

**FINANCIAL STATEMENTS  
DECEMBER 31, 2006**



**CITY OF ABERDEEN**

**Table of Contents**

---

	<u>Exhibit</u>	<u>Page</u>
<b>MUNICIPAL OFFICIALS</b>		1
<b>INDEPENDENT AUDITOR'S REPORT</b>		3
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>		5
<b>BASIC FINANCIAL STATEMENTS</b>		
Statement of Net Assets	I	16
Statement of Activities	II	17
Balance Sheet – Governmental Funds	III	18
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets		19
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	IV	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities		22
Statement of Net Assets – Proprietary Funds	V	23
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	VI	24
Statement of Cash Flows – Proprietary Funds	VII	25
<b>NOTES TO FINANCIAL STATEMENTS</b>		26
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>		
Budgetary Comparison Schedule – General Fund		46
Budgetary Comparison Schedule – Special Revenue Fund – Special Sales Tax Fund		48
Notes to Required Supplementary Information		50
<b>SUPPLEMENTARY INFORMATION</b>		
Primary Government:		
Combining Balance Sheet – Nonmajor Governmental Funds		51
Combining Statement of Revenues, Expenditures and Changes in Fund Balances Nonmajor Governmental Funds		52
Combining Statement of Net Assets – Nonmajor Enterprise Funds		53
Combining Statement of Revenues, Expenses, and Changes in Net Assets – Nonmajor Enterprise Funds		54
Combining Statement of Cash Flows – Nonmajor Enterprise Funds		55
Discretely Presented Component Units:		
Combining Balance Sheet		56
Combining Statement of Revenues, Expenses And Changes in Net Assets		57
Combining Statement of Cash Flows		58

(continued on next page)

**Table of Contents - continued**

---

	<u>Page</u>
<b>SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</b>	59
<b>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</b>	61
<b>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></b>	63
<b>REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133</b>	65
<b>SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS</b>	67
<b>CORRECTIVE ACTION PLAN</b>	71

**CITY OF ABERDEEN  
MUNICIPAL OFFICIALS  
DECEMBER 31, 2006**

---

**CITY COUNCIL**

		<u>Term Expires</u>
Mayor / City Manager	Mike Levsen	2009
NE District Council Member	Jeff Mitchell	2008
NE District Council Member	Bill McQuillen	2007
NW District Council Member	Nancy Aman	2009
NW District Council Member	Todd Campbell	2007
SE District Council Member	Lloyd Hodgins	2010
SE District Council Member	Clint Rux	2007
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

**MUNICIPAL OFFICIALS - continued**

---

**GOVERNING BOARDS**

**PARK AND RECREATION BOARD**

( 5 years )

Rob Keil, President	2011
Sheryl Erickson	2011
Mike Opp	2010
Paul Fauth	2010
Art Russo	2009
Bob Wilson	2008
Bruce Johnson	2007
Todd Campbell, City Council Member	
Tom Agnitsch, City Council Member	

**AIRPORT BOARD**

( 5 years )

Dr. Kennon Broadhurst, Chairperson	2008
Tom Scheid	2011
Mike Erickson	2010
Steve Kaiser	2009
Patrick Schloss	2007
Jeff Mitchell, City Council Member	
Mike Wiese, County Commissioner	

**LIBRARY BOARD**

( 3 years )

Patrick Gallagher, President	2007
Sandy Andera	2009
Rob Ronayne	2009
Kathy Stuck	2008
Richard Thomas	2007
Clint Rux, City Council Member	



CPAs & BUSINESS ADVISORS

## 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, 2006, 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express such an opinion. 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Aberdeen**, South Dakota, as of December 31, 2006, 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 21, 2007 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.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

The accompanying required supplementary information including management's discussion and analysis and budgetary comparison information on pages 5 through 15 and 46 through 50, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepting in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Aberdeen, South Dakota  
September 21, 2007

## 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, 2006.

### FINANCIAL HIGHLIGHTS

#### Government-wide

- The assets of the City exceeded its liabilities at the close of the fiscal year by \$109.163 million (reported as net assets), an increase of \$5.306 million from the previous year. Component units reported net assets of \$5.681 million, an increase of \$28,608 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 \$11.75 million, with \$11.4 million reported as *unreserved fund balance* and the remaining amount of \$356,100 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 \$2.78 million, of which \$1,434,770 was designated only to be used to fund fiscal year 2007 appropriations and current year cash flow needs.
- Proprietary funds reported net assets at year-end of \$38.934 million, an increase of \$976,000 during the year.

#### Long-Term Debt

- The primary government's total long-term outstanding loans and bonded debt totaled \$38.66 million, an increase of \$8.974 million from the previous year. Of the total outstanding loans and bonded debt, \$34.99 million is backed by the City. The increase represents the issuance of tax increment financing (TIF) bonds in the amount of \$510,000 for TIF District #2, an installment purchase contract in the amount of \$93,860 for police vehicles, a State Revolving Loan from the South Dakota Department of Environment and Natural Resources in the amount of \$3,351,205 for water treatment plant improvements, and a State Revolving Loan from the South Dakota Department of Environment and Natural Resources in the amount of \$5,875,472 for sewer treatment plant improvements. The decrease represents principal payments of \$904,300 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 combining component units' 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, & 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 Units.** 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 entities are included in the component units columns of the City's government-wide financial statements:
  - ✓ Aberdeen Area Convention and Visitors Bureau
  - ✓ Housing and Redevelopment Commission
  - ✓ Aberdeen Downtown Association

## **Fund Financial Statements and Combining Component Units 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 and Recreation Aquatic Center Project 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 Units.** As mentioned above, component units are legally separate organizations for which the City is financially accountable. The government-wide financial statements present information for the component units (a) in a single, aggregated column on the statement of net assets, and (b) in detail for each component unit on the statement of activities. The combining statement of net assets, combining statement of revenues, expenses and changes in fund net assets, and combining statement of cash flows provide detail for each component unit.

### **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 combining component units financial statements. The notes to the financial statements are located immediately following the combining component units financial statements.

### **Required Supplementary Information**

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

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

### **Other Supplementary Information**

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets. As presented in the following table, total assets of the City on December 31, 2006 were \$152.04 million, while total liabilities were \$42.88 million, resulting in combined net assets (governmental and business-type activities) of \$109.16 million.

<b>City of Aberdeen Net Assets</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Current and Other Assets	\$ 16,590,562	\$ 20,399,114	\$ 8,313,162	\$ 6,151,221	\$ 24,903,724	\$ 26,550,335
Capital Assets	70,802,187	61,184,858	56,332,436	50,608,220	127,134,623	111,793,078
Total Assets	<u>87,392,749</u>	<u>81,583,972</u>	<u>64,645,598</u>	<u>56,759,441</u>	<u>152,038,347</u>	<u>138,343,413</u>
Long-Term Liabilities Outstanding	14,328,466	13,798,854	24,329,051	15,362,902	38,657,517	29,161,756
Other Liabilities	2,835,906	1,886,364	1,382,177	3,438,358	4,218,083	5,324,722
Total Liabilities	<u>17,164,372</u>	<u>15,685,218</u>	<u>25,711,228</u>	<u>18,801,260</u>	<u>42,875,600</u>	<u>34,486,478</u>
Net Assets:						
Invested in Capital Assets, Net of Related Debt	65,090,335	60,699,957	32,086,996	33,206,077	97,177,331	93,906,034
Restricted	8,090,273	7,367,998	-	-	8,090,273	7,367,998
Unrestricted (Deficit)	(2,952,231)	(2,169,201)	6,847,374	4,752,104	3,895,143	2,582,903
<b>Total Net Assets</b>	<b><u>\$70,228,377</u></b>	<b><u>\$65,898,754</u></b>	<b><u>\$38,934,370</u></b>	<b><u>\$37,958,181</u></b>	<b><u>\$109,162,747</u></b>	<b><u>\$103,856,935</u></b>

The largest component of the City's net assets, 89% (down slightly from 90.4% in 2005), 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 7.41% (up from 7.1% in 2005) 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 ordinance on how they can be used.

The remaining balance, \$3.895 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 2007 appropriations (\$898,570), funding capital projects (\$2,198,073), and current year cash flow needs (\$800,000).

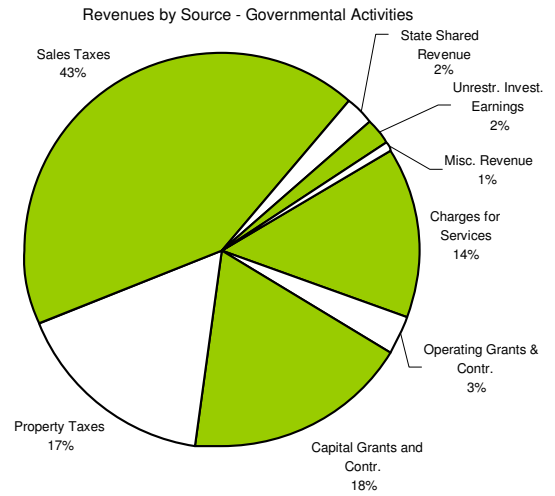
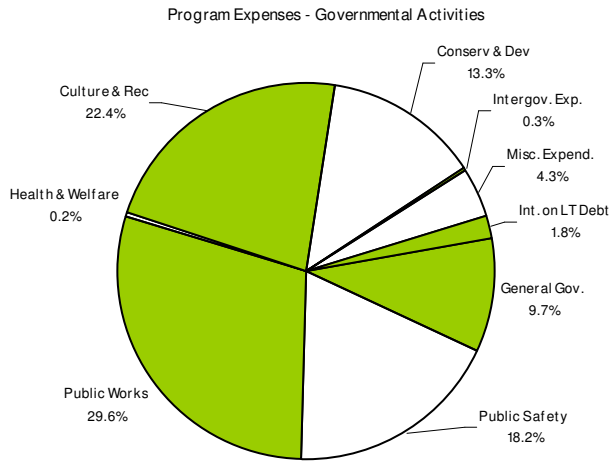
Changes in Net Assets. The following table summarizes financial information derived from the government-wide statement of activities and reflects how the City's net assets changed during fiscal years 2006 and 2005.

<b>City of Aberdeen</b>						
<b>Changes in Net Assets</b>						
<b>Fiscal Year Ended December 31</b>						
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
<b>Revenues:</b>						
<b>Program Revenues:</b>						
Charges for Services	\$ 4,399,765	\$ 4,141,859	\$ 6,639,602	\$ 5,891,082	\$ 11,039,367	\$ 10,032,941
Operating Grants and Contributions	938,138	1,313,113	264,870	65,525	1,203,008	1,378,638
Capital Grants and Contributions	5,802,498	2,247,353	658,282	50,400	6,460,780	2,297,753
<b>General Revenues:</b>						
Property Taxes	5,345,202	4,982,904	-	-	5,345,202	4,982,904
Sales Taxes	13,388,391	12,558,618	-	-	13,388,391	12,558,618
State Shared Revenues	713,456	686,033	-	-	713,456	686,033
Unrestricted Investment Earnings	661,077	219,882	235,104	88,887	896,181	308,769
Miscellaneous	271,464	106,466	70,854	(4,287)	342,318	102,179
<b>Total Revenues</b>	<b>31,519,991</b>	<b>26,256,228</b>	<b>7,868,712</b>	<b>6,091,607</b>	<b>39,388,703</b>	<b>32,347,835</b>
<b>Program Expenses:</b>						
General Government	2,687,358	2,615,986	-	-	2,687,358	2,615,986
Public Safety	5,058,745	5,100,735	-	-	5,058,745	5,100,735
Public Works	8,218,587	7,749,071	-	-	8,218,587	7,749,071
Health and Welfare	61,370	62,589	-	-	61,370	62,589
Cultural and Recreation	6,214,923	6,249,155	-	-	6,214,923	6,249,155
Conservation and Development	3,696,567	2,579,245	-	-	3,696,567	2,579,245
Intergovernmental Expenditures	67,581	-	-	-	67,581	-
Miscellaneous Expenditures	1,197,289	1,337,899	-	-	1,197,289	1,337,899
Interest on Long-term Debt	502,080	185,797	-	-	502,080	185,797
Water	-	-	3,872,896	2,483,244	3,872,896	2,483,244
Sewer	-	-	1,692,069	1,385,498	1,692,069	1,385,498
Campground	-	-	189,750	179,700	189,750	179,700
Golf	-	-	319,872	297,991	319,872	297,991
Ambulance	-	-	593,516	559,194	593,516	559,194
<b>Total Expenses</b>	<b>27,704,500</b>	<b>25,880,477</b>	<b>6,668,103</b>	<b>4,905,627</b>	<b>34,372,603</b>	<b>30,786,104</b>
Excess (Deficiency) Before Special Items and Transfers	3,815,491	375,751	1,200,609	1,185,980	5,016,100	1,561,731
Transfers	224,420	211,900	(224,420)	(211,900)	-	-
<b>Change in Net Assets</b>	<b>4,039,911</b>	<b>587,651</b>	<b>976,189</b>	<b>974,080</b>	<b>5,016,100</b>	<b>1,561,731</b>
Net Assets – Beginning	65,898,754	65,311,103	37,958,181	36,984,101	103,856,935	102,295,204
Prior period adjustment	289,712	-	-	-	289,712	-
<b>Net Assets – Ending</b>	<b>\$70,228,377</b>	<b>\$65,898,754</b>	<b>\$38,934,370</b>	<b>\$37,958,181</b>	<b>\$109,162,747</b>	<b>\$103,856,935</b>

### **Governmental Activities:**

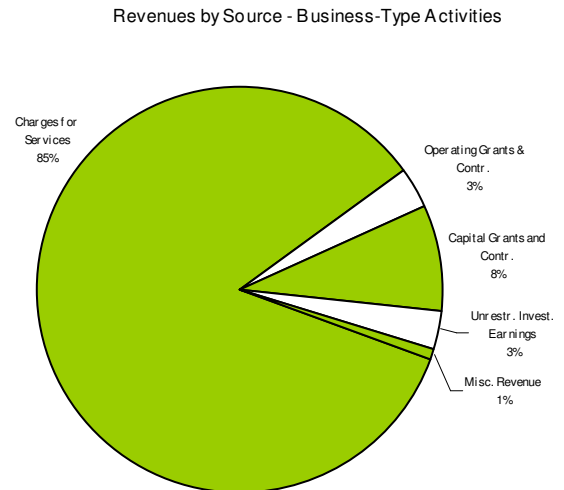
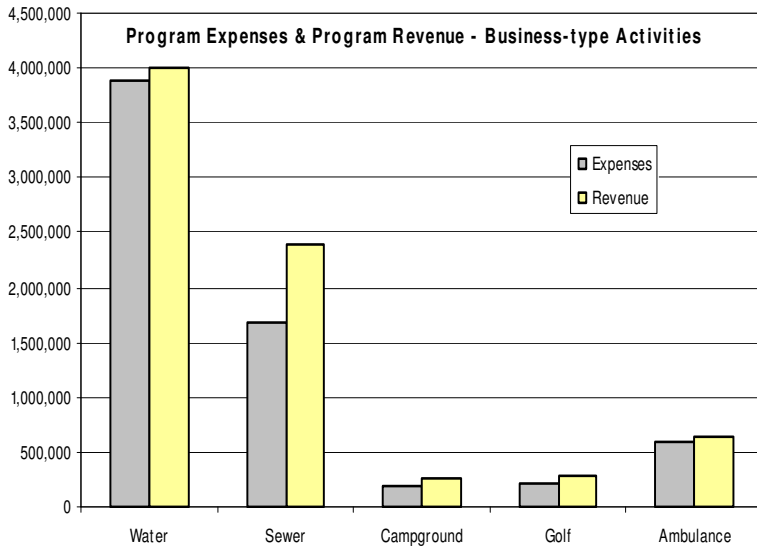
Governmental activities increased the City's net assets by \$4,039,911. Factors contributing to these results include:

- An excess of revenues over expenses, primarily due to federal and state grants (totaling \$6.74 million) for capital projects and public safety operating grants, and a vibrant local economy (general sales tax growth of 6.6%); and,
- Net transfers totaling \$224,420.



