	-	-	-	-	-	-	-	-	2,799,081
-	-	-	-	-	-	-	-	-	-	-	9,223
-	-	-	-	-	-	-	-	-	-	-	1,200
-	-	-	-	-	-	-	-	-	331,174	3,782	5,921,320
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	934,311
-	-	-	-	-	-	-	-	-	-	-	934,311
<u>325,541</u>	<u>14,008</u>	<u>256,938</u>	<u>588,220</u>	<u>112,695</u>	<u>731,668</u>	<u>209,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,297,787</u>
<u>325,541</u>	<u>14,008</u>	<u>256,938</u>	<u>588,220</u>	<u>112,695</u>	<u>731,668</u>	<u>209,000</u>	<u>-</u>	<u>-</u>	<u>331,174</u>	<u>3,782</u>	<u>11,677,896</u>
8,513	1,753	(250,454)	(572,696)	(108,151)	(707,084)	(206,577)	2,091	17,803	(331,009)	(2,619)	(5,868,729)
-	-	250,000	550,000	-	740,000	-	-	-	188,033	-	6,269,074
-	-	-	-	-	-	-	-	-	-	(81,780)	(82,780)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	250,000	550,000	-	740,000	-	-	-	188,033	(81,780)	6,186,294
8,513	1,753	(454)	(22,696)	(108,151)	32,916	(206,577)	2,091	17,803	(142,976)	(84,399)	317,565
<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>3,987,125</u>
<u>\$ 245,525</u>	<u>\$ 12,322</u>	<u>\$ 271,272</u>	<u>\$ 578,359</u>	<u>\$ 295,552</u>	<u>\$ 896,967</u>	<u>\$ 7,229</u>	<u>\$ 176,469</u>	<u>\$ 27,639</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,304,690</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2009

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 355,388	\$ 65,513	\$ 62,453	\$ 483,354
115 Accounts receivable, net	-	-	153,454	153,454
Total current assets	<u>355,388</u>	<u>65,513</u>	<u>215,907</u>	<u>636,808</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	374,093	626,914	1,027,857
Less accumulated depreciation (credit)	(141,154)	(459,233)	(328,975)	(929,362)
Total noncurrent assets	<u>542,393</u>	<u>654,836</u>	<u>297,939</u>	<u>1,495,168</u>
TOTAL ASSETS	<u>\$ 897,781</u>	<u>\$ 720,349</u>	<u>\$ 513,846</u>	<u>\$ 2,131,976</u>
LIABILITIES				
Current liabilities:				
202 Accounts payable	\$ 2,039	\$ 7,598	\$ 18,548	\$ 28,185
216 Accrued wages payable	-	2,288	14,758	17,046
Total current liabilities	<u>2,039</u>	<u>9,886</u>	<u>33,306</u>	<u>45,231</u>
Noncurrent liabilities:				
233 Accrued leave payable	-	4,818	22,317	27,135
Total noncurrent liabilities	<u>-</u>	<u>4,818</u>	<u>22,317</u>	<u>27,135</u>
NET ASSETS				
253.10 Invested in capital assets, net of related debt	542,393	654,836	297,939	1,495,168
253.90 Unrestricted net assets (deficit)	353,349	50,809	160,284	564,442
Total net assets	<u>895,742</u>	<u>705,645</u>	<u>458,223</u>	<u>2,059,610</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 897,781</u>	<u>\$ 720,349</u>	<u>\$ 513,846</u>	<u>\$ 2,131,976</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2009

