

**FINANCIAL STATEMENTS
DECEMBER 31, 2007**

CITY OF ABERDEEN

CITY OF ABERDEEN

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
MUNICIPAL OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		3
MANAGEMENT'S DISCUSSION AND ANALYSIS		5
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets	I	17
Statement of Activities	II	18
Balance Sheet – Governmental Funds	III	19
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets		20
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	IV	21
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities		23
Statement of Net Assets – Proprietary Funds	V	24
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	VI	25
Statement of Cash Flows – Proprietary Funds	VII	26
Notes to Financial Statements		27
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		48
Budgetary Comparison Schedule – Special Revenue Fund – Park and Recreation Fund		50
Budgetary Comparison Schedule – Special Revenue Fund – Special Sales Tax Fund		51
Notes to Required Supplementary Information		53
SUPPLEMENTARY INFORMATION		
Primary Government:		
Combining Balance Sheet – Nonmajor Governmental Funds		54
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds		55
Combining Statement of Net Assets – Nonmajor Enterprise Funds		56
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds		57
Combining Statement of Cash Flows – Nonmajor Enterprise Funds		58
Discretely Presented Component Unit:		
Statement of Cash Flows		59

(continued on next page)

	<u>Page</u>
Schedule of Expenditures of Federal Awards	60
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	62
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>	64
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	66
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	68
CORRECTIVE ACTION PLAN	71

**CITY OF ABERDEEN
MUNICIPAL OFFICIALS
DECEMBER 31, 2007**

CITY COUNCIL

		<u>Term Expires</u>
Mayor / City Manager	Mike Levsen	2009
NE District Council Member	Jim Kraft	2012
NE District Council Member	Jeff Mitchell	2008
NW District Council Member	Todd Campbell	2012
NW District Council Member	Nancy Aman	2009
SE District Council Member	Clint Rux	2012
SE District Council Member	Lloyd Hodgin	2010
SW District Council Member	David Bunsness	2010
SW District Council Member	Tom Agnitsch	2008

APPOINTIVE OFFICERS

Finance Officer	Karl M. Alberts
Deputy Finance Officer	Gerald L. Kost
Personnel Director	Alan D. Ruhlman
City Attorney	Adam H. Altman
City Engineer / Public Works Director	Robin J. Bobzien
Public Works Assistant Director	Clarence J. Fjeldheim
Assistant City Engineer	Stuart A. Nelson
Transportation Director	David L. Osborn
Police Chief	Donald E. Lanpher, Jr.
Police Captain	Neil E. Bittner
Police Captain	David M. McNeil
Fire Chief	William T. Winter
Fire 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	Pamla J. Lingor
Mayor's Secretary	Cathryn M. Feickert

GOVERNING BOARDS

PARK AND RECREATION BOARD

(5 years)

Art Russo, President	2009
Susan Bostian	2012
Rob Keil	2011
Sheryl Erickson	2011
Mike Opp	2010
Paul Fauth	2010
Bob Wilson	2008
Todd Campbell, City Council Member	
Tom Agnitsch, City Council Member	

AIRPORT BOARD

(5 years)

Dr. Kennon Broadhurst, Chairperson	2008
Patrick Schloss	2012
Chuck Bensen	2011
Mike Erickson	2010
Steve Kaiser	2009
Jeff Mitchell, City Council Member	
Mike Wiese, County Commissioner	

LIBRARY BOARD

(3 years)

Richard Thomas, President	2010
Cec Peters	2010
Sandy Andera	2009
Rob Ronayne	2009
Kathy Stuck	2008
Clint Rux, City Council Member	



INDEPENDENT AUDITOR'S REPORT

To the City Commission
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, 2007, 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, 2007, 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 September 29, 2008 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 5 through 16 and 48 through 53, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PEOPLE. PRINCIPLES. POSSIBILITIES.

www.eidebailly.com

24 Second Ave. SW ■ PO Box 430 ■ Aberdeen, South Dakota 57402-0430 ■ Phone 605.225.8783 ■ Fax 605.225.0508 ■ EOE

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 Sully LLP". The signature is written in black ink and is positioned above the typed address and date.

Aberdeen, South Dakota
September 29, 2008

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, 2007. 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 \$112.292 million (reported as net assets), an increase of \$3.13 million from the previous year. The component unit reported net assets of \$5.721 million, an increase of \$195,000 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 \$20.8 million, with \$20.5 million reported as *unreserved fund balance* and the remaining amount of \$350,300 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 \$2.7 million, of which \$1,291,265 was designated only to be used to fund fiscal year 2008 appropriations and current year cash flow needs.
- Proprietary funds reported net assets at year-end of \$40.599 million, an increase of \$1,665,000 during the year.

Long-Term Debt

- The primary government's total long-term outstanding loans and bonded debt totaled \$49.6 million, an increase of \$11.0 million from the previous year. Of the total outstanding loans and bonded debt, \$46.07 million is backed by the City. The increase represents the issuance of sales tax revenue bonds in the amount of \$9,865,000 for Public Safety building improvements, an installment purchase contract in the amount of \$67,650 for a versalift truck, and a State Revolving Loan from the South Dakota Department of Environment and Natural Resources in the amount of \$2,242,013 for wastewater treatment plant improvements. The decrease represents principal payments of \$1,321,061 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 Parks, Recreation, and Forestry 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 funds that fit this criterion, and where the programs and/or budgetary fund types are identifiable to a major fund, are the Special Sales Tax Fund and the Parks, Recreation, and Forestry 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, 2007 were \$164.89 million, while total liabilities were \$52.6 million, resulting in combined net assets (governmental and business-type activities) of \$112.29 million.

	City of Aberdeen Net Assets					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 24,705,829	\$ 16,590,562	\$ 9,067,265	\$ 8,313,162	\$ 33,773,094	\$ 24,903,724
Capital Assets	72,554,005	70,802,187	58,563,946	56,332,436	131,117,951	127,134,623
Total Assets	97,259,834	87,392,749	67,631,211	64,645,598	164,891,046	152,038,347
Long-Term Liabilities Outstanding	23,609,379	14,328,466	26,005,144	24,329,051	49,614,523	38,657,517
Other Liabilities	1,957,848	2,835,906	1,026,430	1,382,177	2,984,278	4,218,083
Total Liabilities	25,567,227	17,164,372	27,031,574	25,711,228	52,598,801	42,875,600
Net Assets:						
Invested in Capital Assets, Net of Related Debt	64,875,420	65,090,335	32,667,596	32,086,996	97,543,016	97,177,331
Restricted	4,589,003	3,267,441	-	-	4,589,003	3,267,441
Unrestricted	2,228,185	1,870,601	7,793,041	6,847,374	10,021,226	8,717,975
Total Net Assets	\$71,692,608	\$70,228,377	\$40,460,637	\$38,934,370	\$112,153,245	\$109,162,747

The largest component of the City's net assets, 86.9% (down slightly from 89.0% in 2006), 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 6.38% (up from 4.65% in 2006) 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, \$10.160 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 2008 appropriations (\$510,265) and current year cash flow needs (\$800,000).

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 2007 and 2006.

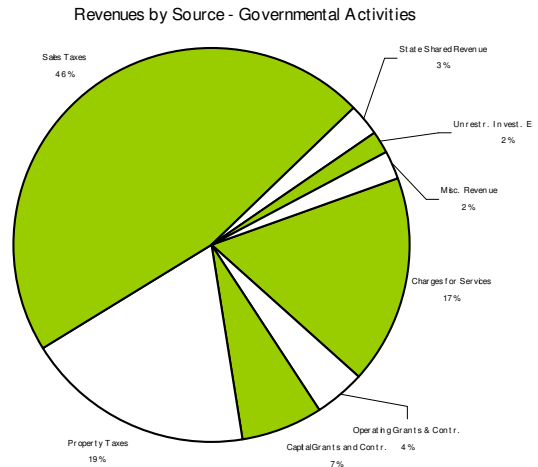
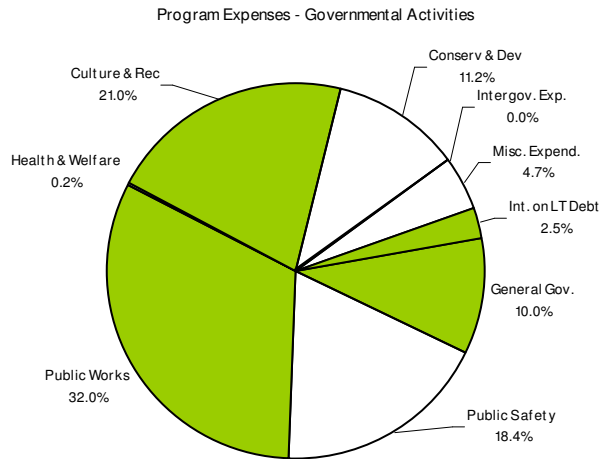
City of Aberdeen
Changes in Net Assets
Fiscal Year Ended December 31

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program Revenues:						
Charges for Services	\$ 5,227,612	\$ 4,399,765	\$ 7,241,528	\$ 6,639,602	\$ 12,469,140	\$ 11,039,367
Operating Grants and Contributions	1,314,632	938,138	139,752	264,870	1,454,384	1,203,008
Capital Grants and Contributions	2,004,616	5,802,498	1,175,520	658,282	3,180,136	6,460,780
General Revenues:						
Property Taxes	5,655,814	5,345,202	-	-	5,655,814	5,345,202
Sales Taxes	14,193,245	13,388,391	-	-	14,193,245	13,388,391
State Shared Revenues	784,360	713,456	-	-	784,360	713,456
Unrestricted Investment Earnings	567,129	661,077	295,267	235,104	862,396	896,181
Miscellaneous	698,891	271,464	(77,724)	70,854	621,167	342,318
Total Revenues	30,446,299	31,519,991	8,774,343	7,868,712	39,220,642	39,388,703
Program Expenses:						
General Government	2,912,682	2,687,358	-	-	2,912,682	2,687,358
Public Safety	5,322,816	5,058,745	-	-	5,322,816	5,058,745
Public Works	9,270,962	8,218,587	-	-	9,270,962	8,218,587
Health and Welfare	63,788	61,370	-	-	63,788	61,370
Cultural and Recreation	6,303,101	6,214,923	-	-	6,303,101	6,214,923
Conservation and Development	3,247,562	3,696,567	-	-	3,247,562	3,696,567
Intergovernmental Expenditures	-	67,581	-	-	-	67,581
Miscellaneous Expenditures	1,362,695	1,197,289	-	-	1,362,695	1,197,289
Interest on Long-term Debt	723,462	502,080	-	-	723,462	502,080
Water	-	-	3,873,210	3,872,896	3,873,210	3,872,896
Sewer	-	-	1,816,286	1,692,069	1,816,286	1,692,069
Campground	-	-	216,282	189,750	216,282	189,750
Golf	-	-	342,844	319,872	342,844	319,872
Ambulance	-	-	635,454	593,516	635,454	593,516
Total Expenses	29,207,068	27,704,500	6,884,076	6,668,103	36,091,144	34,372,603
Excess (Deficiency) Before Special Items and Transfers	1,239,231	3,815,491	1,890,267	1,200,609	3,129,498	5,016,100
Transfers	225,000	224,420	(225,000)	(224,420)	-	-
Change in Net Assets	1,464,231	4,039,911	1,665,267	976,189	3,129,498	5,016,100
Net Assets – Beginning	70,228,377	65,898,754	38,934,370	37,958,181	109,162,747	103,856,935
Prior Period Adjustment	-	289,712	-	-	-	289,712
Net Assets – Ending	\$71,692,608	\$70,228,377	\$40,599,637	\$38,934,370	\$112,292,245	\$109,162,747

Governmental Activities:

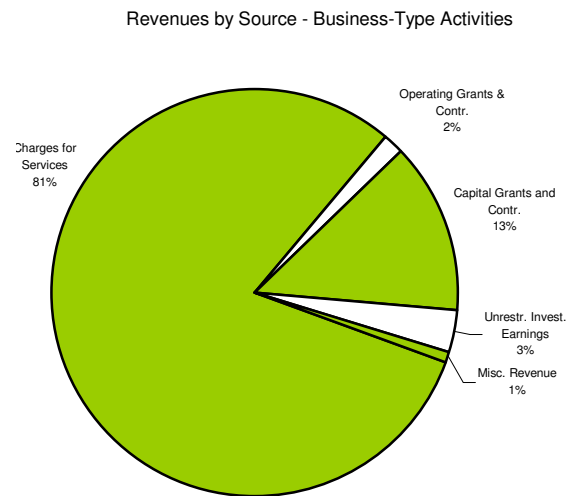
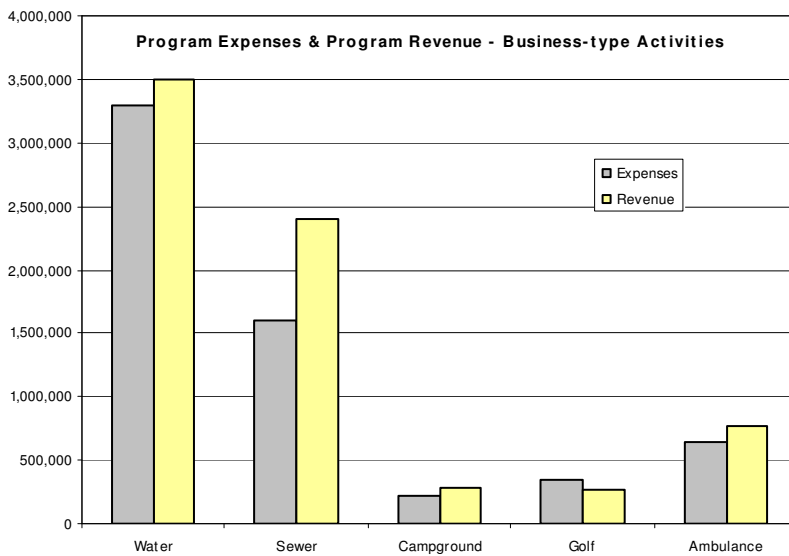
Governmental activities increased the City's net assets by \$1,464,231. Factors contributing to these results include:

- An excess of revenues over expenses, primarily due to federal and state grants (totaling \$3.329 million) for capital projects and public safety operating grants, and a vibrant local economy (general sales tax growth of 7.8%); and,
- Net transfers totaling \$225,000.