**Business-Type Activities:**

Net assets of the business-type activities increased by approximately \$976,000 during 2006, as compared to a \$974,000 increase in 2005. Factors contributing to these results include an excess of revenues over expenses, primarily due to the Sewer Fund (\$680,000).



**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

## **Governmental Funds**

The focus of the City's governmental funds is to provide information on near-term inflows and outflows during the fiscal year and on balances of spendable resources as of fiscal year-end. Such information is useful in assessing the City's financing requirements. In particular, 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 2006, the City's governmental funds reported combined ending fund balances of \$11.754 million, a decrease of \$5.466 million in comparison with the prior year.

Approximately 3.0%, or \$356,100 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 33.4%, or \$3.923 million 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) 2007 appropriations - \$3,096,642; 2) current cash flow needs - \$800,000; or 3) capital outlay accumulations - \$26,621.

The remaining 63.6 or \$7.474 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 2006 were the General Fund, the Special Sales Tax Fund, and the Park & Recreation Aquatics Center 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 \$2.496 million, of which \$1,434,770 was designated only to be used to fund 2007 appropriations and for current cash flow needs. Total fund balance at the end of the current fiscal year was \$2.785 million. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance (including the unreserved designated amount) and total fund balance represents 21.8% (23.5% in 2005) of the total General Fund operating expenditures.

Overall, the fund balance of the City's General Fund decreased by \$171,500 during the current fiscal year. This is a 5.8% decrease from the prior year fund balance. The decrease primarily resulted from 1) a budget that was originally approved to use \$824,490 of unexpended fund balance; 2) a prior period adjustment of \$289,712 relating to cumulative reserves in the South Dakota Public Assurance Alliance pool; and 3) unexpected transfers to other funds amounting to \$717,000. This was reduced by unanticipated revenues in general sales tax collections of approximately \$450,000 and unanticipated federal grants exceeding \$820,000.

The Special Sales Tax Fund is the fund maintained by the City to account for the proceeds from the second penny sales tax. The City has adopted ordinances to restrict the use of these proceeds to capital improvements, land acquisition, and certain public safety uses. At the end of the fiscal year, unreserved fund balance of the Special Sales Tax Fund was \$4,119,051. Total fund balance at the end of the current fiscal year was also \$4,119,051.

Overall, the fund balance of the City's Special Sales Tax Fund increased by \$532,648 during the current fiscal year. This is a 14.85% increase in fund balance from the prior year. The increase primarily resulted from a budget designed to save funds for future projects (police, fire and library buildings) and unanticipated sales tax revenues of approximately \$438,500.

The Park and Recreation Aquatics Center Capital Project Fund is the fund created by the City to account for the new aquatics center. Bond proceeds of \$6,924,178 from the Series 2005B bonds were deposited into the fund (which accrued \$234,935 in interest in 2006), with project costs of about \$5,481,474 realized during the year. At the end of the fiscal year, unreserved fund balance of the Park and Recreation Aquatics Center Capital Project Fund was \$1,681,443. Total fund balance at the end of the current fiscal year was also \$1,681,443.

### **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 2006:

- **Water Fund.** At the end of fiscal year 2006, the Water Fund reported total net assets of just over \$21 million, an increase of \$220,899 (1.0%) in comparison with the prior year. During 2006, the Water Fund produced operating income (before contributions and operating transfers) in the amount of \$25,549 on total operating revenue of \$3.35 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$984,383 on total revenue of \$3.07 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 2006, the Sewer Fund reported total net assets of \$16.039 million, an increase of \$679,970 (4.43%) in comparison with the prior year. During 2006, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$568,921 on total operating revenue of \$2.134 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$390,989 on total revenue of \$1.776 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 \$1.928 million (or 15.55%) of increases in appropriations and can be summarized as follows:

- \$220,952 in supplemental appropriations to General Government for 1) costs associated with the Quasiquicentennial Celebration, 2) special legal services relating to union contract negotiations, 3) new telephone systems in Police and Fire Departments and, 4) expenses related to clean-up efforts of the Code Enforcement office (which are reimbursable).
- \$362,250 in supplemental appropriations to Public Safety to account 1) for Fire Department training, supplies, and equipment expenditures that were reimbursed by federal grants, 2) overtime expenses in the Police Department, 3) a recording system for Police Department, and 4) additional motor expenses in Police Department.
- \$175,000 in supplemental appropriations to Public Works departments for higher fuel, electric, and natural gas during the year.
- \$21,500 in supplemental appropriations to Culture and Recreation for expenses related to temporary operations relocation due to renovations at the Library.
- \$1,148,750 in supplemental appropriations to the Youth Enrichment Program, HUD Downtown RLF Program, and Train Depot Restoration project to account for staff, equipment, and capital expenditures that were reimbursed 100% by federal grants, which also caused a positive variation for federal grant revenue of \$820,106.
- Other budget adjustments in the form of FY 2006 supplemental appropriations were not considered to be significant variations, or to have a significant effect on future services or liquidity.



In addition, \$717,000 in supplemental appropriations for transfers to the Promotion Fund, Golf Fund, Ambulance Fund, Storm water Fund, and TIF #5 Project Fund for projects accounted for in those funds were made.

Actual spending was less than the original budget for General Fund total operating expenditures by approximately \$371,000 and was less than the final amended budget by \$1.557 million as a result of departments controlled spending in an effort to create budgetary savings to the General Fund.

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, 2006 is \$127.1 million (net of accumulated depreciation) as compared to \$111.8 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	
	2006	2005	2006	2005	2006	2005
Land	\$ 5,814,606	\$ 5,692,727	\$ 701,396	\$ 701,396	\$ 6,516,002	\$ 6,394,123
Buildings	15,614,397	16,874,788	42,587,982	27,842,295	58,202,379	44,717,083
Improvements Other than Buildings	66,419,701	65,404,131	21,425,819	20,853,580	87,845,520	86,257,711
Equipment/Vehicles	12,998,484	12,107,448	6,126,406	2,775,963	19,124,890	14,883,411
Construction in Progress	10,319,061	0	9,888,191	21,516,789	20,207,252	21,516,789
Total Capital Assets	111,166,249	100,079,094	80,729,794	73,690,023	191,896,043	173,769,117
Accumulated Depreciation	40,364,062	38,894,236	24,397,358	23,081,803	64,761,420	61,976,039
<b>Total Capital Assets, Net</b>	<b>\$70,802,187</b>	<b>\$61,184,858</b>	<b>\$56,332,436</b>	<b>\$50,608,220</b>	<b>\$127,134,623</b>	<b>\$111,793,078</b>

The City's investment in capital assets (net of accumulated depreciation) changed from fiscal year 2005 to 2006 by approximately 13.7%. Governmental construction projects completed during 2006 include street repairs at a total cost of about \$376,000, storm water mains at a total cost of about \$305,300, and recreational trails at a total cost of about \$476,600. The increase in governmental Construction in Progress includes \$5,481,000 for the Aquatic Center, \$2,807,000 for Fairgrounds Road reconstruction, and \$2,030,000 for Airport AIP projects. Business-type construction projects completed during 2006 include water treatment plant improvements at a total of about \$17,751,000 and water main improvements at a total cost of about \$288,700. The increase in business-type Construction in Progress includes \$9,888,000 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 2006 general-purpose debt limitation for the City is \$44,738,901, which is \$15,696,482 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 \$10,280,265 and business-type activities had total note and bonded debt outstanding of \$24,245,440. During the current fiscal year, the City incurred \$93,860 of new long-term general indebtedness under governmental activities and incurred \$9,226,677 of indebtedness in business-type activities. The increase in governmental indebtedness related to the installment contract for Police vehicles and business-type indebtedness related to the State Revolving Loan associated with the Water and Wastewater Treatment Plants improvements. The City retired \$533,000 of general obligation debt which included the annual principal payments associated with the ARCC Renovations bonds, Aquatics Center bonds, a mower installment contract, 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 2006 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 2005, for a total increase of 44.6% for those seven years and an annual average of 6.37%. Sales tax collections in 2006 increased by an annual rate of 6%. This is very near the seven year average and significantly above the statewide taxable sales increase of 3.1% in calendar year 2006. 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 19.9% for the past eight years and increased 30.4% in 2006.

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. The full financial impact on the City of Aberdeen can only be estimated at this time due to unseen conditions that may not be fully realized for months to come. Current estimates of flood related damage and expenses range from \$400,000 to \$1,000,000 with approximately \$100,000 covered by flood insurance on buildings and approximately \$100,000 to \$300,000 eligible for reimbursement by FEMA. Adequate undesignated fund balances have allowed the City to absorb non-reimbursable costs to date and are believed to be adequate to absorb future non-reimbursable costs.

## **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 separately audited financial statements. These statements may be obtained by directly contacting the individual component unit.

**CITY OF ABERDEEN**  
**STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

**EXHIBIT I**

	<b>Primary Government</b>		<b>Total</b>	<b>Component Units</b>	
	<b>Governmental</b>	<b>Business-Type</b>		<b>Housing &amp; Redevelopment Commission</b>	<b>Other</b>
	<b>Activities</b>	<b>Activities</b>			
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 5,413,957	\$ 2,833,790	\$ 8,247,747	\$ 974,542	\$ 51,265
Investments	8,293,085	4,100,915	12,394,000	-	-
Accounts Receivable, Net	2,543,734	1,075,216	3,618,950	22,225	65,000
Other Noncurrent Assets	-	-	-	-	-
Internal Balances	-	-	-	12,952	-
Inventories	16,388	303,241	319,628	-	-
Deposits	289,712	-	289,712	-	-
Deferred Charges	-	-	-	-	-
Other Assets	-	-	-	-	28,983
Restricted Assets:					
Cash and cash equivalents	33,686	-	33,686	2,636,033	-
Investments	-	-	-	-	-
Capital Assets:					
Land, Improvements and Construction in Progress	16,133,667	10,589,587	26,723,254	521,186	-
Other Capital Assets, Net of Depreciation	54,668,520	45,742,849	100,411,370	2,990,209	22,086
<b>TOTAL ASSETS</b>	<b>\$ 87,392,749</b>	<b>\$ 64,645,598</b>	<b>\$ 152,038,347</b>	<b>\$ 7,157,147</b>	<b>\$ 167,333</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 1,606,752	\$ 418,483	\$ 2,025,235	\$ 6,980	\$ 5,878
Deferred Revenue	109,412	135,336	244,748	-	-
Other Current Liabilities	1,119,742	828,358	1,948,100	200,839	6,751
Noncurrent Liabilities:					
Due Within One Year	774,958	591,103	1,366,061	52,614	-
Due in More than One Year	13,553,508	23,737,948	37,291,456	1,370,329	-
<b>TOTAL LIABILITIES</b>	<b>17,164,372</b>	<b>25,711,228</b>	<b>42,875,599</b>	<b>1,630,762</b>	<b>12,629</b>

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	65,090,335	32,086,996	97,177,332	2,088,452	22,086
Restricted for:					
Capital Projects	378,660	-	378,660	-	-
Debt Service	1,158,796	-	1,158,796	-	-
Cumulative Reserve Fund - SDPAA	289,712	-	289,712	-	-
Perpetual Care:					
Expendable	116,575	-	116,575	-	-
Permanently Nonexpendable	50,000	-	50,000	-	-
Other Purposes	6,096,530	-	6,096,530	2,620,134	-
Unrestricted (Deficit)	(2,952,231)	6,847,374	3,895,143	817,799	132,618
	<u>70,228,377</u>	<u>38,934,370</u>	<u>109,162,747</u>	<u>5,526,385</u>	<u>154,704</u>
TOTAL NET ASSETS					
	<u>\$ 87,392,749</u>	<u>\$ 64,645,598</u>	<u>\$ 152,038,347</u>	<u>\$ 7,157,147</u>	<u>\$ 167,333</u>

**CITY OF ABERDEEN**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2006**

**EXHIBIT II**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets					
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-Type Activities	Total	Housing and Redevelopment Commission	Other	
Primary Government										
Governmental Activities										
General Government	\$ 2,687,358	\$ 386,290	\$ 15,000	\$ -	\$ (2,286,068)	\$ -	(2,286,068)	\$ -	\$ -	-
Public Safety	5,055,307	189,643	100,184	162,473	(4,603,007)	-	(4,603,007)	-	-	-
Public Works	8,218,587	1,346,394	494,394	4,174,198	(2,203,601)	-	(2,203,601)	-	-	-
Health and Welfare	61,370	6,190	-	-	(55,180)	-	(55,180)	-	-	-
Culture and Recreation	6,214,923	749,209	321,560	517,923	(4,626,231)	-	(4,626,231)	-	-	-
Conservation and Development	3,522,827	-	7,000	947,904	(2,567,923)	-	(2,567,923)	-	-	-
Intergovernmental Expenditures	67,582	-	-	-	(67,582)	-	(67,582)	-	-	-
Miscellaneous Expenditures	1,197,289	1,722,038	-	-	524,749	-	524,749	-	-	-
Depreciation Expense - Unallocated	-	-	-	-	-	-	-	-	-	-
Interest on Long-term Debt	679,258	-	-	-	(679,258)	-	(679,258)	-	-	-
<b>Total Governmental Activities</b>	<b>27,704,500</b>	<b>4,399,765</b>	<b>938,138</b>	<b>5,802,498</b>	<b>(16,564,100)</b>	<b>-</b>	<b>(16,564,100)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Business-type Activities										
Water	3,872,896	3,349,821	264,870	390,601	-	132,395	132,395	-	-	-
Sewer	1,692,069	2,134,106	-	249,281	-	691,319	691,319	-	-	-
Campground	189,750	260,998	-	-	-	71,249	71,249	-	-	-
Golf	319,872	285,244	-	-	-	(34,628)	(34,628)	-	-	-
Ambulance	593,516	609,433	-	18,400	-	34,318	34,318	-	-	-
<b>Total Business-type Activities</b>	<b>6,668,102</b>	<b>6,639,602</b>	<b>264,870</b>	<b>658,282</b>	<b>-</b>	<b>894,652</b>	<b>894,652</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 34,372,602</b>	<b>\$ 11,039,367</b>	<b>\$ 1,203,007</b>	<b>\$ 6,460,780</b>	<b>(16,564,100)</b>	<b>894,652</b>	<b>(15,669,448)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Component units										
Housing and Redevelopment Commission	\$ 2,596,768	\$ 413,090	\$ 1,992,096	\$ -	-	-	-	(191,582)	-	-
Other	500,008	-	550,455	-	-	-	-	-	50,447	-
<b>Total Component Units</b>	<b>\$ 3,096,776</b>	<b>\$ 413,090</b>	<b>\$ 2,542,551</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(191,582)</b>	<b>50,447</b>	<b>-</b>
General Revenues										
Taxes										
Property Taxes					5,345,202	-	5,345,202	-	-	-
Sales Taxes					13,388,391	-	13,388,391	-	-	-
State Shared Revenues					713,456	-	713,456	-	-	-
Unrestricted Investment Earnings					661,078	235,104	896,181	155,895	-	-
Grants and Contributions not Restricted to Specific Programs					-	-	-	-	-	-
Miscellaneous Revenue					271,465	70,854	342,319	13,848	-	-
Special Items					-	-	-	-	-	-
Extraordinary Items					-	-	-	-	-	-
Transfers					224,420	(224,420)	-	-	-	-
<b>Total General Revenues, Special Items, Extraordinary Items and Transfers</b>					<b>20,604,012</b>	<b>81,538</b>	<b>20,685,550</b>	<b>169,743</b>	<b>-</b>	<b>-</b>
Change in Net Assets					4,039,912	976,190	5,016,101	(21,839)	50,447	-
Net Assets-Beginning					65,898,754	37,958,181	103,856,934	5,548,225	104,257	-
Prior period adjustment					289,712	-	289,712	-	-	-
<b>NET ASSETS - ENDING</b>					<b>\$ 70,228,377</b>	<b>\$ 38,934,370</b>	<b>\$ 109,162,747</b>	<b>\$ 5,526,386</b>	<b>\$ 154,704</b>	<b>-</b>