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Operating revenue:				
380 Charges for goods and services	\$ 285,758	\$ 278,132	\$ 715,974	\$ 1,279,864
369 Miscellaneous	-	1,225	30,296	31,521
Total operating revenue	<u>285,758</u>	<u>279,357</u>	<u>746,270</u>	<u>1,311,385</u>
Operating expenses:				
410 Personal services	63,657	191,807	647,512	902,976
420 Other current expenses	200,599	210,000	163,858	574,457
457 Depreciation	15,819	46,822	38,761	101,402
Total operating expenses	<u>280,075</u>	<u>448,629</u>	<u>850,131</u>	<u>1,578,835</u>
Operating income (loss)	<u>5,683</u>	<u>(169,272)</u>	<u>(103,861)</u>	<u>(267,450)</u>
Nonoperating revenue:				
361 Investment earnings	1,831	286	212	2,329
(492) 366 Gain (loss) on disposition of assets	-	-	-	-
(429) 369.01 Other	-	2,880	-	2,880
Total nonoperating revenue (expense)	<u>1,831</u>	<u>3,166</u>	<u>212</u>	<u>5,209</u>
Income (loss) before contributions, special items, extraordinary items	7,514	(166,106)	(103,649)	(262,241)
397.07 Captital contributions	-	-	124,950	124,950
391.1 Transfers in	-	213,881	100,000	313,881
511 Transfers out	<u>(30,400)</u>	<u>(13,360)</u>	<u>(37,870)</u>	<u>(81,630)</u>
Change in net assets	(22,886)	34,415	83,431	94,960
Net assets - beginning	<u>918,628</u>	<u>671,230</u>	<u>374,792</u>	<u>1,964,650</u>
NET ASSETS - ENDING	<u>\$ 895,742</u>	<u>\$ 705,645</u>	<u>\$ 458,223</u>	<u>\$ 2,059,610</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2009

	Enterprise Funds			Total Nonmajor Enterprise Funds
	Campground Fund	Golf Fund	Ambulance Fund	
Cash Flows from (used by) Operating Activities				
Receipt from customers	\$ 285,758	\$ 278,132	\$ 698,706	\$ 1,262,596
Payments to suppliers	(211,002)	(199,065)	(157,998)	(568,065)
Payments to employees	(63,680)	(191,629)	(636,814)	(892,123)
Internal activity	-	(133,881)	-	(133,881)
Other receipts (payments)	-	1,225	30,296	31,521
Net cash from (used by) operating activities	<u>11,076</u>	<u>(245,218)</u>	<u>(65,810)</u>	<u>(299,952)</u>
Cash Flows from (used by) Noncapital Financing Activities				
Transfers from other funds	-	213,881	100,000	313,881
Transfers to other funds	(30,400)	(13,360)	(37,870)	(81,630)
Net cash from (used by) noncapital financing activities	<u>(30,400)</u>	<u>200,521</u>	<u>62,130</u>	<u>232,251</u>
Cash Flows used by Capital and Related Financing Activities				
Capital contributions	-	-	124,950	124,950
Purchase of capital assets	-	(17,339)	(144,088)	(161,427)
Net cash used by capital and related financing activities	<u>-</u>	<u>(17,339)</u>	<u>(19,138)</u>	<u>(36,477)</u>
Cash Flows from Investing Activities				
Interest earnings	1,831	286	212	2,329
Net cash from investing activities	<u>1,831</u>	<u>286</u>	<u>212</u>	<u>2,329</u>
Net increase (decrease) in cash and cash equivalents	(17,493)	(61,750)	(22,606)	(101,849)
Balance - beginning	372,881	127,263	85,059	585,203
Balance - ending	<u>\$ 355,388</u>	<u>\$ 65,513</u>	<u>\$ 62,453</u>	<u>\$ 483,354</u>
Reconciliation of Operating Income (Loss) to Net Cash from (used by) Operating Activities:				
Operating income (loss)	\$ 5,682	\$ (169,272)	\$ (103,860)	\$ (267,450)
Adjustments to reconcile operating income (loss) to net cash from (used by) operating activities:				
Depreciation expense	15,819	46,822	38,761	101,402
Changes in assets and liabilities:				
Receivables	-	-	(17,268)	(17,268)
Accounts and other payables	(10,403)	(47,041)	5,859	(51,585)
Due to water fund	-	(75,905)	-	(75,905)
Accrued wages payable	(23)	447	4,593	5,017
accrued leave payable	-	(269)	6,105	5,836
Net cash from (used by) operating activities	<u>\$ 11,075</u>	<u>\$ (245,218)</u>	<u>\$ (65,810)</u>	<u>\$ (299,953)</u>
Noncash Investing, Capital and Financing Activities:				
Loss on disposal of capital assets not affecting operating income	\$ -	\$ 2,881	\$ -	\$ 2,881

