

*In the opinion of Dorsey & Whitney LLP, Bond Counsel, according to federal laws, regulations, rulings and decisions in effect on the date of issuance of the Bonds, the interest to be paid on the Bonds is not includable in gross income for federal income tax purposes except under certain conditions. Interest paid on Bonds is not an item of tax preference includable for purposes of computing the alternative minimum tax applicable to all taxpayers, including individuals, under the Internal Revenue Code of 1986 (the "Code"), however, the interest paid on the Bonds is includable in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax. For purposes of acquisition by banks and other financial institutions, the City will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. Interest on the Bonds is includable in gross income for South Dakota income tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. See "TAX MATTERS", herein.*

## OFFICIAL STATEMENT

**\$1,695,000**

**CITY OF ABERDEEN, SOUTH DAKOTA  
TAX INCREMENT REVENUE BONDS, SERIES 2013**

**Dated: Date of Issuance**

**Due: December 1, as shown on the inside front cover**

The Tax Increment Revenue Bonds, Series 2013 (the "Bonds") are being issued by the City of Aberdeen, a political subdivision of the State of South Dakota (the "City"), pursuant to South Dakota Codified Laws, Chapter 11-9 (the "Act") and an ordinance of the City adopted January 22, 2013, as amended by an ordinance adopted November 12, 2013 (as so amended, the "Bond Ordinance"), to finance a project within the City's Tax Increment District Number Seventeen (ii) fund a debt service reserve account for the Bonds and (iii) pay of costs of issuance of the Bonds.

The Bonds are issuable in fully registered form and will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of beneficial ownership interests in the Bonds will be made in book-entry form only, in principal amounts of \$5,000 or whole multiples thereof. Beneficial owners of the Bonds will not receive bond certificates evidencing their ownership interests in the Bonds. So long as DTC or its nominee is the registered owner of the Bonds, payments of principal, redemption price and interest will be made directly to DTC. Disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to beneficial owners is the responsibility of the DTC participants.

Interest on the Bonds is payable on each June 1 and December 1, commencing June 1, 2014. Principal of the Bonds will be payable annually on December 1, as shown on the inside front cover of this Official Statement.

The Bonds will be subject to redemption prior to maturity as described herein. See "The Bonds."

THE BONDS ARE LIMITED OBLIGATIONS OF THE CITY, PAYABLE SOLELY FROM THE COLLECTIONS OF TAX INCREMENTS RECEIVED BY THE CITY FROM ITS TAX INCREMENTAL DISTRICT NUMBER SEVENTEEN, WHICH HAVE BEEN IRREVOCABLY PLEDGED TO THE PAYMENT THEREOF, AND FROM CERTAIN OTHER MONEYS HELD BY THE CITY. THE BONDS ARE NOT GENERAL OBLIGATIONS OF THE CITY, THE STATE OF SOUTH DAKOTA OR ANY OTHER POLITICAL SUBDIVISION OF THE STATE.

For discussion of certain significant matters affecting investments in the Bonds, see "Bondholders' Risks" herein.

The Bonds are offered, subject to prior sale, when, as and if accepted by the Underwriter named below and subject to an opinion as to validity and exclusion of interest from gross income by Dorsey & Whitney LLP, in Minneapolis, Minnesota, as Bond Counsel, and certain other conditions. It is expected that delivery of the Bonds in definitive form will be made on or about December 30, 2013, against payment therefor. The Underwriter expects, but is not required, to engage in secondary market trading in the Bonds, subject to applicable securities laws. For information with respect to the Underwriter see "UNDERWRITING", herein.

**DOUGHERTY & COMPANY LLC**

The Date of this Official Statement is December 16, 2013.

## **MATURITY SCHEDULE**

\$100,000 1.50% Term Bonds Due December 1, 2015, Priced to Yield 1.50% CUSIP 00326P AF8\*\*  
\$130,000 2.50% Term Bonds Due December 1, 2017, Priced to Yield 2.50% CUSIP 00326P AH4\*\*  
\$215,000 4.00% Term Bonds Due December 1, 2020, Priced to Yield 4.00% CUSIP 00326P AL5\*\*  
\$245,000 4.75% Term Bonds Due December 1, 2023, Priced to Yield 4.75% CUSIP 00326P AP6\*\*  
\$285,000 5.25% Term Bonds Due December 1, 2026, Priced to Yield 5.25% CUSIP 00326P AS0\*\*  
\$215,000 5.50% Term Bonds Due December 1, 2028, Priced to Yield 5.50% CUSIP 00326P AUS\*\*  
\$505,000 6.00% Term Bonds Due December 1, 2032, Priced to Yield 6.00% CUSIP 00326P AY7\*\*

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\*\* CUSIP ® is a registered trademark of the American Bankers Association. The CUSIP numbers are provided by Standard and Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. These numbers are not intended to create a database and do not serve in any way as a substitute for the CUSIP Service. CUSIP numbers are provided for convenience of reference only. CUSIP numbers are subject to change. Neither the City nor the Underwriter is responsible for the use of CUSIP numbers, nor is a representation made as to their correctness. The CUSIP numbers are included solely for the convenience of the reader of this Official Statement.

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY OR BY THE UNDERWRITER TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS, OTHER THAN AS CONTAINED IN THIS OFFICIAL STATEMENT, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE CITY OR THE UNDERWRITER. THIS OFFICIAL STATEMENT DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY THE BONDS, NOR DOES ANY SALE OF THE BONDS BY ANY PERSON, IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSONS TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE CITY, DTC AND CERTAIN OTHER SOURCES THAT ARE BELIEVED TO BE RELIABLE BUT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION BY, THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION CONTAINED HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE.

IN CONNECTION WITH THIS OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZATION, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

NEITHER THE DELIVERY OF THIS OFFICIAL STATEMENT NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY SINCE THE DATE HEREOF.

THIS OFFICIAL STATEMENT IS NOT TO BE CONSTRUED AS A CONTRACT WITH THE PURCHASERS OF THE BONDS. STATEMENTS CONTAINED IN THIS OFFICIAL STATEMENT THAT ARE NOT HISTORICAL INFORMATION ARE FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE FEDERAL SECURITIES LAWS. THESE FORWARD-LOOKING STATEMENTS INCLUDE THE DISCUSSIONS OF THE CITY'S EXPECTATIONS REGARDING TAX INCREMENT REVENUES AND OTHER MATTERS. IN THIS RESPECT, THE WORDS "ESTIMATE," "PROJECT," "ANTICIPATE," "EXPECT," "INTEND," "BELIEVE," "FORECAST," AND SIMILAR EXPRESSIONS ARE INTENDED TO IDENTIFY FORWARD-LOOKING STATEMENTS. ALTHOUGH THE CITY BELIEVES ITS EXPECTATIONS REGARDING FUTURE EVENTS ARE BASED ON REASONABLE ASSUMPTIONS WITHIN THE SCOPE OF ITS KNOWLEDGE, THE CITY CAN GIVE NO ASSURANCE THAT ITS GOALS WILL BE ACHIEVED OR THAT ITS EXPECTATIONS REGARDING FUTURE DEVELOPMENTS WILL BE REALIZED. THE FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT ARE SUBJECT TO RISKS AND UNCERTAINTIES THAT COULD CAUSE THE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR IMPLIED BY THESE STATEMENTS.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON A SPECIFIC EXEMPTION CONTAINED IN SUCH ACT, NOR HAVE THEY BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY STATE.

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## **OFFICIAL STATEMENT**

**\$1,695,000**

### **CITY OF ABERDEEN, SOUTH DAKOTA TAX INCREMENT REVENUE BONDS, SERIES 2013**

#### **INTRODUCTORY STATEMENT**

The following is a brief introduction as to matters discussed elsewhere in this Official Statement and is qualified in its entirety by such further discussion and the text of the actual documents described or referenced.

#### **General**

This Official Statement provides information regarding the Tax Increment Revenue Bonds, Series 2013 (the "Bonds") to be issued in the aggregate principal amount of \$1,695,000 by the City of Aberdeen, a political subdivision of the State of South Dakota (the "City"). See "THE CITY." The Bonds will be issued pursuant to an authorizing ordinance adopted by the City Council on January 22, 2013, as amended by an ordinance adopted on November 12, 2013 (as so amended, the "Bond Ordinance") for the purpose of (i) paying the costs of the Improvements and the Project, as described under "TAX INCREMENTAL DISTRICT NUMBER SEVENTEEN" herein, in the City's Tax Incremental District Number Seventeen (the "District"), (ii) funding a debt service reserve account for the Bonds and (iii) paying the costs of issuing the Bonds, including original issue discount and underwriter's discount.

The Bonds are special limited obligations of the City payable solely from property taxes paid with respect to the increase in the total taxable value of the District (the "Tax Increments") and, under certain circumstances, from proceeds of the Bonds held by the City under the Bond Ordinance. Neither the full faith and credit nor the general taxing power of the State of South Dakota, any county, municipality, political subdivision or governmental unit or agency thereof or of the City is or shall be pledged to the payment of principal or interest on the Bonds. Under the Bond Ordinance, the City will assign and pledge to the Bond Account, for the benefit of Bondholders, the collections of the Tax Increments of the District in each year for the payment of the principal of, premium, if any, and interest on the Bonds. Tax Increments received by the City in each year of the District shall be first applied towards payment of principal and interest on the Bonds and then towards replenishment of the Reserve Account created for the Bonds to the Debt Service Reserve Requirement.

Brief descriptions of the City, the District, the Project, the Bonds, the Bond Ordinance and certain other documents are included in this Official Statement and the appendices hereto. Such descriptions do not purport to be comprehensive or definitive. All references herein to such documents and any other documents described herein are qualified in their entirety by reference to the forms thereof or to the information with respect thereto included in the aforementioned documents. The Underwriters have made no independent verification of any information provided by the City herein, including financial information, and assume no responsibility for the accuracy or completeness thereof.

#### **THE CITY**

The City of Aberdeen is located in northeastern South Dakota and is the county seat of Brown County. The City is the third largest in South Dakota with a 2010 population of 26,091 and is the home of Northern State University and a retail trade center for the region.

For general information concerning the City, its general finances, sources of revenue, outstanding obligations, taxes and property values, see "APPENDIX A."

## **TAX INCREMENTAL DISTRICT NUMBER SEVENTEEN**

Acting under authority of the Act, the governing body of the City has by resolutions adopted on October 29, 2012, and December 31, 2012 created Tax Incremental District Number Seventeen of the City and approved a project plan therefor. The District encompasses portions of 15 blocks in the downtown area of the City. A portion of the District is being developed by Roosevelt Apartments, LLC (the "Developer"). The Developer is purchasing the existing 36,000 square-foot Roosevelt Junior High School building, located on Kline Street South between 2<sup>nd</sup> and 3<sup>rd</sup> Avenues in the District, and renovating it for use as multi-family housing (the "Roosevelt Project"). The Roosevelt Project is expected to be completed on or before July 31, 2014. The Roosevelt Project is referred to herein as the "Project". Improvements of the Developer in the District are hereinafter referred to as the "Improvements" generally described as follows: site improvements, demolition in some building areas, reconstruction and renovation of the entire structure into 34 multi-family rental housing units.

The value of property in the District at the time of creation of the District on October 29, 2012, as certified by the South Dakota Department of Revenue was \$5,924,232 (the "Tax Incremental Base").

### **TAXABLE VALUE, TAX INCREMENTS AND DEBT SERVICE COVERAGE**

The following table presents estimated increases in the taxable valuation of the District and the Tax Increments resulting therefrom, assuming no further increases in taxable valuation other than that resulting from new construction or development which has been commenced or for which actions have been taken as described in footnote (1) below as of the date of this Official Statement:

Tax Incremental Base (1)	Estimated Taxable Value (2)	2015 Taxes Estimated Increase over Base	Estimated Tax Increments (3)
\$ 5,924,232	\$ 16,440,142	\$ 10,604,910	\$ 268,347

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(1) This column shows the Tax Incremental Base as certified by the South Dakota Department of Revenue.

(2) This column shows estimated 2015 taxable values using 2013 taxable values for the other properties in the District except for the 2014 and 2015 assessed values for the Roosevelt Project and for the increased valuation resulting from two properties referred to as the Avera St. Luke's and St. Luke's Hospital properties which have been adjusted to reflect the estimated assessed value for those two years by the Brown County Director of Equalization. All of the 2014 and 2015 values have had the assessed values adjusted by the 2013 equalization factor of .97 to reflect their taxable values. The Roosevelt Project described in (a) below is assumed to be completed by July 31, 2014.

(a) The Roosevelt Project had a Tax Incremental Base of \$0.00 and has a projected taxable value of \$1,859,000. The property will be renovated to provide 34 units of multifamily housing. As of November 1, 2013, 70% of the project is completed.

(b) The Avera St. Luke's property had a Tax Incremental Base of \$1,964,067 and has a current taxable value of \$7,763,147. The taxable property consists of a clinic and pharmacy.

(c) The St. Luke's Hospital property had a Tax Incremental Base of \$1,194,045 and has a projected taxable value of \$4,294,428. The property consists of a 133 bed hospital and is designated a Level 3 trauma center. The taxable portion is rented to others for nontax exempt purposes.

(3) This column shows the estimated Tax Increments produced by applying the 2013 levy for all Taxing Districts (\$0.025304) to the taxable valuation shown in the preceding column to estimate the Tax Increments for 2015 taxes payable in 2016. Levies and the equalization factors may increase or decrease in future years.

## **Debt Service Coverage**

The following table presents an estimate of debt service coverage for the Bonds, based on the adjusted taxable values shown in the preceding table.

<u>Year Ending</u>	<u>Estimated Tax Increments (1)</u>	<u>Annual Debt Service on the Bonds (2)</u>	<u>Pro Forma Debt Service Coverage (3)</u>
2014	\$ 224,721.00	\$ 120,463.40	1.87x
2015	254,792.00	136,400.00	1.87
2016	268,347.00	145,575.00	1.84
2017	268,347.00	143,950.00	1.86
2018	268,347.00	147,325.00	1.82
2019	268,347.00	144,525.00	1.86
2020	268,347.00	146,725.00	1.83
2021	268,347.00	148,725.00	1.80
2022	268,347.00	144,925.00	1.85
2023	268,347.00	146,125.00	1.84
2024	268,347.00	147,087.50	1.82
2025	268,347.00	147,362.50	1.82
2026	268,347.00	147,375.00	1.82
2027	268,347.00	147,125.00	1.82
2028	268,347.00	146,350.00	1.83
2029	268,347.00	145,300.00	1.85
2030	268,347.00	143,400.00	1.87
2031	268,347.00	146,200.00	1.84
2032	268,347.00	148,400.00	1.81

(1) See footnote 1 in previous table for calculation of estimated Tax Increments.

(2) Based on the debt service schedule shown herein of the Bonds with an average interest rate of 5.40%.

(3) Ratio of projected Tax Increments to annual debt service on the Bonds, as shown in the respective two preceding columns.

## **PLAN OF FINANCING**

The proceeds of the Bonds will be used (i) to reimburse the Developer for \$1,500,000 of costs for the Roosevelt Project, (ii) to fund a debt service reserve fund for the Bonds and (iii) to pay the costs of issuance of the Bonds.

## **ESTIMATED SOURCES AND USES OF FUNDS**

The estimated sources for and application of funds are as follows:

Sources

Par Amount of the Bonds	\$1,695,000
Accrued Interest	0
Total Sources	\$1,695,000

Uses

Deposit to Construction Account	\$1,500,000
Deposit to Reserve Account	148,725
Costs of Issuance (including underwriter's discount)	46,200 <sup>(1)</sup>
Deposit to Bond Account	75
Total Uses	\$1,695,000

- (1) Includes legal, registrar and paying agent, and printing fees, underwriter's discount and other costs of issuance of the Bonds.