**CITY OF ABERDEEN**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2006**

**EXHIBIT III**

	<u>General</u>	<u>Special Sales Tax</u>	<u>Park &amp; Rec Aquatic Center Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>					
Cash and Cash Equivalents	\$ 710,365	\$ 2,798,647	\$ 35,084	\$ 1,539,603	\$ 5,083,699
151 Investments	1,779,848	1,531,479	2,561,513	1,826,245	7,699,085
110 Taxes Receivable--Delinquent	68,804	-	-	10,127	78,932
115 Accounts Receivable, Net	42,447	-	-	43,916	86,363
121 Special Assessments Receivable--Current	1,132	4,603	-	1,683	7,417
122 Special Assessments Receivable--Delinquent	1,076	-	-	-	1,076
123 Special Assessments Receivable--Deferred	-	10,001	-	-	10,001
132 Due from Federal/State Governments	379,803	340,809	-	286,011	1,006,623
141 Inventory of Supplies	-	-	-	16,388	16,388
154 Deposits	289,712	-	-	-	289,712
107.1 Restricted Cash and Cash Equivalents	7,065	-	-	26,621	33,686
<b>TOTAL ASSETS</b>	<u>\$ 3,280,251</u>	<u>\$ 4,685,539</u>	<u>\$ 2,596,597</u>	<u>\$ 3,750,593</u>	<u>\$ 14,312,980</u>
<b>LIABILITIES AND FUND BALANCES:</b>					
Liabilities:					
202 Accounts Payable	\$ 305,195	\$ 305,497	\$ 386,644	\$ 543,648	\$ 1,540,985
207 Contracts Payable--Retained Percentage	-	250,989	528,510	-	779,499
216 Accrued Wages Payable	97,077	-	-	25,365	122,441
220 Customer Deposits	7,065	-	-	-	7,065
224 Deferred Revenue	85,539	10,001	-	13,872	109,412
<b>Total Liabilities</b>	<u>494,876</u>	<u>566,487</u>	<u>915,154</u>	<u>582,885</u>	<u>2,559,402</u>

Fund Balances:					
261 Reserved For:					
261.02 Inventory	-	-	-	16,388	16,388
261.15 Permanently Reserved for Cemetary	-	-	-	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	634,770	-	-	-	634,770
Special Revenue Funds	-	-	-	263,800	263,800
Capital Projects Funds	-	-	1,681,443	516,630	2,198,073
262.03 Designated for Capital Outlay Accumulations:					
Special Revenue Funds	-	-	-	26,621	26,621
262.02 Designated for Other Purposes:					
General Fund	800,000	-	-	-	800,000
262.09 Undesignated					
Undesignated	1,060,894	4,119,051	-	-	5,179,945
Reported in Non-Major Special Revenue Funds	-	-	-	1,009,898	1,009,898
Reported in Non-Major Debt Service Funds	-	-	-	1,158,796	1,158,796
Reported in Non-Major Capital Project Funds	-	-	-	9,000	9,000
Reported in Non-Major Permanent Funds	-	-	-	116,575	116,575
	<u>2,785,376</u>	<u>4,119,051</u>	<u>1,681,443</u>	<u>3,167,708</u>	<u>11,753,578</u>
Total Fund Balances					
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,280,251</u>	<u>\$ 4,685,539</u>	<u>\$ 2,596,597</u>	<u>\$ 3,750,593</u>	<u>\$ 14,312,980</u>

**CITY OF ABERDEEN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE TO**  
**THE STATEMENT OF NET ASSETS**  
**DECEMBER 31, 2006**

---

Total Fund Balances - Governmental Funds	\$ 11,753,578
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.	70,802,187
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.	(14,328,466)
Taxes collected after year-end, but not available soon enough to pay for current period expenditures.	1,353,323
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(71,335)
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>719,090</u>
Net Assets- Governmental Funds	<u><u>\$ 70,228,377</u></u>



**CITY OF ABERDEEN****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
YEAR ENDED DECEMBER 31, 2006****EXHIBIT IV**

	<u>General Fund</u>	<u>Special Sales Tax Fund</u>	<u>Park &amp; Rec Aquatic Center Project</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>					
310 Taxes:					
311 General Property Taxes	\$ 4,888,353	\$ -	\$ -	\$ 423,085	\$ 5,311,437
312 Airflight Property Tax	-	-	-	21,641	21,641
313 General Sales and Use Taxes	6,276,784	6,263,566	-	759,359	13,299,709
318 Tax Deed Revenue	142	-	-	-	142
319 Penalties and Interest on Delinquent Taxes	11,404	-	-	579	11,982
320 Licenses and Permits	335,331	-	-	-	335,331
330 Intergovernmental Revenue:					
331 Federal Grants	1,275,106	2,449,204	-	374,534	4,098,844
334 State Grants	67,379	1,857,483	-	-	1,924,862
335 State Shared Revenue:					
335.01 Bank Franchise Tax	47,852	-	-	-	47,852
335.02 Motor Vehicle Commercial Prorate	18,348	-	-	-	18,348
335.03 Liquor Tax Reversion	137,422	-	-	-	137,422
335.04 Motor Vehicle Licenses (5%)	79,418	-	-	-	79,418
335.06 Fire Insurance Premiums Reversion	53,915	-	-	-	53,915
335.08 Local Government Highway and Bridge Fund	293,898	-	-	-	293,898
335.20 Other	66,719	-	-	10,541	77,260
336 State Payments in Lieu of Taxes	5,343	-	-	-	5,343
338 County Shared Revenue:					
338.02 County HBR Tax (25%)	20,440	-	-	-	20,440
338.03 County Wheel Tax	7,419	-	-	-	7,419

340 Charges for Goods and Services:					
341 General Government	50,960	-	-	-	50,960
342 Public Safety	189,643	-	-	-	189,643
343 Highways and Streets	113,391	-	-	-	113,391
344 Sanitation	992,094	-	-	207,342	1,199,435
345 Health	6,190	-	-	-	6,190
346 Culture and Recreation	2,640	-	-	730,757	733,397
348 Cemetery	-	-	-	1,018	1,018
349 Other	149,185	-	-	283,795	432,981
350 Fines and Forfeits:					
351 Court Fines and Costs	27,946	-	-	-	27,946
354 Library	-	-	-	15,812	15,812
359 Other	849	-	-	-	849
360 Miscellaneous Revenue:					
361 Investment Earnings	145,057	154,373	234,935	126,712	661,078
362 Rentals	163,742	-	-	1,080	164,822
363 Special Assessments	-	4,604	-	-	4,604
367 Contributions and Donations from Private Sources	39,966	-	-	250,437	290,403
369 Other	64,081	-	-	14,946	79,027
Total Revenues	<u>15,531,015</u>	<u>10,729,231</u>	<u>234,935</u>	<u>3,221,638</u>	<u>29,716,819</u>
<b>Expenditures</b>					
410 General Government:					
412 Executive	224,105	-	-	-	224,105
414 Financial Administration	1,296,705	-	-	-	1,296,705
419 Other	1,077,046	-	-	-	1,077,046
Total General Government	<u>2,597,855</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,597,855</u>

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

	<b>General Fund</b>	<b>Special Sales Tax Fund</b>	<b>Park &amp; Rec Aquatic Center Project</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
420 Public Safety:					
421 Police	2,805,628	5,978	-	-	2,811,606
422 Fire	1,798,788	-	-	-	1,798,788
423 Protective Inspection	138,723	-	-	-	138,723
429 Other Protection	-	93,914	-	-	93,914
Total Public Safety	<u>4,743,139</u>	<u>99,892</u>	<u>-</u>	<u>-</u>	<u>4,843,032</u>
430 Public Works:					
431 Highways and Streets	1,373,116	1,606,054	-	272,357	3,251,527
432 Sanitation	964,328	85	-	-	964,412
433 Water	-	209,613	-	-	209,613
435 Airport	-	13,759	-	801,667	815,426
436 Parking Facilities	-	-	-	6,811	6,811
437 Cemeteries	-	-	-	3,810	3,810
439 Transit	436,211	-	-	-	436,211
Total Public Works	<u>2,773,655</u>	<u>1,829,511</u>	<u>-</u>	<u>1,084,645</u>	<u>5,687,810</u>
440 Health and Welfare:					
445 Drug Education	56,370	-	-	-	56,370
449 Other	5,000	-	-	-	5,000
Total Health and Welfare	<u>61,370</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,370</u>
450 Culture and Recreation:					
451 Recreation	26,347	-	131	3,175,363	3,201,842
452 Parks	-	32,946	-	1,430,314	1,463,260
455 Libraries	813,935	177,572	-	28,260	1,019,766
457 Historical Preservation	-	-	-	11,967	11,967
Total Culture and Recreation	<u>840,282</u>	<u>210,517</u>	<u>131</u>	<u>4,645,903</u>	<u>5,696,834</u>

460 Conservation and Development:					
465 Economic Development and Assistance (Industrial Development)	1,169,904	825,000	-	1,527,923	3,522,828
Total Conservation and Development	<u>1,169,904</u>	<u>825,000</u>	<u>-</u>	<u>1,527,923</u>	<u>3,522,828</u>
470 Debt Service	<u>28,267</u>	<u>173,739</u>	<u>-</u>	<u>1,121,963</u>	<u>1,323,969</u>
480 Intergovernmental Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,582</u>	<u>67,582</u>
485 Capital Outlay	<u>580,577</u>	<u>6,257,923</u>	<u>5,481,343</u>	<u>193,032</u>	<u>12,512,875</u>
Total Expenditures	<u>12,795,050</u>	<u>9,396,583</u>	<u>5,481,474</u>	<u>8,641,048</u>	<u>36,314,154</u>
Excess of Revenues Over (Under) Expenditures	<u>2,735,965</u>	<u>1,332,648</u>	<u>(5,246,539)</u>	<u>(5,419,410)</u>	<u>(6,597,336)</u>
<b>Other Financing Sources (Uses):</b>					
391.01 Transfers In	279,420	-	-	4,353,730	4,633,150
511 Transfers Out	(3,599,050)	(800,000)	-	(9,680)	(4,408,730)
391.02 Proceeds of General Long-Term Debt Issued	93,860	-	-	494,700	588,560
391.03 Sale of Municipal Property	19,700	-	-	-	19,700
391.04 Compensation for Loss or Damage to Capital Assets	8,893	-	-	-	8,893
Total Other Financing Sources (Uses)	<u>(3,197,177)</u>	<u>(800,000)</u>	<u>-</u>	<u>4,838,750</u>	<u>841,573</u>
Net Change in Fund Balances	(461,212)	532,648	(5,246,539)	(580,660)	(5,755,763)
Fund Balance - Beginning	2,956,876	3,586,404	6,927,982	3,748,368	17,219,630
Prior period adjustment	<u>289,712</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>289,712</u>
FUND BALANCE- ENDING	<u>\$ 2,785,376</u>	<u>\$ 4,119,051</u>	<u>\$ 1,681,443</u>	<u>\$ 3,167,708</u>	<u>\$ 11,753,578</u>

**CITY OF ABERDEEN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES**  
**YEAR ENDED DECEMBER 31, 2006**

---

Net Change in Fund Balances - Total Governmental Funds	\$ (5,755,763)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays/contributions exceeded depreciation in the current period.	9,668,366
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.	(51,036)
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.	637,872
Governmental funds do not reflect the change in accrued leave, but the statement of activities reflects the change in accrued leave through expenditures.	(42,107)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	88,682
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.	6,840
Government funds report the proceeds from debt issuance as an other source of revenue, but the debt issuance increases long-term debt in the statement of net assets.	(603,860)
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.	<u>90,919</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 4,039,912</u></u>

**CITY OF ABERDEEN**  
**STATEMENT OF NET ASSETS – PROPRIETARY FUNDS**  
**DECEMBER 31, 2006**

**EXHIBIT V**

	Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
<b>ASSETS</b>					
Current Assets:					
Cash and Cash Equivalents	\$ 2,414,727	\$ 93,090	\$ 325,973	\$ 2,833,790	\$ 330,258
151 Investments	2,953,553	1,147,362	-	4,100,915	594,000
115 Accounts Receivable, Net	75,065	47,716	68,409	191,190	-
117 Unbilled Accounts Receivable	460,145	401,738	-	861,883	-
121 Special Assessments Receivable - Current	11,823	-	-	11,823	-
122 Special Assessments Receivable - Delinquent	2,191	-	-	2,191	-
132 Due From Federal/State/County Governments	8,129	-	-	8,129	-
141 Inventory of Supplies	277,897	25,344	-	303,241	-
Total Current Assets	<u>6,203,530</u>	<u>1,715,249</u>	<u>394,383</u>	<u>8,313,162</u>	<u>924,258</u>
Noncurrent Assets:					
Capital Assets:					
160 Land	311,427	59,469	330,500	701,396	-
162 Buildings	27,775,644	13,969,943	842,395	42,587,982	-
164 Improvements Other Than Buildings	13,265,268	7,936,773	223,778	21,425,819	-
166 Machinery and Equipment	3,881,851	1,416,307	828,248	6,126,406	-
168 Construction Work in Progress	-	9,888,191	-	9,888,191	-
Less: Accumulated Depreciation (Credit)	(13,871,897)	(9,825,066)	(700,395)	(24,397,358)	-
Total Noncurrent Assets	<u>31,362,293</u>	<u>23,445,617</u>	<u>1,524,526</u>	<u>56,332,436</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 37,565,824</u></u>	<u><u>\$ 25,160,866</u></u>	<u><u>\$ 1,918,908</u></u>	<u><u>\$ 64,645,598</u></u>	<u><u>\$ 924,258</u></u>