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2009

	Housing and Redevelopment Commission
Operating Activities	
Receipts from tenant payments	\$ 440,129
Receipts for management fees and other	215,924
Payments to employees	(542,404)
Housing assistance payments	(1,460,994)
Payments to suppliers and others	(758,128)
	<u>(2,105,473)</u>
Net cash used by operating activities	
Noncapital Financing Activities	
Donations received	112,000
HUD grants received	2,180,454
	<u>2,292,454</u>
Net cash from noncapital financing activities	
Capital and Related Financing Activities	
Purchase of property and equipment	(42,609)
Decrease in bank overdraft liability	(3,169)
Payments for interest	(109,219)
Principal payments on long-term debt	(62,325)
	<u>(217,322)</u>
Net cash used by capital and related financing activities	
Investing Activities	
Investment in limited partnership	24,052
Funds issued in exchange for a note receivable	(271,400)
Payment received on note receivable	263,625
Interest received	109,824
	<u>126,101</u>
Net cash from investing activities	
Net change in cash	
	95,760
Cash beginning of year	
	<u>3,648,039</u>
Cash end of year	
	<u><u>\$ 3,743,799</u></u>
Reconciliation of Operating Loss to	
Net Cash Used By Operating Activities:	
Operating loss	\$ (2,418,285)
Adjustments to reconcile operating loss to	
net cash used by operating activities:	
Depreciation	345,144
Amortization	1,113
Change in assets and liabilities:	
Rental accounts receivable	(2,529)
Other receivables	(93,211)
Prepaid expenses	20
Accounts payable and other accrued liabilities	60,148
Tenant security deposits	883
Deferred revenues	1,244
	<u>(2,105,473)</u>
Net cash from (used by) operating activities	
	<u><u>\$ (2,105,473)</u></u>
Noncash Investing and Financing Transactions	
Note receivables issued for land transfer	<u><u>\$ 100,600</u></u>

CITY OF ABERDEEN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2009

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:			
Capitalization Grants for Clean Water State Revolving Funds	66.458	*****	\$ 1,263,000
Nonpoint Source Implementation Grants	66.460	*****	6,629
Total Environmental Protection Agency			<u>1,269,629</u>
Department of Interior:			
Indirect Federal Funding:			
SD Department of Tourism and State Development:			
Historic Preservation Fund Grants-in-Aid	15.904	SD-08-018	2,474
SD Department of Game, Fish, and Parks			
Outdoor Recreation - Acquisition, Development, and Planning	15.916	46-01419	19,327
Total Department of Interior			<u>21,801</u>
Department of Transportation:			
Direct Federal Funding:			
Airport Improvement Program (3-46-001-27)	20.106	3-46-0001-27-07	160,622
Airport Improvement Program (3-46-001-28)	20.106	3-46-0001-28-08	189,066
Airport Improvement Program (3-46-001-29)	20.106	3-46-0001-29-09	1,066,825
			<u>1,416,513</u>
Indirect Federal Funding:			
SD Department of Public Safety:			
State and Community Highway Safety	20.600	*****	13,070
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	*****	7,971
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	*****	45,721
			<u>66,762</u>
SD Department of Transportation:			
Highway Planning and Construction	20.205	EM8007(51)PCN OOWJ & 011Q	842,607
Federal Transit - Capital Investment Grants (Section 5309)	20.500	810861 & 810939 & 810940	74,075
Formula Grants for Other Than Urbanized Areas (Section 55311 & RTAP)	20.509	810898 & 810957 & 810988 & RTAP	206,753
RECOVERY ACT - Formula Grants for Other Than Urbanized Areas (Section 55311 & RTAP)	20.509	810898 & 810957 & 810988 & RTAP	351,089
			<u>1,474,524</u>
Total Department of Transportation			<u>2,957,799</u>
Department of Health and Human Services:			
Indirect Federal Funding:			
SD Department of Transportation:			
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	810898 & 810939	16,514
Department of Housing and Urban Development:			
Direct Federal Funding:			
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	B-08-SP-SD-0499	196,000
General Services Administration:			
Indirect Federal Funding:			
SD Federal Property Agency:			
Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	972
National Endowment for the Arts:			
Indirect Federal Funding:			
SD Arts Council:			
Promotion of the Arts - Partnership Agreements	45.025	*****	10,474
RECOVERY ACT - Promotion of the Arts - Partnership Agreements	45.025	*****	15,000
			<u>25,474</u>
Department of Agriculture:			
Indirect Federal Funding:			
SD Department of Agriculture			
Cooperative Forestry Assistance	10.664	*****	1,000