Business-Type Activities:

Net assets of the business-type activities increased by \$1.665 million during 2007, as compared to a \$976,000 increase in 2006. Factors contributing to these results include an excess of revenues over expenses, primarily due to the Sewer Fund (\$1.340 million).



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 2007, the City's governmental funds reported combined ending fund balances of \$20.852 million, an increase of \$9.1 million in comparison with the prior year.

Approximately 1.68%, or \$350,300 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 26.8%, or \$5,587,871 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 1) 2008 appropriations - \$510,265; 2) current cash flow needs - \$800,000; 3) capital outlay accumulations - \$27,443; or 4) capital improvements, land acquisition, and certain public safety uses - \$4,250,163.

The remaining 71.5%, or \$14.91 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 2007 were the General Fund, the Parks, Recreation, and Forestry 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 \$2.728 million, of which \$1,291,265 was designated only to be used to fund 2008 appropriations and for current cash flow needs. Total fund balance at the end of the current fiscal year was \$3.018 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 22.44% (21.8% in 2006) of the total General Fund operating expenditures.

Overall, the fund balance of the City's General Fund increased by \$233,040 during the current fiscal year. This is a 8.37% increase from the prior year fund balance. The increase primarily resulted from unanticipated revenues in general sales tax collections of approximately \$265,000 and unanticipated federal and state grants of approximately \$500,000. The additional grant revenue was offset by increased expenditures associated with the grants.

The Parks, Recreation, and Forestry Fund is the fund maintained by the City to account for activities of these departments. The Parks, Recreation and Forestry Board approves expenditures within the budget approved by the City Council. At the end of the fiscal year, unreserved fund balance of the Parks, Recreation, and Forestry Fund was a deficit of (\$157,846). Total fund balance at the end of the current fiscal year was also (\$157,846).

Overall, the fund balance of the City's Parks, Recreation and Forestry Fund decreased by (\$128,966) during the current fiscal year. The decrease primarily resulted from 1) higher transfers in than were originally budgeted (offset by increased spending approved by supplementary budgets), 2) unanticipated federal and state grants (offset by increased expenditures associated with those grants), and 3) expenditures for water provided by the Water Fund.

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 designated fund balance of the Special Sales Tax Fund was \$4,250,163. Total fund balance at the end of the current fiscal year was also \$4,250,163.

Overall, the fund balance of the City's Special Sales Tax Fund increased by \$131,111 during the current fiscal year. This is a 3.18% increase in fund balance from the prior year. The increase primarily resulted from unanticipated sales tax revenues of approximately \$247,400 offset by use of unexpended balance for anticipated projects.

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. Bond proceeds of \$9,865,000 and premiums of \$217,109 from the Series 2007 bonds were deposited into the fund (which accrued \$46,406 in interest in 2007), with project costs of about \$600,277 realized during the year. At the end of the fiscal year, unreserved fund balance of the Public Safety Capital Project Fund was \$9,934,409. Total fund balance at the end of the current fiscal year was also \$9,934,409.

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 2007:

- **Water Fund.** At the end of fiscal year 2007, the Water Fund reported total net assets of \$21.286 million, an increase of \$266,113 (1.26%) in comparison with the prior year. During 2007, the Water Fund produced an operating income (before contributions and operating transfers) in the amount of \$174,724 on total operating revenue of \$3.489 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$25,549 on total revenue of \$3.35 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 2007, the Sewer Fund reported total net assets of \$17.29 million, an increase of \$1.25 million (7.8%) in comparison with the prior year. During 2007, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$837,975 on total operating revenue of \$2.452 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$568,921 on total revenue of \$2.134 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 \$1.808 million (or 11.3%) of increases in appropriations and can be summarized as follows:

- \$254,000 in supplemental appropriations to General Government for 1) costs associated with a new cooling unit for City Hall, 2) special legal services relating to union contract negotiations, 3) higher than anticipated insurance premiums, 4) May flood related expenses, and 5) expenses related to clean-up efforts of the Code Enforcement office (which are partially reimbursable).

- \$75,260 in supplemental appropriations to Public Safety to account 1) for Fire Department training, supplies, and equipment expenditures that were reimbursed by federal grants and 2) overtime expenses related to the May flood.
- \$541,000 in supplemental appropriations to Public Works departments for 1) higher fuel, electric, and natural gas during the year, 2) May flood related expenses, 3) fall/winter snow removal expenses, and 4) increased fuel and repair expenses for Rideline.
- \$10,000 in supplemental appropriations to Health and Welfare for expenses related to drug awareness programs operated jointly with the Aberdeen School District.
- \$453,600 in supplemental appropriations to the 1) Youth Enrichment Program and Train Depot Restoration project to account for staff, equipment, and capital expenditures that were reimbursed 100% by federal grants and 2) Aberdeen Downtown Association.
- \$440,000 in supplemental appropriations for transfers to the Parks, Recreation, and Forestry Fund, Golf Fund, and Airport Fund for projects accounted for in those funds.
- Other budget adjustments in the form of FY 2007 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 \$352,192 (primarily due to May flood expenses) but was less than the final amended budget by \$1.015 million.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2007 is \$131.1 million (net of accumulated depreciation) as compared to \$127.1 million the previous year. This investment in capital assets includes land; land improvements; land improvements – roads; buildings; equipment; vehicles; infrastructure; and construction in progress.

	City of Aberdeen					
	Capital Assets - Primary Government					
	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
Land	\$ 5,982,356	\$ 5,814,606	\$ 701,396	\$ 701,396	\$ 6,683,752	\$ 6,516,002
Buildings	24,112,523	15,614,397	54,018,537	42,587,982	78,131,060	58,202,379
Improvements other than Buildings	71,329,250	66,419,701	21,836,876	21,425,819	93,166,126	87,845,520
Equipment/Vehicles	13,930,451	12,998,484	6,166,038	6,126,406	20,096,489	19,124,890
Construction in Progress	502,761	10,319,061	1,624,348	9,888,191	2,127,109	20,207,252
Total Capital Assets	<u>115,857,341</u>	<u>111,166,249</u>	<u>84,347,195</u>	<u>80,729,794</u>	<u>200,204,536</u>	<u>191,896,043</u>
Accumulated Depreciation	<u>43,303,336</u>	<u>40,364,062</u>	<u>25,783,249</u>	<u>24,397,358</u>	<u>69,086,585</u>	<u>64,761,420</u>
Total Capital Assets, Net	<u>\$72,554,005</u>	<u>\$70,802,187</u>	<u>\$58,563,946</u>	<u>\$56,332,436</u>	<u>\$131,117,951</u>	<u>\$127,134,623</u>

The City's investment in capital assets (net of accumulated depreciation) changed from fiscal year 2006 to 2007 by approximately 3.1%. Governmental construction projects completed during 2007 include street improvements at a total cost of about \$2,039,000, stormwater mains at a total cost of about \$1,280,000, Airport AIP projects at a total cost of about \$2,087,000, a new Aquatics Center at a total cost of about \$7,068,000, and recreational trails at a total cost of about \$915,000. The governmental Construction in Progress includes \$240,600 for the new Police Building, \$109,000 for Fire Station renovations, and \$152,600 for Airport AIP projects. Business-type construction projects completed during 2007 include wastewater treatment plant and lift station improvements at a total of about \$11,500,000 and water main improvements at a total cost of about \$157,200. The business-type Construction in Progress includes \$255,800 in watermain improvements and \$1,368,500 for Wastewater Lift and Treatment Plant Improvements.

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

Debt Administration

The authority of the City to incur debt is described in South Dakota Codified Law Section 9-25-1. Generally, the State Constitution prohibits the City from having general obligation indebtedness in excess of 5% of the assessed valuation of the taxable property within the City for the year preceding that in which the indebtedness is incurred. Currently, all of the City's debt is classified as general-purpose debt. The 2007 general-purpose debt limitation for the City is \$51,308,370, which is \$23,616,209 in excess of the City's outstanding bonded debt classified as general-purpose debt.

At the end of the current fiscal year, primary government - governmental activities had total note and bonded debt outstanding of \$23,609,379 and business-type activities had total note and bonded debt outstanding of \$26,005,144. During the current fiscal year, the City incurred \$10,649,316 of new long-term general indebtedness under governmental activities and incurred \$2,419,359 of indebtedness in business-type activities. The increase in governmental indebtedness related to the Public Safety Improvements project and the installment contract for a Forestry versalift truck and business-type indebtedness related to the State Revolving Loan associated with the Wastewater Treatment Plants improvements. The City retired \$1,368,403 of general obligation debt which included the annual principal payments associated with TIF revenue bonds, the ARCC Renovations bonds, Aquatics Center bonds, mower and police vehicle installment contracts, the purchase of the old Central High School Complex, and State Revolving Loan associated with the Water Treatment Plant 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 2007 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. As a sign of economic stability, the sales tax collections within the City have grown steadily from 1998 to 2007, for a total increase of 66.06% for those nine years and an annual average of 7.34%. Sales tax collections in 2007 increased by an annual rate of 7.75%. This is slightly over the nine year average and significantly above the statewide taxable sales increase of 6% in calendar year 2007. Another sign of favorable economic growth is the increasing issuance of building permits for commercial and residential construction and remodeling. Revenue from building permits has increase by an average of 55.1% for the past nine years and increased 51.8% in 2007.

On May 5, 2007, heavy rainfall resulted in severe flooding throughout Aberdeen and the surrounding area. The federal government declared Brown County a disaster area and the Federal Emergency Management Agency (FEMA) and the Small Business Administration (SBA) mobilized to offer assistance to area local governments, businesses, and citizens. Claims received for flood related damage and expenses covered by flood and property insurance were \$254,680 and reimbursements by FEMA were \$198,280. Any non-reimbursable costs were absorbed by adequate undesignated fund balances.

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, 2007

EXHIBIT I

	<u>Primary Government</u>		<u>Total</u>	<u>Component Unit</u>
	<u>Governmental</u>	<u>Business-Type</u>		<u>Housing and Redevelopment Commission</u>
	<u>Activities</u>	<u>Activities</u>		
ASSETS				
Cash and Cash Equivalents	\$ 14,720,555	\$ 2,515,565	\$ 17,236,120	\$ 700,313
Investments	7,422,404	4,591,451	12,013,855	-
Accounts Receivable, Net	2,308,881	1,407,490	3,716,371	182,311
Internal Balances	(207,257)	207,257	-	-
Inventories	10,580	345,502	356,082	-
Deferred Charges	160,956	-	160,956	-
Other Assets	-	-	-	228,117
Restricted Assets:				
Cash and cash equivalents	-	-	-	3,005,012
Deposits	289,712	-	289,712	-
Capital Assets:				
Land, Improvements and Construction in Progress	6,485,117	2,325,744	8,810,861	521,686
Other Capital Assets, Net of Depreciation	66,068,888	56,238,202	122,307,090	2,771,915
TOTAL ASSETS	<u>\$ 97,259,834</u>	<u>\$ 67,631,211</u>	<u>\$ 164,891,046</u>	<u>\$ 7,409,354</u>
LIABILITIES				
Accounts Payable	\$ 1,117,530	\$ 497,428	\$ 1,614,958	\$ 116,812
Deferred Revenue	124,700	149,308	274,008	100,115
Other Current Liabilities	715,618	379,694	1,095,312	100,926
Noncurrent Liabilities:				
Due Within One Year	1,113,943	1,018,046	2,131,989	57,264
Due in More than One Year	22,495,436	24,987,098	47,482,534	1,313,066
TOTAL LIABILITIES	<u>25,567,227</u>	<u>27,031,574</u>	<u>52,598,801</u>	<u>1,688,183</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	64,875,420	32,667,596	97,543,016	1,923,271
Restricted for:				
Capital Projects	957,637	-	957,637	-
Debt Service	1,930,445	-	1,930,445	-
Perpetual Care:				
Expendable	120,456	-	120,456	-
Permanently Nonexpendable	50,000	-	50,000	-
Other Purposes	1,530,464	-	1,530,464	2,905,012
Unrestricted	2,228,185	7,932,041	10,160,227	892,888
	<u>71,692,608</u>	<u>40,599,637</u>	<u>112,292,245</u>	<u>5,721,171</u>
TOTAL NET ASSETS				
	<u>\$ 97,259,834</u>	<u>\$ 67,631,211</u>	<u>\$ 164,891,046</u>	<u>\$ 7,409,354</u>

CITY OF ABERDEEN
STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

EXHIBIT II

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit Housing and Redevelopment Commission
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government								
Governmental Activities								
General Government	\$ 2,912,682	\$ 538,242	\$ 44,437	\$ -	\$ (2,330,003)	\$ -	\$ (2,330,003)	\$ -
Public Safety	5,322,817	112,413	82,473	20,695	(5,107,235)	-	(5,107,235)	-
Public Works	9,270,962	1,670,430	600,945	527,369	(6,472,218)	-	(6,472,218)	-
Health and Welfare	63,788	5,365	-	-	(58,423)	-	(58,423)	-
Culture and Recreation	6,303,101	959,307	581,351	1,007,041	(3,755,402)	-	(3,755,402)	-
Conservation and Development	3,247,562	-	5,425	449,511	(2,792,627)	-	(2,792,627)	-
Intergovernmental Expenditures	-	-	-	-	-	-	-	-
Miscellaneous Expenditures	1,362,695	1,941,856	-	-	579,161	-	579,161	-
Depreciation Expense - Unallocated	-	-	-	-	-	-	-	-
Interest on Long-term Debt	723,462	-	-	-	(723,462)	-	(723,462)	-
Total Governmental Activities	29,207,069	5,227,612	1,314,632	2,004,616	(20,660,209)	-	(20,660,209)	-
Business-type Activities								
Water	3,873,210	3,489,694	139,752	455,117	-	211,353	211,353	-
Sewer	1,816,286	2,452,347	-	711,905	-	1,347,967	1,347,967	-
Campground	216,282	277,777	-	-	-	61,495	61,495	-
Golf	342,844	266,430	-	990	(75,425)	(75,425)	(75,425)	-
Ambulance	635,454	755,279	-	7,508	-	127,334	127,334	-
Total Business-type Activities	6,884,076	7,241,528	139,752	1,175,520	-	1,672,724	1,672,724	-
Total Primary Government	\$ 36,091,144	\$ 12,469,140	\$ 1,454,384	\$ 3,180,136	(20,660,209)	1,672,724	(18,987,485)	
Component unit:								
Housing and Redevelopment Commission	\$ 2,727,344	\$ 585,990	\$ 2,046,912	\$ -				(94,442)
General Revenues								
Taxes								
Property Taxes					5,655,814	-	5,655,814	-
Sales Taxes					14,193,245	-	14,193,245	-
State Shared Revenues					784,360	-	784,360	-
Unrestricted Investment Earnings					567,129	295,267	862,396	164,160
Miscellaneous Revenue					698,892	(77,724)	621,167	15,685
Transfers					225,000	(225,000)	-	-
Total General Revenues, Special Items, Extraordinary Items and Transfers					22,124,439	(7,457)	22,116,982	179,845
Change in Net Assets					1,464,231	1,665,267	3,129,497	85,403
Net Assets-Beginning					70,228,377	38,934,370	109,162,747	5,635,768
NET ASSETS - ENDING					\$ 71,692,608	\$ 40,599,637	\$ 112,292,245	\$ 5,721,171