## **THE BONDS**

### **Interest Rates, Maturity Dates and Payment**

The Bonds are being issued in the aggregate principal amount of \$1,695,000 and will mature subject to redemption, as described below. All Bonds will bear interest at the rates set forth on the inside cover hereof, payable semiannually on June 1 and December 1 (each an "Interest Payment Date") of each year commencing June 1, 2014. Interest will be calculated on the basis of a 360 day year with twelve months of thirty days. The First National Bank in Sioux Falls, in Sioux Falls, South Dakota (the "Bond Registrar") will act as registrar for the Bonds.

The Bonds will be issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof. Principal, redemption price and interest will be payable to the beneficial owners of the Bonds through the facilities of DTC for so long as the book-entry system is in effect. See APPENDIX D – "BOOK ENTRY SYSTEM". In the event that the book-entry system is discontinued for the Bonds: (i) the principal and redemption price of the Bonds will be payable at the principal corporate office of the Bond Registrar; and (ii) interest shall be payable by check or draft mailed on the Interest Payment Date to the persons who were registered owners thereof as of the fifteenth day of the month preceding the month in which the Interest Payment Date occurs. If any payment of interest or principal is due on a day that is not a business day, payment is required to be made on the next succeeding business day with the same effect as if paid when otherwise due.

### **Optional Redemption**

The Bonds shall be subject to redemption and prepayment at the option of the City on December 1, 2018, or on any date thereafter, at par, plus accrued interest to the date of redemption. Such Bonds are redeemable in whole or in part, in any order of maturity as requested by the City and by lot within each maturity.

## **Mandatory Redemption**

The Bonds are term bonds and are subject to mandatory redemption, and will be redeemed pursuant to a mandatory sinking fund at a redemption price equal to their principal amount plus accrued interest, on December 1 of each of the years and amounts set forth below:

### Term Bonds Maturing in 2015

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2014	\$45,000
2015 (Maturity)	55,000

### Term Bonds Maturing in 2017

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2016	\$65,000
2017 (Maturity)	65,000

### Term Bonds Maturing in 2020

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2018	\$70,000
2019	70,000
2020 (Maturity)	75,000

### Term Bonds Maturing in 2023

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2021	\$80,000
2022	80,000
2023 (Maturity)	85,000

### Term Bonds Maturing in 2026

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2024	\$90,000
2025	95,000
2026 (Maturity)	100,000

### Term Bonds Maturing in 2028

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2027	\$105,000
2028 (Maturity)	110,000

### Term Bonds Maturing in 2032

Sinking Fund <u>Payment Date</u>	Principal <u>Amount</u>
2029	\$115,000
2030	120,000
2031	130,000
2032 (Maturity)	140,000

## **Notice of Redemption**

Notice of redemption shall be given by first class mail not less than 30 days prior to the redemption date, (or, if applicable, by the bond depository in accordance with its customary procedures) to the Owner of each Bond to be redeemed, at the Owner's address as it appears on the bond registration books of the City kept by the Bond Registrar. No defect in or failure to give notice shall affect the validity of proceedings for the redemption of any Bond not affected by such defect or failure. Each notice of redemption shall state the redemption date, the place of redemption and the distinctive numbers, CUSIP numbers and interest rates of the Bonds to be redeemed. Official notice of redemption having been given as aforesaid, the Bonds or portions of the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Bonds or portions of Bonds shall cease to bear interest. Upon partial redemption of any Bond, a new Bond or Bonds will be delivered to the registered owner without charge, representing the remaining principal amount outstanding.

## **Exchange and Transfer**

If the book-entry only system hereinafter described is not in effect, the Bonds shall be transferable and exchangeable for other denominations only upon the books of the Registrar and only upon presentation and surrender of such Bond, together with an executed assignment or other acceptable transfer instrument, subject to the payment of any cost, tax or charge that may be imposed in connection therewith. Bonds called for redemption are not required to be transferred or exchanged.

## **Replacement**

If any Bond is mutilated, lost, stolen or destroyed, the City shall execute and the Registrar shall authenticate and deliver, a new Bond of like date and denomination. In the case of a lost, stolen or destroyed Bond, the City and the Registrar may require satisfactory indemnification. In the case of a mutilated Bond, such mutilated Bond shall first be surrendered to the Registrar. For every such exchange of Bonds, the Registrar may charge the owner of such Bond the Registrar's reasonable fees and expenses with respect to the exchange.

## **Additional Bonds**

The City has provided in the Bond Ordinance as follows: The City shall not issue any obligation or security payable or secured, in whole or in part, from or by the Tax Increments until all of the Bonds have been paid or discharged as provided herein.

## **SECURITY FOR THE BONDS**

The Bonds are special limited obligations of the City and payments of principal, premium, if any, and interest related to the Bonds are secured solely by a pledge of the collections of the Tax Increments and certain other amounts held by the City under the Bond Ordinance. See "TAX INCREMENTAL DISTRICT NUMBER SEVENTEEN" and "THE ACT — Calculation of Tax Increments." The governing body of the City is not obligated to appropriate funds other than Tax Increments to cure a deficiency. The Bonds are not general obligations of the City and the City's full faith and credit and taxing powers are not pledged to the payment thereof. The City is not obligated to levy any ad valorem taxes nor to expend any moneys of the City to pay the Bonds, except the revenues specifically pledged under the Bond Ordinance.

## **Reserve Account**

Pursuant to the Bond Ordinance, the City will establish and is required to maintain a Reserve Account in an amount equal to the Debt Service Reserve Requirement calculated with respect to the Bonds. Deficiencies in the Reserve Account are to be made up within 12 months from Tax Increments to the extent available. See "THE BOND ORDINANCE – Tax Increment Fund – Reserve Account" herein.

## **BONDHOLDERS' RISKS**

Following is a summary of certain investment considerations that each purchaser of the Bonds should consider. Each purchaser should also carefully review all other sections of this Official Statement.

## **Limited Obligation**

The principal of and interest on the Bonds are payable solely from and secured by the Tax Increments. If such sources are insufficient to pay the principal of and interest on the Bonds, the City is not required to use its other revenues or funds to pay the Bonds.

## **Tax Increments Generally**

The method by which the Tax Increments from the District is determined and collected is discussed under "THE ACT — Calculation of Tax Increments" and "SOUTH DAKOTA PROPERTY TAX SYSTEM." The amount of Tax Increments actually available for payment of principal of or interest on the Bonds is dependent upon a number of factors.

In general, the Tax Increments arise from application of the combined levy for all local property taxing jurisdictions in which the District is located to the taxable value of the property in the District. A reduction in taxable values below estimated levels could result in the amount of the Tax Increments being less than estimated. In addition to other reasons, the total levy could be reduced due to a change in use of portions of the TIF properties from a taxable to a tax exempt use or the levy could be reduced from the historic and estimated levels due to changes in the tax levy by the City or other relevant taxing jurisdictions. Such reduction by the City or relevant taxing jurisdictions could arise from reduced revenue needs of the taxing jurisdictions, which in turn could arise from, among other things, (1) changes in the manner or amount in which various funds and revenues are available to such jurisdictions pursuant to state or federal laws or from other sources, (2) reduction in the level of services, activities or indebtedness which a taxing jurisdiction maintains or incurs, (3) changes in the financial condition of such jurisdictions, and (4) reductions in applicable legal tax levy limits for a taxing authority. Additionally, the levy could be reduced due to an increase in the overall taxable value within a taxing jurisdiction.

### **Failure to Pay Real Estate Taxes**

The amount of tax increments available for payment of principal of and interest on the Bonds may also be reduced due to the failure of the owner of any taxable property in the District to pay property taxes when due. Statutorily prescribed methods for collection of real estate taxes in arrears involve significant delay and cannot be relied upon to provide timely revenues for payment of the Bonds. Real estate tax collections in the City for the last five years have been as follows:

Year	Total Fiscal Levy	Current Tax Collections	Total Tax Collected	Current as Percentage of Total Levy Collections	Delinquent Tax Levy
2012	\$7,215,000	In Process	In Process	In Process	In Process
2011	6,700,957	6,625,683	6,625,663	98.88%	75,274
2010	6,395,124	6,306,148	6,306,148	98.61%	88,976
2009	6,185,022	6,138,243	6,138,243	99.24%	46,779
2008	5,812,314	5,770,295	5,770,295	99.27%	42,019
2007	5,411,006	5,393,220	5,393,220	99.67%	17,786

Source: City of Aberdeen, South Dakota

### **Reliance on Tax Payments from Developments under Construction**

A portion of the Tax Increments are expected to be paid by the Project described under "TAX INCREMENTAL DISTRICT NUMBER SEVENTEEN" herein. The success of such development and its ability to pay its portion of the Tax Increments will depend, in part, upon the completion of construction and the beginning of operations according to schedule, the ability of the management to operate the development, competition from other facilities in the Aberdeen area and overall economic conditions.

### **Absence of Rating**

No rating as to the creditworthiness of the Bonds has been requested from any organization engaged in the business of publishing such ratings. Typically, unrated bonds lack liquidity in the secondary market in comparison with rated bonds. The Bonds should not be purchased by any investor who, because of financial condition, investment policies or otherwise, does not desire to assume, or have the ability to bear, the risks inherent in an investment in the Bonds.

## **THE ACT**

The following is a summary of certain provisions of the Act.

### **Establishment of a District**

Under the Act, the governing body of an incorporated city or town may create a tax incremental district by adoption of a resolution describing the boundaries of a contiguous geographic area constituting the district and

prescribing a date for such creation. The governing body may consider adoption of such a resolution only after the planning commission of the municipality has conducted a public hearing on the creation of the proposed district, following published notice and mailed notice to the taxing jurisdictions having power to levy taxes on property within the proposed district, and has made recommendations to the governing body as to the boundaries of the district.

The tax incremental district may not be created if the aggregate value of the taxable property in the district and in all other tax incremental districts within the municipality exceeds ten percent of the total value of taxable property in the City. In addition, the Act requires that (i) not less than twenty-five percent, by area, of the real property within the proposed district be a "blighted area" within the meaning of the Act, or (ii) not less than fifty percent, by area, of the real property within the district will stimulate and develop the general economic welfare and prosperity of the state through the promotion and advancement of industrial, commercial, manufacturing, agricultural, or natural resources and (iii) that the improvement of the area is likely to enhance significantly the value of substantially all of the other real property in the proposed tax incremental district.

A municipality may not undertake any redevelopment activities within the district until the planning commission has prepared and adopted a project plan for the tax incremental district and submitted the plan to the governing body of the municipality for approval. Among the items that the tax incremental plan must include are a statement of the kind, number and location of all proposed public works or improvements within the district; an economic feasibility study; a fiscal impact statement showing the impact of the district on jurisdictions levying property taxes within the proposed district; and a description of the methods of financing all estimated project costs and the time when such costs or monetary obligations are to be incurred. The governing body must approve the project plan by resolution, and must find in the resolution that the plan is feasible and in conformity with the master plan, if any, of the municipality.

Municipalities are authorized by the Act to implement the provisions and purposes of a project plan. A project plan may contemplate the acquisition by purchase or condemnation of real and personal property within the tax incremental district, the improvement thereof and the sale, lease or other disposition of such property to private entities at a price less than the cost of such acquisition and improvement, and the issuance of tax incremental bonds. A municipality may also determine to create a reserve fund for any tax incremental bonds it may issue, and pay interest on such tax incremental bonds from the proceeds thereof until positive tax increments are available therefor.

The primary source of financing for activities undertaken by the municipality pursuant to a project plan or the source of funds to pay debt service on tax incremental bonds, the proceeds of which have been used to pay such project costs, are positive tax increments derived from the tax incremental district. The increment that is the basis of tax incremental financing under the Act is the increase in the aggregate taxable value of all taxable property located within the tax incremental district since the date the district is created.

### **Calculation of Tax Increments**

The Tax Increments for any given year are the amount obtained by multiplying the total county, city, school and other local general property taxes levied on all taxable property within the tax incremental district by a fraction having a numerator equal to that year's value of all taxable property in the district minus the tax incremental base, and having a denominator equal to that year's value of all taxable property in the district. The tax incremental base for a tax incremental district is the aggregate value of all taxable property located within the district on the date the district is created. The South Dakota Department of Revenue determines the tax incremental base, upon application by the finance officer.

When the tax incremental base is less than the current aggregate value of taxable property in the tax incremental district, the Tax Increments are "positive," and are to be paid to the municipality on the next settlement date provided by law. A municipality is entitled to receive positive tax increments until it has received aggregate tax increments equal to all expenditures previously made or monetary obligations previously incurred for project costs in the tax incremental district and all outstanding tax incremental bonds have been paid or retired. However, in no event may the positive tax increments be allocated longer than twenty years after the calendar year of creation. The municipality is required to deposit positive tax increments in a special fund for the tax incremental district. Moneys in the special fund may be applied only to payment of project costs of the district, or to payment of principal of or interest on tax incremental bonds issued with respect to the district.

The Act authorizes the governing body of the municipality to issue tax incremental bonds payable solely out of positive tax increments to be derived from the tax incremental district. The bonds may be authorized by resolution of the governing body without a referendum. Such obligations are payable only from the special fund of the district and do not constitute a general indebtedness of the municipality or charge against its general taxing power. To secure the bonds, the municipality must create a lien for the benefit of the bondholders upon part or all of the special fund of the tax incremental district.

Section 11-9-39.1 of the Act provides that:

“The State of South Dakota does hereby pledge to and agree with the holders of any bonds issued under this chapter that the state will not alter the rights vested in the bondholders until such bonds, together with the interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such holders, are fully met and discharged.”

### **SOUTH DAKOTA PROPERTY TAX SYSTEM**

Under South Dakota law, all real and personal property is to be valued at its “true and full value” on an annual basis. After determining that all taxable property in the city has been properly placed upon the assessment roll and has been duly valued by the assessor, the clerk of the local equalization board delivers the assessment roll to the county director of equalization. The county commissioners, along with the county auditor, constitute the county board of equalization of the assessment of property. Sitting as the board of equalization, these officials hear appeals and equalize assessments of property. Further appeals may be taken to the State Office of Administrative Hearing or to the Circuit Court.

At the same time this process of assessment and equalization is proceeding, the counties, cities and school districts formulate their budgets. Each year, the governing body must adopt a budget and, by ordinance, must adopt a levy in dollars sufficient to meet the budget. All levies must be certified to the county auditor by October 1. The county auditor must then spread a levy in dollars per thousand over the taxable property of the city sufficient to raise the money requested by the city, county and school district and other taxing entities, subject to the legal levy limitations. The levy is computed by dividing the budget by the taxable valuation. However, the levy which can be applied with respect to various taxing entities and even various funds within the entities, is limited by statute. The levy is then applied proportionately to each taxpayer’s taxable property within the city to determine the taxpayer’s individual tax liability. All taxes become due on the first day of January of each year next following the levy, payable in installments by May 1 and November 1.

South Dakota law allows the County to abate part or all of the taxable value of new buildings and additions for a five-year period following construction. The County has not adopted an abatement formula pursuant thereto, and the City, as permitted by South Dakota law, has not adopted an abatement formula for new buildings and additions within the District. State law provides a 100% abatement of taxes for certain historic property improvements for eight years, but the City has required the developers of the Project to waive their right so such abatement. See “PROJECTED TAXABLE VALUE, TAX INCREMENTS AND DEBT SERVICE COVERAGE” herein.