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:			
Law Enforcement Officer Reimbursement Agreement Program	97.090	HSTS0208HSLR001	34,319
Indirect Federal Funding:			
SD Department of Public Safety:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DSR 1844	109,577
Homeland Security Grant Program	97.067	*****	36,435
Total Department of Homeland Security			180,331
Department of Justice:			
Direct Federal Funding:			
Bulletproof Vest Partnership Program	16.607	*****	661
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0134	15,172
RECOVERY ACT - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to Units of Local Government	16.804	2009-SB-B9-0869	30,679
Indirect Federal Funding:			
SD Department of Public Safety:			
Enforcing Underage Drinking Laws Program	16.727	*****	9,612
SD Attorney General			
RECOVERY ACT - Internet Crimes Against Children Task Force Program (ICAC)	16.800	*****	9,000
Total Department of Justice			65,124
Total Expenditures of Federal Awards			\$ 4,734,644
***** "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, 2009

FEDERAL AWARD PROGRAM FINDINGS

None reported.

FINANCIAL STATEMENT FINDINGS

2006-1, 2007-1, and 2008-1 Fraud Risk Assessment Program

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

Status: As of December 31, 2009, this finding has been resolved.

2007-2 and 2008-2 Financial Statement Adjustments

Condition: During the 2007 and 2008 audits, 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, 2009, the City has implemented additional review procedures over adjusting journal entries and financial statement preparation; however this finding has not been completely resolved and has been restated as current year finding 2009-1.

2008-3 Computer Security Measures

Condition: During the 2008 audit, it was noted that 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.

Status: As of December 31, 2009, this finding has not been resolved and has been restated as current year finding 2009-2.

2008-4 Compliance with South Dakota Codified Law

Condition: During 2008, the City of Aberdeen overspent the Airport Fund budget appropriation for the fiscal year.

Status: As of December 31, 2009, this finding has been resolved.



**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, 2009, which collectively comprise the City of Aberdeen's basic financial statements and have issued our report thereon dated July 22, 2010. 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 opinion 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 of the City of Aberdeen's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City of Aberdeen's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as findings 2009-1 and 2009-2, which we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned above the typed name and date.

Aberdeen, South Dakota
July 22, 2010



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, 2009. 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, 2009.

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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Aberdeen's internal control over compliance.

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Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of significant deficiencies, in internal control over compliance such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 2009-3 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as findings 2009-4 and 2009-5 to be significant deficiencies.

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 responses and, accordingly, we express no opinion on the responses.

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.

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in dark ink and is positioned above the typed name and date.

Aberdeen, South Dakota
July 22, 2010

CITY OF ABERDEEN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2009

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? yes X 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? X yes no
- Significant deficiencies identified that are not considered to be material weaknesses? X yes 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>
20.205	Highway Planning and Construction
20.509	Formula Grants for Other than Urbanized Areas
66.458	Capitalization Grants for Clean Water State Revolving Funds

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 2009-1 Financial Statement Adjustments

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

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 was awarded a grant however the City did not physically receive the grant revenue, nor write checks for the expenditures. The grantor acted as the City's agent and retained the grant funds and expended them on the City's behalf for the purpose for which the grant was intended. Because the transaction did not physically flow through the City, the transaction was not recorded on the fund statements, which resulted in revenues and expenditures being understated by the same amount, having no impact on fund balance.