CITY OF ABERDEEN
BALANCE SHEET – GOVERNMENTAL FUNDS
DECEMBER 31, 2007

EXHIBIT III

	<u>General</u>	<u>Park and Recreation 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	\$ 796,088	\$ 308,117	\$ 1,716,138	\$ 9,974,567	\$ 1,617,125	\$ 14,412,035
151 Investments	2,062,919	-	2,410,228	-	2,349,256	6,822,404
110 Taxes Receivable--Delinquent	69,420	-	-	-	306	69,727
115 Accounts Receivable, Net	43,163	-	-	-	30,748	73,911
121 Special Assessments Receivable - Current	53,659	1,030	4,321	-	-	59,011
122 Special Assessments Receivable - Delinquent	910	-	-	-	-	910
123 Special Assessments Receivable - Deferred	-	-	6,479	-	-	6,479
132 Due from Federal/State Governments	364,254	2,000	282,598	-	137,905	786,757
141 Inventory of Supplies	-	-	-	-	10,580	10,580
154 Deposits	289,712	-	-	-	-	289,712
TOTAL ASSETS	<u>\$ 3,680,126</u>	<u>\$ 311,147</u>	<u>\$ 4,419,765</u>	<u>\$ 9,974,567</u>	<u>\$ 4,145,919</u>	<u>\$ 22,531,524</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
202 Accounts Payable	\$ 437,981	\$ 225,527	\$ 95,623	\$ 37,709	\$ 293,029	\$ 1,089,869
207 Contracts Payable - Retained Percentage	-	12,945	67,500	2,450	15,470	98,365
208 Due to Water Fund	-	207,257	-	-	-	207,257
216 Accrued Wages Payable	120,137	23,264	-	-	8,909	152,310
220 Customer Deposits	6,525	-	-	-	-	6,525
224 Deferred Revenue	97,067	-	6,479	-	21,154	124,700
Total Liabilities	<u>661,710</u>	<u>468,993</u>	<u>169,602</u>	<u>40,159</u>	<u>338,562</u>	<u>1,679,026</u>
Fund Balances:						
261 Reserved For:						
261.02 Inventory	-	-	-	-	10,580	10,580
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:						
General Fund	491,265	-	-	-	-	491,265
Special Revenue Funds	-	-	-	-	19,000	19,000
262.03 Designated for Capital Outlay Accumulations:						
Special Revenue Funds	-	27,443	-	-	-	27,443
262.02 Designated for Other Purposes:						
General Fund						
General Fund	800,000	-	-	-	-	800,000
Special Revenue Funds	-	-	4,250,163	-	-	4,250,163
262.09 Undesignated						
Undesignated	1,437,439	(185,290)	-	9,934,409	-	11,186,558
Reported in Non-Major Special Revenue Funds	-	-	-	-	1,138,829	1,138,829
Reported in Non-Major Debt Service Funds	-	-	-	-	1,930,445	1,930,445
Reported in Non-Major Capital Project Funds	-	-	-	-	538,048	538,048
Reported in Non-Major Permanent Funds	-	-	-	-	120,456	120,456
Total Fund Balances	<u>3,018,416</u>	<u>(157,847)</u>	<u>4,250,163</u>	<u>9,934,409</u>	<u>3,807,357</u>	<u>20,852,498</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,680,126</u>	<u>\$ 311,146</u>	<u>\$ 4,419,765</u>	<u>\$ 9,974,567</u>	<u>\$ 4,145,919</u>	<u>\$ 22,531,524</u>

CITY OF ABERDEEN
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007

Total Fund Balances - Governmental Funds	\$ 20,852,498
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.	72,554,005
Long-term liabilities, including bonds payable and accrued leave payable are not due and payables in the current period and therefore are not reported in the funds.	(23,609,379)
Unamortized balance of deferred charges for debt issuance costs are not considered financial resources and therefore are not reported as assets in the funds.	160,956
Unamortized balance of premiums and discounts are not due and payable in the current period and therefore are not reported in the funds.	(216,204)
Taxes collected after year-end, but not available soon enough to pay for current period expenditures.	1,312,087
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(124,267)
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>762,912</u>
Net Assets- Governmental Funds	<u><u>\$ 71,692,608</u></u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED DECEMBER 31, 2007

EXHIBIT IV

	<u>General Fund</u>	<u>Park and Recreation 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	\$ 5,209,355	\$ -	\$ -	\$ -	\$ 411,590	\$ 5,620,945
312 Airflight Property Tax	-	-	-	-	19,538	19,538
313 General Sales and Use Taxes	6,765,253	-	6,747,415	-	721,814	14,234,481
319 Penalties and Interest on Delinquent Taxes	9,840	-	-	-	5,491	15,331
320 Licenses and Permits	460,774	-	-	-	-	460,774
330 Intergovernmental Revenue:						
331 Federal Grants	855,946	34,000	785,850	-	533,545	2,209,341
334 State Grants	104,242	43,000	16,975	-	10,000	174,216
335 State Shared Revenue:						
335.01 Bank Franchise Tax	79,571	-	-	-	-	79,571
335.02 Motor Vehicle Commercial Prorate	19,946	-	-	-	-	19,946
335.03 Liquor Tax Reversion	134,183	-	-	-	-	134,183
335.04 Motor Vehicle Licenses (5%)	82,487	-	-	-	-	82,487
335.06 Fire Insurance Premiums Reversion	53,415	-	-	-	-	53,415
335.08 Local Government Highway and Bridge Fund	299,613	-	-	-	-	299,613
335.20 Other	74,611	-	-	-	34,783	109,394
336 State Payments in Lieu of Taxes	5,752	-	-	-	-	5,752
338 County Shared Revenue:						
338.02 County HBR Tax (25%)	20,440	-	-	-	-	20,440
338.03 County Wheel Tax	7,522	-	-	-	-	7,522
340 Charges for Goods and Services:						
341 General Government	77,468	-	-	-	-	77,468
342 Public Safety	112,413	-	-	-	-	112,413
343 Highways and Streets	137,362	-	-	-	-	137,362
344 Sanitation	1,174,681	-	-	-	332,530	1,507,211
345 Health	5,365	-	-	-	-	5,365
346 Culture and Recreation	2,492	468,744	-	-	470,008	941,244
348 Cemetery	-	-	-	-	2,329	2,329
349 Other	193,144	-	-	-	341,409	534,553

350 Fines and Forfeits:									
351 Court Fines and Costs									19,206
354 Library								18,063	18,063
359 Other	19,206	-	-	-	-	-	-	-	786
360 Miscellaneous Revenue:									
361 Investment Earnings		822	228,672	46,406	152,496				567,129
362 Rentals	138,733	-	-	-	1,080				170,264
363 Special Assessments	169,184	-	4,321	-	-				4,321
367 Contributions and Donations from Private Sources		-	-	-	535,733				576,289
369 Other	40,556	-	-	-	9,791				39,469
	29,678	-	-	-	-				
Total Revenues	16,284,017	546,566	7,783,233	46,406	3,600,199				28,260,421
Expenditures:									
410 General Government:									
412 Executive	205,775	-	-	-	-				205,775
414 Financial Administration	1,436,366	-	-	-	-				1,436,366
419 Other	1,298,711	-	-	-	-				1,298,711
Total General Government	2,940,851	-	-	-	-				2,940,851
420 Public Safety:									
421 Police	2,946,652	-	-	243,763	-				3,190,416
422 Fire	1,967,973	-	-	356,514	-				2,324,487
423 Protective Inspection	168,465	-	-	-	-				168,465
429 Other Protection	-	-	144,284	-	-				144,284
Total Public Safety	5,083,091	-	144,284	600,277	-				5,827,652
430 Public Works:									
431 Highways and Streets	2,047,340	-	1,538,739	-	465,124				4,051,203
432 Sanitation	1,082,807	-	597,732	-	-				1,680,538
433 Water	-	-	276,307	-	-				276,307
435 Airport	-	-	315,005	-	896,918				1,211,923
436 Parking Facilities	-	-	-	-	99,260				99,260
437 Cemeteries	-	-	-	-	2,162				2,162
439 Transit	526,173	-	-	-	-				526,173
Total Public Works	3,656,319	-	2,727,783	-	1,463,464				7,847,566
440 Health and Welfare:									
445 Drug Education	58,788	-	-	-	-				58,788
449 Other	5,000	-	-	-	-				5,000
Total Health and Welfare	63,788	-	-	-	-				63,788

(continued on next page)

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

EXHIBIT IV

450 Culture and Recreation:						
451 Recreation	25,261	2,400,232	-	-	2,768,808	5,194,301
452 Parks	-	1,351,802	654,315	-	316,520	2,322,637
455 Libraries	963,529	-	-	-	11,043	974,572
457 Historical Preservation	-	-	-	-	7,203	7,203
Total Culture and Recreation	<u>988,790</u>	<u>3,752,034</u>	<u>654,315</u>	<u>-</u>	<u>3,103,574</u>	<u>8,498,713</u>
460 Conservation and Development:						
465 Economic Development and Assistance (Industrial Development)	683,409	-	825,000	-	1,739,153	3,247,562
Total Conservation and Development	<u>683,409</u>	<u>-</u>	<u>825,000</u>	<u>-</u>	<u>1,739,153</u>	<u>3,247,562</u>
470 Debt Service	<u>33,920</u>	<u>28,488</u>	<u>173,739</u>	<u>153,712</u>	<u>1,171,585</u>	<u>1,561,443</u>
Total Expenditures	<u>13,450,167</u>	<u>3,780,522</u>	<u>4,525,122</u>	<u>753,989</u>	<u>7,477,775</u>	<u>29,987,576</u>
Excess of Revenues Over (Under) Expenditures	<u>2,833,849</u>	<u>(3,233,956)</u>	<u>3,258,112</u>	<u>(707,583)</u>	<u>(3,877,576)</u>	<u>(1,727,155)</u>
Other Financing Sources (Uses):						
391.01 Transfers In	377,689	2,840,775	-	1,327,000	2,772,787	7,318,251
511 Transfers Out	(3,123,445)	-	(3,127,000)	(767,117)	(75,689)	(7,093,251)
391.02 Proceeds of General Long-Term Debt Issued	-	67,650	-	9,865,000	-	9,932,650
391.03 Sale of Municipal Property	68,471	8,000	-	-	-	76,471
391.04 Compensation for Loss or Damage to Capital Assets	76,477	188,565	-	-	109,803	374,845
391.26 Premiums on Bonds Issued	-	-	-	217,109	-	217,109
Total Other Financing Sources (Uses)	<u>(2,600,809)</u>	<u>3,104,990</u>	<u>(3,127,000)</u>	<u>10,641,992</u>	<u>2,806,902</u>	<u>10,826,075</u>
Net Change in Fund Balances	233,040	(128,966)	131,112	9,934,409	(1,070,674)	9,098,920
Fund Balance - Beginning	<u>2,785,376</u>	<u>(28,880)</u>	<u>4,119,051</u>	<u>-</u>	<u>4,878,031</u>	<u>11,753,578</u>
FUND BALANCE- ENDING	<u>\$ 3,018,416</u>	<u>\$ (157,846)</u>	<u>\$ 4,250,163</u>	<u>\$ 9,934,409</u>	<u>\$ 3,807,357</u>	<u>\$ 20,852,498</u>

CITY OF ABERDEEN
RECONCILIATION OF THE STATEMENT OF RE VENUES, EXPENDITURES AND
CHANGES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED DECEMBER 31, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 9,098,920

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.	1,876,212
In the statement of activities, the loss on disposal of assets is reported, whereas in the governmental funds, the proceeds from the disposal are recognized as an other financing source.	(124,394)
Repayment of other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	729,958
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(78,221)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(41,236)
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.	(52,932)
Proceeds from issuance of long-term debt recorded as an other financing source in governmental funds.	(9,932,650)
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 by which debt issuance costs exceeded amortization in the current period.	160,956
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.	(216,204)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	43,823