### **THE BOND ORDINANCE**

The following is a summary of certain provisions of the Bond Ordinance:

#### **Tax Increment Fund**

A fund designated as the Tax Increment District No. 17 Fund (the “Tax Increment Fund”) has been established and shall be maintained as a separate and special bookkeeping account on the official books of the City until all Bonds have been fully paid, or the City’s obligation with reference to such Bonds has been discharged. All Tax Increments are irrevocably pledged and appropriated and shall be credited to the Tax Increment Fund as received. The Bonds shall be secured by a first pledge of and lien on all of the Tax Increments and of all other moneys from time to time in the Tax Increment Fund. The City shall not issue any obligation or security superior to

or on a parity with the Bonds, payable or secured, in whole or in part, from or by the Tax Increments, until all of the Bonds have been paid or discharged. The Tax Increment Fund includes the following funds and accounts:

Bond Account. To the Bond Account there shall be credited: (i) accrued interest, if any, upon the sale of the Bonds; (ii) capitalized interest, if any (iii) all collections of Tax Increments received with respect to the District; and (iv) all investment earnings on moneys held in the Bond Account. All Tax Increments received by the City shall be credited to the Bond Account until the balance on hand in the Bond Account equals the sum of (1) the principal and premium, if any, due on the Bonds on all Principal Payment Dates occurring in the next succeeding 12 months whether by reason of Stated Maturity or through operation of the mandatory redemption of term bonds under the Bond Ordinance, plus (2) the interest due on the Bonds on the next succeeding Interest Payment Date.

If on any Interest Payment Date there are not sufficient amounts on deposit in the Bond Account to pay the total amount of interest coming due on such Interest Payment Date, the City shall transfer any moneys then on deposit to the credit of the Surplus Account, in an amount equal to such deficiency, to the Bond Account.

If on any Principal Payment Date there are not sufficient amounts on deposit in the Bond Account to pay the total amount of principal coming due on such Principal Payment Date, the City shall transfer any moneys then on deposit in the Surplus Account, in an amount equal to such deficiency, to the Bond Account.

Reserve Account. There shall be credited to the Reserve Account from the proceeds of the Bonds, an amount equal to the Debt Service Reserve Requirement. Thereafter, in the event that the amount on deposit in the Reserve Account shall thereafter fall below the Debt Service Reserve Requirement, additional deposits shall be made from the Tax Increments to the Reserve Account until the Debt Service Reserve Requirement is again reached.

If on any Interest Payment Date or Principal Payment Date, there shall exist a deficiency in the Bond Account to pay principal of and interest on the Bonds, the City is to immediately transfer from the Reserve Account to the Bond Account an amount equal to such deficiency. Money held in the Reserve Account is to be used only to pay maturing principal and interest on the Bonds.

If at any time, the balance in the Reserve Account exceeds the Debt Service Reserve Requirement, the City is to transfer such excess to the Bond Account.

Redemption Account. There shall be credited to the Redemption Account any and all Tax Increments remaining after the required credits to the Bond Account and the Reserve Account at the end of each Fiscal Year.

Surplus Account. There shall be credited to the Surplus Account any and all Tax Increments remaining after the required credits to the Bond Account, the Reserve Account and the Redemption Account, any investment income and other moneys in any of the accounts within the Tax Increment Fund in excess of the requirements of said accounts and which the City determines in its discretion to transfer to said Surplus Account. Moneys from time to time on hand credited to the Surplus Account shall be transferred to the Bond Account and the Reserve Account, and in addition may be used for any of the following purposes and not otherwise:

- (a) to pay costs of or incurred in connection with Project within the District as authorized by the Act;
- (b) to redeem or discharge Bonds prior to their Stated Maturities in accordance with the provisions of the Bond Ordinance or any Supplemental Bond Ordinance; and
- (c) to purchase Bonds on the open market.

Investments. The Finance Officer shall cause all moneys from time to time in the Tax Increment Fund to be deposited as received with one or more banks which are duly qualified public depositories under the provisions of Chapter 4-6A, South Dakota Codified Laws, in a deposit account or accounts, so long as any of the Bonds and the interest thereon shall remain unpaid. Any of such moneys not necessary for immediate use may be deposited with such depository banks in savings or time deposits. No moneys shall at any time be withdrawn from such deposit accounts except for the purposes of the Tax Increment Fund as authorized in the Bond Ordinance; except that moneys from time to time on hand in the Tax Increment Fund may at any time, in the discretion of the City, be

invested in securities permitted by the provisions of Section 4-5-6, South Dakota Codified Laws, maturing not later than five years from the date of investment. Income from the investment of the moneys in the various accounts shall be credited thereto.

Other Covenants of City. The City will punctually pay or cause to be paid the principal and interest to become due in respect to all the Bonds, in strict conformity with the terms of the Bonds and of the Bond Ordinance, and it will faithfully observe and perform all of the conditions, covenants and requirements of the Bond Ordinance and of the Bonds. Nothing contained in the Bond Ordinance shall prevent the City from making advances of its own moneys however derived for any of the uses or purposes referred to in the Bond Ordinance, nor shall such advance be deemed or constitute a pledge or appropriation of funds or assets of the City other than those expressly pledged or appropriated by the Bond Ordinance.

The City will not encumber, pledge or place any charge or lien upon any of the Tax Increments other than the pledge and lien created by the Bond Ordinance for the benefit of the Bonds.

The City covenants and agrees not to amend the Project Plan if as a result thereof the Tax Incremental Base of the District will be redetermined under the Act.

The City will adopt, make, execute and deliver any and all such further resolutions, instruments and assurances as may be reasonably necessary or proper to carry out the intention or to facilitate the performance of the Bond Ordinance, and for the better assuring and confirming unto the Owners of the Bonds of the rights and benefits provided in the Bond Ordinance.

The City covenants not to create any other tax incremental district the boundaries of which include any property in the District.

The City covenants and agrees with the holders from time to time of the Bonds that it will not take or permit to be taken by any of its officers, employees or agents any action which would cause the interest on the Bonds to become includable in gross income of the recipient under the Internal Revenue Code of 1986, as amended (the "Code"), and applicable Treasury Regulations (the "Treasury Regulations") and covenants to take any and all actions within its powers to ensure that the interest on the Bonds will not become includable in gross income of the recipient under the Code and the Treasury Regulations.

#### **AVAILABILITY OF CONTINUING INFORMATION**

In order to permit bidders for the Bonds and other participating underwriters in the primary offering of the Series 2013 to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commissioner under the Securities Exchange Act of 1934, as amended (the "Rule"), the City will enter into a Continuing Disclosure Undertaking (the "Disclosure Undertaking"), under which the City will agree to provide annual reports of specified information and notice of the occurrence of certain events, if material, as described in the Undertaking. The owners of the Bonds are beneficiaries of the City's covenants in the Disclosure Undertaking. The information to be provided on an annual basis, the events as to which notice is to be given, if material, and a summary of other provisions of the Disclosure Undertaking, including terminations, amendments and remedies, are set forth in APPENDIX E to this Official Statement. Financial Audits for the City have been filed for Fiscal Years 2009, 2010, 2011 and 2012 in a timely manner; however, those filed for Sales Tax Revenue Refunding Bonds, Series 2011A, Water Revenue Refunding Bonds, Series 2012A and Taxable Water Revenue Refunding Bonds, Series 2012B were filed after the required deadlines in the Disclosure Agreements for those Issues. The late filing was an oversight and the City has implemented procedures to ensure timely filings going forward.

Breach of the covenants set forth in the Disclosure Undertaking will not constitute a default or an "Event of Default" under the Bonds. A broker or dealer is to consider a known breach of the covenants set forth in the Disclosure Undertaking before recommending the purchase or sale of the Bonds in the secondary market. Thus, a failure on the part of the City to observe the covenants set forth in the Disclosure Undertaking may adversely affect the transferability and liquidity of the Bonds and their market price.

## **TAX MATTERS**

In the opinion of Dorsey & Whitney LLP, Bond Counsel, under present laws, regulations, rulings and decisions in effect on the date of issuance of the Bonds, and assuming compliance with certain covenants, interest on the Bonds is not includable in gross income for federal income tax purposes. Interest received by the owners of the Bonds is includable in gross income for South Dakota tax purposes when the recipient is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43. In rendering its opinion, Bond Counsel will rely on certain covenants and representations on the part of the City concerning the nature and cost of the facilities being financed from proceeds of the Bonds and the application and investment of proceeds of the Bonds. Moreover, certain provisions of the Internal Revenue Code of 1986, as amended (the "Code"), impose continuing requirements that must be met after the issuance of the Bonds in order for interest thereon to be and remain not includable in federal gross income. Noncompliance with such requirements by the City may cause the interest on the Bonds to be includable in federal gross income, retroactive to date of issuance of the Bonds, irrespective in some cases of the date on which such noncompliance occurs or is ascertained. No provision has been made for redemption of the Bonds or for an increase in the interest rate on the Bonds in the event that interest on the Bonds becomes includable in federal gross income.

Interest on the Bonds is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers, but is includable in adjusted current earnings in determining the alternative minimum taxable income of corporations for purposes of the federal alternative minimum tax. Interest on the Bonds may be includable in the income of a foreign corporation for purposes of the branch profits tax imposed by Section 884 of the Code and is includable in the net investment income of foreign insurance companies for purposes of Section 842(b) of the Code. In the case of an insurance company subject to the tax imposed by Section 831 of the Code, the amount which otherwise would be taken into account as losses incurred under Section 832(b)(5) of the Code must be reduced by an amount equal to fifteen percent of the interest on the Bonds that is received or accrued during the taxable year. Section 86 of the Code requires recipients of certain Social Security and railroad retirement benefits to take into account the interest on the Bonds in determining the taxability of such benefits. Passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S corporation that has Subchapter C earnings and profits at the close of the taxable year if more than twenty-five percent of its gross receipts is passive investment income.

The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Code, and financial institutions described in Section 265(b)(5) of the Code may treat the Bonds for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7, 1986. Noncompliance with certain continuing requirements of the Code referred to above, however, may cause the Bonds to lose their status as "qualified tax-exempt obligations" retroactive to their date of issuance.

The foregoing is not intended to be an exhaustive discussion of collateral tax consequences arising from receipt of interest with respect to the Bonds. Prospective purchasers or owners of the Bonds should consult their tax advisors with respect to collateral tax consequences, including without limitation the calculations of alternative minimum tax, foreign branch profits tax liability or the inclusion of Social Security or other retirement payments in taxable income.

## **ENFORCEABILITY OF OBLIGATIONS**

On the closing date for delivery of the Bonds, Bond Counsel will deliver its opinion, dated the date thereof, that the Bonds are valid and legally binding obligations of the City enforceable in accordance with their terms. The foregoing opinion will be generally qualified to the extent that enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights generally and to the exercise of judicial discretion in accordance with general principles of equity.

While the Bonds are secured or payable pursuant to the Bond Ordinance, practical realization of any security upon a default will depend upon the exercise of various remedies specified in the respective instruments. These and other remedies are dependent in many respects upon judicial action, which is subject to discretion and delay. Accordingly, the remedies specified by such instruments may not be readily available or may be limited.

## **UNDERWRITING**

The Bonds are being purchased from the City by Dougherty & Company LLC (the "Underwriter"). The Underwriter has agreed to purchase the Bonds from the City at an aggregate purchase price of \$1,661,100.00 (reflecting underwriter's discount of \$33,900.00), plus accrued interest to the date of closing, if any, subject to the terms of a Bond Purchase Agreement between the City and the Underwriter. The Bond Purchase Agreement provides that the Underwriter shall purchase all of the Bonds if any are purchased, and that the obligation to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The initial public offering prices set forth on the cover page hereof may be changed from time to time by the Underwriter. The City has agreed under the Bond Purchase Agreement to indemnify the Underwriter against certain liabilities, including liabilities under the federal and state securities laws.

## **MISCELLANEOUS**

There is no controversy or litigation of any nature now pending or, to the knowledge of the City, threatened, restraining or enjoining the issuance, sale, execution or delivery of the Bonds, the establishment or collection of the Tax Increments, or in any way contesting or affecting the validity of the Bonds, the establishment or collection of the Tax Increments, or any proceedings of the City taken with respect thereto.

The foregoing summaries do not purport to be comprehensive or definitive and all references to the documents summarized are qualified in their entirety by reference to each such document. All references to the Bonds are qualified in their entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. Copies of these documents are available for inspection during the period of the offering at the offices of the Underwriter in Minneapolis, Minnesota, and thereafter at the principal office of the Registrar. All information contained in the Appendices to this Official Statement has been furnished by the City. The Underwriter makes no representations or warranties as to the accuracy or completeness of the information in such Appendices.

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**APPENDIX A -  
CITY OF ABERDEEN**

**Governmental Organization and Services**

In November 2004, voters of the City approved a home rule charter and change in form of government. The City operates under the aldermanic form of government with a Mayor, City Manager and eight council members.

**City Council**

Mike J. Levsen	Mayor
Todd Campbell	Councilmember
Jennifer Slaight-Hansen	Councilmember
Alan Johnson	Councilmember
David Bunsness	Councilmember
Mark Remily	Councilmember
Rob Ronayne	Councilmember
Clint Rux	Councilmember
Laure Swanson	Councilmember

**City Officers**

Lynn Lander	City Manager
Karl M. Alberts, CPA	Finance Officer
Adam H. Altman, Esq.	City Attorney

The City provides the following municipal services: public safety, highways and streets, residential sanitation, parks and recreation, health and social services, culture, public improvements, planning and zoning, and general administrative services.

**Population Statistics**

<u>Year</u>	<u>Population</u>
1970	26,476
1980	25,851
1990	24,927
2000	24,658
2010	26,091

Sources: 1970, 1980, 1990, 2000 and 2010 U.S. Census Bureau

**Fund Structure and Accounting Basis**

*Government-wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria and may be classified as either governmental or business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the 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*

Fund financial statements of the City are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. 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 funds 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 operation.

The funds of the City financial reporting entity are described below:

#### **Governmental Funds:**

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

*Special Revenue Funds* – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital project) 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 or trust funds for individuals, private organizations, or other governments).

#### **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.

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

### **Fiduciary Funds:**

*Agency Fund* – agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds maintained by the City include the Bid Deposit Fund, Redemption Fund, Section 125 Escrow Fund, and Revenue Fund. These funds are used to account for assets that the City holds for others in an agency capacity.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenue sources include taxes, licenses and permits, intergovernmental revenue, charges for goods and services, fines and forfeits, and miscellaneous revenue. In addition to general government, primary expenditures include public safety, public works, health and welfare, culture and recreation, and capital outlay.

The *Capital Improvement Fund* accounts for the capital improvement projects and debt service funded by the 1% City sales tax.

*Other Governmental Funds* is a summarization of all of the non-major governmental funds. These include additional special revenue, capital project, and debt service funds.

The City reports the following major proprietary funds:

The *Sewer Fund* accounts for the activities of the government's sewer collection and treatment operations.

The *Electric Fund* accounts for the activities of the government's electric distribution operations.

The *Gas Fund* accounts for the activities of the government's natural gas distribution operations.

The *Water Bond Account* accounts for the proceeds derived from the sale of revenue bonds which pursuant to SDCL 6-8B-13, shall be kept as a separate fund from other City funds.

*Other Proprietary Funds* is a summarization of all of the non-major proprietary funds. These include the Solid Waste, Airport, and Water Funds.