**LIABILITIES**

## Current Liabilities:

201 Claims Payable	\$ 5,479	\$ -	\$ -	\$ 5,479	\$ -
202 Accounts Payable	47,810	344,673	20,521	413,005	65,766
207 Contracts Payable - Retained Percentage	-	538,142	-	538,142	-
213 Incurred but Not Reported Claims	-	-	-	-	139,402
215 Accrued Interest Payable	123,293	126,884	-	250,177	-
216 Accrued Wages Payable	10,649	7,987	6,099	24,735	-
223 Revenue Collected in Advance	15,304	-	-	15,304	-
224 Deferred Revenue	82,270	53,066	-	135,336	-
226 Bonds Payable Grant					
226.02 Revenue	591,103	-	-	591,103	-
	<u>875,907</u>	<u>1,070,752</u>	<u>26,621</u>	<u>1,973,280</u>	<u>205,168</u>
Total Current Liabilities					
Noncurrent Liabilities:					
231 Bonds Payable					
231.02 Revenue	15,626,663	8,027,674	-	23,654,337	-
233 Accrued Leave Payable	43,109	23,180	17,322	83,611	-
	<u>15,669,772</u>	<u>8,050,854</u>	<u>17,322</u>	<u>23,737,948</u>	<u>-</u>
Total Noncurrent Liabilities					
<b>NET ASSETS</b>					
253.10 Invested in Capital Assets, Net of Related Debt	15,144,528	15,417,943	1,524,526	32,086,996	-
253.90 Unrestricted Net Assets	5,875,616	621,317	350,440	6,847,374	719,090
	<u>21,020,144</u>	<u>16,039,261</u>	<u>1,874,966</u>	<u>38,934,370</u>	<u>719,090</u>
Total Net Assets					
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 37,565,824</u>	<u>\$ 25,160,866</u>	<u>\$ 1,918,908</u>	<u>\$ 64,645,598</u>	<u>\$ 924,258</u>

**CITY OF ABERDEEN**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – PROPRIETARY FUNDS  
YEAR ENDED DECEMBER 31, 2006**

**EXHIBIT VI**

	Enterprise Funds			Totals	Governmental Internal Service Funds
	Water Fund	Sewer Fund	Other Enterprise Funds		
<b>Operating Revenue</b>					
380 Charges for Goods and Services	\$ 3,188,485	\$ 2,113,698	\$ 1,144,489	\$ 6,446,673	\$ 1,274,570
369 Miscellaneous	161,335	20,408	11,187	192,930	3,067
Total Operating Revenue	<u>3,349,821</u>	<u>2,134,106</u>	<u>1,155,675</u>	<u>6,639,602</u>	<u>1,277,637</u>
<b>Operating Expenses</b>					
410 Personal Services	960,843	630,245	649,373	2,240,460	-
420 Other Current Expense	1,416,204	409,167	356,987	2,182,359	1,197,289
426.2 Materials (Cost of Goods Sold)	28,855	463	-	29,317	-
457 Depreciation	918,370	525,311	96,777	1,540,457	-
Total Operating Expenses	<u>3,324,271</u>	<u>1,565,185</u>	<u>1,103,137</u>	<u>5,992,593</u>	<u>1,197,289</u>
Operating Income (Loss)	<u>25,549</u>	<u>568,921</u>	<u>52,538</u>	<u>647,009</u>	<u>80,348</u>
<b>Nonoperating Revenue (Expense)</b>					
330 Operating Grants	264,870	-	-	264,870	-
361 Investment Earnings	185,841	35,871	13,392	235,104	10,571
362 Rental Revenue	55	-	-	55	-
470 Interest Expense and Fiscal Charges	(548,625)	(126,884)	-	(675,509)	-
366 (492) Gain (Loss) on Disposition of Assets	15,120	22,051	-	37,171	-
369.01 Other	33,628	-	-	33,628	-
Total Nonoperating Revenue (Expense)	<u>(49,111)</u>	<u>(68,962)</u>	<u>13,392</u>	<u>(104,681)</u>	<u>10,571</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items	(23,562)	499,959	65,930	542,328	90,919
391.07 Capital Contributions	390,601	249,281	18,400	658,282	-
391.1 Transfers In	-	-	55,000	55,000	-
511 Transfers Out	(146,140)	(69,270)	(64,010)	(279,420)	-
Change in Net Assets	<u>220,899</u>	<u>679,970</u>	<u>75,320</u>	<u>976,190</u>	<u>90,919</u>
Net Assets - Beginning	<u>20,799,245</u>	<u>15,359,291</u>	<u>1,799,645</u>	<u>37,958,181</u>	<u>628,171</u>
NET ASSETS - ENDING	<u>\$ 21,020,144</u>	<u>\$ 16,039,261</u>	<u>\$ 1,874,966</u>	<u>\$ 38,934,370</u>	<u>\$ 719,090</u>

See Notes to Financial Statements.



**CITY OF ABERDEEN**  
**STATEMENT OF CASH FLOWS – PROPRIETARY FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

**EXHIBIT VII**

	Enterprise Funds			Totals	Governmental
	Water Fund	Sewer Fund	Other Enterprise Funds		Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from Customers	\$ 3,198,777	\$ 2,070,167	\$ 1,159,567	\$ 6,428,511	\$ 1,274,570
Payments to Suppliers	(1,491,574)	(399,300)	(354,867)	(2,245,741)	-
Payments to Employees	(951,477)	(632,428)	(647,453)	(2,231,359)	-
Claims Paid	-	-	-	-	(1,187,590)
Other Receipts	161,335	20,408	11,187	192,930	3,067
Net Cash Provided by Operating Activities	917,061	1,058,847	168,434	2,144,341	90,047
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers from Other Funds	-	-	55,000	55,000	-
Transfers to Other Funds	(146,140)	(69,270)	(64,010)	(279,420)	-
Operating Grants	264,870	-	-	264,870	-
Other Noncapital Receipts	33,683	-	-	33,683	-
Net Cash Provided by (Used by) Noncapital Financing Activities	152,413	(69,270)	(9,010)	74,133	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>					
Proceeds from Capital Debt	2,838,873	5,875,472	-	8,714,345	-
Capital Contributions	390,601	249,281	18,400	658,282	-
Purchase of Capital Assets	(1,844,508)	(6,655,006)	(133,779)	(8,633,294)	-
Principal Paid on Capital Debt	(266,492)	-	-	(266,492)	-
Interest Paid on Capital Debt	(819,368)	-	-	(819,368)	-
Other Receipts	(8,129)	-	-	(8,129)	-
Net Cash Provided by (Used by) Capital and Related Financing Activities	290,977	(530,253)	(115,379)	(354,655)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase of Investment Securities	(2,953,553)	(1,147,362)	-	(4,100,915)	(594,000)
Proceeds from Sales and Maturities of Investments	2,319,907	702,481	-	3,022,388	-
Interest Earnings	185,841	35,871	13,392	235,104	10,571

Net Cash Provided by (Used for) Investing Activities	<u>(447,805)</u>	<u>(409,010)</u>	<u>13,392</u>	<u>(843,424)</u>	<u>(583,429)</u>
Net Increase in Cash and Cash Equivalents	912,646	50,313	57,436	1,020,395	(493,381)
Balances - Beginning	<u>1,502,081</u>	<u>42,777</u>	<u>268,537</u>	<u>1,813,395</u>	<u>823,640</u>
Balances- Ending	<u>\$ 2,414,727</u>	<u>\$ 93,091</u>	<u>\$ 325,973</u>	<u>\$ 2,833,790</u>	<u>\$ 330,258</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating Income	\$ 25,549	\$ 568,921	\$ 52,538	\$ 647,009	\$ 80,348
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	918,370	525,311	96,777	1,540,457	-
Change in Assets and Liabilities:					
Receivables	6,391	(56,227)	15,079	(34,758)	-
Inventories	(28,855)	(463)	-	(29,317)	-
Accounts and Other Payables	(17,661)	10,792	2,120	(4,748)	9,700
Accrued Wages Payable	2,050	1,227	(138)	3,138	-
Accrued Leave Payable	7,316	(3,410)	2,058	5,963	-
Revenue Collected In Advance	3,001	-	-	3,001	-
Deferred Revenue	900	12,696	-	13,596	-
Net Cash Provided by Operating Activities	<u>\$ 917,061</u>	<u>\$ 1,058,847</u>	<u>\$ 168,434</u>	<u>\$ 2,144,341</u>	<u>\$ 90,047</u>

**CITY OF ABERDEEN**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2006**

---

**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 it's discretely presented component units. 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 units:

<u>Component Unit</u>	<u>Criteria for Inclusion</u>
Aberdeen Area Convention And Visitors Bureau	Budget submitted and approved by the City, fiscally dependent upon City to reimburse its expenditures
Housing and Redevelopment Commission of the City of Aberdeen, South Dakota	City has legal authority to impose its will on the Commission, tax-increment district-payments in lieu of taxes
Aberdeen Downtown Association	City appoints members to the board, budget approved by City, fiscally dependent on City to reimburse its expenditures

These discretely presented component units are 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 component units are considered to be nonmajor.

## NOTES TO FINANCIAL STATEMENTS

---

The financial statements are available upon request from the various component units or the City.

### Administrative Offices

Housing and Redevelopment Commission  
2324 3<sup>rd</sup> Avenue SE  
Aberdeen, SD 57401

Aberdeen Area Convention and Visitors Bureau  
10 Railroad Ave SW  
Aberdeen, SD 57401

Aberdeen Downtown Association  
224 1/2 South Main Street #200  
Aberdeen, SD 57401

### 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 units. 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 units. 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.

## NOTES TO FINANCIAL STATEMENTS

---

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.

### **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.

## NOTES TO FINANCIAL STATEMENTS

---

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

Special Sales Tax Fund – to account for any revenue received under section 23-35 of the revised ordinance of the City of Aberdeen 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:

Park and Rec Aquatic Center Fund – to account for financial resources to be used for the construction of the Park and Recreation aquatic facility.

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.

## NOTES TO FINANCIAL STATEMENTS

---

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

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers significant revenues reported in the governmental funds to be available if the revenues are collected within 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 \$67,420 at December 31, 2006.

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.

## NOTES TO FINANCIAL STATEMENTS

---

### 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.

#### *Government-wide Financial Statements:*

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

#### *Fund Financial Statements:*

In the fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

### 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 pavements, 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, 2006 balance of governmental activities capital assets includes approximately 35 percent of capital assets that are valued at estimated historical cost. These estimated original costs were primarily established by deflated current replacement costs.



## NOTES TO FINANCIAL STATEMENTS

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.

### 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.

Long-term liabilities for governmental funds are not reported as liabilities in the fund financial statements. The debt proceeds are reported as revenues and payment of principal and interest reported as 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.

## NOTES TO FINANCIAL STATEMENTS

---

### 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.

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. 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 percent 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.

## NOTES TO FINANCIAL STATEMENTS

---

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

The actual bank balances at December 31, 2006 were as follows:

	<u>Bank Balance</u>
<u>Primary Government:</u>	
Insured (FDIC/NCUA)	\$ 820,684
Uninsured, collateral jointly held by state's/ municipality's agent in the name of the state and the pledging financial institution.	<u>19,510,978</u>
Total Deposits	<u><u>\$ 20,331,662</u></u>

The carrying amount of deposits on the December 31, 2006 statement of net assets was \$20,462,687.

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, 2006, the City's deposits in financial institutions were not exposed to any custodial credit risk. As of December 31, 2006, the City's total deposits of \$20,331,662 (carrying value of \$20,462,687) were covered by insurance or collateral in accordance with the City's deposit policy.

Investments – As of December 31, 2006, 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	\$ 259	\$ 260
US Bank – FNMA Discount Note Matures in 2022	AAA	217,000	<u>212,487</u>
Total Investments			<u><u>\$212,747</u></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

---

**Custodial Credit Risk** – The risk the City’s invested funds may not be returned to the City. The City has an adopted investment policy, conforming to all applicable laws of the State of South Dakota. When it is the best interest of the City to invest positive cash flows to provide the best yield and liquidity, the City will do so in a way that the principal invested is protected from loss. As of December 31, 2006 the City’s investments were not exposed to any custodial credit risk.

**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	\$5.46
--------------	--------

### NOTE 4 - DUE FROM OTHER GOVERNMENTS

**GENERAL FUND** - \$107,134 due from federal government for grants; \$9,797 due from federal government for airport security; \$15,900 due from state government for grant; \$161,639 due from state government for 1 percent city sales tax; \$65,859 due from state government for local government highway/bridge funds; and \$19,474 due from county government for taxes.

**PROMOTION FUND** - \$26,772 due from state government for 1 percent city sales tax.

**BUSINESS IMPROVEMENT DISTRICT FUND** - \$72 due from county government for taxes.

**AIRPORT FUND** - \$259,110 due from federal government for grant.

**SPECIAL SALES TAX FUND** - \$136,359 due from federal government for grants; \$43,449 due from state government for grants; and \$161,001 due from state government for 1 percent city sales tax.

**PARKING DISTRICT FUND** - \$56 due from county government for taxes.

**WATER FUND** - \$7,884 due from federal government for grant; and \$245 due from county government for special assessments.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 5 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2006 is as follows:

	Balance 01/01/06	Increases	Decreases	Balance 12/31/06
<u>Governmental activities:</u>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 5,692,727	\$ 135,649	\$ (13,770)	\$ 5,814,606
Construction work in progress	-	10,319,061	-	10,319,061
Totals capital assets, not being depreciated	<u>5,692,727</u>	<u>10,454,710</u>	<u>(13,770)</u>	<u>16,133,667</u>
Capital assets, being depreciated:				
Buildings	16,874,788	56,452	(1,316,843)	15,614,397
Improvements other than buildings	65,404,131	1,272,103	(256,533)	66,419,701
Machinery and equipment	12,107,448	1,156,137	(265,101)	12,998,484
Totals	<u>94,386,367</u>	<u>2,484,692</u>	<u>(1,838,477)</u>	<u>95,032,582</u>
Less accumulated depreciation for:				
Buildings	(7,539,282)	(270,040)	1,312,918	(6,496,404)
Improvements other than buildings	(24,381,174)	(2,005,009)	256,533	(26,129,650)
Machinery and equipment	(6,973,780)	(995,988)	231,760	(7,738,008)
Total accumulated depreciation	<u>(38,894,236)</u>	<u>(3,271,037)</u>	<u>1,801,211</u>	<u>(40,364,062)</u>
Total capital assets, being depreciated, net	<u>55,492,131</u>	<u>(786,345)</u>	<u>(37,266)</u>	<u>54,668,520</u>
Governmental activity capital assets, net	<u>\$ 61,184,858</u>	<u>\$ 9,668,365</u>	<u>\$ (51,036)</u>	<u>\$ 70,802,187</u>

Depreciation expense was charged to functions as follows:

<u>Governmental activities:</u>	
General government	\$ 81,685
Public safety	193,908
Public works	2,496,428
Culture and recreation	499,016
Total depreciation expense - governmental activities	<u>\$ 3,271,037</u>