Change in Net Assets of Governmental Activities \$ 1,464,231

CITY OF ABERDEEN
STATEMENT OF NET ASSETS – PROPRIETARY FUNDS
DECEMBER 31, 2007

EXHIBIT V

	Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
ASSETS:					
Current Assets:					
Cash and Cash Equivalents	\$ 2,051,372	\$ 14,692	\$ 449,500	\$ 2,515,565	\$ 308,520
151 Investments	3,100,830	1,490,622	-	4,591,451	600,000
115 Accounts Receivable, Net	55,543	48,299	144,020	247,861	-
117 Unbilled Accounts Receivable	444,389	421,066	-	865,455	-
121 Special Assessments Receivable - Current	6,875	-	-	6,875	-
122 Special Assessments Receivable - Delinquent	1,653	-	-	1,653	-
131 Due from Park and Recreation Fund	207,257	-	-	207,257	-
132 Due from Federal/State Governments	51,380	234,265	-	285,645	-
141 Inventory of Supplies	325,212	20,290	-	345,502	-
Total Current Assets	<u>6,244,512</u>	<u>2,229,234</u>	<u>593,520</u>	<u>9,067,266</u>	<u>908,520</u>
Noncurrent Assets:					
Capital Assets:					
160 Land	311,427	59,469	330,500	701,396	-
162 Buildings	27,775,644	25,400,498	842,395	54,018,537	-
164 Improvements Other Than Buildings	13,554,026	8,059,072	223,778	21,836,876	-
166 Machinery and Equipment	3,921,471	1,352,630	891,937	6,166,038	-
168 Construction Work in Progress	255,808	1,368,540	-	1,624,348	-
Less: Accumulated Depreciation	<u>(14,756,253)</u>	<u>(10,237,792)</u>	<u>(789,204)</u>	<u>(25,783,249)</u>	<u>-</u>
Total Noncurrent Assets	<u>31,062,123</u>	<u>26,002,417</u>	<u>1,499,406</u>	<u>58,563,946</u>	<u>-</u>
TOTAL ASSETS	<u><u>\$ 37,306,635</u></u>	<u><u>\$ 28,231,651</u></u>	<u><u>\$ 2,092,926</u></u>	<u><u>\$ 67,631,211</u></u>	<u><u>\$ 908,520</u></u>

LIABILITIES:

Current Liabilities:

201 Claims Payable	\$ 4,136	\$ -	\$ -	\$ 4,136	\$ -
202 Accounts Payable	97,270	366,667	29,355	493,292	27,661
206 Contract Payable	-	-	13,287	13,287	-
207 Contracts Payable - Retained Percentage	-	148,093	-	148,093	-
209 Due to State Government	-	-	-	-	-
213 Incurred but Not Reported Claims	-	-	-	-	117,947
215 Accrued Interest Payable	121,613	45,641	-	167,254	-
216 Accrued Wages Payable	14,130	10,172	8,492	32,794	-
223 Revenue Collected in Advance	18,267	-	-	18,267	-
224 Deferred Revenue	83,220	66,088	-	149,308	-
226 Bonds Payable Current:					
226.02 Revenue	612,065	405,981	-	1,018,046	-
	<u>950,701</u>	<u>1,042,641</u>	<u>51,134</u>	<u>2,044,476</u>	<u>145,608</u>
Total Current Liabilities					
	<u>950,701</u>	<u>1,042,641</u>	<u>51,134</u>	<u>2,044,476</u>	<u>145,608</u>
Noncurrent Liabilities:					
231 Bonds Payable					
231.02 Revenue	15,014,598	9,863,706	-	24,878,304	-
233 Accrued Leave Payable	55,079	35,278	18,437	108,794	-
	<u>15,069,677</u>	<u>9,898,984</u>	<u>18,437</u>	<u>24,987,098</u>	<u>-</u>
Total Noncurrent Liabilities					
	<u>15,069,677</u>	<u>9,898,984</u>	<u>18,437</u>	<u>24,987,098</u>	<u>-</u>
NET ASSETS:					
253.10 Invested in Capital Assets, Net of Related Debt	15,435,460	15,732,730	1,499,406	32,667,596	-
253.90 Unrestricted Net Assets	5,850,797	1,557,296	523,949	7,932,041	762,912
	<u>21,286,257</u>	<u>17,290,026</u>	<u>2,023,354</u>	<u>40,599,637</u>	<u>762,912</u>
Total Net Assets					
	<u>21,286,257</u>	<u>17,290,026</u>	<u>2,023,354</u>	<u>40,599,637</u>	<u>762,912</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 37,306,635</u>	<u>\$ 28,231,651</u>	<u>\$ 2,092,926</u>	<u>\$ 67,631,211</u>	<u>\$ 908,520</u>

CITY OF ABERDEEN
STATEMENT OF REVENUES, EXPENSES AND
AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2007

EXHIBIT VI

	Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
Operating Revenue:					
380 Charges for Goods and Services	\$ 3,321,144	\$ 2,434,083	\$ 1,298,703	\$ 7,053,931	\$ 1,357,707
369 Miscellaneous	168,550	18,264	783	187,597	2,175
Total Operating Revenue	<u>3,489,694</u>	<u>2,452,347</u>	<u>1,299,486</u>	<u>7,241,528</u>	<u>1,359,882</u>
Operating Expenses:					
410 Personal Services	980,532	720,555	706,310	2,407,398	-
420 Other Current Expense	1,319,212	245,176	381,138	1,945,526	1,362,695
426.2 Materials (Cost of Goods Sold)	47,315	(5,054)	-	42,261	-
457 Depreciation	967,911	653,694	107,131	1,728,737	-
Total Operating Expenses	<u>3,314,970</u>	<u>1,614,372</u>	<u>1,194,580</u>	<u>6,123,922</u>	<u>1,362,695</u>
Operating Income (Loss)	<u>174,724</u>	<u>837,975</u>	<u>104,907</u>	<u>1,117,606</u>	<u>(2,813)</u>
Nonoperating Revenue (Expense):					
330 Operating Grants	139,752	-	-	139,752	-
361 Investment Earnings	211,679	70,659	12,929	295,267	46,635
470 Interest Expense and Fiscal Charges	(558,240)	(201,914)	-	(760,154)	-
366 Gain (Loss) on Disposition of Assets	-	(86,383)	386	(85,997)	-
369.01 Other	-	8,273	-	8,273	-
Total Nonoperating Revenue (Expense)	<u>(206,809)</u>	<u>(209,365)</u>	<u>13,315</u>	<u>(402,859)</u>	<u>46,635</u>
Income (Loss) Before Contributions and Transfers	(32,085)	628,610	118,221	714,747	43,823
391.07 Capital Contributions	455,117	711,905	8,498	1,175,520	-
391.1 Transfers In	-	-	90,000	90,000	-
511 Transfers Out	(156,920)	(89,750)	(68,330)	(315,000)	-
Change in Net Assets	266,113	1,250,765	148,389	1,665,267	43,823
Net Assets - Beginning	21,020,144	16,039,261	1,874,966	38,934,370	719,090
NET ASSETS - ENDING	<u>\$ 21,286,257</u>	<u>\$ 17,290,026</u>	<u>\$ 2,023,354</u>	<u>\$ 40,599,637</u>	<u>\$ 762,912</u>

See Notes to Financial Statements.

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS
YEAR ENDED DECEMBER 31, 2007

EXHIBIT VII

	Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:					
Receipt from Customers	\$ 3,158,564	\$ 2,427,194	\$ 1,223,093	\$ 6,808,851	\$ 1,357,707
Payments to Suppliers	(1,365,725)	(248,840)	(359,017)	(1,973,582)	-
Payments to Employees	(965,081)	(706,273)	(702,803)	(2,374,156)	-
Claims Paid	-	-	-	-	(1,422,255)
Other Receipts	168,550	18,264	783	187,597	2,175
Net Cash Provided by (Used by) Operating Activities	996,308	1,490,346	162,056	2,648,709	(62,373)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers from Other Funds	-	-	90,000	90,000	-
Transfers to Other Funds	(156,920)	(89,750)	(68,330)	(315,000)	-
Operating Grants	139,752	-	-	139,752	-
Other Noncapital Receipts	-	8,273	-	8,273	-
Net Cash Provided by (Used by) Noncapital Financing Activities	(17,168)	(81,477)	21,670	(76,975)	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Proceeds from Capital Debt	-	2,007,748	-	2,007,748	-
Capital Contributions	455,117	711,905	8,498	1,175,520	-
Purchase of Capital Assets	(667,740)	(3,651,161)	(81,626)	(4,400,527)	-
Principal Paid on Capital Debt	(591,103)	-	-	(591,103)	-
Interest Paid on Capital Debt	(559,920)	(283,157)	-	(843,076)	-
Other Payments	(43,251)	-	-	(43,251)	-
Net Cash Used by Capital and Related Financing Activities	(1,406,897)	(1,214,664)	(73,128)	(2,694,690)	-
CASH FLOWS FROM INVESTING ACTIVITIES:					
Purchase of Investment Securities	(3,100,830)	(1,490,622)	-	(4,591,451)	(600,000)
Proceeds from Sales and Maturities of Investments	2,953,553	1,147,362	-	4,100,915	594,000
Interest Earnings	211,679	70,659	12,929	295,267	46,635
Net Cash Provided by (Used by) Investing Activities	64,403	(272,601)	12,929	(195,269)	40,635

Net Increase (Decrease) in Cash and Cash Equivalents	(363,354)	(78,397)	123,527	(318,224)	(21,738)
Balances - Beginning	<u>2,414,727</u>	<u>93,090</u>	<u>325,973</u>	<u>2,833,790</u>	<u>330,258</u>
Balances- Ending	<u>\$ 2,051,372</u>	<u>\$ 14,693</u>	<u>\$ 449,500</u>	<u>\$ 2,515,565</u>	<u>\$ 308,520</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:					
Operating Income (Loss)	\$ 174,724	\$ 837,975	\$ 104,907	\$ 1,117,606	\$ (2,813)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	967,911	653,694	107,131	1,728,737	-
Change in Assets and Liabilities:					
Receivables	(166,493)	(19,911)	(75,611)	(262,015)	-
Inventories	(47,315)	5,054	-	(42,261)	-
Accounts and Other Payables	48,117	(13,772)	22,121	56,466	(59,560)
Accrued Wages Payable	3,481	2,185	2,392	8,058	-
Accrued Leave Payable	11,970	12,098	1,116	25,183	-
Revenue Collected In Advance	2,963	-	-	2,963	-
Deferred Revenue	950	13,022	-	13,972	-
Net Cash Provided (Used) by Operating Activities	<u>\$ 996,308</u>	<u>\$ 1,490,346</u>	<u>\$ 162,056</u>	<u>\$ 2,648,709</u>	<u>\$ (62,373)</u>
Noncash Investing, Capital and Financing Activities:					
Loss on Disposal of Capital Assets Not Affecting Operating Income	<u>\$ -</u>	<u>\$ 86,383</u>	<u>\$ -</u>	<u>\$ 86,383</u>	<u>\$ -</u>

CITY OF ABERDEEN
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

B. FINANCIAL REPORTING ENTITY

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

C. FINANCIAL STATEMENTS PRESENTATION

Government-Wide Statements: The Statement of Net Assets and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. In order to minimize the grossing-up effect on asset and liabilities within the governmental and business-type funds activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities which are presented as Internal Balances. These statements distinguish between the governmental and business-type activities of the City and between the City and its discretely presented component unit. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The fund types of the financial reporting entity are described below:

Governmental Funds:

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

Proprietary Funds:

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

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

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

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

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

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

The City reports the following Major Governmental Funds:

General Fund – is the general operating fund of the City. The General Fund is always considered to be a major fund.

Special Revenue Funds:

Park and Recreation Fund – to account for the proceeds from park and recreation revenue sources that are legally restricted to expenditures for park and recreation purposes.

NOTES TO FINANCIAL STATEMENTS

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. Also any revenue received under section 23-33 of the revised ordinance of the City of Aberdeen of this article in excess of the rate established in section 23-32 of the revised ordinance of the City of Aberdeen may be used only for the purposes allowable under SDCL 10-52A-2. (Sec. 23-35. Use of Revenue).

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 \$49,816 at December 31, 2007.

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, 2007 balance of governmental activities capital assets includes approximately 33% 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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	***	***	***
Buildings	\$ 2,500	Straight-line	10-50 yrs.
Improvements other than buildings	2,500	Straight-line	10-50 yrs.
Machinery and equipment	2,500	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, contract for deed agreement, accrued leave payable, and installment purchase agreement. 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 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, 2007 were as follows:

	<u>Bank Balance</u>
<u>Primary Government:</u>	
Insured (FDIC/NCUA)	\$ 662,183
Uninsured, collateral jointly held by State's/ municipality's agent in the name of the State and the pledging financial institution.	<u>28,569,476</u>
Total Deposits	<u>\$ 29,231,659</u>

The carrying amount of deposits on the December 31, 2007 statement of net assets was \$29,249,975.

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, 2007, the City's deposits in financial institutions were not exposed to any custodial credit risk. As of December 31, 2007, the City's total deposits of \$29,231,659 (carrying value of \$28,826,452) were covered by insurance or collateral in accordance with the City's deposit policy.

Investments – As of December 31, 2007, 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	\$ 792	\$ 792
Merrill Lynch – Government Fund Money Market	AAAm	209,669	209,669
US Bank – FNMA Discount Note (Matures on 05/01/08)	AAA	216,000	<u>213,062</u>
Total Investments			<u>\$423,523</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.

NOTES TO FINANCIAL STATEMENTS

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

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

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

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	\$5.29
--------------	--------

NOTE 4 - DUE FROM OTHER GOVERNMENTS

GENERAL FUND - \$34,103 due from federal government for grants; \$14,800 due from state government for grant; \$230,506 due from state government for 1% city sales tax; \$58,555 due from state government for local government highway/bridge funds; and \$26,290 due from county government for taxes.

PROMOTION FUND - \$38,731 due from state government for 1% city sales tax.

PARKS AND RECREATION FUND - \$2,000 due from federal government for grant.

BUSINESS IMPROVEMENT DISTRICT FUND - \$136 due from county government for taxes.

SPECIAL SALES TAX FUND - \$21,409 due from federal government for grants; \$30,673 due from state government for grants; and \$230,516 due from state government for 1% city sales tax.

PARKING DISTRICT FUND - \$38 due from county government for taxes.

PARKS AND RECREATION ARCC PROJECTS FUND - \$99,000 due from federal government for grant.

WATER FUND - \$51,367 due from federal government for grant; and \$13 due from county government for special assessments.

SEWER FUND - \$234,265 due from state government for DENR state revolving loan.