### **Measurement Focus and Basis of Accounting:**

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded, regardless of the measurement focus.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of the special assessments receivable due within the current fiscal period is considered to be

susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Amounts reported as program revenues include: 1) charges to customers or applicants for good, services, or privileges provided, 2) operating grants and contribution, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenues. Likewise, general revenues include all taxes.

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 enterprise 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.

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

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 accounting policies of the City conform to generally accepted accounting principles.

### **Budget and Appropriation Process**

Section 9-21-2, South Dakota Codified Laws, as amended, requires that each municipality adopt an annual appropriation ordinance for the ensuing fiscal year in which it must appropriate the sums of money necessary to meet all lawful expenses and liabilities of the municipality. In order to comply with this statutory mandate, the City must prepare and submit a budget to the Council not later than September 1. The Council shall then, no later than its first regular meeting in September or within ten days thereafter, introduce the annual appropriation ordinance for the ensuing year, which ordinance must include the tax levy for the ensuing year. Appropriations are limited to municipal powers and all municipal expenditures are limited to the appropriated amounts. Supplemental ordinances may be adopted in the same manner as the appropriation ordinance to enable the municipality to conduct functions that are considered indispensable. The Council may by two-thirds vote transfer the surplus money in any of the several funds to any other fund or funds or may appropriate such surplus money to the payment of any outstanding indebtedness of the City.

In order to satisfy this requirement, the finance officer of the City causes proposed operating budgets for each department to be prepared. These budgets are presented to the Mayor and then are submitted to the Council during the summer months. The budgets include proposed expenditures and the means of financing those expenditures. The Council's discussion of the budgets commences immediately thereafter at meetings which are open to the public.

The Council adopts its appropriation ordinance prior to the time prescribed by South Dakota law. Upon passage of the ordinance, the budget is published and the annual tax levy is certified to the County Auditor. At that time property taxes are considered levied and the related receivable is recorded.

Budgets are adopted on the modified accrual basis except that encumbrances are treated as budgeted expenditures in the year incurred. Unexpended appropriations, except for capital expenditures, lapse at year end, unless formally encumbered. An appropriation for a capital expenditure should continue in force until expended, revised or repealed; the purpose of any such appropriation shall be deemed abandoned if three years pass without any disbursement from, or encumbrance of, the appropriation. Budgetary controls to prevent expenditures from exceeding appropriated amounts are maintained at the subfunction level. A subfunction is defined as a grouping of related activities within a particular governmental function.

## **Deposits and Investments**

Deposits of the City funds are made with “qualified public depositories” as defined in the Public Deposit Insurance Act, Chapter 4-6A, South Dakota Codified Laws. Qualified public depositories are required by the Public Deposit Insurance Act to maintain at all times, segregated from their own assets, eligible collateral having a value equal to at least 110% of the public deposit accounts which exceed deposit insurance.

The Investment of State Funds Law, Chapter 4-5, South Dakota Codified Laws, provides that all moneys of the City shall be invested in: (1) securities of the United States and securities directly or indirectly guaranteed by the United States government and with a remaining maturity of 18 months or less (subject to exceptions for permanent, trust, retirement and building funds); (2) repurchase agreements fully collateralized by securities described in (1), where the collateral security is held by or in safekeeping for the account of the City, but only with primary reporting dealers and the 100 largest domestic commercial banks; or (3) in shares of an open-end, no-load fund administered by a registered investment company whose only investments are in securities described in (1) and (2).

## **Annual Financial Reports**

The finance officer of the City must submit a report to the Council at the first regular meeting of March each year that details the receipts, expenses and financial condition of the City. The report must be published within thirty days thereafter in the official newspaper of the City.

Annual audits of the books of account, financial records and transactions of all administrative departments of the City are conducted by the State of South Dakota Department of Legislative Audit or by independent certified public accountants selected by the Council.

Copies of the City’s Audited Financial Reports are available upon request from the City’s Finance Officer.

## **Sources of General Revenues**

Set forth below are brief descriptions of the various sources of general revenues available to the City. General revenues do not include charges for services, operating grants or capital grants which are considered Program Revenues. The percentage of total general revenues represented by each source is based on the audited information for the City’s fiscal year ended December 31, 2012.

*General property taxes* - Approximately 38.2% of general revenues are from property taxes which are assessed and collected by Brown County.

*Sales Taxes* - Approximately 47% of general revenues are from taxes on goods and services that are sold or provided within the boundaries of the City. These revenues include the receipts from all sales and use taxes levied by the City.

*Licenses and Permits* - Fees for licenses and permits are assessed for the purpose of recovering the costs associated with regulating businesses and inspecting construction projects. Approximately 2.6% of general revenues are from licenses and permits.

*Intergovernmental Revenue* - Approximately 7.2% of general revenues are received from state and federal governmental entities.

*Revenue from Use of Money and Property* – Approximately 0.5% of general revenues are received from investment earnings and sale of property.

*Other* - Approximately 4.5% of general revenues are received from other miscellaneous revenues.

## **City Property Taxes and Property Values**

### *General*

In South Dakota, the collection of all property tax revenues is handled by the County governments. Each County is required to conduct an annual assessment of all real property located in the County. State law requires that all property be assessed at its full and true value as of the November 1 immediately preceding the assessment year. In the aggregate, taxable property is valued within a range of 85% to 100% of market value using the preceding year's sales as a benchmark. Property owners must be notified of the assessed value of their properties, and a property owner who desires to challenge the assessment may appeal to the appropriate Board of Equalization. South Dakota law creates local Boards of Equalization, the purpose of which are to equalize the assessed value of all properties and to see that all taxable property has been properly placed on the assessment roles and has been properly valued. The County Commission, sitting as a Board of Equalization, is the final local authority for hearing property owner appeals and equalizing the assessments of property, subject to a property owner's right to appeal the assessment to the Office of Hearing Examiners or to the Circuit Court. Each County's equalization proceedings for its annual assessment must be completed by the third week of May. South Dakota Codified Laws, Section 10-13-35, provides that, for levy years commencing in 1996, property taxes are to be levied on valuations where the median level of assessment represents eighty-five percent of the market value as determined by the Department of Revenue. The adjusted value so determined is referred to in this Official Statement as the "taxable value."

Real property taxes become due on January 1 of the year following the year in which the tax levy is made. Real property taxes become delinquent if not paid 50% by May 1 and the remaining 50% by November 1. Once levied, taxes become a perpetual lien upon the subject real property until paid. All property tax payments, after being collected by the County Treasurer, are turned over to the County Auditor.

### *Tax Rates*

The City is permitted to levy taxes up to \$27 per one thousand dollars of assessed valuation for general governmental services, other than the payment of principal and interest on long-term debt. The current tax rate to finance general governmental services, other than the payment of principal of and interest on long-term debt, for the fiscal year beginning January 1, 2012 is \$5.301 per one thousand dollars.

The 1995 South Dakota Legislature enacted into law Section 10-13-35, South Dakota Codified Laws. For taxes payable in 1997 and subsequent years. Section 10-13-35 provides that the total amount of revenue derived from property taxes for municipal purposes may increase over the prior year's revenues by the smaller of three percent or the CPI inflation index. Increases in revenues from additions, improvements or change in use of real property are permitted, as well as increased revenues resulting from annexations, reorganizations and certain other limited circumstances. The revenue limitations for 1997 and thereafter may be exceeded by an excess tax levy imposed by a two-thirds vote of the governing body of the municipality, subject to a referendum by the electors of the municipality.

Set forth below are the property tax rates (per \$1000 of assessed valuation) for the past seven years.

### Tax Rates

Tax <u>Year</u>	<u>County</u>	<u>City</u>	James River Water Development <u>District</u>	School District*	<u>Total</u>
2012	4.500	5.600	0.093	9.800	19.993
2011	4.411	5.301	0.098	9.753	19.563
2010	4.487	5.256	0.101	9.776	19.620
2009	4.561	5.298	0.243	9.948	20.050
2008	4.520	5.300	0.100	9.990	19.910
2007	4.400	5.290	0.100	10.050	19.840
2006	4.360	5.460	0.110	10.610	20.540
2005	4.240	5.450	0.110	10.580	20.380
2004	4.300	5.600	0.120	10.920	20.940

Source: Brown County Auditor

\* Different classes of property exist.

### *Tax Levies and Collections*

The following table displays the taxes levied and collected as taxes for the seven most recent fiscal years of the City:

### Tax Levies and Collections

Tax <u>Year</u>	<u>Total Tax Levy</u>	Current <u>Tax Collections</u>	Percent of Levy <u>Collected</u>
2012	\$ 7,178,083.97	—————In process—————	
2011	6,700,956.66	\$ 6,658,150.22	99.36%
2010	6,395,124.44	6,306,148.34	98.61
2009	6,185,022.30	6,138,242.81	99.24
2008	5,812,314.33	5,770,294.66	99.27
2007	5,411,005.73	5,393,219.75	99.67
2006	5,156,511.66	5,154,376.57	99.96
2005	4,882,011.49	4,840,517.98	98.93
2004	4,639,731.67	4,595,514.23	99.05

Source: Brown County Auditor

### **Outstanding Direct Debt**

	Principal Amount <u>Outstanding</u>
General Obligation Bonds	\$ 0.00
Special Assessment Bonds	0.00
Sales Tax Revenue Bonds <sup>(1)</sup>	15,730,000.00
Water Revenue Bonds	12,945,000.00
SRF Loans (Water & Sewer Revenue)	16,589,610.00
Tax Increment Revenue Bonds <sup>(2)</sup>	6,674,559.00
Other Debt	76,639.00
<b>Total</b>	<b>\$52,015,808.00</b>

Source: City of Aberdeen Audited Financials for the Year Ended December 31, 2012.

(1) Adjusted for the issuance of \$5,305,000 Sales Tax Revenue Refunding Bonds, Series 2013.

(2) After the issuance of the Bonds, the amount of Tax Increment Revenue Bonds will be \$8,369,559

Direct Debt Per Capita (pop. 26,091) payable from property taxes: \$ 0.00

#### **Overlapping Debt Payable from Property Taxes**

<u>Issuer</u>	<u>Outstanding Debt as of 12-31-2012</u>	<u>Overlapping Percent</u>	<u>Overlapping Amount</u>
Aberdeen School District 6-1	\$ 33,791,000	72.3%	\$ 24,440,592
Brown County	---	50.2	---
Total	<u>\$ 33,791,000</u>		<u>\$ 24,440,592</u>

Overlapping Debt Per Capita (pop. 26,091) payable from property taxes: \$ 936.74

Total Debt per Capita (pop. 26,091) payable from property taxes: \$ 936.74

#### **Debt Limitations**

Under the South Dakota Constitution, the City has a debt limit of 5% of assessed value for any municipal purpose. The City has an additional 10% of assessed value debt limit for sewer and water provided the debt has been approved by at least a majority vote of the electorate.

The City's net debt margin after giving effect to the issuance of the Bonds is as follows:

Constitutional Debt Limit for General Purposes (5% of Assessed Value, \$1,316,901,648)	\$ 65,845,082.40
Less Outstanding Debt Chargeable to the 5% Debt Limit	<u>53,710,808.00</u>
Net Debt Margin	<u><u>\$ 12,134,274.40</u></u>
Constitutional Debt Limit for Sewer and Water Purposes (10% of Assessed Value for Sewer & Water)	\$131,690,164.80
Less Outstanding Debt Chargeable to the 10% Debt Limit	<u>0.00</u>
Net Debt Margin	<u><u>\$131,690,164.80</u></u>

#### **Property Values**

The total taxable valuation of real property in the City for the years 2003 through 2012 is as follows:

<u>Tax Year</u>	<u>Taxable Value</u>
2012	\$ 1,280,485,897
2011	1,263,381,587
2010	1,217,788,036
2009	1,167,104,000
2008	1,096,908,569
2007	1,026,167,395
2006	944,731,496
2005	894,778,025
2004	828,523,513
2003	789,377,520

Source: Brown County Auditor

## **Largest Property Taxpayers**

The ten largest property taxpayers in the City for tax year 2012 are identified below, including the amount and percentage of their taxable property values:

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Value</u>	<u>Percent of Total Taxable Valuation</u>
Avera St. Lukes	Hospital	\$ 71,702,089	5.60%
Northern Beef Packers LLP	Processing	54,370,363	4.25
Sanford Health Network	Hospital	25,303,738	1.98
Molded Fiber Glass Company	Manufacturing	17,843,082	1.39
South Dakota Wheat Growers	Agriculture	15,581,223	1.22
ABE South Dakota LLC	Ethanol Production	11,687,609	0.91
Corelogic Commercial Real Est. Service	Real Estate	10,736,909	0.84
Wal-Mart Stores Inc.	Retail	10,674,613	0.83
3M Corp	Manufacturing	9,505,420	0.74
Menards Inc.	Retail	<u>8,064,970</u>	<u>0.63</u>
Total		<u>\$235,470,016</u>	<u>18.39%</u>

Source: Brown County Auditor

## **Sales Taxes**

The City receives two percent (2.0%) sales tax on certain purchases made in the City, consisting of a 1% General Sales Tax and 1.0% Capital Improvement Sales Tax. All City sales taxes are collected by the State and remitted to the City twice monthly.

## **Enterprise Funds**

In addition to those revenue sources described above, there are other significant revenues reported in the Enterprise Funds of the City. The revenues received into these Enterprise Funds are first used to pay the operation and maintenance expenses of the particular enterprise that generated those revenues. Once the operation and maintenance expenses are paid, any excess revenues in the Enterprise Funds may be transferred to any other fund of the City upon the affirmative vote of two-thirds of the Council members.

## **Bond Authorization**

Chapter 6-8B, South Dakota Codified Laws, as amended, generally requires that all bonds of a City be authorized by 60% of the voters of the City voting upon the question of the issuance of such bonds, unless specifically provided otherwise by law. Exceptions to the voter approval requirement exist for revenue bonds payable solely from the income derived from the operation of the financed facilities, sales tax revenue bonds, tax increment and special assessment bonds and obligations subject to annual appropriation.

## **Construction**

Set forth below is building permit data for construction in the City for the past seven years:

<u>Year</u>	<u>Number of Permits</u>	<u>Value</u>
2012	1,884	\$ 51,705,054
2011	2,035	64,756,819
2010	2,202	59,586,703
2009	2,202	44,805,034
2008	2,109	68,707,596
2007	2,414	68,462,383
2006	1,670	33,631,822
2005	1,297	47,666,398

---

Source: City of Aberdeen, based on building permits issued by the City. Property values are estimated construction costs. Values are not assigned to nontaxable property.