## NOTES TO FINANCIAL STATEMENTS

	Balance 01/01/06	Increases	Decreases	Balance 12/31/06
<u>Business-type activities:</u>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 701,396	\$ -	\$ -	\$ 701,396
Construction work in progress	21,516,789	5,906,138	(17,534,736)	9,888,191
Totals capital assets, not being depreciated	<u>22,218,185</u>	<u>5,906,138</u>	<u>(17,534,736)</u>	<u>10,589,587</u>
Capital assets, being depreciated:				
Buildings	27,842,295	14,745,687	-	42,587,982
Improvements other than buildings	20,853,580	603,187	(30,948)	21,425,819
Machinery and equipment	2,775,963	3,557,447	(207,004)	6,126,406
Totals	<u>51,471,838</u>	<u>18,906,321</u>	<u>(237,952)</u>	<u>70,140,207</u>
Less accumulated depreciation for:				
Buildings	(11,986,787)	(792,296)	-	(12,779,083)
Improvements other than buildings	(9,512,304)	(386,502)	30,948	(9,867,858)
Machinery and equipment	(1,582,712)	(361,660)	193,955	(1,750,417)
Total accumulated depreciation	<u>(23,081,803)</u>	<u>(1,540,458)</u>	<u>224,903</u>	<u>(24,397,358)</u>
Total capital assets, being depreciated, net	<u>28,390,035</u>	<u>17,365,863</u>	<u>(13,049)</u>	<u>45,742,849</u>
Business-type activity capital assets, net	<u>\$ 50,608,220</u>	<u>\$ 23,272,001</u>	<u>\$ (17,547,785)</u>	<u>\$ 56,332,436</u>

Depreciation expense was charged to functions as follows:

Business-type activities:

Water	\$ 918,370
Sewer	525,311
Campground	14,452
Golf	46,606
Ambulance	<u>35,719</u>

Total depreciation expense - business-type activities \$ 1,540,458

## NOTES TO FINANCIAL STATEMENTS

The City has active construction projects as of December 31, 2006. At year end, the City's commitments with contractors are as follows:

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Park & Recreation - Aquatic Center	\$ 5,481,587	\$ 1,349,018
Public Works - Fairgrounds Road	2,807,142	598,671
Airport - Snow Removal Equipment Building	1,394,347	25,393
Airport - Hangar Taxilane Improvements	635,985	57,274
Wastewater - North Roosevelt Sanitary Sewer	84,182	43,817
Wastewater - Treatment Plant Improvements	9,804,009	1,083,491
Total	<u>\$ 20,207,252</u>	<u>\$ 3,157,664</u>

### NOTE 6 - LONG-TERM LIABILITIES

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

#### Primary Government:

	January 1, 2006	Increases	Decreases	December 31, 2006	Due Within One Year	Interest Paid
Governmental Activities:						
Tax increment revenue bonds #2	\$ 3,125,000	\$ 510,000	\$ (100,000)	\$ 3,535,000	\$ 160,000	\$ 170,203
Tax increment revenue bonds #4	136,829	-	(5,114)	131,715	5,447	8,894
Sales tax revenue bonds, ARCC	2,675,000	-	(130,000)	2,545,000	135,000	127,263
Sales tax revenue bonds, aquatic center	7,505,000	-	(195,000)	7,310,000	255,000	354,594
Compensated absences	339,379	436,189	(394,082)	381,486	-	-
Installment purchase contract, police cars	-	93,860	(24,829)	69,031	30,818	3,438
Installment purchase contract, mower	54,262	-	(27,131)	27,131	27,131	1,357
Contract for deed, central complex	484,901	-	(155,798)	329,103	161,563	17,941
Total Government Activities	<u>14,320,371</u>	<u>1,040,049</u>	<u>(1,031,954)</u>	<u>14,328,466</u>	<u>774,959</u>	<u>683,690</u>
Business-type Activities:						
Water Revenue Bonds	13,133,053	3,351,205	(266,492)	16,217,766	591,103	819,368
Sewer Revenue Bonds	2,152,202	5,875,472	-	8,027,674	-	-
Compensated absences	77,647	103,263	(97,299)	83,611	-	-
Total Business Type Activities	<u>15,362,902</u>	<u>9,329,940</u>	<u>(363,791)</u>	<u>24,329,051</u>	<u>591,103</u>	<u>819,368</u>
Total Primary Government	<u>\$ 29,683,273</u>	<u>\$ 10,369,989</u>	<u>\$ (1,395,745)</u>	<u>\$ 38,657,517</u>	<u>\$ 1,366,062</u>	<u>\$ 1,503,058</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, 2006 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 Y2006, due to lower than anticipated revenue. \$ 3,535,000

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. 131,715

### 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. 2,545,000

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. 7,310,000

### Installment Purchase Contracts:

The City entered into a Purchase Agreement for \$54,262 with MTI Distributing, Inc in 2005 to purchase a mower for the Park and Recreation Department. The total cost of mower was \$86,762. This debt requires annual payments of \$28,488 (this payment includes the interest at 5.00%) from the Park and Recreation Fund beginning in January 2006, final payment due January 2007. 27,131

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. The purchase agreement was for the total value of the police cars. 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. 69,031

### 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. 329,103

### 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. 16,217,766

(continued on next page)



## NOTES TO FINANCIAL STATEMENTS

### 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 3.25% for 20 years with an Initial Amortization Date of October 2007.

The loan is secured by pledged bonds. As of December 31, 2006, this is the amount that was drawn on the loan.

8,027,674

### 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.

The annual requirements to maturity for all debt outstanding as of December 31, 2006, excluding compensated absences are as follows:

Year Ending 12/31	Tax Increment Revenue Bonds		Sales Tax Revenue Bonds		Installment Purchase Contracts		Contract for Deed		Water Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2007	\$ 165,447	\$ 199,965	\$ 390,000	\$ 454,933	\$ 57,948	\$ 4,459	\$ 161,563	\$ 12,177	\$ 591,103
2008	155,801	186,173	405,000	440,007	32,600	1,320	167,540	6,199	612,065	538,958
2009	161,178	177,865	420,000	424,158	5,614	40	-	-	633,770	517,253
2010	166,579	169,279	440,000	407,720	-	-	-	-	656,245	494,778
2011	172,007	160,411	460,000	390,495	-	-	-	-	679,516	471,507
2012-2016	1,022,488	652,477	2,595,000	1,638,737	-	-	-	-	3,776,589	1,978,525
2017-2021	1,318,215	351,148	3,035,000	943,619	-	-	-	-	4,495,425	1,259,690
2022-2026	505,000	26,555	2,110,000	253,800	-	-	-	-	4,773,053	406,550
	<u>\$ 3,666,715</u>	<u>\$ 1,923,873</u>	<u>\$ 9,855,000</u>	<u>\$ 4,953,469</u>	<u>\$ 96,162</u>	<u>\$ 5,819</u>	<u>\$ 329,103</u>	<u>\$ 18,376</u>	<u>\$ 16,217,766</u>	<u>\$ 6,227,181</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.

(continued on next page)

## NOTES TO FINANCIAL STATEMENTS

---

As of December 31, 2006, there were six revenue bond issues of this type outstanding. The balance of the five revenue bonds issued after July 1, 1995, was \$11,586,061. 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

Transfers to/from other funds at December 31, 2006 consist of the following:

From the General Fund to other governmental funds to supplement other funds sources	\$ 3,544,050
From the General Fund to other enterprise funds to supplement other funds sources	55,000
From the Special Sales Tax Fund to other governmental funds to supplement other funds sources	800,000
From the Water Fund to the General Fund to supplement other funds sources	146,140
From the Sewer Fund to the General Fund to supplement other funds sources	69,270
From other enterprise funds to the General Fund to supplement other funds sources	64,010
Other transfers between governmental funds	9,680
	<hr/>
	\$ 4,688,150
	<hr/> <hr/>

### 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	\$ 6,219
Park and Recreation Fund	State Law	(55,502)
Park Recreation Trust Fund	State Law	372,633
Cemetery Improvement Fund	State Law	45,528
Business Improvement District Fund	State Law	1,080
Airport Fund	State Law	383,825
Special Sales Tax Fund	State Law	4,822,832
Parking Fund	State Law	332,487
Storm Water Maintenance Fund	State Law	126,420
Library Fines Fund	State Law	53,872
Aberdeen Landmark Commission	State Law	7,136
		<hr/>
Total Restricted Net Assets for Other Purposes		\$ 6,096,530
		<hr/> <hr/>

### NOTE 10 – DESIGNATION OF FUND BALANCE

At the end of the fiscal year, unreserved fund balance of the General Fund was approximately \$2.496 million, of which \$1,434,770 was designated only to be used to fund 2007 appropriations totaling \$634,770 and for current cash flow needs totaling \$800,000.

## NOTES TO FINANCIAL STATEMENTS

---

### 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, 2006, 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, 2006 through November 30, 2006. The benefit under this program was \$250 for single coverage, \$375 for two-party coverage, and \$500 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 \$40,000 per individual with an aggregate of approximately \$1,500,000.

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 First American Administrators based on actual expenses needed to pay current claims and to purchase stop loss insurance coverage of \$40,000 per individual. A reserve of \$716,541 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 as of December 31, 2006, 2005 and 2004 were \$139,402, \$148,946 and \$102,505, respectively.

Changes in the amount of claims liabilities in 2006, 2005 and 2004 were as follows:

	Balance at January 1	Claims and Changes in Estimates	Claim Payments	Balance at December 31
2004	\$ 91,011	\$ 791,041	\$ 779,547	\$ 102,505
2005	102,505	1,135,313	1,088,872	148,946
2006	148,946	932,435	941,979	139,402

## NOTES TO FINANCIAL STATEMENTS

---

### *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 on 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, 2006 the City has vested balance in the cumulative reserve fund of \$289,712.

### *Worker's Compensation*

The City participates in the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The 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 \$500,000 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.

## NOTES TO FINANCIAL STATEMENTS

---

### *Unemployment Benefits*

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

During the year ended December 31, 2006, claim benefits of \$1,224 were paid with outstanding claims of \$388.

### **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, 2006, 2005 and 2004 were \$604,252, \$576,339 and \$564,357, respectively, equal to the required contributions each year.

### **NOTE 13 – LITIGATION**

As of December 31, 2006, the City was involved in the following litigation:

There is a federal lawsuit brought by a group of current and former firefighters alleging that the City failed to properly pay overtime for firefighters. Essentially, the firefighters are allowed by federal regulations to trade time. The federal regulations specifically state that the time worked by the firefighter who works another firefighter's scheduled shift or time slot is not eligible for overtime computation. The firefighter's argument is that time scheduled but not worked by the scheduled employee should be eligible for overtime computation. The case was decided by the Federal District Court for South Dakota ruling in favor of the City of Aberdeen. This case was appealed by the firefighters/plaintiffs to the Eighth Circuit Court of Appeals. The firefighters prevailed at the Eighth Circuit. The City has appealed to the United States Supreme Court, which has not yet ruled on whether it will grant certiorari. The maximum damages possible are expected to be less than \$40,000.

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 that 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: - \$420,000 annual payment in 2007 and \$250,000 annually for 2007 thru 2016; for a total of \$2,920,000.
- b. Clark Swisher Athletic Complex: \$155,200 annually for 2007 thru 2014; for a total of \$1,241,600.

### NOTE 15 – SUBSEQUENT EVENTS

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. The full financial impact on the City of Aberdeen can only be estimated at this time due to unseen conditions that may not be fully realized for months to come. Current estimates of flood related damage and expenses range from \$400,000 to \$1,000,000 with approximately \$100,000 covered by flood insurance on buildings and approximately \$100,000 to \$300,000 eligible for reimbursement by FEMA. Adequate undesignated fund balances have allowed the City to absorb non-reimbursable costs to date and are believed to be adequate to absorb future non-reimbursable costs.

### NOTE 16 – PRIOR PERIOD ADJUSTMENT

Prior to 2006, the vested balance of the City's capitalization contribution to the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool, was not recorded in the government-wide Statement of Net Assets and the Balance Sheet – Governmental Funds. In 2006, a prior period adjustment of \$289,712 was made to record the City's vested balance in the government-wide Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.

# # # # #

**REQUIRED SUPPLEMENTARY INFORMATION**

# **CITY OF ABERDEEN**

**CITY OF ABERDEEN**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues:</b>				
310 Taxes:				
311 General Property Taxes	\$ 4,906,000	\$ 4,906,000	\$ 4,888,353	\$ (17,647)
313 General Sales and Use Taxes	5,825,000	5,825,000	6,276,784	451,784
318 Tax Deed Revenue	-	-	142	142
319 Penalties and Interest on Delinquent Taxes	7,500	7,500	11,404	3,904
320 Licenses and Permits	281,000	281,000	335,331	54,331
330 Intergovernmental Revenue:				
331 Federal Grants	455,000	455,000	1,275,106	820,106
334 State Grants	-	-	67,379	67,379
335 State Shared Revenue:				
335.01 Bank Franchise Tax	55,000	55,000	47,852	(7,148)
335.02 Motor Vehicle Commercial Prorate	18,000	18,000	18,348	348
335.03 Liquor Tax Reversion	130,000	130,000	137,422	7,422
335.04 Motor Vehicle Licenses (5%)	70,000	70,000	79,418	9,418
335.06 Fire Insurance Premiums Reversion	45,000	45,000	53,915	8,915
335.08 Local Government Highway and Bridge Fund	280,000	280,000	293,898	13,898
335.20 Other	60,000	60,000	66,719	6,719
336 State Payments in Lieu of Taxes	-	-	5,343	5,343
338 County Shared Revenue:				
338.02 County HBR Tax (25%)	20,400	20,400	20,440	40
338.03 County Wheel Tax	1,000	1,000	7,419	6,419
340 Charges for Goods and Services:				
341 General Government	51,500	51,500	50,960	(540)
342 Public Safety	98,500	98,500	189,643	91,143
343 Highways and Streets	95,000	95,000	113,391	18,391
344 Sanitation	975,200	975,200	992,094	16,894
345 Health	3,500	3,500	6,190	2,690
346 Culture and Recreation	3,000	3,000	2,640	(360)
349 Other	483,000	483,000	149,185	(333,815)
350 Fines and Forfeits:				
351 Court Fines and Costs	35,000	35,000	27,946	(7,054)
359 Other	1,000	1,000	849	(151)
360 Miscellaneous Revenue:				
361 Investment Earnings	85,000	85,000	145,057	60,057
362 Rentals	135,000	135,000	163,742	28,742
367 Contributions and Donations from Private Sources	20,000	20,000	39,966	19,966
369 Other	11,700	11,700	64,081	52,381
Total Revenue	<u>14,151,300</u>	<u>14,151,300</u>	<u>15,531,015</u>	<u>1,379,715</u>
<b>Expenditures:</b>				
410 General Government:				
411.5 Contingency				
Amount Transferred	300,000	300,000	-	300,000
412 Executive	205,580	237,382	224,105	13,277
414 Financial Administration	1,274,975	1,320,975	1,296,705	24,270
419 Other	1,121,375	1,264,525	1,150,496	114,029
Total General Government	<u>2,901,930</u>	<u>3,122,882</u>	<u>2,671,305</u>	<u>451,577</u>

(continued on next page)