NOTES TO FINANCIAL STATEMENTS

NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2007 is as follows:

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 5,814,606	\$ 245,430	\$ (77,680)	\$ 5,982,356
Construction work in progress	10,319,061	502,761	(10,319,061)	502,761
Totals capital assets, not being depreciated	<u>16,133,667</u>	<u>748,191</u>	<u>(10,396,741)</u>	<u>6,485,117</u>
Capital assets, being depreciated:				
Buildings	15,614,397	8,498,126	-	24,112,523
Improvements other than buildings	66,419,701	5,091,203	(181,654)	71,329,250
Machinery and equipment	12,998,484	1,588,631	(656,664)	13,930,451
Totals	<u>95,032,582</u>	<u>15,177,960</u>	<u>(838,318)</u>	<u>109,372,224</u>
Less accumulated depreciation for:				
Buildings	(6,496,404)	(365,448)	-	(6,861,852)
Improvements other than buildings	(26,129,650)	(2,099,197)	181,654	(28,047,193)
Machinery and equipment	(7,738,008)	(1,076,710)	420,427	(8,394,291)
Total accumulated depreciation	<u>(40,364,062)</u>	<u>(3,541,355)</u>	<u>602,081</u>	<u>(43,303,336)</u>
Total capital assets, being depreciated, net	<u>54,668,520</u>	<u>11,636,605</u>	<u>(236,237)</u>	<u>66,068,888</u>
Governmental activity capital assets, net	<u>\$ 70,802,187</u>	<u>\$ 12,384,796</u>	<u>\$ (10,632,978)</u>	<u>\$ 72,554,005</u>

Depreciation expense was charged to functions as follows:

<u>Governmental activities:</u>	
General government	\$ 80,582
Public safety	209,503
Public works	2,613,730
Culture and recreation	637,540
Total depreciation expense—governmental activities	<u>\$ 3,541,355</u>

NOTES TO FINANCIAL STATEMENTS

	Balance 01/01/07	Increases	Decreases	Balance 12/31/07
Business-type activities:				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 701,396	\$ -	\$ -	\$ 701,396
Construction work in progress	9,888,191	1,613,268	(9,877,111)	1,624,348
Totals capital assets, not being depreciated	<u>10,589,587</u>	<u>1,613,268</u>	<u>(9,877,111)</u>	<u>2,325,744</u>
Capital assets, being depreciated:				
Buildings	42,587,982	11,640,015	(209,460)	54,018,537
Improvements other than buildings	21,425,819	418,987	(7,930)	21,836,876
Machinery and equipment	6,126,406	274,485	(234,853)	6,166,038
Totals	<u>70,140,207</u>	<u>12,333,487</u>	<u>(452,243)</u>	<u>82,021,451</u>
Less accumulated depreciation for:				
Buildings	(12,779,083)	(931,202)	130,948	(13,579,337)
Improvements other than buildings	(9,867,858)	(401,728)	7,930	(10,261,656)
Machinery and equipment	(1,750,417)	(395,806)	203,967	(1,942,256)
Total accumulated depreciation	<u>(24,397,358)</u>	<u>(1,728,736)</u>	<u>342,845</u>	<u>(25,783,249)</u>
Total capital assets, being depreciated, net	<u>45,742,849</u>	<u>10,604,751</u>	<u>(109,398)</u>	<u>56,238,202</u>
Business-type activity capital assets, net	<u>\$ 56,332,436</u>	<u>\$ 12,218,019</u>	<u>\$ (9,986,509)</u>	<u>\$ 58,563,946</u>

Depreciation expense was charged to functions as follows:

Business-type activities:	
Water	\$ 967,911
Sewer	653,694
Campground	15,861
Golf	49,114
Ambulance	42,156
Total depreciation expense—business-type activities	<u>\$ 1,728,736</u>

NOTES TO FINANCIAL STATEMENTS

The City has active construction projects as of December 31, 2007. 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 Safety - Police Building	\$ 240,638	\$ 160,400
Public Safety - Main Fire Station #1 Building	22,010	22,750
Public Safety - NW Fire Station #2 Building	87,533	1,686,085
Airport - Reconstruct Taxiway "D"	152,580	5,451,340
Water Utility - North Jackson Street Watermain	255,808	58,297
Wastewater - Treatment Plant Improvements	1,368,540	710,060
 Total	 <u>\$ 2,127,109</u>	 <u>\$ 8,088,932</u>

NOTE 6 - LONG-TERM LIABILITIES

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

Primary Government:

	January 1, 2007	Increases	Decreases	December 31, 2007	Due Within One Year	Interest Paid
Governmental Activities:						
Tax increment revenue bonds #2	\$ 3,535,000	\$ -	\$ (115,000)	\$ 3,420,000	\$ 195,000	\$ 191,403
Tax increment revenue bonds #4	131,715	-	(5,447)	126,268	5,447	8,561
Sales tax revenue bonds, ARCC	2,545,000	-	(135,000)	2,410,000	140,000	121,413
Sales tax revenue bonds, aquatic center	7,310,000	-	(255,000)	7,055,000	265,000	333,520
Sales tax revenue bonds, public safety bldgs	-	9,865,000	-	9,865,000	275,000	-
Compensated absences	381,486	716,666	(638,445)	459,707	-	-
Installment purchase contract, versalift	-	67,650	-	67,650	33,002	-
Installment purchase contract, police cars	69,031	-	(30,817)	38,214	32,600	3,102
Installment purchase contract, mower	27,131	-	(27,131)	-	-	1,357
Contract for deed, central complex	329,103	-	(161,563)	167,540	167,540	12,177
Total Government Activities	<u>14,328,466</u>	<u>10,649,316</u>	<u>(1,368,403)</u>	<u>23,609,379</u>	<u>1,113,589</u>	<u>671,533</u>
Business-type Activities:						
Water Revenue Bonds	16,217,766	-	(591,103)	15,626,663	612,065	559,920
Sewer Revenue Bonds	8,027,674	2,242,013	-	10,269,687	405,981	283,157
Compensated absences	83,611	177,346	(152,163)	108,794	-	-
Total Business Type Activities	<u>24,329,051</u>	<u>2,419,359</u>	<u>(743,266)</u>	<u>26,005,144</u>	<u>1,018,046</u>	<u>843,077</u>
Total Primary Government	<u>\$ 38,657,517</u>	<u>\$ 13,068,675</u>	<u>\$ (2,111,669)</u>	<u>\$ 49,614,523</u>	<u>\$ 2,131,635</u>	<u>\$ 1,514,610</u>

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

NOTES TO FINANCIAL STATEMENTS

Liabilities payable at December 31, 2007 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. NOTE: The City was \$45,000 delinquent in principal at the end of Y2007, due to lower than anticipated revenue. \$ 3,420,000

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. 126,268

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. 2,410,000

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. 7,055,000

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. 9,865,000

Installment Purchase Contracts:

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

The City entered into a Purchase Agreement for \$93,860 with Daimler Chrysler Truck Finance in 2006 to purchase four police cars for the Police Department. This debt requires monthly payments of \$2,827 (this payment includes the interest at 5.64%) from the General Fund beginning in March 2006, final payment due February 2009. 38,214

NOTES TO FINANCIAL STATEMENTS

Contract for Deed:

The City entered into a contract for deed for \$1,093,468 with the Aberdeen School District in 2002 to purchase the land and buildings of the old Central High School Complex. The debt is payable to the school district in annual payments of \$173,739, (this payment includes the interest at 3.70%) from the Special Sales Tax Fund beginning in November 2002, final payment due November 2008. 167,540

Water Revenue Bonds:

The City passed Resolution 03-05-04R, amended in January 2004, to enter into a "Drinking Water State Revolving Fund" loan agreement for up to \$16,760,000 in July 2003. The debt on the loan agreement totaling \$16,484,258 requires quarterly payments ranging from \$132,666 to \$285,259 beginning July 2006, including interest at 3.50% from the Water Fund, final payment due April 2026. 15,626,663

Sewer Revenue Bonds:

The City passed Resolution 05-02-02R, to enter into a "Clean Water State Revolving Fund" loan agreement for up to \$13,218,859 in April 2005. The debt is payable at an interest rate of 2.25% for 20 years with an Initial Amortization Date of October 2007. The loan is secured by pledged bonds. As of December 31, 2007, the amount drawn on the loan was \$10,269,687, requires quarterly payments ranging from \$145,30 to \$169,696 beginning January 2008 through October 2027. 10,269,687

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

Tax Incremental Revenue Bonds:

In July 2002, the City passed a resolution creating the 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.

In October 2003, the City passed a resolution creating the 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.

The Tax Increment Revenue Bonds, District No. 2 and District No. 4 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 No. 2 and District No. 4.

NOTES TO FINANCIAL STATEMENTS

The annual requirements to maturity for all debt outstanding as of December 31, 2007, 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
2008	\$ 200,801	\$ 188,613	\$ 680,000	\$ 863,009	\$ 65,602	\$ 4,696
2009	161,178	177,865	755,000	820,325	40,262	1,768
2010	166,579	169,279	790,000	790,488	-	-
2011	172,007	160,411	825,000	759,262	-	-
2012	187,462	151,261	855,000	726,263	-	-
2013-2017	1,070,250	598,016	4,865,000	3,039,431	-	-
2018-2022	1,587,991	280,904	5,595,000	1,786,085	-	-
2023-2027	-	-	4,965,000	568,030	-	-
	<u>\$ 3,546,268</u>	<u>\$ 1,726,349</u>	<u>\$ 19,330,000</u>	<u>\$ 9,352,893</u>	<u>\$ 105,864</u>	<u>\$ 6,464</u>

Year Ending 12/31	Contract for Deed		Water Revenue Bonds		Sewer Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 167,540	\$ 6,199	\$ 612,065	\$ 538,958	\$ 405,981	\$ 233,480
2009	-	-	633,770	517,253	446,471	231,594
2010	-	-	656,245	494,778	456,601	221,463
2011	-	-	679,516	471,507	466,962	211,103
2012	-	-	703,613	447,409	477,558	200,507
2013-2017	-	-	3,910,515	1,844,600	2,555,331	834,993
2018-2022	-	-	4,654,842	1,100,273	2,858,699	531,625
2023-2027	-	-	3,776,097	252,483	2,602,084	192,240
	<u>\$ 167,540</u>	<u>\$ 6,199</u>	<u>\$ 15,626,663</u>	<u>\$ 5,667,261</u>	<u>\$ 10,269,687</u>	<u>\$ 2,657,005</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, 2007, there were six revenue bond issues of this type outstanding. The balance of the five revenue bonds issued after July 1, 1995, was \$9,913,536. 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 approximately \$500,000.

NOTE 8 – INTERFUND BALANCES AND ACTIVITY

Interfund balances as of December 31, 2007 consist of \$207,257 due to the Water Fund from the Park and Recreation Fund for water.

Transfers to/from other funds during the year ended December 31, 2007 consist of the following:

From the General Fund to Park and Recreation Fund to supplement other funds sources	\$ 2,840,775
From the General Fund to other governmental funds to supplement other funds sources	192,670
From the General Fund to other enterprise funds to supplement other funds sources	90,000
From the Special Sales Tax Fund to Public Safety Projects Fund to supplement other funds sources	1,327,000
From the Special Sales Tax Fund to other governmental funds to supplement other funds sources	1,800,000
From the Public Safety Projects Fund to other governmental funds to supplement other funds sources	767,117
From other governmental funds to the General Fund to supplement other funds sources	62,689
From the Water Fund to the General Fund to supplement other funds sources	156,920
From the Sewer Fund to the General Fund to supplement other funds sources	89,750
From other enterprise funds to the General Fund to supplement other funds sources	68,330
Other transfers between governmental funds	13,000
	<u>\$ 7,408,251</u>

NOTE 9 – RESTRICTED NET ASSETS

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

<u>Fund</u>	<u>Restricted By</u>	<u>Amount</u>
Promotion Fund	State Law	\$ 117,082
Park and Recreation Fund	State Law	21,967
Park Recreation Trust Fund	State Law	453,512
Cemetery Improvement Fund	State Law	52,309
Business Improvement District Fund	State Law	277
Airport Fund	State Law	267,513
Parking Fund	State Law	245,265
Storm Water Maintenance Fund	State Law	11,725
Library Fines Fund	State Law	61,575
Aberdeen Landmark Commission	State Law	9,527
General Fund - SD Public Assurance Alliance	Contractual Agreement	289,712
		<u>\$ 1,530,464</u>
Total Restricted Net Assets for Other Purposes		<u>\$ 1,530,464</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 approximately \$2.729 million, of which \$1,291,265 was designated only to be used to fund 2008 appropriations totaling \$491,265 and for current cash flow needs totaling \$800,000.

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, 2007, 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, 2007 through November 30, 2007. 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 \$1,544,675.

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 \$760,542 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, 2007, 2006 and 2005 were \$117,947, \$139,402 and \$148,946, respectively.

NOTES TO FINANCIAL STATEMENTS

Changes in the amount of claims liabilities in 2007, 2006 and 2005 were as follows:

	<u>Balance at January 1</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at December 31</u>
2007	\$ 139,402	\$ 1,025,844	\$ 1,047,299	\$ 117,947
2006	148,946	932,435	941,979	139,402
2005	102,505	1,135,313	1,088,872	148,946

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, 2007, 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 \$2,371 for the payment of future unemployment benefits.

During the year ended December 31, 2007, claim benefits of \$249 were paid and there were no outstanding claims.

NOTE 12 – RETIREMENT PLAN

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

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute at 8 percent and 9 percent, 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, 2007, 2006 and 2005 were \$638,675, \$604,252 and \$576,339, 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 2008 thru 2016; for a total of \$2,250,000.
- b. Clark Swisher Athletic Complex: \$155,200 annually for 2008 thru 2014; for a total of \$1,086,400.

NOTE 15 – SUBSEQUENT EVENTS

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 in May 2008 with the proceeds used to liquidate liabilities arising from public improvements and infrastructure relating to the Tax Increment District No. 8.

The Tax Increment Revenue Bonds District No. 8 do not pledge the general credit or taxing powers of the City. 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 No. 8.