## **Labor Statistics**

<u>Year</u>	<u>Brown County Average Annual Civilian Labor Force</u>	<u>Average Annual Unemployment Rate</u>	
		<u>Brown County</u>	<u>State of South Dakota</u>
2012	21,265	3.6%	4.4%
2011	21,105	3.9	4.8
2010	21,305	3.9	5.1
2009	21,075	3.8	5.2
2008	21,045	2.4	3.0
2007	21,095	2.4	2.9
2006	20,825	2.6	3.1
2005	20,800	3.1	3.7
2004	20,695	3.1	3.7

---

Source: South Dakota Department of Labor

## **Major Employers**

According to the City's best information, the City's ten largest employers are as follows:

<u>Employer</u>	<u>Business</u>	<u>Number of Employees</u>
Avera St. Lukes	Medical	1,379
3M	Manufacturing	605
Aberdeen Public Schools	Education	600
South Dakota Wheat Growers	Agriculture	567
Aman Collection Service, Inc	Collection Services	450
Wal-Mart	Retail	350
Wyndham Worldwide	Reservation Service	350
Northern State University	Education	310
Midstates Printing	Commercial Printing	300
City of Aberdeen	Government	264

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Source: South Dakota Governor's Office of Economic Development

**APPENDIX B -  
AUDITED FINANCIALS FOR 2012**

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Financial Statements  
December 31, 2012  
**City of Aberdeen**

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**Governing Boards**

**Parks and Recreation Board (5 Years)**

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

**Airport Board (5 Years)**

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

**Library Board (3 Years)**

	<b>Expires</b>
Rob Ronayne, President .....	2012
Maeve King .....	2014
Cec Peters.....	2013
Troy McQuillen.....	2013
Sandy Andera .....	2012
Clint Rux, City Council Member	

<b>City Council</b>		<b>Expires</b>
Mayor .....	Mike Levesen	2014
NE District Council Member.....	Mark Remly	2017
NE District Council Member.....	Jeff Mitchell	2013
NW District Council Member.....	Todd Campbell	2012
NW District Council Member.....	Jennifer Slight-Hansen	2014
SE District Council Member .....	Clint Rux	2012
SE District Council Member .....	Laure Swanson	2015
SW District Council Member.....	David Busness	2015
SW District Council Member.....	Tom Agnitsch	2013

**Appointive Officers**

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

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#### Independent Auditor's Report

The City Council  
City of Aberdeen  
Aberdeen, South Dakota

##### Report on the Financial Statements

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

##### Management's Responsibility for the Financial Statements

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

##### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

##### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Aberdeen, South Dakota, as of December 31, 2012, and the respective changes in financial position and, where, applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

##### Other Matters

###### Required Supplementary Information

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

###### Other Information

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

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

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City of Aberdeen  
Management's Discussion and Analysis  
December 31, 2012

##### Other Reporting Required by *Government Auditing Standards*

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

Aberdeen, South Dakota  
June 7, 2013

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

##### Financial Highlights

###### Government-Wide

The assets of the City exceeded its liabilities at the close of the fiscal year by \$128,998 million (reported as net position), an increase of \$2,235 million from the previous year.

###### Fund Level

As of the close of the fiscal year, the City's governmental funds reported combined ending fund balances of \$6,697 million, with \$600,295 reported as unassigned, \$1,289 million reported as assigned, \$719,212 reported as committed, \$3,742 million reported as restricted, and the remaining amount of \$345,907 reported as nonspendable. At the end of the fiscal year, the fund balance for the General Fund was \$1,315 million, of which \$600,295 was unassigned, \$425,100 was assigned only to be used to fund fiscal year 2013 appropriations, and \$289,712 was reported as nonspendable.

Proprietary funds reported a total net position at year-end of \$41,252 million, an increase of \$849,776 during the year.

###### Long-Term Debt

The primary government's total long-term outstanding loans and bonded debt totaled \$53,016 million, a decrease of \$2,479 million from the previous year. Of the total outstanding loans and bonded debt, \$46,341 million is backed by the City. During 2012, the City issued the Series 2012 Water Revenue Refunding Bonds to replace a state revolving loan from the South Dakota Department of Environment and Natural Resources which resulted in a net increase in debt principal of \$248,675. The rest of the debt increase was for a state revolving loan from the South Dakota Department of Environment and Natural Resources for watershed projects in the amount of \$51,429. The decrease represents principal payments of \$2,670,494 of previous outstanding debt. Although unpledged, water charges are assumed to be responsible for repayment of the State Revolving Loan for water treatment improvements. Conversely, sewer charges have been pledged and will make the repayment of the State Revolving Loan for sewer treatment improvement. Sales tax revenues have been pledged for the repayment of the State Revolving Loan for automated water meter upgrades.

###### Overview of the Financial Statements

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



#### Changes in Net Position

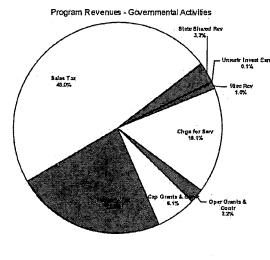
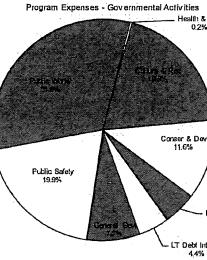
The following table summarizes financial information derived from the government-wide statement of activities and reflects how the City's net position changed during fiscal years 2012 and 2011.

Changes in Net Position									
Fiscal Year Ended December 31									
Governmental Activities		Business-Type Activities		Total Primary Government					
2012	2011	2012	2011	2012	2011	2012	2011	2012	2011
<b>Revenues:</b>									
Program Revenues:									
Charges for Services	\$ 5,773,515	\$ 5,752,044	\$ 9,936,666	\$ 8,533,508	\$ 15,710,181	\$ 14,285,552			
Operating Grants and Contributions	795,868	1,024,742	20,328	88,720	816,196	1,113,462			
Capital Grants and Contributions	2,176,074	3,836,418	247,456	224,866	2,423,530	4,061,284			
General Revenues:									
Property Taxes	8,306,681	7,852,749	-	-	8,306,681	7,852,749			
Sales Taxes	17,179,715	16,008,499	-	-	17,179,715	16,008,499			
State Shared Revenues	1,157,663	905,220	-	-	1,157,663	905,220			
Unrestricted Investment Earnings	22,932	39,632	17,728	27,594	40,660	67,226			
Miscellaneous	372,515	453,324	13,225	9,047	385,740	464,370			
Total Revenues	<b>35,784,963</b>	<b>35,874,629</b>	<b>10,235,403</b>	<b>8,883,735</b>	<b>46,020,366</b>	<b>44,758,363</b>			
Program Expenses:									
General Government	2,698,507	2,803,407	-	-	2,698,507	2,803,407			
Public Safety	6,927,480	6,831,308	-	-	6,927,480	6,831,308			
Public Works	11,071,272	11,999,727	-	-	11,071,272	11,999,727			
Health and Welfare	81,959	81,756	-	-	81,959	81,756			
Cultural and Recreation	6,803,839	6,277,356	-	-	6,803,839	6,277,356			
Conservation and Development	4,040,481	2,548,087	-	-	4,040,481	2,548,087			
Miscellaneous Expenditures	1,699,860	1,554,082	-	-	1,699,860	1,554,082			
Interest on Long-term Debt	1,537,419	1,622,897	-	-	1,537,419	1,622,897			
Water	-	-	4,281,003	4,328,349	4,281,003	4,328,349			
Sewer	-	-	2,850,271	2,729,578	2,850,271	2,729,578			
Campground	-	-	229,081	227,332	229,081	227,332			
Golf	-	-	575,834	455,414	575,834	455,414			
Ambulance	-	-	988,615	1,034,972	988,615	1,034,972			
Total Expenses	<b>34,860,917</b>	<b>33,718,019</b>	<b>8,924,814</b>	<b>8,775,647</b>	<b>45,785,631</b>	<b>42,494,266</b>			
Excess (Deficiency) Before Transfers	<b>924,446</b>	<b>2,156,010</b>	<b>1,157,459</b>	<b>108,088</b>	<b>2,234,735</b>	<b>2,264,098</b>			
Transfers	<b>460,813</b>	<b>63,366</b>	<b>(460,813)</b>	<b>(63,366)</b>					
Change in Net Position	<b>1,384,959</b>	<b>2,219,376</b>	<b>849,776</b>	<b>44,722</b>	<b>2,234,735</b>	<b>2,264,098</b>			
Net Position - Beginning	<b>86,360,437</b>	<b>84,141,063</b>	<b>40,402,462</b>	<b>40,357,738</b>	<b>126,762,899</b>	<b>124,498,801</b>			
Net Position - Ending	<b>\$87,745,396</b>	<b>\$86,360,439</b>	<b>\$41,752,238</b>	<b>\$40,402,460</b>	<b>\$126,997,634</b>	<b>\$125,762,899</b>			

#### Governmental Activities

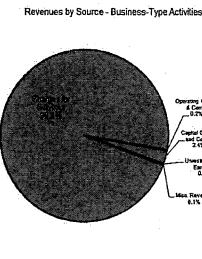
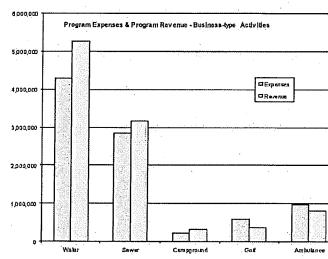
Governmental activities increased the City's net position by \$1,384,959. Factors contributing to these results include:

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



#### Business-Type Activities

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



#### Financial Analysis of the City's Funds

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

##### Governmental Funds

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

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

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

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

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

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

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

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

Overall, the fund balance of the City's General Fund decreased by \$1.175 million (From Exh. IV) during the current fiscal year. This is a 47.2% decrease from the prior year fund balance. The decrease primarily resulted from use of the General Fund to fund Tax Increment District #14 (IAPI Eighth Subdivision) (approximately \$601,814) and Tax Increment District #15 (HAPI Central Subdivision) (approximately \$1,504,109) which will be reimbursed from the incremental revenue, and less than expected general property tax collections (approximately \$108,600). These decreases were offset by higher than expected general sales tax collections (approximately \$491,900) and higher than expected transfers from other departments (approximately \$77,000).

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

Overall, the fund balance of the City's Special Sales Tax Fund increased by \$1,321,971 during the current fiscal year. This is a 21.93% increase in fund balance from the prior year. The increase primarily resulted from higher than anticipated sales tax revenues (approximately \$514,270), a state grant for future repairs to the 2nd Street overpass (\$591,524), and completion of projects under original budget (approximately \$168,000).

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

##### Proprietary Funds

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

##### Water Fund

At the end of fiscal year 2012, the Water Fund reported total net assets of \$19.03 million, an increase of \$566,454 (3.07%) in comparison with the prior year. During 2012, the Water Fund produced an operating income (before contributions and operating transfers) in the amount of \$1,389,943 on total operating revenue of \$5,283 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$409,700 on total operating revenue of \$4,242 million. The increase in total net position was largely the result of increased water consumption due to unusually dry summer conditions.

##### Sewer Fund

At the end of fiscal year 2012, the Sewer Fund reported total net assets of \$19.343 million, an increase of \$314,316 (1.65%) in comparison with the prior year. During 2012, the Sewer Fund produced operating income (before contributions and operating transfers) in the amount of \$705,519 on total operating revenue of \$3,152 million, compared to the previous fiscal year's operating income (before contributions and operating transfers) in the amount of \$2,357,354 on total operating revenue of \$2,893 million. The increase in total net position was largely the result of higher sewer usage.

#### Budgetary Highlights – General Fund

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

#### General Fund

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

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

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

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

#### Capital Assets and Debt Administration

##### Capital Assets

The City's investment in capital assets for its governmental and business type activities as of December 31, 2012 is \$161,689 million (net of accumulated depreciation) as compared to \$164,058 million the previous year. This investment in capital assets includes land; land improvements; land improvements – roads; buildings; equipment; vehicles; infrastructure; and construction in progress.

	City of Aberdeen		Capital Assets - Primary Government		Total Primary Government
	Governmental Activities	Business-Type Activities	2012	2011	
Land	\$ 9,150,160	\$ 8,732,521	\$ 721,396	\$ 721,396	\$ 9,871,556
Buildings	35,666,903	35,197,927	61,151,618	61,151,618	96,418,521
Improvements other than Buildings	102,103,585	99,207,119	25,842,348	25,579,258	127,945,933
Equipment/Vehicles	15,577,773	15,256,778	6,874,706	6,808,861	22,452,479
Construction in Progress	415,734	557,253	-	-	415,734
Total Capital Assets	<b>162,514,155</b>	<b>158,951,598</b>	<b>94,590,068</b>	<b>94,261,133</b>	<b>257,104,223</b>
Accumulated Depreciation	60,360,858	56,041,063	35,054,485	33,129,970	95,415,343
<b>Total Capital Assets, Net</b>	<b>\$102,153,297</b>	<b>\$102,910,535</b>	<b>\$59,535,583</b>	<b>\$61,148,163</b>	<b>\$161,688,880</b>
	<b>\$113,305,273</b>	<b>\$ 71,439,231</b>	<b>\$ 184,744,504</b>	<b>\$ 6,774,503</b>	

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

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

##### Debt Administration

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

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

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

#### Economic Condition and Outlook

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

#### Future Construction Activity

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

#### Requests for Information

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

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

	Primary Government		Total	Component Unit Housing and Redevelopment Commission
	Governmental Activities	Business-Type Activities		
<b>Assets</b>				
Cash and cash equivalents	\$ 2,973,961	\$ 8,358,753	\$ 11,332,714	\$ 681,820
Investments	3,193,643	2,123,660	5,317,303	458,902
Accounts receivable, net	4,567,916	894,188	5,462,104	-
Inventories	6,196	364,321	370,517	-
Deferred charges	120,548	34,197	154,745	-
Other assets	-	128,529	128,529	711,641
Restricted assets:				
Cash and cash equivalents	-	-	-	36,263
Deposits	289,712	-	289,712	2,745,454
Capital assets:				
Land, improvements, and construction in progress	9,565,894	721,396	10,287,290	521,186
Other capital assets, net of depreciation	92,587,403	58,814,187	151,401,590	1,619,237
	<b>\$ 113,305,273</b>	<b>\$ 71,439,231</b>	<b>\$ 184,744,504</b>	<b>\$ 6,774,503</b>
<b>Liabilities</b>				
Accounts payable	\$ 1,510,650	\$ 292,609	\$ 1,803,259	\$ 288,617
Deferred revenue	697,768	230,052	927,820	7,718
Other long-term liabilities:				
Due within one year	2,087,364	1,910,035	3,997,399	87,460
Due in more than one year	21,264,095	27,754,297	49,018,392	941,644
Total liabilities	<b>25,559,877</b>	<b>30,186,993</b>	<b>55,746,870</b>	<b>1,442,350</b>
<b>Net Position</b>				
Net investment in capital assets	87,394,181	29,991,973	117,386,154	1,111,699
Restricted for:				
Debt service	2,256,860	1,400,580	3,657,440	-
Perpetual care:				
Expendable	133,593	-	133,593	-
Partially nonexpendable	50,000	-	50,000	-
Other purposes	235,347	-	235,347	-
Other purposes - Promotion Fund	99,873	-	99,873	-
Other purposes - Park and Recreation Fund	313,448	-	313,448	-
Other purposes - Park and Recreation Trust Fund	592,375	-	592,375	-
Other purposes - Parks and Recreation District Fund	192,842	-	192,842	-
Other purposes - General Fund - SD Public Assurance Alliance	289,712	-	289,712	-
Other purposes - component unit Unrestricted	(3,812,835)	9,859,685	6,046,850	2,781,717
Total net position	<b>87,745,396</b>	<b>41,252,238</b>	<b>128,997,634</b>	<b>5,332,153</b>
	<b>\$ 113,305,273</b>	<b>\$ 71,439,231</b>	<b>\$ 184,744,504</b>	<b>\$ 6,774,503</b>