**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – page 2**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
420 Public Safety:				
421 Police	2,819,550	3,035,550	2,970,821	64,729
422 Fire	1,789,500	1,935,750	1,881,410	54,340
423 Protective Inspection	148,825	148,825	138,723	10,102
<b>Total Public Safety</b>	<b>4,757,875</b>	<b>5,120,125</b>	<b>4,990,954</b>	<b>129,171</b>
430 Public Works:				
431 Highways and Streets	2,017,550	2,120,550	1,549,271	571,279
432 Sanitation	1,050,450	1,054,450	964,328	90,122
439 Transit	428,115	496,115	442,562	53,553
<b>Total Public Works</b>	<b>3,496,115</b>	<b>3,671,115</b>	<b>2,956,161</b>	<b>714,954</b>
440 Health and Welfare:				
445 Drug Education	58,950	58,950	56,370	2,580
449 Other	5,000	5,000	5,000	-
<b>Total Health and Welfare</b>	<b>63,950</b>	<b>63,950</b>	<b>61,370</b>	<b>2,580</b>
450 Culture and Recreation:				
451 Recreation	27,290	27,290	26,347	943
455 Libraries	930,500	952,000	894,179	57,821
<b>Total Culture and Recreation</b>	<b>957,790</b>	<b>979,290</b>	<b>920,526</b>	<b>58,764</b>
460 Conservation and Development:				
465 Economic Development and Assistance (Industrial Development)	222,000	1,370,750	1,169,904	200,846
<b>Total Conservation and Development</b>	<b>222,000</b>	<b>1,370,750</b>	<b>1,169,904</b>	<b>200,846</b>
<b>Total Expenditures</b>	<b>12,399,660</b>	<b>14,328,112</b>	<b>12,770,221</b>	<b>1,557,891</b>
Excess of Revenue Over (Under) Expenditures	1,751,640	(176,812)	2,760,794	2,937,606
<b>Other Financing Sources (Uses):</b>				
391.01 Transfers In	295,920	295,920	279,420	(16,500)
511 Transfers Out	(2,882,050)	(3,599,050)	(3,599,050)	-
319.02 Proceeds of General Long-Term Debt Issued	-	-	69,031	69,031
391.03 Sale of Municipal Property	10,000	10,000	19,700	9,700
391.04 Compensation for Loss or Damage to Capital Assets	-	-	8,893	8,893
<b>Total Other Financing Sources (Uses)</b>	<b>(2,576,130)</b>	<b>(3,293,130)</b>	<b>(3,222,006)</b>	<b>71,124</b>
<b>Net Change in Fund Balances</b>	<b>(824,490)</b>	<b>(3,469,942)</b>	<b>(461,212)</b>	<b>3,008,730</b>
<b>FUND BALANCE - BEGINNING</b>	<b>2,956,876</b>	<b>2,956,876</b>	<b>2,956,876</b>	<b>-</b>
Prior period adjustment	-	-	289,712	289,712
<b>FUND BALANCE - ENDING</b>	<b>\$ 2,132,386</b>	<b>\$ (513,066)</b>	<b>\$ 2,785,376</b>	<b>\$ 3,298,442</b>

**CITY OF ABERDEEN**  
**BUDGETARY COMPARISON SCHEDULE – SPECIAL REVENUE FUND –**  
**SPECIAL SALES TAX FUND**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
310 Taxes:				
313 General Sales and Use Taxes	\$ 5,825,000	\$ 5,825,000	\$ 6,263,566	\$ 438,566
330 Intergovernmental Revenue:				
331 Federal Grants	2,437,000	2,437,000	2,449,204	12,204
334 State Grants	-	-	1,857,483	1,857,483
360 Miscellaneous Revenue:				
361 Investment Earnings	-	-	154,373	154,373
363 Special Assessments	-	-	4,604	4,604
<b>Total Revenue</b>	<u>8,262,000</u>	<u>8,262,000</u>	<u>10,729,231</u>	<u>2,467,231</u>
<b>Expenditures</b>				
410 General Government:				
419 Other	159,000	159,000	-	159,000
<b>Total General Government</b>	<u>159,000</u>	<u>159,000</u>	<u>-</u>	<u>159,000</u>
420 Public Safety:				
421 Police	250,000	250,000	5,978	244,022
422 Fire	170,000	170,000	-	170,000
429 Other Protection	240,000	240,000	93,914	146,086
<b>Total Public Safety</b>	<u>660,000</u>	<u>660,000</u>	<u>99,892</u>	<u>560,108</u>
430 Public Works:				
431 Highways and Streets	2,625,060	6,164,000	5,094,654	1,069,346
432 Sanitation	200,000	200,000	85	199,915
433 Water	200,000	300,000	209,613	90,387
435 Airport	2,494,500	2,494,500	2,297,550	196,950
<b>Total Public Works</b>	<u>5,519,560</u>	<u>9,158,500</u>	<u>7,601,902</u>	<u>1,556,598</u>
450 Culture and Recreation:				
452 Parks	850,000	1,393,062	518,478	874,584
455 Libraries	100,000	225,000	177,572	47,428
<b>Total Culture and Recreation</b>	<u>950,000</u>	<u>1,618,062</u>	<u>696,049</u>	<u>922,013</u>
460 Conservation and Development				
465 Economic Development and Assistance	998,940	998,940	998,739	201
<b>Total Conservation and Development</b>	<u>998,940</u>	<u>998,940</u>	<u>998,739</u>	<u>201</u>
<b>Total Expenditures</b>	<u>8,287,500</u>	<u>12,594,502</u>	<u>9,396,583</u>	<u>3,197,919</u>
Excess of Revenue Over (Under) Expenditures	<u>(25,500)</u>	<u>(4,332,502)</u>	<u>1,332,648</u>	<u>5,665,150</u>

(continued on next page)

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

---

<b>Other Financing Sources (Uses):</b>				
511 Transfer Out	<u>-</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(800,000)</u>	<u>(800,000)</u>	<u>-</u>
Net Change in Fund Balances	(25,500)	(5,132,502)	532,648	5,665,150
FUND BALANCE - BEGINNING	<u>3,586,404</u>	<u>3,586,404</u>	<u>3,586,404</u>	<u>-</u>
FUND BALANCE - ENDING	<u><u>\$ 3,560,904</u></u>	<u><u>\$(1,546,098)</u></u>	<u><u>\$4,119,051</u></u>	<u><u>\$ 5,665,150</u></u>

**CITY OF ABERDEEN**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2006**

---

**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 Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Commission, 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 Commission 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 Commission.

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, 2005 or December 31, 2006.

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, 2006**

	<u>Promotion</u>	<u>Park and Recreation</u>	<u>Park and Recreation Trust</u>	<u>Cemetery Improvement</u>	<u>Business Improvement District</u>	<u>Airport</u>	<u>Parking District</u>	<u>Storm Water Maintenance</u>
<b>ASSETS:</b>								
Cash and Cash Equivalents	\$ 44,973	\$ 93,200	\$ 215,109	\$ 45,528	\$ -	\$ 5,694	\$ 331,914	\$ -
151 Investments	-	-	188,348	-	-	374,772	-	143,081
110 Taxes Receivable - Delinquent	-	-	-	-	1,008	8,603	517	-
115 Accounts Receivable, Net	-	-	-	-	-	41,180	-	2,735
121 Special Assessments Receivable - Current	-	1,683	-	-	-	-	-	-
132 Due from Federal/State/County Government	26,772	-	-	-	72	259,110	56	-
141 Inventory of Supplies	-	-	-	-	-	-	-	16,388
107.1 Restricted Cash and Cash Equivalents	-	26,621	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 71,745</b>	<b>\$ 121,504</b>	<b>\$ 403,457</b>	<b>\$ 45,528</b>	<b>\$ 1,080</b>	<b>\$ 689,360</b>	<b>\$ 332,487</b>	<b>\$ 162,203</b>
<b>LIABILITIES AND FUND BALANCES:</b>								
Liabilities:								
202 Accounts Payable	\$ 65,526	\$ 131,957	\$ 30,068	\$ -	\$ -	\$ 301,512	\$ -	\$ 3,365
216 Accrued Wages Payable	-	18,427	756	-	-	4,023	-	2,158
224 Deferred Revenue	-	-	-	-	-	-	-	13,872
<b>Total Liabilities</b>	<b>65,526</b>	<b>150,384</b>	<b>30,824</b>	<b>-</b>	<b>-</b>	<b>305,535</b>	<b>-</b>	<b>19,396</b>
Fund Balances:								
261 Reserved For:								
261.02 Inventory	-	-	-	-	-	-	-	16,388
261.15 Permanently Reserved for Cemetery	-	-	-	-	-	-	-	-
262 Unreserved Fund Balances:								
262.01 Designated for Next Year's Appropriation:								
Special Revenue Funds	-	-	-	5,500	-	250,000	-	8,300
Capital Projects Funds	-	-	-	-	-	-	-	-
262.03 Designated for Capital Outlay								
Accumulations:								
Special Revenue Funds	-	26,621	-	-	-	-	-	-
262.09 Undesignated, Reported in:								
Special Revenue Funds	6,219	(55,502)	372,633	40,028	1,080	133,824	332,487	118,120
Debt Service Funds	-	-	-	-	-	-	-	-
Capital Projects Funds	-	-	-	-	-	-	-	-
Permanent Funds	-	-	-	-	-	-	-	-
<b>Total Fund Balances</b>	<b>6,219</b>	<b>(28,880)</b>	<b>372,633</b>	<b>45,528</b>	<b>1,080</b>	<b>383,824</b>	<b>332,487</b>	<b>142,808</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 71,745</b>	<b>\$ 121,504</b>	<b>\$ 403,457</b>	<b>\$ 45,528</b>	<b>\$ 1,080</b>	<b>\$ 689,360</b>	<b>\$ 332,487</b>	<b>\$ 162,203</b>

Library Fines	Aberdeen Landmark Commission	Tax Increment Financing District No. 2 Bonds	Tax Increment Financing District No. 4 Bonds	Park & Rec ARCC Bonds	Park & Rec Aquatic Center Bonds	Cemetery Perpetual Care	Tax Increment Financing District No. 2 Project	Park & Rec ARCC Project	Tax Increment Financing District No. 5 Project	Total Nonmajor Governmental Funds
\$ 53,871	\$ 7,136	\$ 243,760	\$ 10,333	\$ 269,097	\$ 1,413 634,198	\$ 166,575	\$ 9,000	\$ 16,613 285,144	\$ 25,387 200,702	\$ 1,539,603 1,826,245 10,127 43,916 1,683 286,011 16,388 26,621
<u>\$ 53,871</u>	<u>\$ 7,136</u>	<u>\$ 243,760</u>	<u>\$ 10,333</u>	<u>\$ 269,097</u>	<u>\$ 635,611</u>	<u>\$ 166,575</u>	<u>\$ 9,000</u>	<u>\$ 301,756</u>	<u>\$ 226,089</u>	<u>\$ 3,976,682</u>
\$ -	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,215	\$ -	\$ 543,648 25,365 13,872
-	-	-	-	-	-	-	-	-	-	-
-	-	5	-	-	-	-	-	11,215	-	582,885
-	-	-	-	-	-	-	-	-	-	16,388 50,000
-	-	-	-	-	-	50,000	-	-	-	263,800 516,630
-	-	-	-	-	-	-	-	290,541	226,089	26,621
53,871	7,136	-	-	-	-	-	-	-	-	1,009,898 1,158,796 9,000 116,575
-	-	243,755	10,333	269,097	635,611	-	9,000	-	-	-
-	-	-	-	-	-	116,575	-	-	-	-
<u>53,871</u>	<u>7,136</u>	<u>243,755</u>	<u>10,333</u>	<u>269,097</u>	<u>635,611</u>	<u>166,575</u>	<u>9,000</u>	<u>290,541</u>	<u>226,089</u>	<u>3,167,708</u>
<u>\$ 53,871</u>	<u>\$ 7,136</u>	<u>\$ 243,760</u>	<u>\$ 10,333</u>	<u>\$ 269,097</u>	<u>\$ 635,611</u>	<u>\$ 166,575</u>	<u>\$ 9,000</u>	<u>\$ 301,756</u>	<u>\$ 226,089</u>	<u>\$ 3,750,593</u>

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

	Promotion	Park and Recreation	Park and Recreation Trust	Cemetery Improvement	Business Improvement District	Airport	Parking District	Storm Water Maintenance
<b>Revenues:</b>								
310 Taxes:								
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ 75,177	\$ -	\$ 70,314	\$ -
312 Airflight Property Tax	-	-	-	-	-	21,641	-	-
313 General Sales and Use Taxes	691,778	67,582	-	-	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-	-	328	-	242	-
330 Intergovernmental Revenue:								
331 Federal Grants	-	86,680	-	-	-	280,854	-	-
335 State Shared Revenue	-	-	-	-	-	-	-	-
335.20 Other	-	-	-	-	-	10,541	-	-
340 Charges for Goods and Services:								
344 Sanitation	-	-	-	-	-	-	-	207,342
346 Culture and Recreation	-	266,572	464,184	-	-	-	-	-
348 Cemetery	-	-	-	1,018	-	-	-	-
349 Other	-	-	-	-	-	283,795	-	-
350 Fines and Forfeits:								
354 Library	-	-	-	-	-	-	-	-
360 Miscellaneous Revenue:								
361 Investment Earnings	1,438	893	15,389	1,435	-	7,728	10,045	926
362 Rentals	-	-	-	-	-	-	1,080	-
367 Contributions and Donations from Private Sources	-	-	248,815	-	-	-	-	-
369 Other	-	-	-	-	-	8,049	-	6,897
<b>Total Revenue</b>	<b>693,216</b>	<b>421,727</b>	<b>728,389</b>	<b>2,453</b>	<b>75,504</b>	<b>612,609</b>	<b>81,681</b>	<b>215,165</b>
<b>Expenditures:</b>								
430 Public Works:								
431 Highway and Streets	-	-	-	-	-	-	-	272,357
435 Airport	-	-	-	-	-	801,667	-	-
436 Parking Facilities	-	-	-	-	-	-	6,811	-
437 Cemeteries	-	-	-	3,810	-	-	-	-
<b>Total Public Works</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,810</b>	<b>-</b>	<b>801,667</b>	<b>6,811</b>	<b>272,357</b>
450 Culture and Recreation:								
451 Recreation	-	1,659,124	325,964	-	-	-	-	-
452 Parks	-	1,137,677	292,637	-	-	-	-	-
455 Libraries	-	-	-	-	-	-	-	-
457 Historical Preservation	-	-	-	-	-	-	-	-
<b>Total Culture and Recreation</b>	<b>-</b>	<b>2,796,802</b>	<b>618,600</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
460 Conservation and Development:								
465 Economic Development and Assistance (Industrial Development)	780,206	-	-	-	78,128	-	-	-
<b>Total Conservation and Development</b>	<b>780,206</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>78,128</b>	<b>-</b>	<b>-</b>	<b>-</b>
470 Debt Service	-	28,488	-	-	-	-	-	-
480 Intergovernmental Expenditures	-	67,582	-	-	-	-	-	-
485 Capital Outlay	-	145,789	23,357	-	-	23,841	-	-
<b>Total Expenditures</b>	<b>780,206</b>	<b>3,038,660</b>	<b>641,957</b>	<b>3,810</b>	<b>78,128</b>	<b>825,508</b>	<b>6,811</b>	<b>272,357</b>
Excess of Revenue Over (Under) Expenditures	(86,990)	(2,616,933)	86,431	(1,358)	(2,623)	(212,899)	74,870	(57,192)
<b>Other Financing Sources (Uses):</b>								
391.01 Transfers In	20,000	2,586,490	-	5,680	-	295,560	-	200,000
511 Transfers Out	(4,000)	-	-	-	-	-	-	-
391.02 Proceeds of General Long-Term Debt Issued	-	-	-	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>16,000</b>	<b>2,586,490</b>	<b>-</b>	<b>5,680</b>	<b>-</b>	<b>295,560</b>	<b>-</b>	<b>200,000</b>
<b>Net Change in Fund Balances</b>	<b>(70,990)</b>	<b>(30,443)</b>	<b>86,431</b>	<b>4,322</b>	<b>(2,623)</b>	<b>82,661</b>	<b>74,870</b>	<b>142,808</b>
Fund Balance - Beginning	77,209	1,563	286,202	41,206	3,703	301,164	257,617	-
<b>FUND BALANCE- ENDING</b>	<b>\$ 6,219</b>	<b>\$ (28,880)</b>	<b>\$ 372,633</b>	<b>\$ 45,528</b>	<b>\$ 1,080</b>	<b>\$ 383,824</b>	<b>\$ 332,487</b>	<b>\$ 142,808</b>