#

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF ABERDEEN

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
310 Taxes:				
311 General Property Taxes	\$ 5,216,000	\$ 5,216,000	\$ 5,209,355	\$ (6,645)
313 General Sales and Use Taxes	6,500,000	6,500,000	6,765,253	265,253
318 Tax Deed Revenue	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	7,500	7,500	9,840	2,340
320 Licenses and Permits	282,000	282,000	460,774	178,774
330 Intergovernmental Revenue:				
331 Federal Grants	461,000	461,000	855,946	394,946
334 State Grants	-	-	104,242	104,242
335 State Shared Revenue:				
335.01 Bank Franchise Tax	50,000	50,000	79,571	29,571
335.02 Motor Vehicle Commercial Prorate	18,000	18,000	19,946	1,946
335.03 Liquor Tax Reversion	130,000	130,000	134,183	4,183
335.04 Motor Vehicle Licenses (5%)	75,000	75,000	82,487	7,487
335.06 Fire Insurance Premiums Reversion	48,000	48,000	53,415	5,415
335.08 Local Government Highway and Bridge Fund	280,000	280,000	299,613	19,613
335.20 Other	63,500	63,500	74,611	11,111
336 State Payments in Lieu of Taxes	-	-	5,752	5,752
338 County Shared Revenue:				
338.02 County HBR Tax (25%)	20,500	20,500	20,440	(60)
338.03 County Wheel Tax	7,500	7,500	7,522	22
340 Charges for Goods and Services:				
341 General Government	43,500	43,500	77,468	33,968
342 Public Safety	123,500	123,500	112,413	(11,087)
343 Highways and Streets	110,000	110,000	137,362	27,362
344 Sanitation	984,500	984,500	1,174,681	190,181
345 Health	4,000	4,000	5,365	1,365
346 Culture and Recreation	3,000	3,000	2,492	(508)
349 Other	193,450	193,450	193,144	(306)
350 Fines and Forfeits:				
351 Court Fines and Costs	25,000	25,000	19,206	(5,794)
359 Other	1,000	1,000	786	(214)
360 Miscellaneous Revenue:				
361 Investment Earnings	200,000	200,000	138,733	(61,267)
362 Rentals	145,000	145,000	169,184	24,184
367 Contributions and Donations from Private Sources	20,000	20,000	40,556	20,556
369 Other	12,700	12,700	29,678	16,978
Total Revenue	15,024,650	15,024,650	16,284,017	1,259,367
Expenditures:				
410 General Government:				
411.5 Contingency				
Amount Transferred	300,000	300,000	-	300,000
412 Executive	209,700	210,700	205,775	4,925
414 Financial Administration	1,374,475	1,448,475	1,436,366	12,109
419 Other	1,218,875	1,397,875	1,298,711	99,164
Total General Government	3,103,050	3,357,050	2,940,851	416,199

(continued on next page)

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – page 2

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
420 Public Safety:				
421 Police	2,984,525	2,985,785	2,946,652	39,133
422 Fire	1,994,900	2,065,900	1,967,973	97,927
423 Protective Inspection	169,675	172,675	168,465	4,210
Total Public Safety	<u>5,149,100</u>	<u>5,224,360</u>	<u>5,083,091</u>	<u>141,269</u>
430 Public Works:				
431 Highways and Streets	1,819,145	2,330,145	2,047,340	282,805
432 Sanitation	1,173,925	1,175,925	1,082,807	93,118
439 Transit	555,990	583,990	526,173	57,817
Total Public Works	<u>3,549,060</u>	<u>4,090,060</u>	<u>3,656,319</u>	<u>433,741</u>
440 Health and Welfare:				
445 Drug Education	58,950	68,950	58,788	10,162
449 Other	5,000	5,000	5,000	-
Total Health and Welfare	<u>63,950</u>	<u>73,950</u>	<u>63,788</u>	<u>10,162</u>
450 Culture and Recreation:				
451 Recreation	27,890	27,890	25,261	2,629
455 Libraries	975,025	975,025	963,529	11,496
Total Culture and Recreation	<u>1,002,915</u>	<u>1,002,915</u>	<u>988,790</u>	<u>14,125</u>
460 Conservation and Development:				
465 Economic Development and Assistance (Industrial Development)	229,900	683,500	683,409	91
Total Conservation and Development	<u>229,900</u>	<u>683,500</u>	<u>683,409</u>	<u>91</u>
Debt Service	-	34,200	33,920	280
Total Expenditures	<u>13,097,975</u>	<u>14,466,035</u>	<u>13,450,167</u>	<u>1,015,868</u>
Excess of Revenue Over Expenditures	<u>1,926,675</u>	<u>558,615</u>	<u>2,833,849</u>	<u>2,275,234</u>
Other Financing Sources (Uses):				
391.01 Transfers In	337,000	578,000	377,689	(200,311)
511 Transfers Out	(2,908,445)	(3,348,445)	(3,123,445)	(225,000)
391.03 Sale of Municipal Property	10,000	10,000	68,471	58,471
391.04 Compensation for Loss or Damage to Capital Assets	-	-	76,477	76,477
Total Other Financing Sources (Uses)	<u>(2,561,445)</u>	<u>(2,760,445)</u>	<u>(2,600,809)</u>	<u>(290,364)</u>
Net Change in Fund Balances	<u>(634,770)</u>	<u>(2,201,830)</u>	<u>233,040</u>	<u>1,984,870</u>
FUND BALANCE - BEGINNING	<u>2,785,376</u>	<u>2,785,376</u>	<u>2,785,376</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ 2,150,606</u>	<u>\$ 583,546</u>	<u>\$ 3,018,416</u>	<u>\$ 1,984,870</u>

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE –
SPECIAL REVENUE FUND – PARK AND RECREATION FUND
YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
330 Intergovernmental Revenue:				
331 Federal Grants	\$ 5,000	\$ 5,000	\$ 34,000	\$ 29,000
334 State Grants	3,500	3,500	43,000	39,500
340 Charges for Goods and Services:				
346 Culture and Recreation	430,615	430,615	468,744	38,129
360 Miscellaneous Revenue:				
361 Investment Earnings	-	-	822	822
367 Contributions and Donations from Private Sources	10,000	10,000	-	(10,000)
369 Other	100	100	-	(100)
Total Revenue	<u>449,215</u>	<u>449,215</u>	<u>546,566</u>	<u>97,351</u>
Expenditures:				
450 Culture and Recreation:				
451 Recreation	1,922,335	2,406,485	2,400,232	6,253
452 Parks	1,354,160	1,354,160	1,351,802	2,358
Total Culture and Recreation	<u>3,276,495</u>	<u>3,760,645</u>	<u>3,752,035</u>	<u>8,610</u>
Debt Service	<u>28,495</u>	<u>28,495</u>	<u>28,488</u>	<u>7</u>
Total Expenditures	<u>3,304,990</u>	<u>3,789,140</u>	<u>3,780,522</u>	<u>8,618</u>
Excess of Revenue Over (Under) Expenditures	<u>(2,855,775)</u>	<u>(3,339,925)</u>	<u>(3,233,956)</u>	<u>105,969</u>
Other Financing Sources (Uses):				
391.01 Transfers In	2,765,775	3,065,775	2,840,775	(225,000)
391.02 Proceeds of General Long-Term Debt Issued	-	-	67,650	67,650
391.03 Sale of Municipal Property	-	-	8,000	8,000
391.04 Compensation for Loss or Damage to Capital Assets	-	-	188,565	188,565
Total Other Financing Sources (Uses)	<u>2,765,775</u>	<u>3,065,775</u>	<u>3,104,990</u>	<u>39,215</u>
Net Change in Fund Balances	(90,000)	(274,150)	(128,966)	145,184
Fund Balance - BEGINNING	<u>(28,880)</u>	<u>(28,880)</u>	<u>(28,880)</u>	<u>-</u>
FUND BALANCE - ENDING	<u>\$ (118,880)</u>	<u>\$ (303,030)</u>	<u>\$ (157,846)</u>	<u>\$ 145,184</u>

CITY OF ABERDEEN
BUDGETARY COMPARISON SCHEDULE –
SPECIAL REVENUE FUND – SPECIAL SALES TAX FUND
YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
310 Taxes:				
313 General Sales and Use Taxes	\$ 6,500,000	\$ 6,500,000	\$6,747,415	\$ 247,415
330 Intergovernmental Revenue:				
331 Federal Grants	1,020,000	1,020,000	785,850	(234,150)
334 State Grants	-	-	16,975	16,975
360 Miscellaneous Revenue:				
361 Investment Earnings	100,000	100,000	228,672	128,672
363 Special Assessments	200,000	200,000	4,321	(195,679)
Total Revenue	<u>7,820,000</u>	<u>7,820,000</u>	<u>7,783,233</u>	<u>(36,767)</u>
Expenditures:				
410 General Government:				
419 Other	441,060	391,060	-	391,060
Total General Government	<u>441,060</u>	<u>391,060</u>	<u>-</u>	<u>391,060</u>
420 Public Safety:				
421 Police	250,000	250,000	-	250,000
422 Fire	110,000	110,000	-	110,000
429 Other Protection	330,000	330,000	144,284	185,716
Total Public Safety	<u>690,000</u>	<u>690,000</u>	<u>144,284</u>	<u>545,716</u>
430 Public Works:				
431 Highways and Streets	3,190,000	3,190,000	1,538,739	1,651,261
432 Sanitation	150,000	600,000	597,732	2,268
433 Water	150,000	280,000	276,307	3,693
435 Airport	1,060,000	1,060,000	315,005	744,995
Total Public Works	<u>4,550,000</u>	<u>5,130,000</u>	<u>2,727,783</u>	<u>2,402,217</u>
450 Culture and Recreation:				
452 Parks	240,000	786,300	654,315	131,985
455 Libraries	100,000	100,000	-	100,000
Total Culture and Recreation	<u>340,000</u>	<u>886,300</u>	<u>654,315</u>	<u>231,985</u>
460 Conservation and Development				
465 Economic Development and Assistance (Industrial Development)	998,940	998,940	825,000	173,940
Total Conservation and Development	<u>998,940</u>	<u>998,940</u>	<u>825,000</u>	<u>173,940</u>
Debt Service	-	173,800	173,739	61
Total Expenditures	<u>7,020,000</u>	<u>8,270,100</u>	<u>4,525,122</u>	<u>3,744,978</u>

(continued on next page)

**BUDGETARY COMPARISON SCHEDULE –
SPECIAL REVENUE FUND – SPECIAL SALES TAX FUND – PAGE 2**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Excess of Revenue Over (Under) Expenditures	800,000	(450,100)	3,258,112	3,708,212
Other Financing Uses:				
511 Transfer Out	(800,000)	(3,187,000)	(3,127,000)	(60,000)
Total Other Financing Uses	(800,000)	(3,187,000)	(3,127,000)	(60,000)
Net Change in Fund Balances	-	(3,637,100)	131,112	3,648,212
FUND BALANCE - BEGINNING	4,119,051	4,119,051	4,119,051	-
FUND BALANCE - ENDING	<u>\$ 4,119,051</u>	<u>\$ 481,951</u>	<u>\$4,250,163</u>	<u>\$ 3,648,212</u>

CITY OF ABERDEEN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2007

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, 2006 or December 31, 2007.

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.

#

CITY OF ABERDEEN

CITY OF ABERDEEN
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Promotion	Park Recreation Trust	Cemetery Improvement	Business Improvement District	Airport	Parking District	Storm Water Maintenance	Library Fines	Aberdeen Landmark Commission
ASSETS:									
Cash and Cash Equivalents	\$ 72,973	\$ 224,019	\$ 52,309	\$ -	\$ 221,827	\$ 388,868	\$ 742	\$ 61,575	\$ 9,527
151 Investments	-	246,300	-	-	77,772	-	31,986	-	-
110 Taxes Receivable - Delinquent	-	-	-	141	-	165	-	-	-
115 Accounts Receivable, Net	-	-	-	-	23,246	-	7,502	-	-
132 Due from Federal/State Government	38,731	-	-	136	-	38	-	-	-
141 Inventory of Supplies	-	-	-	-	-	-	10,580	-	-
133 Advance to Component Unit	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	\$ 111,704	\$ 470,320	\$ 52,309	\$ 277	\$ 322,844	\$ 389,070	\$ 50,810	\$ 61,575	\$ 9,527
LIABILITIES AND FUND BALANCES:									
Liabilities:									
202 Accounts Payable	\$ 55,579	\$ 16,077	\$ -	\$ -	\$ 49,908	\$ 143,805	\$ 4,595	\$ -	\$ -
207 Contracts Payable - Retained Percentage	-	-	-	-	-	-	-	-	-
216 Accrued Wages Payable	-	730	-	-	5,423	-	2,756	-	-
217 Accrued Taxes Payable	-	-	-	-	-	-	-	-	-
224 Deferred Revenue	-	-	-	-	-	-	21,154	-	-
Total Liabilities	55,579	16,807	-	-	55,331	143,805	28,505	-	-
Fund Balances:									
261 Reserved For:									
261.02 Inventory	-	-	-	-	-	-	10,580	-	-
261.15 Permanently Reserved Purposes	-	-	-	-	-	-	-	-	-
262 Unreserved Fund Balances:									
262.01 Designated for Next Year's Appropriation:									
Special Revenue Funds	-	-	17,250	-	-	-	1,750	-	-
262.09 Undesignated, Reported in:									
Special Revenue Funds	56,125	453,512	35,059	277	267,513	245,265	9,975	61,575	9,527
Debt Service Funds	-	-	-	-	-	-	-	-	-
Capital Projects Funds	-	-	-	-	-	-	-	-	-
Permanent Funds	-	-	-	-	-	-	-	-	-
Total Fund Balances	56,125	453,512	52,309	277	267,513	245,265	22,305	61,575	9,527
TOTAL LIABILITIES AND FUND BALANCES	\$ 111,704	\$ 470,320	\$ 52,309	\$ 277	\$ 322,844	\$ 389,070	\$ 50,810	\$ 61,575	\$ 9,527