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

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

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

	Park and Recreation Fund		Special Sales Tax Fund		Other Governmental Funds		Total Governmental Funds
	General Fund						
<b>Revenue</b>							
<b>310 Taxes:</b>							
311 General property taxes	\$ 6,718,709	\$ -	\$ -	\$ 1,542,244		\$ 8,260,953	
312 Airfield property taxes	-	-	-	26,021		26,021	
313 General sales and use taxes	8,251,886	-	-	941,255		17,107,411	
319 Penalties and interest on delinquent taxes	18,229	-	-	1,479		19,708	
<b>320 Licenses and permits:</b>	<b>456,827</b>	-	-	-	-	-	<b>456,827</b>
<b>330 Intergovernmental revenue:</b>							
331 Federal grants	428,902	11,500	177,900	1,337,615		1,955,977	
334 State grants	79,229	-	591,524	83,594		754,447	
335 State shared revenue:							
335.0 Motor vehicle tax	79,257	-	-	-	-	79,257	
335.03 Motor vehicle commercial prorate	27,492	-	-	-	-	27,492	
335.05 Liquefied carbon dioxide	156,987	-	-	-	-	156,987	
335.06 Motor vehicle licenses (%5)	127,481	-	-	-	-	127,481	
335.08 Fire insurance premiums reversion	63,402	-	-	-	-	63,402	
335.09 Motor government highway and bridge fund	466,863	-	-	-	-	466,863	
335.20 Other	113,602	-	-	-	-	113,602	
336 State payments in lieu of taxes	5,405	-	-	-	-	-	5,405
338 County shared revenue:							
338.02 County HIRR tax (25%)	20,440	-	-	-	-	-	20,440
338.03 County fuel tax	8,532	-	-	-	-	-	8,532
<b>340 Charges for goods and services:</b>							
341 General services	62,256	-	-	-	-	-	62,256
342 Public safety	76,540	-	-	-	-	-	76,540
343 Highways and streets	128,775	-	-	-	-	-	128,775
344 Sanitation	1,194,737	-	-	-	-	-	1,194,737
345 Health	8,020	-	-	-	-	-	8,020
346 Culture and recreation	3,448	609,352	-	487,362		1,682,099	
347 Cemetery	-	-	-	-	-	-	4,000
349 Other	184,615	-	-	-	-	-	184,615
<b>350 Fines and forfeitures:</b>							
351 Civil fines and costs	29,353	-	-	-	-	-	29,353
354 Library	-	-	-	-	-	-	16,488
359 Other	613	-	-	-	-	-	1,172
<b>360 Miscellaneous revenue:</b>							
361 Investment earnings	5,100	92	576	17,075		22,993	
362 Rentals	197,278	-	-	-	-	207,365	
367 Contributions and donations from private sources	16,591	-	\$ 649	238,860		261,250	
369 Other	23,229	-	5,041	-	181	30,451	
<b>Total revenues</b>	<b>18,951,728</b>	<b>620,944</b>	<b>8,694,980</b>	<b>5,820,710</b>		<b>34,886,362</b>	
<b>Expenditures:</b>							
<b>410 General government:</b>							
412 Executive	429,768	-	-	-	-	-	429,768
414 Financial administration	959,264	-	-	-	-	-	959,264
419 Other	1,255,273	-	6,045	-	-	-	1,261,318
<b>Total general government</b>	<b>2,644,305</b>	-	-	-	-	-	<b>2,651,310</b>

See Notes to Financial Statements

#### **See Notes to Financial Statements**

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

**City of Aberdeen**

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

	General Fund	Park and Recreation Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds	Total
420 Public safety:						
421 Police	3,836,951	-	-	-	3,836,951	
422 Fire	2,323,844	-	-	-	2,323,844	
423 Protective inspection	179,182	-	-	-	179,182	
429 Other protection	-	-	263,325	-	263,325	
<b>Total public safety</b>	<b>6,330,977</b>	<b>-</b>	<b>263,325</b>	<b>-</b>	<b>6,594,302</b>	
430 Public works:						
431 Highways and streets	2,318,276	-	4,195,752	401,918	6,915,946	
432 Sanitation	1,171,052	-	261,059	-	1,432,111	
433 Water	-	-	135,369	-	135,369	
435 Airport	-	-	-	1,562,928	1,562,928	
436 Parking facilities	-	-	-	50,256	50,256	
437 Cemeteries	-	-	-	2,559	2,559	
439 Transit	577,970	-	-	-	577,970	
<b>Total public works</b>	<b>4,067,298</b>	<b>-</b>	<b>4,392,380</b>	<b>2,417,661</b>	<b>11,077,339</b>	
440 Health and welfare:						
445 Drug education	54,574	-	-	-	54,574	
449 Other	27,435	-	-	-	27,435	
<b>Total health and welfare</b>	<b>81,959</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>81,959</b>	
450 Culture and recreation						
451 Recreation	26,322	2,574,932	-	394,944	2,996,198	
452 Parks	-	1,447,911	-	474,818	2,244,196	
453 Libraries	954,294	-	954,294	-	1,173,779	
457 Historical preservation	-	-	-	2,815	2,815	
<b>Total culture and recreation</b>	<b>980,616</b>	<b>4,022,843</b>	<b>526,375</b>	<b>880,504</b>	<b>6,410,538</b>	
460 Conservation and development:						
465 Economic development and assistance (industrial development)	2,602,673	-	405,000	1,032,808	4,040,481	
<b>Total conservation and development</b>	<b>2,602,673</b>	<b>-</b>	<b>405,000</b>	<b>1,032,808</b>	<b>4,040,481</b>	
470 Debt service:						
<b>Total expenditures</b>	<b>16,739,913</b>	<b>4,076,415</b>	<b>5,793,325</b>	<b>7,321,461</b>	<b>33,951,114</b>	
Excess of Revenue over (under) Expenditures	2,191,815	(3,455,471)	2,901,655	(1,500,731)	137,248	
Other Financing Sources (Uses)						
391-01 Transfers in	492,360	3,435,710	-	2,286,923	6,643,209	
511 Transfers out	(3,942,310)	-	(2,008,000)	(232,066)	(6,182,396)	
391-03 Sale of municipal property	25,280	-	-	-	25,280	
391-04 Compensation for loss or damage to capital assets	57,117	-	-	200	57,117	
<b>Total other financing sources (uses)</b>	<b>(3,367,667)</b>	<b>3,435,710</b>	<b>(1,579,580)</b>	<b>2,055,557</b>	<b>543,916</b>	
<b>Net Change in Fund Balances</b>	<b>(1,175,852)</b>	<b>(19,761)</b>	<b>1,321,971</b>	<b>554,806</b>	<b>681,164</b>	
<b>Fund Balance - Beginning</b>	<b>2,499,959</b>	<b>333,210</b>	<b>(602,759)</b>	<b>3,784,523</b>	<b>6,015,933</b>	
<b>Fund Balance - Ending</b>	<b>\$ 1,315,107</b>	<b>\$ 313,449</b>	<b>\$ 719,312</b>	<b>\$ 4,349,329</b>	<b>\$ 6,697,097</b>	

See Notes to Financial Statements

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	Water Fund	Sewer Fund	Other Enterprise Funds	Total	Internal Service Funds
Assets					
Current Assets					
Cash and cash equivalents	\$ 4,613,217	\$ 356,007	\$ 8,358,753	\$ 402,563	
151 Investments receivable	950,732	1,172,008	2,121,650	600,000	
115 Accounts receivable, net	53,566	43,103	175,659	272,338	
117 Unbilled accounts receivable	317,825	291,973	609,798	4,507	
121 Special assessments receivable, current	4,507	-	-	4,507	
132 Due from federal/state/county governments	4,393	-	-	4,393	
141 Inventory of supplies	3,162	-	-	3,162	
Total current assets	350,630	33,691	-	364,321	
Noncurrent Assets	5,074,052	61,152,204	511,666	11,740,922	1,002,563
157 Unamortized discounts on bonds sold	128,529	-	-	128,529	
159 Deferred charges	34,197	-	-	34,197	
Capital assets:					
160 Land	311,427	59,469	350,500	721,396	
162 Buildings	27,775,644	32,363,857	1,012,117	61,151,618	
164 Improvements other than buildings	15,376,112	9,511,331	954,705	25,845,348	
166 Machinery and equipment	4,010,531	1,570,250	1,284,925	6,874,706	
Less accumulated depreciation	(19,357,673)	(14,557,059)	(1,140,726)	(35,054,485)	
Total noncurrent assets	28,287,717	28,948,071	2,461,521	59,698,309	-
	\$ 35,362,769	\$ 55,105,275	\$ 2,973,187	\$ 71,439,231	\$ 1,002,563

See Notes to Financial Statements

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	Water Fund	Sewer Fund	Other Enterprise Funds	Total	Internal Service Funds
Liabilities					
Current Liabilities					
201 Claims payable	\$ 3,528	\$ 110,335	\$ 53,227	\$ 3,528	\$ 105,930
202 Accounts payable	125,418	-	-	125,418	\$ 51,595
213 Incurred but not reported claims	-	-	-	-	
215 Accrued interest payable	64,465	83,033	-	147,498	
216 Accrued wages payable	25,676	18,770	19,494	63,640	
222 Revenue collected in advance	18,915	-	-	18,915	
226 Bonds payable current:					
226.02 Revenue	975,440	813,754	-	1,789,314	-
Total current liabilities	1,213,442	1,025,812	72,721	2,311,975	157,525
Noncurrent Liabilities					
231 Bonds payable:	13,658,676	14,695,521	23,572	27,754,297	-
231.02 Revenue	57,599	39,340	-	120,721	
233 Accrued wage payable	-	-	-	-	
Total noncurrent liabilities	13,116,595	14,734,661	23,572	27,875,018	-
Net Position					
253.10 Net investment in capital assets:	14,091,875	13,438,377	2,461,521	29,991,973	-
253.20 Restricted net position, restricted for:					
231.02 Revenue	4,940,867	4,400,380	415,373	14,040,580	
231.09 Restricted net position				9,855,665	845,038
Total net position	19,032,742	19,342,602	2,876,894	41,255,238	845,038
	\$ 33,462,769	\$ 35,103,275	\$ 2,973,187	\$ 71,439,231	\$ 1,002,563

See Notes to Financial Statements

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#### Note 1 - Summary of Significant Accounting Policies

##### A. Financial Reporting Entity

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

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

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

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

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

##### B. Basis of Presentation

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

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

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

##### Proprietary Funds

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

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

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

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

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

The City reports the following major governmental funds:

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

##### Government-Wide Financial Statements

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

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

##### Fund Financial Statements

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

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

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

##### Governmental Funds

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

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

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

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

The City reports the following Major Enterprise Funds:

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

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

##### Fiduciary Funds

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

##### C. Measurement Focus and Basis of Accounting

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

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

In the fund financial statements, the governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers significant revenues reported in the governmental funds to be available if the revenues are collected within twenty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

#### D. Receivables

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

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

#### E. Inventory

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

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

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

#### F. Capital Assets

##### Primary Government

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

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

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

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

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

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

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

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

#### Component Unit

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

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

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

#### G. Long-Term Liabilities

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

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

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

#### H. Program Revenues

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

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

#### I. Deferred Revenue

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

#### J. Cash Flows

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

#### K. Equity Classifications

##### Government-Wide Statements

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

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

#### Fund Financial Statements

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

#### L. Application of Net Position

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

#### M. Fund Balance Classification Policies and Procedures

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

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

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

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

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

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

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

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

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

#### Deposits - Primary Government

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

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

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

Major Special Revenue Fund	Revenue Source
Special Sales Tax Fund	Sales taxes
Park and Recreation Fund	Activity fees

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

Fund Balances	General Fund	Park and Recreation Fund	Special Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable:					
Public assurance alliance reserve	\$ 289,712	\$ -	\$ -	\$ 6,195	\$ 289,712
Inventory	-	-	-	50,000	50,000
Cemetery perpetual care	-	-	-	-	-
Restricted:					
Promotion	-	-	-	23,702	23,702
Park and recreation	-	313,449	-	313,449	313,449
Park and recreation trust	-	-	-	592,375	592,375
Business improvement district	-	-	-	170	170
Parking	-	-	-	192,842	192,842
Storm water maintenance	-	-	-	133,759	133,759
Library fines	-	-	-	79,215	79,215
Landmark commission	-	-	-	14,388	14,388
Debt service reserve	-	-	-	2,226,860	2,226,860
Cemetery perpetual care	-	-	-	133,593	133,593
Committed:					
Special sales tax	-	-	719,212	-	719,212
Assigned:					
Assigned to next year's budget	425,100	-	-	425,100	425,100
Cemetery improvement	-	-	-	6,226	6,226
Airport	-	-	-	858,385	858,385
Unassigned	600,295	-	-	-	600,295
Total fund balances	<u>\$ 1,315,107</u>	<u>\$ 313,449</u>	<u>\$ 719,212</u>	<u>\$ 4,349,329</u>	<u>\$ 6,697,097</u>

#### N. Rounding

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

#### O. Recent Accounting Pronouncements

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

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

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

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

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

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

#### Investments – Primary Government

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

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

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

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

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

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

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

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

#### Deposits - Component Unit

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

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

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

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

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

#### Note 5 – Changes in Capital Assets

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

Primary Government	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 8,732,521	\$ 417,639	\$ (557,253)	\$ 9,190,160
Construction work in progress	357,253	415,734		415,734
Total capital assets, not being depreciated	<u>9,289,774</u>	<u>833,373</u>	<u>(557,253)</u>	<u>9,565,894</u>
Capital assets, being depreciated:				
Buildings	35,197,927	68,976		35,266,903
Improvements other than buildings	99,207,119	3,188,341	(291,875)	102,103,585
Machinery and equipment	15,256,778	650,415	(329,420)	15,577,773
Total	<u>149,661,824</u>	<u>3,907,732</u>	<u>(621,295)</u>	<u>152,948,261</u>
Less accumulated depreciation for:				
Buildings	(8,939,442)	(701,865)		(9,641,208)
Improvements other than buildings	(36,798,891)	(3,188,511)		(39,695,537)
Machinery and equipment	(10,302,830)	(960,425)	239,142	(11,024,113)
Total accumulated depreciation	<u>(56,041,063)</u>	<u>(4,859,812)</u>	<u>531,017</u>	<u>(60,360,858)</u>
Total capital assets, being depreciated, net	<u>93,620,761</u>	<u>(943,080)</u>	<u>(90,278)</u>	<u>92,587,403</u>
Governmental activity capital assets, net	<u><u>\$ 102,910,535</u></u>	<u><u>\$ (109,707)</u></u>	<u><u>\$ (647,531)</u></u>	<u><u>\$ 102,153,297</u></u>
Depreciation expense was charged to functions as follows:				
Governmental activities:				
General government				\$ 100,161
Public safety				407,725
Public works				3,526,483
Culture and recreation				816,443
Total depreciation expense - governmental activities				<u><u>\$ 4,850,812</u></u>

#### Investments – Component Unit

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

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

#### Note 3 – Property Taxes

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

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

General Fund	\$ 5.600
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#### Note 4 – Due from Other Governments

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

Primary Government	Balance 01/01/12	Increases	Decreases	Balance 12/31/12
<b>Business-Type Activities:</b>				
Capital assets, not being depreciated:				
Land, not depreciated	\$ 721,396	\$ -	\$ -	\$ 721,396
Total capital assets, not being depreciated	<u>721,396</u>	<u>-</u>	<u>-</u>	<u>721,396</u>
Capital assets, being depreciated:				
Buildings	61,151,618	-		61,151,618
Improvements other than buildings	25,579,258	315,710	(52,639)	25,442,348
Machinery and equipment	6,808,861	200,544	(134,699)	6,674,706
Total	<u>93,539,737</u>	<u>516,263</u>	<u>(187,328)</u>	<u>93,668,672</u>
Less accumulated depreciation for:				
Buildings	(18,096,309)	(1,187,719)		(19,284,028)
Improvements other than buildings	(11,845,894)	(496,247)		(12,289,512)
Machinery and equipment	(3,170,767)	(450,366)	140,188	(3,480,945)
Total accumulated depreciation	<u>(33,12,970)</u>	<u>(2,134,332)</u>	<u>192,817</u>	<u>(35,054,485)</u>
Total capital assets, being depreciated, net	<u>60,426,767</u>	<u>(1,618,669)</u>	<u>5,489</u>	<u>58,814,187</u>
Business-type activity capital assets, net	<u><u>\$ 61,148,163</u></u>	<u><u>\$ (1,618,069)</u></u>	<u><u>\$ 5,489</u></u>	<u><u>\$ 59,535,583</u></u>
Depreciation expense was charged to functions as follows:				
Business-type activities:				
Water				\$ 1,010,830
Sewer				951,661
Campground				41,922
Golf				52,007
Ambulance				76,342
Total depreciation expense - business-type activities				<u><u>\$ 2,134,332</u></u>