Recommendation: We recommend the City reflect all grant related transactions in the fund financial statements, even those that are non-cash in nature if the City is the official grant recipient.

Management response: The City of Aberdeen makes every attempt to include all material amounts and disclosures in its financial statements and related notes. We will review our current procedures and implement additional procedures as necessary to record City grant related transactions handled by grantor agencies in the fund statements as appropriate.

Significant Deficiency

Finding 2009-2 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.

Part III - Findings and Questioned Costs for Federal Award Programs

Material Weakness

Finding 2009-3 Davis-Bacon

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Highway Planning and Construction – CFDA #20.205; Grant Numbers EM 8007(51) PCN OOWJ & O11Q - Grant Period – Year ending December 31, 2009

Criteria: 23 USC 113 and 40 USC 14701 provide the guidance for how Davis-Bacon rules are to be applied to construction contracts paid for with federal funds.

Condition: The City did not review contractor payrolls under this grant for Davis-Bacon compliance until subsequent to year end.

Questioned costs: None

Effect: There is potential that wages could be paid to workers on the project that did not meet the Davis-Bacon requirements.

Cause: The City was not aware that Davis-Bacon requirements applied to this program.

Recommendation: We recommend that a control be implemented to identify and track all applicable compliance requirements associated with each of City’s grants at the inception of each grant.

Management

response: The City of Aberdeen will implement controls to identify and track all applicable grant requirements to ensure compliance with each grant.

Significant Deficiency

Finding 2009-4 Program Income

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years ending September 30, 2009 and 2010

Criteria: Section 7 of the grant agreement with the South Dakota Department of Transportation requires that the City submit reports related to the program as the State requires. Included in the format required by the State is a factor that before the monthly reimbursement for operational expenses is calculated, total fares, sponsorships, and contract income collected by the program (program income) are to be first deducted from the total operational expenses for that month.

Condition: During the calendar year ended December 31, 2009, \$5,485 of program income collected by the City was inadvertently excluded from the monthly reports that were submitted to the State Department of Transportation.

Questioned costs: \$2,839

Context: \$5,485 of program income was not reported, resulting in an overstatement of operational expenses. The City is reimbursed 51.76% of operational expenses, resulting in the City receiving an over payment of \$2,839 ($\$5,485 * 51.76\%$). \$1,493 of this amount relates to the grant year ending September 30, 2009 and \$1,346 relates to the grant year ending September 30, 2010.

Effect: There is potential that incorrect amounts could get reported on the monthly reports, resulting in over or under payment from the State.

Cause: This error was caused by certain deposits being dated in Quick-Books in a month for which the monthly reimbursement form had already been completed and submitted. The City did not reconcile cumulative deposits from Quick-Books to the reports submitted to the State.

Recommendation: We recommend that management reconcile monthly and cumulative deposits recorded by the accounting system for program income to the monthly reports submitted to the State.

Management response:

The spreadsheet used to track and report program income had an error in the calculation formula, which had been corrected. The City will begin a process of reconciling monthly and cumulative deposits by the accounting system for program income to the monthly reports submitted to the State and review by another individual for accuracy.

Significant Deficiency

Finding 2009-5 Reporting

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years ending September 30, 2009 and 2010

Criteria: Section 7 of the grant agreement with the South Dakota Department of Transportation requires that the City submit reports related to the program as the State requires. Included in the format required by the State is a listing of total expenses for certain allowable expense categories related to the grant. The total amount of program related payroll paid each month is one of the items included in this report submitted monthly to the South Dakota Department of Transportation.

Condition: The total amount reported for payroll related expenses did not agree to payroll reports obtained from the City HR Department.

Questioned costs: \$3,235

Context: Payroll related expenses of \$2,341 were reported in error, resulting in an overstatement of administrative expense. The City is reimbursed 82.82% of administrative expenses, resulting in the City receiving an over payment of \$1,939 ($\$2,341 * 82.82\%$). \$1,402 of this amount relates to the grant year ending September 30, 2009 and \$537 relates to the grant year ending September 30, 2010.