Tax Increment Financing District No. 2 Bonds	Tax Increment Financing District No. 4 Bonds	Park and Rec ARCC Bonds	Park and Rec Aquatic Center Bonds	Public Safety Bonds	Cemetery Perpetual Care	Park and Rec ARCC Project	Park and Rec Aquatic Center Project	Tax Increment Financing District No. 6 Project	Total Nonmajor Governmental Funds
\$ 53,142	\$ 8,296	\$ 18,882	\$ 1,457	\$ -	\$ 170,456	\$ 103,722	\$ 40,692	\$ 188,638	\$ 1,617,125
213,855	-	250,000	617,696	767,117	-	-	144,530	-	2,349,256
-	-	-	-	-	-	-	-	-	306
-	-	-	-	-	-	-	-	-	30,748
-	-	-	-	-	-	99,000	-	-	137,905
-	-	-	-	-	-	-	-	-	10,580
-	-	-	-	-	-	-	-	-	-
<u>\$ 266,997</u>	<u>\$ 8,296</u>	<u>\$ 268,882</u>	<u>\$ 619,152</u>	<u>\$ 767,117</u>	<u>\$ 170,456</u>	<u>\$ 202,722</u>	<u>\$ 185,222</u>	<u>\$ 188,638</u>	<u>\$ 4,145,919</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,741	\$ 16,687	\$ 4,636	\$ 293,029
-	-	-	-	-	-	-	15,470	-	15,470
-	-	-	-	-	-	-	-	-	8,909
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	21,154
-	-	-	-	-	-	1,741	32,157	4,636	338,562
-	-	-	-	-	-	-	-	-	10,580
-	-	-	-	-	50,000	-	-	-	50,000
-	-	-	-	-	-	-	-	-	19,000
-	-	-	-	-	-	-	-	-	1,138,829
266,997	8,296	268,882	619,152	767,117	-	-	-	-	1,930,445
-	-	-	-	-	-	200,981	153,065	184,002	538,048
-	-	-	-	-	120,456	-	-	-	120,456
<u>266,997</u>	<u>8,296</u>	<u>268,882</u>	<u>619,152</u>	<u>767,117</u>	<u>170,456</u>	<u>200,981</u>	<u>153,065</u>	<u>184,002</u>	<u>3,807,357</u>
<u>\$ 266,997</u>	<u>\$ 8,296</u>	<u>\$ 268,882</u>	<u>\$ 619,152</u>	<u>\$ 767,117</u>	<u>\$ 170,456</u>	<u>\$ 202,722</u>	<u>\$ 185,222</u>	<u>\$ 188,638</u>	<u>\$ 4,145,919</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED DECEMBER 31, 2007

	Promotion	Park Recreation Trust	Cemetery Improvement	Business Improvement District	Airport	Parking District	Storm Water Maintenance	Library Fines	Aberdeen Landmark Commission
Revenues:									
310 Taxes:									
311 General Property Taxes	\$ -	\$ -	\$ -	\$ 86,808	\$ -	\$ -	\$ -	\$ -	\$ -
312 Airflight Property Tax	-	-	-	-	19,538	-	-	-	-
313 General Sales and Use Taxes	721,814	-	-	-	-	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	335	-	544	-	-	-
330 Intergovernmental Revenue:									
331 Federal Grants	-	-	-	-	181,620	-	-	-	5,425
334 State Grants	-	-	-	-	-	-	-	-	-
335 State Shared Revenue	-	-	-	-	-	-	-	-	-
335.20 Other	-	-	-	-	34,783	-	-	-	-
340 Charges for Goods and Services:									
344 Sanitation	-	-	-	-	-	-	332,530	-	-
346 Culture and Recreation	-	470,008	-	-	-	-	-	-	-
348 Cemetery	-	-	2,329	-	-	-	-	-	-
349 Other	-	-	-	-	341,409	-	-	-	-
350 Fines and Forfeits:									
354 Library	-	-	-	-	-	-	-	18,063	-
360 Miscellaneous Revenue:									
361 Investment Earnings	1,515	16,323	6,614	-	7,745	10,415	5,141	683	169
362 Rentals	-	-	-	-	-	1,080	-	-	-
367 Contributions and Donations from Private Sources	-	224,219	-	-	-	-	-	-	-
369 Other	-	-	-	-	2,841	-	6,950	-	-
Total Revenue	723,329	710,550	8,942	87,143	587,936	12,038	344,621	18,746	5,594
Expenditures:									
430 Public Works:									
431 Highway and Streets	-	-	-	-	-	-	465,124	-	-
435 Airport	-	-	-	-	896,918	-	-	-	-
436 Parking Facilities	-	-	-	-	-	99,260	-	-	-
437 Cemeteries	-	-	2,162	-	-	-	-	-	-
Total Public Works	-	-	2,162	-	896,918	99,260	465,124	-	-
450 Culture and Recreation:									
451 Recreation	-	313,150	-	-	-	-	-	-	-
452 Parks	-	316,520	-	-	-	-	-	-	-
455 Libraries	-	-	-	-	-	-	-	11,043	-
457 Historical Preservation	-	-	-	-	-	-	-	-	7,203
Total Culture and Recreation	-	629,670	-	-	-	-	-	11,043	7,203
460 Conservation and Development:									
465 Economic Development and Assistance (Industrial Development)	647,423	-	-	87,946	-	-	-	-	-
Total Conservation and Development	647,423	-	-	87,946	-	-	-	-	-
470 Debt Service									
Total Expenditures	647,423	629,670	2,162	87,946	896,918	99,260	465,124	11,043	7,203
Excess of Revenue Over (Under) Expenditures	75,906	80,880	6,781	(803)	(308,981)	(87,222)	(120,503)	7,703	(1,609)
Other Financing Sources (Uses):									
391.01 Transfers In	-	-	-	-	192,670	-	-	-	4,000
511 Transfers Out	(26,000)	-	-	-	-	-	-	-	-
391.02 Proceeds of General Long-Term Debt Issued	-	-	-	-	-	-	-	-	-
391.04 Compensation for Loss or Damage to Capital Assets	-	-	-	-	-	-	-	-	-
Total Other Financing Sources (Uses)	(26,000)	-	-	-	192,670	-	-	-	4,000
Net Change in Fund Balances	49,906	80,880	6,781	(803)	(116,311)	(87,222)	(120,503)	7,703	2,391
Fund Balance - Beginning	6,219	372,633	45,528	1,080	383,824	332,487	142,808	53,871	7,136
FUND BALANCE- ENDING	\$ 56,125	\$ 453,512	\$ 52,309	\$ 277	\$ 267,513	\$ 245,265	\$ 22,305	\$ 61,575	\$ 9,527

Tax Increment Financing District No. 2	Tax Increment Financing District No. 4	Park and Rec ARCC Bonds	Park and Rec Aquatic Center Bonds	Public Safety Bonds	Cemetery Perpetual Care	Tax Increment Financing District No. 2 Project	Park and Rec ARCC Project	Tax Increment Financing District No. 5 Project	Park and Rec Aquatic Center Project	Tax Increment Financing District No. 6 Project	Total Nonmajor Governmental Funds
\$ 308,136	\$ 16,646	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 411,590
-	-	-	-	-	-	-	-	-	-	-	19,538
-	-	-	-	-	-	-	-	-	-	-	721,814
4,612	-	-	-	-	-	-	-	-	-	-	5,491
-	-	-	-	-	-	-	346,500	-	-	-	533,545
-	-	-	-	-	-	-	10,000	-	-	-	10,000
-	-	-	-	-	-	-	-	-	-	-	34,783
-	-	-	-	-	-	-	-	-	-	-	332,530
-	-	-	-	-	-	-	-	-	-	-	470,008
-	-	-	-	-	-	-	-	-	-	-	2,329
-	-	-	-	-	-	-	-	-	-	-	341,409
-	-	-	-	-	-	-	-	-	-	-	18,063
8,402	60	6,697	22,561	-	-	-	3,977	2,386	59,807	-	152,496
-	-	-	-	-	-	-	-	-	-	-	1,080
-	-	-	-	-	3,881	-	-	-	307,632	-	535,733
-	-	-	-	-	-	-	-	-	-	-	9,791
<u>321,151</u>	<u>16,706</u>	<u>6,697</u>	<u>22,561</u>	<u>-</u>	<u>3,881</u>	<u>-</u>	<u>360,477</u>	<u>2,386</u>	<u>367,439</u>	<u>-</u>	<u>3,600,199</u>
-	-	-	-	-	-	-	-	-	-	-	465,124
-	-	-	-	-	-	-	-	-	-	-	896,918
-	-	-	-	-	-	-	-	-	-	-	99,260
-	-	-	-	-	-	-	-	-	-	-	2,162
-	-	-	-	-	-	-	-	-	-	-	1,463,464
-	-	-	-	-	-	-	559,840	-	1,895,817	-	2,768,808
-	-	-	-	-	-	-	-	-	-	-	316,520
-	-	-	-	-	-	-	-	-	-	-	11,043
-	-	-	-	-	-	-	-	-	-	-	7,203
-	-	-	-	-	-	-	559,840	-	1,895,817	-	3,103,574
-	-	-	-	-	-	-	-	187,786	-	815,998	1,739,153
-	-	-	-	-	-	-	-	187,786	-	815,998	1,739,153
306,909	18,743	256,913	589,020	-	-	-	-	-	-	-	1,171,585
306,909	18,743	256,913	589,020	-	-	-	559,840	187,786	1,895,817	815,998	7,477,775
14,242	(2,037)	(250,215)	(566,459)	-	3,881	-	(199,364)	(185,400)	(1,528,378)	(815,998)	(3,877,576)
9,000	-	250,000	550,000	767,117	-	-	-	-	-	1,000,000	2,772,787
-	-	-	-	-	-	(9,000)	-	(40,689)	-	-	(75,689)
-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	109,803	-	-	-	109,803
9,000	-	250,000	550,000	767,117	-	(9,000)	109,803	(40,689)	-	1,000,000	2,806,902
23,242	(2,037)	(215)	(16,459)	767,117	3,881	(9,000)	(89,560)	(226,089)	(1,528,378)	184,002	(1,070,674)
243,755	10,333	269,097	635,611	-	166,575	9,000	290,541	226,089	1,681,443	-	4,878,031
<u>\$ 266,997</u>	<u>\$ 8,296</u>	<u>\$ 268,882</u>	<u>\$ 619,152</u>	<u>\$ 767,117</u>	<u>\$ 170,456</u>	<u>\$ -</u>	<u>\$ 200,981</u>	<u>\$ -</u>	<u>\$ 153,065</u>	<u>\$ 184,002</u>	<u>\$ 3,807,357</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS
DECEMBER 31, 2007

	<u>Campground Fund</u>	<u>Golf Fund</u>	<u>Ambulance Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
ASSETS:				
Current Assets:				
Cash and Cash Equivalents	\$ 320,301	\$ 56,113	\$ 73,086	\$ 449,500
115 Accounts Receivable, Net	-	-	144,020	144,020
Total Current Assets	<u>320,301</u>	<u>56,113</u>	<u>217,106</u>	<u>593,520</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	32,234	365,814	493,889	891,937
Less: Accumulated Depreciation	<u>(111,457)</u>	<u>(415,611)</u>	<u>(262,137)</u>	<u>(789,204)</u>
Total Noncurrent Assets	<u>577,474</u>	<u>690,179</u>	<u>231,752</u>	<u>1,499,406</u>
TOTAL ASSETS	<u><u>\$ 897,775</u></u>	<u><u>\$ 746,293</u></u>	<u><u>\$ 448,858</u></u>	<u><u>\$ 2,092,926</u></u>
LIABILITIES:				
Current Liabilities:				
202 Accounts Payable	\$ 7,420	\$ 9,500	\$ 12,436	\$ 29,355
206 Contracts Payable	-	13,287	-	13,287
216 Accrued Wages Payable	-	1,387	7,105	8,492
Total Current Liabilities	<u>7,420</u>	<u>24,173</u>	<u>19,541</u>	<u>51,134</u>
Noncurrent Liabilities:				
233 Accrued Leave Payable	-	2,874	15,563	18,437
Total Noncurrent Liabilities	<u>-</u>	<u>2,874</u>	<u>15,563</u>	<u>18,437</u>
NET ASSETS:				
253.10 Invested in Capital Assets, Net of Related Debt	577,474	690,179	231,752	1,499,406
253.90 Unrestricted Net Assets	<u>312,881</u>	<u>29,066</u>	<u>182,002</u>	<u>523,949</u>
Total Net Assets	<u>890,355</u>	<u>719,245</u>	<u>413,754</u>	<u>2,023,354</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 897,775</u></u>	<u><u>\$ 746,293</u></u>	<u><u>\$ 448,858</u></u>	<u><u>\$ 2,092,926</u></u>

CITY OF ABERDEEN
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2007

	<u>Campground Fund</u>	<u>Golf Fund</u>	<u>Ambulance Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
Operating Revenue:				
380 Charges for Goods and Services	\$ 277,777	\$ 266,430	\$ 754,496	\$ 1,298,703
369 Miscellaneous	-	-	783	783
Total Operating Revenue	<u>277,777</u>	<u>266,430</u>	<u>755,279</u>	<u>1,299,486</u>
Operating Expenses:				
410 Personal Services	71,757	170,438	464,115	706,310
420 Other Current Expense	128,664	123,292	129,183	381,138
457 Depreciation	15,861	49,115	42,156	107,131
Total Operating Expenses	<u>216,282</u>	<u>342,844</u>	<u>635,454</u>	<u>1,194,580</u>
Operating Income (Loss)	<u>61,495</u>	<u>(76,414)</u>	<u>119,826</u>	<u>104,907</u>
Nonoperating Revenue:				
361 Investment Earnings	10,170	724	2,035	12,929
366 Gain on Disposition of Assets	-	386	-	386
Total Nonoperating Revenue	<u>10,170</u>	<u>1,110</u>	<u>2,035</u>	<u>13,315</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items	<u>71,665</u>	<u>(75,305)</u>	<u>121,861</u>	<u>118,221</u>
391.07 Capital Contributions	-	990	7,508	8,498
391.1 Transfers In	-	90,000	-	90,000
511 Transfers Out	(28,710)	(14,320)	(25,300)	(68,330)
Change in Net Assets	42,955	1,365	104,069	148,389
Net Assets - Beginning	<u>847,400</u>	<u>717,880</u>	<u>309,686</u>	<u>1,874,966</u>
NET ASSETS - ENDING	<u>\$ 890,355</u>	<u>\$ 719,245</u>	<u>\$ 413,754</u>	<u>\$ 2,023,354</u>

CITY OF ABERDEEN
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS
YEAR ENDED DECEMBER 31, 2007