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

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

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

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

**Note 6 - Long-Term Liabilities**

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

Primary Government	January 1, 2012	Increases	Decreases	December 31, 2012	Due Within One Year	Interest Paid
Governmental activities:						
Tax increment revenue bonds #2	\$ 2,770,000	\$ -	\$ (11,600)	\$ 2,655,200	\$ 105,000	\$ 14,600
Tax increment revenue bonds #4	1,099,792	-	(7,062)	992,341	7,948	6,546
Tax increment revenue bonds #6	1,197,315	-	(256,315)	907,477	205,239	73,506
Tax increment revenue bonds #8	3,273,339	-	(256,315)	3,018,441	176,767	
Sales tax revenue bonds, EZ-Liner	1,000,000	-	(165,000)	835,000	205,000	33,577
Sales tax revenue bonds, aquatic center	5,925,000	-	(310,000)	5,615,000	325,000	278,120
Sales tax revenue bonds, public safety building	8,540,000	-	(380,000)	8,160,000	395,000	354,168
Sales tax revenue bonds, campground expansion	540,000	-	(30,000)	510,000	30,000	20,213
Compensated absences	561,188	853,284	(84,211)	1,230,261	560,261	-
Installment purchase contract, log loader	23,049	-	(25,049)	-	-	1,127
Installment purchase contract, mower	49,424	-	(33,470)	25,554	25,554	3,486
Installment purchase contract, striper	102,170	-	(31,085)	31,085	31,085	-
Total government activities	24,909,235	853,284	(2,411,069)	23,351,459	2,087,364	1,154,398
Business-type activities:						
Water sales tax and revenue bonds	14,249,173	12,945,000	(13,153,057)	14,034,116	975,440	424,881
Sever revenue bonds	161,723	2,429	(757,467)	153,994	113,874	405,711
Compensated absences	126,161	209,757	(268,197)	130,721	130,721	-
Total business-type activities	30,585,866	13,197,186	(14,187,211)	29,664,231	1,910,035	830,592
Total primary government	\$ 55,495,101	\$ 14,059,470	\$ (16,539,281)	\$ 53,015,790	\$ 3,997,399	\$ 1,984,990
Component Unit						
Mortgage payable	\$ 1,109,081	\$ -	\$ (80,357)	\$ 1,024,724	\$ 87,460	\$ 91,189
Compensated absences	17,805	3,307	-	21,113	21,113	-
	\$ 1,126,887	\$ 3,307	\$ (80,357)	\$ 1,049,837	\$ 108,573	\$ 91,189

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

**Current Refunding**

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

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

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**Primary Government**

**Tax Increment Revenue Bonds**

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

\$ 2,655,000

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

93,241

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

907,477

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

3,018,841

**Sales Tax Revenue Bonds**

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

1,755,000

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

5,615,000

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

8,160,000

**Sales Tax Revenue Bonds, Parks and Recreation Wylie Park campground expansion**, totaling \$580,000, were issued in 2010. The bonds require annual payments ranging from \$10,000 to \$50,000 beginning December 2010, including interest ranging from 2.5% to 4.25% from the Debt Service Fund, final payment due December 2023.

\$10,000

**Installment Purchase Contracts**

The City entered into a Purchase Agreement for \$49,424 with Western Finance & Lease of Devils Lake, ND in 2011 to purchase a mower for the Parks, Recreation & Forestry Department. This debt requires annual payments of \$27,356 (this payment includes the interest at 6.83%) from the Park and Recreation Fund beginning in March 2012, final payment due March 2013.

25,554

The City entered into a Purchase Agreement for \$102,170 with EZ-Liner Industries of Orange City, IA, in 2011 to purchase a stripper for the Traffic Control Department. This debt requires annual payments of \$51,085 at 0% interest from the General Fund beginning in May 2012, final payment due May 2013.

51,085

**Water Revenue Bonds**

The City passed Resolution 03-05-04R, amended in January 2004, to enter into a "Drinking Water State Revolving Fund" loan agreement for up to \$16,760,000 in July 2003. The debt on the loan agreement totaling \$16,484,258, requires quarterly payments ranging from \$132,666 to \$287,756 beginning July 2006, including interest at 3.5% from the Water Fund, final payment due April 2026. In 2012, \$12,945,000 of bonds were issued to refund \$12,696,325 of the loan agreement balance remaining. The bonds require annual payments ranging from \$865,000 to \$1,065,000 beginning April 2013, including interest ranging from 1.00% to 2.90% from the Water Fund, final payment due April 2026.

12,945,000

**Water Sales Tax Revenue Bonds**

The City passed Ordinance 09-08-04, to enter into a "Drinking Water State Revolving Fund" loan agreement for up to \$1,750,000 in September 2009. The debt on the loan agreement totaling \$1,197,106, requires quarterly payments ranging from \$26,771 to \$33,317 beginning January 2012, including interest at 2.25% from the Water Fund, final payment due October 2021.

1,089,116

**Sewer Revenue Bonds**

The City passed Resolution 05-02-02R, to enter into a "Clean Water State Revolving Fund" loan agreement for up to \$13,218,859 in April 2005. As of December 31, 2012, the amount drawn on the loan was \$13,218,859, currently requiring quarterly payments ranging from \$92,976 to \$208,617 beginning January 2008, including interest at 2.25% from the Sewer Fund, final payment due October 2027.

10,658,178

The City passed Resolution 07-04-04R, to enter into a "Clean Water State Revolving Fund" loan agreement for up to \$6,000,000 in April 2007. The debt on the loan agreement totaling \$5,201,739, requires quarterly payments ranging from \$53,247 to \$90,410 beginning July 2010, including interest at 3.25% from the Sewer Fund, final payment due April 2030.

4,851,316

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**Component Unit**

Sherman Apartments - SDHDA Project No. SD 99-H001-089, 8.5% mortgage payable in monthly installments of \$14,295, including principal and interest, through May 2021      \$ 1,028,724

The debt instruments for both the Water Revenue Bonds and Sewer Revenue Bonds, which were issued for the purpose of improving each system, contain provisions which pledge the future revenues of the respective drinking water and wastewater systems as security for the principal and interest payments on the related debt. The amount of the revenue pledged approximates the remaining principal and interest payments on the Water Revenue and Sewer Revenue Bonds, which will not be available for other purposes until approximately 2026 and 2030, respectively. Approximately 100% of each system's usage and service revenues are considered pledged. For the Water Revenue Bonds, principal and interest paid and total customer revenues for 2012 were \$881,613 and \$5,003,993, respectively. For the Sewer Revenue Bonds, principal and interest paid and total customer revenues for 2012 were \$1,163,178 and \$3,127,326, respectively.

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

**Tax Incremental Revenue Bonds**

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

In October 2003, the City passed a resolution creating Tax Increment District No. 4. In February 2004, a resolution was passed authorizing the issuance of Tax Increment Revenue Bonds for District No. 4 in the amount of \$136,829. Bonds in the amount \$136,829 have been issued with the proceeds used to liquidate liabilities arising from public improvements relating to the Tax Increment District No. 4. Incremental property taxes were projected to produce 107% of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds is \$126,073, payable through August 2021. For 2012, principal and interest paid and total incremental property tax revenues were \$14,008 and \$13,125, respectively.

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

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

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

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

Year Ending December 31	Tax Increment Revenue Bonds		Sales Tax Revenue Bonds		Installment Purchase Contracts	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 495,464	\$ 304,625	\$ 955,000	\$ 665,188	\$ 76,639	\$ 1,802
2014	524,656	325,077	990,000	632,265	-	-
2015	553,361	243,763	1,025,000	597,565	-	-
2016	587,672	210,586	1,065,000	559,760	-	-
2017	609,470	175,447	1,105,000	510,281	-	-
2018-2022	2,231,000	562,504	5,795,000	1,805,000	-	-
2023-2027	1,628,236	376,612	5,105,000	580,142	-	-
2028-2031	290,000	-	-	-	-	-
	<b>\$ 6,674,559</b>	<b>\$ 1,829,674</b>	<b>\$ 16,040,000</b>	<b>\$ 5,256,336</b>	<b>\$ 76,639</b>	<b>\$ 1,802</b>

Year Ending December 31	Water Revenue Bonds		Sewer Revenue Bonds		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 975,440	\$ 300,494	\$ 813,874	\$ 389,865	\$ 87,460	\$ 84,084
2014	937,946	288,507	834,479	369,260	95,190	76,354
2015	950,509	274,525	855,622	348,117	103,604	67,940
2016	968,120	238,204	877,171	326,922	112,762	58,792
2017	985,310	220,436	894,580	304,159	122,929	48,815
2018-2022	5,116,282	855,153	4,852,799	1,165,897	500,979	78,922
2023-2027	4,100,000	234,115	5,503,815	514,880	-	-
2028-2031	-	-	872,008	39,441	-	-
	<b>\$ 14,034,116</b>	<b>\$ 2,450,434</b>	<b>\$ 15,509,494</b>	<b>\$ 3,458,041</b>	<b>\$ 1,028,724</b>	<b>\$ 414,897</b>

**City of Aberdeen**  
Notes to Financial Statements  
December 31, 2012

**City of Aberdeen**  
Notes to Financial Statements  
December 31, 2012

**Note 7 - Conduit Debt**

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

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

**Note 8 - Interfund Balances and Activity**

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

From the general fund to parks and recreation fund to supplement other funds sources	\$ 3,126,580
From the general fund to the airport fund to supplement other funds sources	541,750
From the general fund to the golf fund to supplement other funds sources	124,000
From the general fund to the ambulance fund to supplement other funds sources	150,000
From the parks and recreation trust fund to the general fund to supplement other funds sources	31,750
From the parks and recreation trust fund to the parks and recreation fund to supplement other funds sources	8,000
From the special sales tax fund to debt service funds to supplement other funds sources	1,670,000
From the special sales tax fund to the parks and recreation fund to supplement other funds sources	128,000
From the special sales tax fund to the airport fund to supplement other funds sources	21,000
From the special sales tax fund to the water fund to supplement other funds sources	180,000
From the parking fund to the special sales tax fund to supplement other funds sources	192,316
From the water fund to the general fund to supplement other funds sources	239,540
From the water fund to the parks and recreation fund to supplement other funds sources	213,130
From the water fund to the special sales tax fund to supplement other funds sources	180,000
From the water fund to the airport fund to supplement other funds sources	3,748
From the water fund to the storm water maintenance fund to supplement other funds sources	1,425
From the water fund to the sewer fund to supplement other funds sources	183,26
From the water fund to the golf fund to supplement other funds sources	98,591
From the golf fund to the general fund to supplement other funds sources	143,220
From the campground fund to the general fund to supplement other funds sources	30,100
From the golf fund to the special sales tax fund to supplement other funds sources	56,000
From the golf fund to the general fund to supplement other funds sources	12,580
From the ambulance fund to the general fund to supplement other funds sources	35,060
	<b>\$ 7,214,126</b>

**Note 9 - Restricted Net Position**

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

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

**Note 10 - Risk Management**

**Primary Government**

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

**Employee Health Insurance**

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

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

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

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

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

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

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

#### Liability Insurance

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

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

Coverage	Deductible
General liability	\$ 250
Official's liability	2,500
Automobile liability	-
Law enforcement liability	3,000

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

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

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

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

#### Worker's Compensation

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

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

#### Unemployment Benefits

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

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

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

#### Component Unit

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

#### Note 11 - Retirement Plan

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

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

#### Note 12 - Litigation

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

#### Note 13 - Commitments

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

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

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

Required Supplementary Information  
December 31, 2012

**City of Aberdeen**

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

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

	Budgetary Amounts			Variance with Final Budget	
	Original	Final	Actual Amounts (Budgetary Basis)	Positive (Negative)	
<b>Revenues</b>					
310 Taxes:					
311 General property taxes	\$ 6,827,100	\$ 6,827,100	\$ 6,718,709	\$ (106,591)	
313 General sales and use taxes	7,760,000	7,760,000	8,251,886	491,886	
319 Penalties and interest on delinquent taxes	10,000	10,000	15,239	5,229	
320 Licenses and permits	393,500	393,500	456,827	63,327	
330 Intergovernmental revenue:					
331 Federal grants	450,000	450,000	428,902	(21,098)	
334 State grants	65,000	65,000	79,329	14,329	
335 State aids and revenues:					
335.1 Bank franchise tax	60,000	60,000	79,297	19,297	
335.02 Motor vehicle commercial private	22,000	22,000	27,492	5,492	
335.03 Liquor tax transfers	150,000	150,000	136,987	6,987	
335.04 Motor vehicle licenses (3%)	95,000	95,000	127,481	32,481	
335.06 Fire insurance premiums revision	60,000	60,000	61,402	1,402	
335.08 Local government highway and bridge fund	360,000	360,000	466,863	106,863	
335.11 Other	108,500	108,500	113,602	5,102	
336 State payments in lieu of taxes			3,405	5,405	
338 County shared revenue:					
338.02 County HBR tax	20,500	20,500	20,440	(60)	
338.03 County wheel tax	8,500	8,500	8,532	32	
340 Charge for goods and services:					
341 General government	55,500	55,500	62,556	4,056	
342 Parks	84,500	84,500	76,540	(7,960)	
343 Highways and streets	110,000	110,000	128,775	18,775	
344 Sanitation	1,237,000	1,237,000	1,194,737	(42,263)	
345 Health	5,000	5,000	8,020	3,020	
346 Culture and recreation	2,500	2,500	3,448	948	
349 Other	180,250	180,250	184,615	4,265	
350 Fines and forfeits:					
351 Motor fines and costs	35,000	35,000	29,533	(5,647)	
359 Other			613	613	
360 Miscellaneous revenue:					
361 Investment earnings	35,000	35,000	5,190	(29,810)	
362 Rentals	190,000	190,000	192,278	2,278	
367 Contributions and donations from private sources					
369 Other	21,500	21,500	16,991	(4,509)	
	38,500	38,500	25,229	(13,271)	
Total revenues	<b>18,388,150</b>	<b>18,388,150</b>	<b>18,951,728</b>	<b>563,578</b>	
<b>Expenditures</b>					
410 General government:					
411 Legislature:					
411.2 Contingency amount transferred					
411.3 Other					
412 Executive					
414 Financial administration					
419 Other					
Total general government	<b>31,093,350</b>		<b>3,231,350</b>		<b>2,643,505</b>
420 Public safety:					
421 Police					
422 Fire					
423 Protective inspection					
Total public safety	<b>6,414,150</b>		<b>6,600,150</b>		<b>6,330,977</b>
430 Public works:					
431 Highways and streets					
432 Sanitation					
439 Transit					
Total public works	<b>4,238,650</b>		<b>4,496,150</b>		<b>4,067,298</b>
440 Health and welfare:					
445 Drug education					
449 Other					
Total health and welfare	<b>63,550</b>		<b>63,550</b>		<b>54,524</b>
450 Culture and recreation:					
451 Recreation					
455 Libraries					
Total culture and recreation	<b>114,125</b>		<b>114,125</b>		<b>81,959</b>
460 Conservation and development:					
463 Economic development and assistance (industrial development)					
Total conservation and development	<b>522,800</b>		<b>2,772,800</b>		<b>2,602,673</b>
470 Debt service					
Total expenditures	<b>51,085</b>		<b>51,085</b>		<b>-</b>
Excess of Revenue over (under) Expenditures	<b>15,524,650</b>		<b>18,345,150</b>		<b>16,759,913</b>
Other Financing Sources (Uses)					
391.01 Transfers in					
391.1 Transfers in					
391.11 Transfers out					
391.12 Sale of municipal property					
391.04 Compensation for loss or damage to capital assets					
	20,000		20,000		57,117
Total other financing sources (uses)	<b>(3,467,100)</b>		<b>(3,379,350)</b>		<b>11,683</b>
Net Change in Fund Balances	<b>(603,600)</b>		<b>(3,336,150)</b>		<b>(1,175,852)</b>
Fund Balance - Beginning	<b>2,490,959</b>		<b>2,490,959</b>		<b>-</b>
Fund Balance - Ending	<b>\$ 1,887,359</b>		<b>\$ (845,391)</b>		<b>\$ 1,315,107</b>
					<b>\$ 2,160,498</b>