Library Fines	Aberdeen Landmark Commission	Tax Increment Financing District No. 2 Bonds	Tax Increment Financing District No. 4 Bonds	Park & Rec ARCC Bonds	Park & Rec Aquatic Center Bonds	Cemetery Perpetual Care	Tax Increment Financing District No. 2 Project	Park & Rec ARCC Project	Tax Increment Financing District No. 5 Project	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 260,376	\$ 17,219	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 423,085
-	-	-	-	-	-	-	-	-	-	21,641
-	-	-	-	-	-	-	-	-	-	759,359
-	-	9	-	-	-	-	-	-	-	579
-	7,000	-	-	-	-	-	-	-	-	374,534
-	-	-	-	-	-	-	-	-	-	10,541
-	-	-	-	-	-	-	-	-	-	207,342
-	-	-	-	-	-	-	-	-	-	730,757
-	-	-	-	-	-	-	-	-	-	1,018
-	-	-	-	-	-	-	-	-	-	283,795
15,812	-	-	-	-	-	-	-	-	-	15,812
668	121	7,835	44	14,070	37,113	5,680	-	22,341	987	126,712
-	-	-	-	-	-	-	-	-	-	1,080
-	-	-	-	-	-	1,621	-	-	-	250,437
-	-	-	-	-	-	-	-	-	-	14,946
<u>16,480</u>	<u>7,121</u>	<u>268,220</u>	<u>17,262</u>	<u>14,070</u>	<u>37,113</u>	<u>7,301</u>	<u>-</u>	<u>22,341</u>	<u>987</u>	<u>3,221,638</u>
-	-	-	-	-	-	-	-	-	-	272,357
-	-	-	-	-	-	-	-	-	-	801,667
-	-	-	-	-	-	-	-	-	-	6,811
-	-	-	-	-	-	-	-	-	-	3,810
-	-	-	-	-	-	-	-	-	-	1,084,645
-	-	-	-	-	-	-	-	1,190,275	-	3,175,363
-	-	-	-	-	-	-	-	-	-	1,430,314
28,260	-	-	-	-	-	-	-	-	-	28,260
-	11,967	-	-	-	-	-	-	-	-	11,967
<u>28,260</u>	<u>11,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,190,275</u>	<u>-</u>	<u>4,645,903</u>
-	-	-	-	-	-	-	452,692	-	216,898	1,527,923
-	-	-	-	-	-	-	452,692	-	216,898	1,527,923
-	-	271,011	14,008	258,063	550,394	-	-	-	-	1,121,963
-	-	-	-	-	-	-	-	-	-	67,582
45	-	-	-	-	-	-	-	-	-	193,032
28,305	11,967	271,011	14,008	258,063	550,394	-	452,692	1,190,275	216,898	8,641,048
<u>(11,824)</u>	<u>(4,846)</u>	<u>(2,791)</u>	<u>3,254</u>	<u>(243,993)</u>	<u>(513,280)</u>	<u>7,301</u>	<u>(452,692)</u>	<u>(1,167,934)</u>	<u>(215,911)</u>	<u>(5,419,410)</u>
-	4,000	-	-	250,000	550,000	-	-	-	442,000	4,353,730
-	-	-	-	-	-	(5,680)	-	-	-	(9,680)
-	-	33,008	-	-	-	-	461,692	-	-	494,700
-	4,000	33,008	-	250,000	550,000	(5,680)	461,692	-	442,000	4,838,750
(11,824)	(846)	30,217	3,254	6,007	36,720	1,621	9,000	(1,167,934)	226,089	(580,660)
65,695	7,982	213,538	7,079	263,090	598,891	164,954	-	1,458,475	-	3,748,368
<u>\$ 53,871</u>	<u>\$ 7,136</u>	<u>\$ 243,755</u>	<u>\$ 10,333</u>	<u>\$ 269,097</u>	<u>\$ 635,611</u>	<u>\$ 166,575</u>	<u>\$ 9,000</u>	<u>\$ 290,541</u>	<u>\$ 226,089</u>	<u>\$ 3,167,708</u>

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS**  
**DECEMBER 31, 2006**

	<u>Campground Fund</u>	<u>Golf Fund</u>	<u>Ambulance Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 273,159	\$ 44,138	\$ 8,677	\$ 325,973
115 Accounts Receivable, Net	-	-	68,409	68,409
Total Current Assets	<u>273,159</u>	<u>44,138</u>	<u>77,086</u>	<u>394,383</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	15,450	334,182	478,616	828,248
Less: Accumulated Depreciation (Credit)	<u>(95,596)</u>	<u>(384,818)</u>	<u>(219,981)</u>	<u>(700,395)</u>
Total Noncurrent Assets	<u>576,551</u>	<u>689,340</u>	<u>258,635</u>	<u>1,524,526</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 849,710</u></u>	<u><u>\$ 733,478</u></u>	<u><u>\$ 335,721</u></u>	<u><u>\$ 1,918,908</u></u>
<b>LIABILITIES</b>				
Current Liabilities:				
202 Accounts Payable	\$ 2,310	\$ 12,169	\$ 6,043	\$ 20,521
216 Accrued Wages Payable	-	1,044	5,055	6,099
Total Current Liabilities	<u>2,310</u>	<u>13,213</u>	<u>11,098</u>	<u>26,621</u>
Noncurrent Liabilities:				
233 Accrued Leave Payable	-	2,385	14,937	17,322
Total Noncurrent Liabilities	<u>-</u>	<u>2,385</u>	<u>14,937</u>	<u>17,322</u>
<b>NET ASSETS</b>				
253.10 Invested in Capital Assets, Net of Related Debt	576,551	689,340	258,635	1,524,526
253.90 Unrestricted Net Assets	<u>270,849</u>	<u>28,540</u>	<u>51,051</u>	<u>350,440</u>
Total Net Assets	<u>847,400</u>	<u>717,880</u>	<u>309,686</u>	<u>1,874,966</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 849,710</u></u>	<u><u>\$ 733,478</u></u>	<u><u>\$ 335,721</u></u>	<u><u>\$ 1,918,908</u></u>

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN NET ASSETS – NONMAJOR ENTERPRISE FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

	<u>Campground Fund</u>	<u>Golf Fund</u>	<u>Ambulance Funds</u>	<u>Total Nonmajor Enterprise Funds</u>
<b>Operating Revenue</b>				
380 Charges for Goods and Services	\$ 260,998	\$ 285,144	\$ 598,347	\$ 1,144,489
369 Miscellaneous	-	100	11,087	11,187
Total Operating Revenue	<u>260,998</u>	<u>285,244</u>	<u>609,433</u>	<u>1,155,675</u>
<b>Operating Expenses</b>				
410 Personal Services	65,959	163,516	419,897	649,373
420 Other Current Expense	109,338	109,750	137,899	356,987
457 Depreciation	14,452	46,606	35,719	96,777
Total Operating Expenses	<u>189,750</u>	<u>319,872</u>	<u>593,516</u>	<u>1,103,137</u>
Operating Income (Loss)	<u>71,249</u>	<u>(34,628)</u>	<u>15,918</u>	<u>52,538</u>
<b>Nonoperating Revenue (Expense)</b>				
361 Investment Earnings	<u>9,575</u>	<u>1,892</u>	<u>1,925</u>	<u>13,392</u>
Total Nonoperating Revenue (Expense)	<u>9,575</u>	<u>1,892</u>	<u>1,925</u>	<u>13,392</u>
Income (Loss) Before Contributions, Special Items, Extraordinary Items	<u>80,824</u>	<u>(32,736)</u>	<u>17,843</u>	<u>65,930</u>
391.07 Capital Contributions	-	-	18,400	18,400
391.1 Transfers In	-	35,000	20,000	55,000
511 Transfers Out	<u>(28,240)</u>	<u>(14,860)</u>	<u>(20,910)</u>	<u>(64,010)</u>
Change in Net Assets	52,584	(12,596)	35,333	75,320
Net Assets - Beginning	<u>794,816</u>	<u>730,476</u>	<u>274,353</u>	<u>1,799,645</u>
NET ASSETS - ENDING	<u>\$ 847,400</u>	<u>\$ 717,880</u>	<u>\$ 309,686</u>	<u>\$ 1,874,966</u>

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS**  
**YEAR ENDED DECEMBER 31, 2006**

	<b>Campground Fund</b>	<b>Golf Fund</b>	<b>Ambulance Funds</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from Customers	\$ 260,998	\$ 285,144	\$ 613,425	\$ 1,159,567
Payments to Suppliers	(107,899)	(103,698)	(143,270)	(354,867)
Payments to Employees	(65,959)	(163,239)	(418,255)	(647,453)
Other Receipts (Payments)	-	100	11,087	11,187
Net Cash Provided by Operating Activities	<u>87,140</u>	<u>18,307</u>	<u>62,987</u>	<u>168,434</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from Other Funds	-	35,000	20,000	55,000
Transfers to Other Funds	(28,240)	(14,860)	(20,910)	(64,010)
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(28,240)</u>	<u>20,140</u>	<u>(910)</u>	<u>(9,010)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Capital Contributions	-	-	18,400	18,400
Purchase of Capital Assets	(5,450)	(16,615)	(111,714)	(133,779)
Net Cash Used by Capital and Related Financing Activities	<u>(5,450)</u>	<u>(16,615)</u>	<u>(93,314)</u>	<u>(115,379)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest Earnings	<u>9,575</u>	<u>1,892</u>	<u>1,925</u>	<u>13,392</u>
Net Cash Provided by Investing Activities	<u>9,575</u>	<u>1,892</u>	<u>1,925</u>	<u>13,392</u>
Net Increase in Cash and Cash Equivalents	63,025	23,724	(29,313)	57,436
Balances - Beginning	<u>210,134</u>	<u>20,414</u>	<u>37,989</u>	<u>268,537</u>
Balances- Ending	<u>\$ 273,159</u>	<u>\$ 44,138</u>	<u>\$ 8,677</u>	<u>\$ 325,973</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES</b>				
Operating Income (Loss)	\$ 71,249	\$ (34,628)	\$ 15,918	\$ 52,538
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:				
Depreciation Expense	14,452	46,606	35,719	96,777
Change in Assets and Liabilities:				
Receivables	-	-	15,079	15,079
Accounts and Other Payables	1,440	6,051	(5,371)	2,120
Accrued Wages Payable	-	52	(190)	(138)
Accrued Leave Payable	-	225	1,832	2,058
Net Cash Provided by Operating Activities	<u>\$ 87,140</u>	<u>\$ 18,307</u>	<u>\$ 62,987</u>	<u>\$ 168,434</u>

**CITY OF ABERDEEN**  
**COMBINING BALANCE SHEET – DISCRETELY PRESENTED COMPONENT UNITS**  
**DECEMBER 31, 2006**

	Aberdeen Area Convention and Visitors Bureau	Aberdeen Downtown Association	Total
<b>ASSETS</b>			
Current Assets:			
Cash	\$ 11,055	\$ 40,210	\$ 51,265
Accounts receivable	65,000	-	65,000
Prepaid expenses	28,983	-	28,983
Total current assets	<u>105,038</u>	<u>40,210</u>	<u>145,248</u>
<b>PROPERTY AND EQUIPMENT</b>			
Machinery and equipment	84,256	5,291	89,547
	<u>84,256</u>	<u>5,291</u>	<u>89,547</u>
Less accumulated depreciation	<u>(65,836)</u>	<u>(1,625)</u>	<u>(67,461)</u>
Total property and equipment	<u>18,420</u>	<u>3,666</u>	<u>22,086</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 123,458</u></u>	<u><u>\$ 43,875</u></u>	<u><u>\$ 167,333</u></u>
<b>LIABILITIES AND NET ASSETS</b>			
Current Liabilities:			
Accounts payable	\$ 5,878	\$ -	\$ 5,878
Accrued salaries	2,075	-	2,075
Accrued payroll taxes	3,033	1,643	4,676
Total current liabilities	<u>10,986</u>	<u>1,643</u>	<u>12,629</u>
LONG-TERM DEBT, net of current portion	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>10,986</u>	<u>1,643</u>	<u>12,629</u>
Net Assets:			
Unrestricted net assets	112,472	-	112,472
Unreserved retained earnings	<u>-</u>	<u>42,232</u>	<u>42,232</u>
Total net assets	<u>112,472</u>	<u>42,232</u>	<u>154,704</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 123,458</u></u>	<u><u>\$ 43,875</u></u>	<u><u>\$ 167,333</u></u>

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET ASSETS – DISCRETELY PRESENTED COMPONENT UNITS**  
**YEAR ENDED DECEMBER 31, 2006**

	Aberdeen Area Convention and Visitors Bureau	Aberdeen Downtown Association	Total
Operating revenue			
Contributions and donations	\$ 392,296	\$ 158,159	\$ 550,455
Total operating revenue	392,296	158,159	550,455
Operating expenses			
Personnel costs	179,773	-	179,773
Other current expense	171,779	141,868	313,647
Depreciation and amortization	5,707	881	6,588
Total operating expenses	357,259	142,749	500,008
Operating income	35,037	15,410	50,447
Nonoperating revenues (expenses)			
Earnings on deposits and investments	-	-	-
Total nonoperating revenues (expenses)	-	-	-
Net income	35,037	15,410	50,447
Net assets, January 1	77,435	26,822	104,257
NET ASSETS, DECEMBER 31	\$ 112,472	\$ 42,232	\$ 154,704

**CITY OF ABERDEEN**  
**COMBINING STATEMENT OF CASH FLOWS – DISCRETELY PRESENTED COMPONENT UNITS**  
**YEAR ENDED DECEMBER 31, 2006**