	<u>Campground Fund</u>	<u>Golf Fund</u>	<u>Ambulance Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES:				
Receipt from Customers	\$ 277,777	\$ 266,430	\$ 678,885	\$ 1,223,093
Payments to Suppliers	(123,554)	(112,674)	(122,789)	(359,017)
Payments to Employees	(71,757)	(169,606)	(461,440)	(702,803)
Other Receipts (Payments)	-	-	783	783
Net Cash Provided (Used) by Operating Activities	<u>82,466</u>	<u>(15,850)</u>	<u>95,439</u>	<u>162,056</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers from Other Funds	-	90,000	-	90,000
Transfers to Other Funds	(28,710)	(14,320)	(25,300)	(68,330)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(28,710)</u>	<u>75,680</u>	<u>(25,300)</u>	<u>21,670</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Capital Contributions	-	990	7,508	8,498
Purchase of Capital Assets	(16,784)	(49,569)	(15,273)	(81,626)
Net Cash Used by Capital and Related Financing Activities	<u>(16,784)</u>	<u>(48,579)</u>	<u>(7,765)</u>	<u>(73,128)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest Earnings	10,170	724	2,035	12,929
Net Cash Provided by Investing Activities	<u>10,170</u>	<u>724</u>	<u>2,035</u>	<u>12,929</u>
Net Increase in Cash and Cash Equivalents	47,142	11,975	64,409	123,527
Balances - Beginning	273,159	44,138	8,677	325,973
Balances - Ending	<u>\$ 320,301</u>	<u>\$ 56,113</u>	<u>\$ 73,086</u>	<u>\$ 449,500</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating Income (Loss)	\$ 61,495	\$ (76,414)	\$ 119,826	\$ 104,907
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	15,861	49,115	42,156	107,131
Change in Assets and Liabilities:				
Receivables	-	-	(75,611)	(75,611)
Accounts and Other Payables	5,110	10,618	6,393	22,121
Accrued Wages Payable	-	343	2,049	2,392
Accrued Leave Payable	-	489	626	1,116
Net Cash Provided (Used) by Operating Activities	<u>\$ 82,466</u>	<u>\$ (15,850)</u>	<u>\$ 95,439</u>	<u>\$ 162,056</u>
Noncash Investing, Capital and Financing Activities:				
Loss on Disposal of Capital Assets Not Affecting Operating Income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF ABERDEEN
STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNIT
YEAR ENDED DECEMBER 31, 2007

	Housing and Redevelopment Commission
Cash flows from operating activities:	
Operating loss	\$ (2,007,110)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Increase (decrease) in accounts receivable	(122,812)
Increase in prepaid expenses	(278)
Increase (decrease) in accounts payable	118,354
Increase in tenant security deposits	1,609
Increase in deferred revenue	99,827
Loss on disposal of fixed assets	-
Depreciation and amortization	325,138
Total adjustments	421,838
Net cash used by operating activities	(1,585,272)
NONCAPITAL FINANCING ACTIVITIES	
HUD grants received	2,046,912
Net cash provided by noncapital financing activities	2,046,912
Cash flows from investing activities:	
Interest received	163,398
Investment and limited partnership	(100)
Funds issued in exchange for a note receivable	(200,000)
Net cash used by investing activities	(36,702)
Cash flows from capital and related financing activities:	
Purchase of property and equipment	(106,232)
Mortgage interest paid	(118,932)
Principal payments on long-term debt	(52,613)
Net cash used by capital and related financing activities	(277,777)
Net change in cash and cash equivalents during the year	147,161
Cash and cash equivalents beginning of year	3,594,676
Cash and cash equivalents end of year	\$ 3,741,837
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:	
Operating loss	\$ (2,007,110)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation	324,025
Amortization	1,113
Change in assets and liabilities:	
Rental accounts receivable	2,815
Other receivables	(125,627)
Prepaid expenses	(278)
Accounts payable and other accrued liabilities	118,354
Tenant security deposits	1,609
Deferred revenues	99,827
Net cash used by operating activities	\$ (1,585,272)

CITY OF ABERDEEN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2007

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Environmental Protection Agency: Indirect Federal Funding: S.D. Department of Environment and Natural Resources, Nonpoint Source Implementation Grants	66.460	*****	\$ 139,752
Total Environmental Protection Agency			139,752
Department of Interior: Indirect Federal Funding: S.D. Department of Tourism and State Development, Historic Preservation Fund Grants-In-Aid	15.904	SD-06-20	5,425
S.D. Department of Game, Fish and Parks, Outdoor Recreation - Acquisition, Development and Planning	15.916	46-01369	30,000
			35,425
Department of Transportation: Direct Federal Funding: Airport Improvement Program (3-46-0001-25)	20.106	3-46-0001-25-2005	1,211
Airport Improvement Program (3-46-0001-26)	20.106	3-46-0001-26-2006	129,338
Airport Improvement Program (3-46-0001-27)	20.106	3-46-0001-27-2007	200,744
Payments for Small Community Air Service Development	20.93	*****	181,307
Indirect Federal Funding: S.D. Department of Public Safety, Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	*****	8,245
Interagency Hazardous Materials Public Sector Training and Planning Grants	20.703	*****	20,965
S.D. Department of Transportation, Highway Planning and Construction (Note 3)	20.205	POENH(139) H115 and EM8007(51) PCN 00WJ	673,185
Federal Transit - Capital Investment Grants (Section 5309)	20.500	810795 & 810824 & 810861	8,566
Formula Grants for Other Than Urbanized Areas (Section 5311 & RTAP)	20.509	810772 & 810841 & RTAP	185,506
Total Department of Transportation			1,409,067
Department of Housing and Urban Development: Direct Federal Funding: Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	*****	346,500
Total Department of Housing and Urban Development			346,500
Department of Health and Human Services: Indirect Federal Funding: S.D. Department of Transportation, Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	810772 & 810841	17,678
S.D. Department of Health, Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	08MC114 and 08MC97	27,500
Total Department of Health and Human Services			45,178

(continued on next page)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – PAGE 2

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
General Services Administration:			
Indirect Federal Funding:			
S.D. Federal Property Agency, Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	3,219
National Foundation on the Arts and the Humanities:			
Indirect Federal Funding:			
S.D. Arts Council, Promotion of the Arts - Partnership Agreements	45.025	*****	4,500
Department of Agriculture:			
Indirect Federal Funding:			
S.D. Department of Agriculture, Cooperative Forestry Assistance	10.664	*****	2,000
Department of Homeland Security:			
Direct Federal Funding:			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-12456	(834)
Law Enforcement Officer Reimbursement Agreement Program	97.090	07-763-6257	8,307
Indirect Federal Funding:			
S.D. Department of Public Safety, Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DSR 1702	124,407
Homeland Security Grant Program	97.067	*****	29,526
Total Department of Homeland Security			161,406
Department of Justice:			
Direct Federal Funding:			
Juvenile Justice and Delinquency Prevention - Special Emphasis (Note 3)	16.541	*****	201,197
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0998	3,228
Indirect Federal Funding:			
S.D. Department of Public Safety, Enforcing Underage Drinking Laws Program	16.727	*****	840
Total Department of Justice		*****	205,265
TOTAL EXPENDITURES of FEDERAL AWARDS			\$ 2,352,312

***** "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.

Note 3: Of the federal expenditures presented in the schedule, the municipality provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided to Subrecipients
Highway Planning and Construction	20.205	\$ 248,314
Juvenile Justice and Delinquency Prevention - Special Emphasis	16.541	201,197

CITY OF ABERDEEN
SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2007

FEDERAL AWARD PROGRAM FINDINGS:

Finding 2004-3, 2005-2, and 2006-3: Subrecipient Monitoring

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

CDBG/Brownfields Economic Development Initiative—CFDA No. 14.246; Grant No. B-01-SP-SD-0578; Grant Period: Year Ended December 31, 2004; Grant No. B-00-SP-SD-0361 and Grant No. B-02-SP-SD-0671; Grant Period: Year Ended December 31, 2006

DEPARTMENT OF JUSTICE

Juvenile Justice and Delinquency Prevention – Special Emphasis – CFDA No. 16.541; Grant No. 2002-MU-FX-0014; Grant Period: Year Ended December 31, 2005 and Year Ended December 31, 2006

DEPARTMENT OF TRANSPORTATION

Highway Planning and Construction – CFDA No. 20.205; Grant No. POENH(153), PCN OOC8; Grant Period: Year ended December 31, 2006

Condition: Through inquiries of management, it was noted that the subrecipient compliance requirements were not being met.

Status: As of December 31, 2007, these findings have been resolved.

Finding 2006-4 Reporting

DEPARTMENT OF TRANSPORTATION

Payments for Small Community Air Service Development – CFDA No. 20.930; Grant Period: Year Ending December 31, 2006

Condition: The City of Aberdeen did not submit by the required due date all reports or submissions required by the grant agreement with the Department of Transportation (DOT). Also, these reports were not reviewed by anyone other than the preparer before they were submitted.

Status: As of December 31, 2007, this finding has been resolved.

FINANCIAL STATEMENT FINDINGS:

2006-1 Fraud Risk Assessment Program

- Condition: Through inquires of management, it was noted that the City of Aberdeen does not have a formal documented fraud risk assessment program in place.
- Criteria: Statements on Auditing Standards No. 112 (SAS 112) specifically lists an entity’s lack of a fraud risk assessment program as presumptively being a significant deficiency in internal control.
- Effect: There could be unidentified internal control deficiencies at the City of Aberdeen that create opportunities for fraudulent activities to occur.
- Cause: The City considers the controls over financial reporting currently in place in conjunction with oversight by the City Council to be sufficient in being able to detect actual fraud or internal control deficiencies that could lead to fraud.
- Recommendation: While the City does have an informal risk assessment process in place, we recommend that the City further develop and document their program to assess all relevant risks, including any vulnerabilities to fraudulent activity, assess whether any of those exposures could result in any material misstatement of the financial statements, and subsequently identify and implement procedures, controls, and other procedures needed to mitigate identified risks.
- Status: As of December 31, 2007, this finding has not been resolved and has been restated as current year finding 2007-1.

2006-2 Assignment of Delinquent Accounts Receivable

- Condition: Through audit procedures performed to test compliance with South Dakota Codified Laws (SDCL), it was noted that accounts receivable that become uncollectible are written off the records without the City Council’s formal approval which is required per SDCL 9-22-4.
- Status: As of December 31, 2007, this finding has been resolved.



CPAs & BUSINESS ADVISORS

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

To the City Council
City of Aberdeen
Aberdeen, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Aberdeen, South Dakota, as of and for the year ended December 31, 2007, which collectively comprise the City of Aberdeen's basic financial statements and have issued our report thereon dated September 29, 2008. 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 on the City of Aberdeen's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described as items 2007-1 and 2007-2 in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiencies described above as 2007-2 is a material weakness.

Compliance and Other Matters

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

We also noted other matters that we reported to management of the City of Aberdeen in a separate letter dated September 29, 2008.

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

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

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

Aberdeen, South Dakota
September 29, 2008



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, 2007. 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.

As described in item 2007-3 in the accompanying schedule of findings and questioned costs, the City of Aberdeen did not comply with requirements regarding reporting that are applicable to the Economic Development Initiative – Special Project, Neighborhood Initiative, and Miscellaneous Grants (CFDA No. 14.251) program. Compliance with such requirements is necessary, in our opinion, for the City of Aberdeen to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007.

Internal Control Over Compliance

The management of the City of Aberdeen is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Aberdeen's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the the City of Aberdeen's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a certain deficiency in internal control over compliance that we consider to be both a significant deficiency and a material weakness.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2007-3 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We consider item 2007-3 described in the accompanying schedule of findings and questioned costs to be a material weakness.

The City of Aberdeen's response to the finding identified in our audit is 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.



Aberdeen, South Dakota
September 29, 2008

CITY OF ABERDEEN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2007

Part I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiencies (formerly known as reportable condition(s)) 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 (formerly known as reportable condition(s)) identified that are not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs: Qualified for 14.251
Unqualified for all other major programs

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.460	Nonpoint Source Implementation Grants
20.205	Highway Planning and Construction
14.251	Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)

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 2007-1 Fraud Risk Assessment Program

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

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

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

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

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

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

Material Weakness

Finding 2007-2 Financial Statement Adjustments

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

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

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

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

Management

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

Part III - Findings and Questioned Costs for Federal Award Programs

Material Weakness and Material Noncompliance

Finding 2007-3 - Reporting

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

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

Criteria: In order to comply with Article IV, Paragraph A, of the grant agreements, all reports and submissions need to be completed as required for each grant award.

Effect: This condition could adversely affect the City’s ability to receive federal grants in the future.

Cause: The City and its third party administrator did not adequately monitor the reporting requirements for these grant agreements.

Recommendation: We recommend that the City monitor the requirements of the grant programs more closely and take steps to ensure all required submissions are completed in the future.

Management

response: The City has submitted the required reports to HUD for the audit period and the current period. The City will monitor required submissions more closely in the future to ensure they are completed as required.



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, 2007.

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, 2007 to December 31, 2007

The findings from the 2007 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

2007 - 1 - Fraud Risk Assessment Program

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

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

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

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

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

Management
response:

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

Contact Person: Karl Alberts

Anticipated Completion Date: October 31, 2008

2007 - 2 – Financial Statement Adjustments

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

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

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

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

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

Contact Person: Karl Alberts

Anticipated Completion Date: July 2, 2008

FINDINGS - FEDERAL AWARD PROGRAM AUDIT

2007 - 3 - Reporting.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

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

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

Criteria: In order to comply with Article IV, Paragraph A, of the grant agreements, all reports and submissions need to be completed as required for each grant award.

CORRECTIVE ACTION PLAN – PAGE 3

Effect: This condition could adversely affect the City’s ability to receive federal grants in the future.

Cause: The City and its third party administrator did not adequately monitor the reporting requirements for these grant agreements.

Recommendations: We recommend that the City monitor the requirements of the grant programs more closely and take steps to ensure all required submissions are completed in the future.

Management Response: The City has submitted the required reports to HUD for the audit period and the current period. The City will monitor required submissions more closely in the future to ensure they are completed as required.

Anticipated completion date: July 8, 2008

If the Cognizant Agency has 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