Payroll related expenses of \$2,504 were reported in error, resulting in an overstatement of operational expense. The City is reimbursed 51.76% of operational expenses, resulting in the City receiving an over payment of \$1,296 ($\$2,504 * 51.76\%$). \$2,406 (over payment) of this amount relates to the grant year ending September 30, 2009 and (\$1,110) (underpayment) relates to the grant year ending September 30, 2010.

Effect: There is potential that incorrect amounts could get reported on the monthly reports, resulting in over or under payment from the State.

Cause: An internal spreadsheet used by the City contained a formula error causing the amount reported for salaries expense to not match the payroll reports. In addition, for certain fringe benefit expenses, one category was improperly included and one category was improperly excluded from the monthly reports.

Recommendation: We recommend that the review of monthly reports include specific tests and/or agreement of supporting documentation to the reports to ensure that they the proper amounts and categories are used in completing the monthly reports submitted to the State.

Management response:

The City will begin a review process of supporting documentation to ensure proper amounts and categories are used in completing the monthly reports submitted to the State.



CITY OF ABERDEEN

123 South Lincoln
Aberdeen, South Dakota 57401-4215

AUDITOR
(605) 626-7012
FAX (605) 626-3527

TREASURER
(605) 626-7026
FAX (605) 626-3518

COMPUTER
(605) 626-7044

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, 2009.

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, 2009 to December 31, 2009

The findings from the 2009 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

Finding 2009-1 Financial Statement Adjustments

Condition: During the audit, the auditor identified certain items during their audit procedures that required adjustment to the financial statements.

Recommendation: The City should reflect all grant related transactions in the fund financial statements, even those that are non-cash in nature if the City is the official grant recipient.

Management response: The City of Aberdeen makes every attempt to include all material amounts and disclosures in its financial statements and related notes. We will review our current procedures and implement additional procedures as necessary to record City grant related transactions handled by grantor agencies in the fund statements as appropriate.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2010

Finding 2009-2 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.

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, 2010

FINDINGS - FEDERAL AWARD PROGRAMS

Finding 2009-3 Davis-Bacon

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Highway Planning and Construction – CFDA #20.205; Grant Numbers EM 8007(51) PCN OOWJ & O11Q - Grant Period – Year ending December 31, 2009

Condition: The City did not review contractor payrolls under this grant for Davis-Bacon compliance until subsequent to year end.

Recommendation: Controls should be implemented to identify and track all applicable compliance requirements associated with each of City’s grants at the inception of each grant.

Management

response: The City of Aberdeen will implement controls to identify and track all applicable grant requirements to ensure compliance with each grant.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2010

Finding 2009-4 Program Income

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years ending September 30, 2009 and 2010

Condition: During the calendar year ended December 31, 2009, \$5,485 of program income collected by the City was inadvertently excluded from the monthly reports that were submitted to the State Department of Transportation.

CORRECTIVE ACTION PLAN – page 3

Recommendation: The City should reconcile monthly and cumulative deposits recorded by the accounting system for program income to the monthly reports submitted to the State.

Management

response: The spreadsheet used to track and report program income had an error in the calculation formula, which had been corrected. The City will begin a process of reconciling monthly and cumulative deposits by the accounting system for program income to the monthly reports submitted to the State and review by another individual for accuracy.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2010

Finding 2009-5 Reporting

DEPARTMENT OF TRANSPORTATION

Pass-through entity – South Dakota Department of Transportation

Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years ending September 30, 2009 and 2010

Condition: The total amount reported for payroll related expenses did not agree to payroll reports obtained from the City HR Department.

Recommendation: The review of monthly reports should include specific tests and/or agreement of supporting documentation to the reports to ensure that the proper amounts and categories are used in completing the monthly reports submitted to the State.

Management

response: The City will begin a review process of supporting documentation to ensure proper amounts and categories are used in completing the monthly reports submitted to the State.

Contact Person: Karl Alberts

Anticipated Completion Date: December 31, 2010

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,



Karl Alberts, CPA Inactive
Finance Officer