	Aberdeen Area Convention and Visitors Bureau	Housing and Redevelopment Commission	Aberdeen Downtown Association	Total
Cash flows from operating activities:				
Operating income (loss)	\$ 35,037	\$ (54,578)	\$ 15,410	\$ (4,131)
Adjustments to reconcile operating income to net cash provided by (used for) operating activities:				
Accounts receivable	16,151	(15,770)	-	381
Prepaid expenses	(6,839)	2,503	-	(4,336)
Payables	(5,003)	102,188	1,644	98,829
Tenant security deposits	(28,000)	(2,004)	-	(30,004)
Deferred revenue	-	(105)	-	(105)
Depreciation and amortization	5,707	324,260	881	330,848
Total adjustments	(17,984)	411,072	2,525	395,613
Net cash provided by operating activities	17,053	356,494	17,935	391,482
Cash flows from investing activities:				
Interest received	-	155,895	-	155,895
Net cash provided by investing activities	-	155,895	-	155,895
Cash flows from capital and related financing activities:				
Income in checks written in excess of amount on deposit	(1,413)	-	-	(1,413)
Purchase of property and equipment	(4,585)	(3,809)	(4,232)	(12,626)
Sale of equipment	-	-	-	-
Mortgage interest paid	-	(123,205)	-	(123,205)
Principal payments on long-term debt	-	(48,339)	-	(48,339)
Net cash used in capital and related financing activities	(5,998)	(175,353)	(4,232)	(185,583)
Net change in cash and cash equivalents during the year	11,055	337,036	13,703	361,794
Cash and cash equivalents at beginning of year	-	3,257,640	26,507	3,284,147
Cash and cash equivalents at end of year	\$ 11,055	\$ 3,594,676	\$ 40,210	\$ 3,645,941

**CITY OF ABERDEEN**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2006**

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
<b>Environmental Protection Agency:</b>			
Direct Federal Funding:			
Congressionally Mandated Projects	66.202	XP988625-01	\$ 192,366
Indirect Federal Funding:			
S.D. Department of Environment and Natural Resources, Capitalization Grants for Clean Water State Revolving Funds	66.458	C461072-01	2,172,874
Nonpoint Source Implementation Grants	66.460	*****	72,504
Capitalization Grants for Drinking Water State Revolving Funds	66.468	C462072-01	830,686
Leaking Underground Storage Tank Trust Fund Program	66.805	*****	142,312
Total Environmental Protection Agency			<u>3,410,741</u>
<b>Department of Interior:</b>			
Indirect Federal Funding:			
S.D. Department of Tourism and State Development, Historic Preservation Fund Grants-In-Aid	15.904	SD-05-18	<u>7,000</u>
<b>Department of Transportation:</b>			
Direct Federal Funding:			
Airport Improvement Program (3-46-0001-25)	20.106	3-46-0001-25-2005	49,115
Airport Improvement Program (3-46-0001-26)	20.106	3-46-0001-26-2006	1,930,233
Payments for Small Community Air Service Development	20.930	*****	268,693
Indirect Federal Funding:			
S.D. Department of Transportation, Highway Planning and Construction (Note 3)	20.205	POENH: (139), PCN H115 and (153), PNC 00C8	591,390
Federal Transit - Capital Investment Grants (Section 5309)	20.500	810738 & 810456	1,125
Formula Grants for Other Than Urbanized Areas (Section 5311 & RTAP)	20.509	810711 & 810620 & 810772	143,421
Total Department of Transportation			<u>2,983,978</u>
<b>Department of Health and Human Services:</b>			
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	810711 & 810620 & 810772	13,774
S.D. Department of Health, Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	0903001-307	36,057
Total Department of Health and Human Services			<u>49,831</u>
<b>Department of Housing and Urban Development:</b>			
Direct Federal Funding:			
Community Development Block Grants / Brownfields Economic Development Initiative (Note 3)	14.246	B-00-SP-SD-0361 and B-02-SP-SD-0671	<u>333,893</u>
<b>General Services Administration:</b>			
Indirect Federal Funding:			
S.D. Federal Property Agency, Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	<u>3,146</u>
<b>National Foundation on the Arts and the Humanities:</b>			
Indirect Federal Funding:			
S.D. Arts Council, Promotion of the Arts - Partnership Agreements	45.025	*****	<u>4,500</u>
<b>Institute of Museum and Library Services:</b>			
Indirect Federal Funding:			
S.D. Department of Education, Grants to States	45.310	*****	<u>500</u>
<b>Department of Agriculture:</b>			
Indirect Federal Funding:			
S.D. Department of Agriculture, Cooperative Forestry Assistance	10.664	2006-UCF-024	<u>3,500</u>
<b>Department of Homeland Security:</b>			
Direct Federal Funding:			
Assistance to Firefighters Grant	97.044	EMW-2005-FG-12456	73,163
Indirect Federal Funding:			
S.D. Department of Public Safety, State Homeland Security Program	97.073	*****	42,033
Total Department of Homeland Security			<u>115,196</u>



**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – page 2**

Department of Justice:

Direct Federal Funding:			
Juvenile Justice and Delinquency Prevention - Special Emphasis (Note 3)	16.541	*****	404,949
Bulletproof Vest Partnership Program	16.607	*****	7,500
Public Safety Partnership and Community Policing Grants	16.710	2002-UM-WX-0241	20,584
Edward Byrne Memorial Justice Assistance Grant Program	16.738	2005-DJ-BX-0998	5,861
Indirect Federal Funding:			
S.D. Department of Commerce and Regulation, Enforcing Underage Drinking Laws Program	16.727	*****	10,011
S.D. Department of Corrections, Juvenile Accountability Incentive Block Grants	16.523	2003-JB-VX-0046	9,229
Total Department of Justice			<u>458,133</u>

**TOTAL EXPENDITURES of FEDERAL AWARDS** **\$ 7,370,419**

\*\*\*\*\* "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
Community Development Block Grants / Brownfields Economic Development Initiative	14.246	\$333,893
Juvenile Justice and Delinquency Prevention - Special Emphasis (YMCA Fitness Center)	16.541	\$362,326
Highway Planning and Construction (Aberdeen Depot Restoration)	20.205	\$251,686

**CITY OF ABERDEEN**  
**SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2006**

---

***FEDERAL AWARD PROGRAM FINDINGS:***

**Finding 2004-3 & 2005-2: 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

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

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

Criteria: Subrecipients are to be informed of identifying federal award information and compliance requirements for grant funds received. It should be communicated to the subrecipient that a single audit may be required and the subrecipient should be monitored for compliance with grant requirements and audit requirements.

Effect: The subrecipient may not comply with grant funding requirements.

Cause: There is no method in place by the City of Aberdeen that monitors subrecipients for compliance with federal grant programs.

Recommendation: We recommended that the City of Aberdeen institute a monitoring program of its subrecipients so that the City has a listing of all the requirements its subrecipients must follow and the steps the City will take to ensure subrecipient compliance with federal grant programs.

Status: As of December 31, 2006, these findings have not been resolved.

***FINANCIAL STATEMENT FINDINGS:***

**Finding 2005-1 Review of Reimbursement Requests**

Condition: Through testing of reimbursement requests under the Capitalization for Drinking Water State Revolving Funds program, it was noted that the City of Aberdeen submitted the same contractor invoice twice in the amount of \$521,517 for reimbursement under a revolving loan program that it is participating in.

Criteria: Each expenditure allowable to be reimbursed under the revolving loan agreement should be submitted in a draw down request only once.

Effect: The City of Aberdeen received more dollars in reimbursements under the program than it was entitled to receive.

## SUMMARY OF SCHEDULE OF PRIOR AUDIT FINDINGS – page 2

---

**Cause:** Management of the City of Aberdeen did not adequately review the supporting documentation for each drawdown request to be able to identify that the same contractor pay request was submitted for reimbursement twice.

**Recommendation:** We recommend that the management of the City of Aberdeen take greater care when reviewing draw down requests to ensure that each expenditure is reimbursed only once by the applicable grant or loan program.

**Status:** As of December 31, 2006, 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, 2006, which collectively comprise the City of Aberdeen's basic financial statements and have issued our report thereon dated September 21, 2007. 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 2006-1 and 2006-2 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 none of the significant deficiencies described above 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 21, 2007.

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

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

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

Aberdeen, South Dakota  
September 21, 2007



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, 2006. 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 2006-3 in the accompanying schedule of findings and questioned costs, the City of Aberdeen did not comply with requirements regarding subrecipient monitoring that are applicable to the Juvenile Justice and Delinquency Prevention – Special Emphasis (16.541), Highway Planning and Construction (20.205), and Community Development Block Grants/Brownfields Economic Development Initiative (14.246) programs. Also, as described in item 2006-4 in the accompanying schedule of findings and questioned costs, the City of Aberdeen did not comply with requirements regarding reporting that are applicable to its Payments for Small Community Air Service Development Program (20.930). Compliance with such requirements is necessary, in our opinion, for the City of Aberdeen to comply with the requirements applicable to these programs.

PEOPLE. PRINCIPLES. POSSIBILITIES.

[www.eidebailly.com](http://www.eidebailly.com)

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

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 each of its major federal programs for the year ended December 31, 2006.

#### Internal Control Over Compliance

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

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 certain deficiencies in internal control over compliance that we consider to be significant deficiencies and material weaknesses.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2006-3 and 2006-4 to be significant deficiencies.

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 the significant deficiencies described above to be material weaknesses.

The City of Aberdeen's response to the findings identified in our audit is described in the accompanying corrective action plan. 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, the South Dakota Department of Legislative Audit, City Council, 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 21, 2007

**CITY OF ABERDEEN**  
**SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS**  
**DECEMBER 31, 2006**

**Part I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?                      yes           X           no
- Significant deficiencies (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 20.205, 20.930, 14.246, and 16.541  
Unqualified on 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>
66.468	Capitalization Grants for Drinking Water State Revolving Funds
20.106	Airport Improvement Program
20.930	Payments for Small Community Air Service Development
20.205	Highway Planning and Construction
14.246	Community Development Block Grants/Brownfields Economic Development Initiative
16.541	Juvenile Justice and Delinquency Prevention - Special Emphasis

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 – Current Findings Relating to the Financial Statements**

***Significant Deficiencies***

***2006-1 Fraud Risk Assessment Program***

- Condition: Through inquiries 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.

***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.
- Criteria: SDCL 9-22-4 requires that the City Council must formally approve all accounts receivable of the City that are to be written off the City’s records.
- Effect: Being out of compliance with SDCL’s could lead to future reductions of funding from the State of South Dakota.
- Cause: The City of Aberdeen did not adequately monitor SDCL requirements as they pertain to the writing off of accounts receivable amounts.
- Recommendation: We recommend that the City follow the requirements of SDCL 9-22-4 and write off uncollectible accounts receivable amounts only after formal approval by the City Council.

**Part III - Findings and Questioned Costs for Federal Award Programs**

*Material Weaknesses*

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, 2006

DEPARTMENT OF TRANSPORTATION

Highway Planning and Construction – CFDA No. 20.205; Grant No. POENH(153), PCN 00C8; Grant Period: Year Ended December 31, 2006

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grants/Brownfields Economic Development Initiative – CFDA No. 14.246; Grant No. B-00-SP-SD-0361 and Grant No. B-02-SP-SD-0671; Grant Period: Year Ended December 31, 2006

***2006-3 Subrecipient Monitoring***

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

Criteria: Subrecipients are to be informed of identifying federal award information and compliance requirements for grant funds received. It should be communicated to the subrecipient that a single audit may be required and the subrecipient should be monitored for compliance with grant requirements and audit requirements.

Effect: The subrecipient may not comply with grant funding requirements.

Cause: There was inadequate monitoring by the City of Aberdeen as to the compliance with grant requirements by its subrecipients of federal dollars.

Recommendation: We recommend that the City of Aberdeen implement an improved method of monitoring of its subrecipients that would include enough information so that the City would be able to recognize when a single audit would apply to any of its subrecipients. It is also our recommendation that when a subrecipient is identified as needing a single audit, the City should make sure to contact the entity to remind them of the requirements of OMB Circular A-133 as well as requiring each subrecipient to provide the City with a copy of the final audit report when the single audit is completed. Upon receiving the final report, it is also the City's responsibility to ensure the subrecipient is taking steps to correct any findings noted identified during the audit.

Questioned Costs: None

DEPARTMENT OF TRANSPORTATION

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

***Finding 2006-4 Reporting***

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.

Criteria: In order to comply with the terms of the grant agreement, all reports and submissions need to be completed and submitted to the DOT by the required due date. To have a good system of internal control, someone besides the preparer of the reports should review them before they are submitted.

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

Cause: The City’s internal control over this program’s reporting requirements lacks a monitoring component.

Recommendation: We recommend that the City monitor its compliance with requirements of this grant agreement more closely and take steps in the future to ensure all required submissions are completed and submitted by the required due date. We also recommend that someone other than the preparer (possibly a board member) review the reports before they are submitted to the DOT.

Questioned Cost: None



## 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

September 21, 2007

Cognizant or Oversight Agency for Audit

The City of Aberdeen respectfully submits the following corrective action plan for the year ended December 31, 2006.

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, 2006 to December 31, 2006

The findings from the 2006 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

##### 2006-1 Fraud Risk Assessment Program

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

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.

Action Taken: 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, 2007

**2006-2 Assignment of Delinquent Accounts Receivable**

Condition: During our audit procedures to test compliance with specified 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.

Recommendation: We recommend that the City follow the requirements of SDCL 9-22-4 and write off uncollectible accounts receivable amounts only after formal approval by the City Council.

Action Taken: The City of Aberdeen has already adopted procedures to follow the requirements of SDCL 9-22-4.

Contact Person: Karl Alberts

Anticipated Completion Date: October 31, 2007

**FINDINGS – FEDERAL AWARD PROGRAM AUDIT**

DEPARTMENT OF JUSTICE

Juvenile Justice and Delinquency Prevention – Special Emphasis —CFDA No. 16.541; Grant No. 2002-MU-FX-0014

DEPARTMENT OF TRANSPORTATION

Highway Planning and Construction – CFDA No. 20.205; Grant No. POENH(153), PCN 00C8

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Community Development Block Grants/Brownfields Economic Development Initiative – CFDA No. 14.246; Grant No. B-00-SP-SD-0361 and Grant No. B-02-SP-SD-0671

**2006 - 1 - Subrecipient Monitoring.**

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

Recommendation: We recommend that the City of Aberdeen implement an improved method of monitoring of its subrecipients that would include enough information so that the City would be able to recognize when a single audit would apply to any of its subrecipients. It is also recommended that when a subrecipient is identified as needing a single audit, the City should make sure to contact the entity to remind them of the requirements of OMB Circular A-133 as well as requiring each subrecipient to provide the City with a copy of the final audit report when the single audit is completed. Upon receiving the final report, it is also the City’s responsibility to ensure the subrecipient is taking steps to correct any findings noted during the audit.

Action Taken: We concur with the recommendation and will implement the recommendation by continuing to list all subrecipient grants, revamping the current checklist to include grant funds received for the subrecipient’s fiscal year, and monitoring subrecipient compliance and follow-up of required corrective action.

Contact Person: Karl Alberts

Anticipated completion date: October 31, 2007

DEPARTMENT OF TRANSPORTATION

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

***Finding 2006-2 Reporting***

Condition: The required progress report for the fourth quarter of 2006 was not completed or submitted to the DOT by the due date of January 15, 2007. It was also noted that no one besides the preparer reviews the report before it is submitted

Recommendation: We recommend that the City monitor its compliance with requirements of this grant agreement more closely and take steps in the future to ensure all required submissions are completed and submitted by the required due date. We also recommend that someone other than the preparer (possibly a board member) review the reports before they are submitted to the DOT.

Action Taken: We concur with the recommendation and will implement the recommendation by creating a “tickler” file to ensure all required submissions are completed and submitted by the required due date. Completed reports will be reviewed by someone other than the preparer prior to submission to DOT.

Contact Person: Dave Osborn

Anticipated completion date: October 31, 2007

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