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

	Budgetary Amounts			Variance with Final Budget	
	Original	Final	Actual Amounts (Budgetary Basis)	Positive (Negative)	
<b>Revenues</b>					
330 Intergovernmental revenue:					
331 Federal grants	\$ -	\$ -	\$ 11,500	\$ 11,500	
340 Charge for goods and services:					
346 Culture and recreation	595,445	595,445	609,352	13,907	
360 Miscellaneous revenue:					
361 Investment earnings	50	50	92	42	
Total revenues	<b>595,495</b>	<b>595,495</b>	<b>620,944</b>	<b>25,449</b>	
<b>Expenditures</b>					
450 Culture and recreation:					
451 Recreation	2,521,675	2,751,399	2,574,932	176,458	
452 Parks	1,351,825	1,488,439	1,447,911	40,519	
Total culture and recreation	<b>3,873,500</b>	<b>4,239,820</b>	<b>4,022,843</b>	<b>216,977</b>	
470 Debt service					
Total expenditures	<b>53,575</b>		<b>53,575</b>	<b>3</b>	
Excess of Revenue over (under) Expenditures	<b>(3,331,580)</b>		<b>(3,697,900)</b>	<b>(3,455,471)</b>	<b>242,429</b>
Other Financing Sources (Uses)					
391.01 Transfers in	3,261,580	3,509,580	3,435,710	(73,870)	
Total other financing sources (uses)	<b>3,261,580</b>	<b>3,509,580</b>	<b>3,435,710</b>	<b>(73,870)</b>	
Net Change in Fund Balances	<b>(70,000)</b>		<b>(188,320)</b>	<b>(19,761)</b>	<b>168,559</b>
Fund Balance - Beginning	<b>333,210</b>		<b>333,210</b>	<b>333,210</b>	<b>-</b>
Fund Balance - Ending	<b>\$ 263,210</b>		<b>\$ 144,890</b>	<b>\$ 313,449</b>	<b>\$ 168,559</b>
<b>Revenues</b>					
310 Taxes:					
313 General sales and use taxes	\$ 7,400,000	\$ 7,400,000	\$ 7,914,270	\$ 514,270	
330 Intergovernmental revenue:					
331 Federal grants	70,000		70,000		107,500
334 State grants			-		591,524
360 Miscellaneous revenue:					
361 Investment earnings			30,000		576
363 Special assessments			200,000		(29,424)
367 Contributions and donations from private sources			-		(200,000)
369 Other			-		5,041
Total revenues	<b>7,700,000</b>		<b>7,700,000</b>		<b>8,694,980</b>
<b>Expenditures</b>					
410 General government:					
419 Other			50,000		6,045
Total general government	<b>50,000</b>		<b>50,000</b>		<b>43,955</b>
420 Public safety:					
422 Fire			200,000		200,000
429 Other protection			258,300		263,325
Total public safety	<b>458,000</b>		<b>463,500</b>		<b>200,175</b>
430 Public works:					
431 Highways and streets			4,235,800		6,185,800
432 Sanitation			210,200		285,900
433 Water			202,200		135,569
Total public works	<b>4,548,000</b>		<b>6,673,000</b>		<b>4,392,380</b>
440 Culture and recreation:					
452 Parks			399,800		361,617
455 Libraries			100,000		180,300
Total culture and recreation	<b>499,800</b>		<b>621,300</b>		<b>526,575</b>
460 Conservation and development:					
465 Economic development and assistance (industrial development)			405,200		405,000
Total conservation and development	<b>405,200</b>		<b>405,200</b>		<b>200</b>
Total expenditures	<b>5,961,000</b>		<b>\$ 213,000</b>		<b>\$ 5,793,325</b>
Excess of Revenue over (under) Expenditures	<b>1,739,000</b>		<b>(513,000)</b>		<b>2,901,655</b>
Other Financing Sources (Uses)					
391.01 Transfers in			236,000		428,500
391.01 Transfers in			(1,975,000)		(2,015,000)
391.1 Transfers out					
Total other financing sources (uses)	<b>(1,739,000)</b>		<b>(1,586,500)</b>		<b>(1,579,684)</b>
Net Change in Fund Balances	<b>-</b>		<b>(2,099,500)</b>		<b>1,321,971</b>
Fund Balance - Beginning	<b>(602,759)</b>		<b>(602,759)</b>		<b>(602,759)</b>
Fund Balance - Ending	<b>\$ (602,759)</b>		<b>\$ (2,702,259)</b>		<b>\$ 719,212</b>

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**City of Aberdeen**  
 Notes to Required Supplementary Information  
 Year Ended December 31, 2012

**Note 1 - Budgets and Budgetary Accounting**

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

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

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

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

- 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.
- Budgets for the General Fund and special revenue funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

**Note 2 - Budget Reconciliation**

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

Supplementary Information  
 December 31, 2012  
**City of Aberdeen**

	Provisions Fund	Debt Revolving Fund	General Revenue Fund	Debt Service Fund	Alumni Fund	Parking District Fund	Domestic Mortgage Fund	Library Fund	Abraham Lincoln Centennial Fund
<b>Assets</b>									
Cash and cash equivalents	\$ -	\$ 601,600	\$ 4,216	\$ -	\$ 103,314	\$ 191,182	\$ 72,151	\$ 74,218	\$ 14,306
111 Due from treasury	-	-	-	-	1,740	19,421	1,294	-	-
110 Taxes receivable, Ad Valorem	-	-	-	-	-	21,941	16,546	-	-
112 Taxes receivable, Non-Ad Valorem	-	-	-	-	-	-	16,546	-	-
113 Due from previous fiscal	-	-	-	-	-	-	37,973	-	-
112 Due from State/County government	106,025	1,843	-	-	279,732	-	-	-	-
211 Inventory of supplies	-	-	-	-	-	-	6,394	-	-
	<b>\$ 160,347</b>	<b>\$ 611,443</b>	<b>\$ 6,216</b>	<b>\$ 1,740</b>	<b>\$ 407,214</b>	<b>\$ 129,976</b>	<b>\$ 117,006</b>	<b>\$ 70,215</b>	<b>\$ 14,306</b>
<b>Liabilities and Fund Balances</b>									
<b>Liabilities</b>									
202 Accrued payable	\$ 2,500	\$ 13,437	\$ -	\$ -	\$ 173,237	\$ 124	\$ 13,215	\$ -	\$ -
203 Accrued payable - vendor's percentage	-	-	-	-	31,817	-	-	-	-
205 Due to place water maintenance fund	57,975	-	-	-	-	-	-	-	-
206 Due to place water utility fund	-	-	5,411	-	-	9,377	-	4,610	-
221 Deferred revenue	76,070	-	-	-	-	-	-	-	-
	<b>136,045</b>	<b>759,8</b>	<b>5,416</b>	<b>1,740</b>	<b>210,881</b>	<b>124</b>	<b>13,212</b>	<b>6,394</b>	<b>14,306</b>
<b>Total liabilities</b>									
<b>Fund Balances</b>									
203 Net temporary deficit	33,700	\$ 992,375	-	1,740	-	292,842	-	6,395	70,215
204 Unreserved	-	-	4,216	-	819,312	-	-	132,759	-
205 Ad Valorem	-	-	-	-	-	-	-	-	14,306
	<b>33,700</b>	<b>\$ 992,375</b>	<b>\$ 4,216</b>	<b>1,740</b>	<b>\$ 819,312</b>	<b>292,842</b>	<b>-</b>	<b>6,395</b>	<b>70,215</b>
<b>Total fund balances</b>									
	<b>\$ 160,347</b>	<b>\$ 611,443</b>	<b>\$ 6,216</b>	<b>\$ 1,740</b>	<b>\$ 407,214</b>	<b>\$ 129,976</b>	<b>\$ 117,006</b>	<b>\$ 70,215</b>	<b>\$ 14,306</b>

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

	Previous Year	Actual Results Year	Estimated Improvement Year	Budget Improvement Budget Year	Actual Year	Budget Year	Share Price Maintenance Year	Labor Year	Absolute Earnings Growth Year	Tax Income Share Year
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenues</b>										
200 Taxes										
210 General property taxes	\$	\$	\$	\$	\$ 42,780	\$	\$ 33,934	\$	\$	\$ 110,410
211 Utility property taxes										
212 Residential property taxes										
213 Commercial property taxes										
215 Personal and real property taxes					\$ 101		\$ 101			\$ 2
210 Intersegment revenue										
211 Intersegment revenue					\$ 12,364					\$ 4,615
212 Intercompany revenue										
213 Intersegment revenue										
240 Charges for goods and services										
241 Materials										
242 Equipment										
243 Direct labor										
244 Other										
250 Other										
251 Other										
252 Other										
253 Other										
251 Other and related										
252 Other										
253 Other and related										
254 Other										
Total revenues	\$ 20,264	\$ 20,437	\$ 2,361	\$ 2,370	\$ 1,821,299	\$ 1,913,473	\$ 49,143	\$ 1,569	\$ 2,454	\$ 355,110
<b>Expenses</b>										
430 Public works										
431 Construction and maintenance										
4311 Airport										
4312 Roads										
4313 Bridges										
4314 Canals										
4315 Construction										
4316 Utilities										
4317 Sewerage										
4318 Parks										
4319 Other										
4320 Other										
4330 Other and related										
4340 Other										
Total public works					\$ 2,359					
431 Other and maintenance										
4311 Other										
4312 Maintenance										
4313 Other										
4314 Other and related										
4315 Other										
Total other and maintenance					\$ 101					
432 Other										
4321 Other										
4322 Other										
4323 Other										
4324 Other										
Total other					\$ 101					
433 Other and related										
4331 Other										
4332 Other										
4333 Other										
4334 Other										
Total other and related					\$ 101					
434 Other										
4341 Other										
4342 Other										
4343 Other										
4344 Other										
Total other					\$ 101					
435 Other										
4351 Other										
4352 Other										
4353 Other										
4354 Other										
Total other					\$ 101					
436 Other and related										
4361 Other										
4362 Other										
4363 Other										
4364 Other										
Total other and related					\$ 101					
437 Other										
4371 Other										
4372 Other										
4373 Other										
4374 Other										
Total other					\$ 101					
438 Other										
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Total other					\$ 101					
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Total other					\$ 101					
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Total other					\$ 101					
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4564 Other										
Total other					\$ 101					
457 Other										
4571 Other										
4572 Other										
4573 Other										
4574 Other										
Total other					\$ 101					
458 Other										
4581 Other										
4582 Other										
4583 Other										
4584 Other										
Total other					\$ 101				</	

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

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

	Enterprise Funds			
	Campground Fund	Golf Fund	Ambulance Fund	Total Nonmajor Enterprise Funds
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 92,386	\$ 61,051	\$ 182,570	\$ 336,007
115 Accounts receivable, net	-	-	175,659	175,659
Total current assets	92,386	61,051	358,229	511,666
<b>Noncurrent Assets</b>				
Capital assets:				
160 Land		350,500	-	350,500
162 Buildings	826,419	188,698	-	1,012,117
164 Improvements other than buildings	731,927	223,778	-	954,705
166 Machinery and equipment	19,750	437,975	827,200	1,284,925
Less accumulated depreciation (credit)	(225,419)	(550,895)	(364,412)	(1,140,726)
Total noncurrent assets	1,351,677	647,056	462,788	2,461,521
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Liabilities</b>				
<b>Current Liabilities</b>				
202 Accounts payable	\$ 3,654	\$ 9,775	\$ 39,798	\$ 53,227
216 Accrued wages payable	85	2,262	17,147	19,494
Total current liabilities	3,739	12,037	56,945	72,721
<b>Noncurrent Liabilities</b>				
233 Accrued leave payable	-	1,407	22,165	23,572
Total noncurrent liabilities	-	1,407	22,165	23,572
<b>Net Position</b>				
251.10 Net investment in capital assets	1,351,677	647,056	462,788	2,461,521
253.90 Unrestricted net position	88,647	47,607	279,119	415,373
Total net position	1,440,324	694,663	741,907	2,876,894
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**City of Aberdeen**  
 Combining Statement of Revenues, Expenses and Changes in Net Position—Nonmajor Enterprise Funds  
 Year Ended December 31, 2012

	Enterprise Funds			
	Campground Fund	Golf Fund	Ambulance Fund	Total Nonmajor Enterprise Funds
<b>Operating Revenue</b>				
380 Charges for goods and services	\$ 328,546	\$ 369,825	\$ 770,129	\$ 1,468,500
369 Miscellaneous	-	-	33,741	33,741
Total operating revenue	328,546	369,825	803,870	1,502,241
<b>Operating Expenses</b>				
410 Personal services	65,705	159,474	658,528	883,707
420 Other current expenses	119,884	364,353	253,754	737,991
457 Depreciation	43,492	52,007	75,342	171,841
Total operating expenses	229,081	575,834	988,624	1,793,539
<b>Operating Income (Loss)</b>	<b>99,465</b>	<b>(206,009)</b>	<b>(184,754)</b>	<b>(291,298)</b>
<b>Nonoperating Revenue</b>				
361 Investment earnings	89	20	78	187
(492) 366 Gain (Loss) on disposition of assets	(43)	-	(2,392)	(2,435)
(429) 369.0.1 Other	7,250	246	-	7,496
Total nonoperating revenue (expense)	7,296	266	(2,314)	5,248
<b>Income (Loss) Before Contributions, Special Items and Extraordinary Items</b>	<b>106,761</b>	<b>(205,743)</b>	<b>(187,068)</b>	<b>(286,050)</b>
397.0.7 Capital contributions	-	16,205	-	16,205
391.1 Transfers in	-	222,591	150,000	372,591
511 Transfers out	(86,100)	(12,580)	(35,060)	(133,740)
Change in Net Position	20,661	20,473	(72,128)	(30,994)
<b>Net Position - Beginning</b>	<b>1,419,662</b>	<b>674,190</b>	<b>814,036</b>	<b>2,907,888</b>
<b>Net Position - Ending</b>	<b>\$ 1,440,323</b>	<b>\$ 694,663</b>	<b>\$ 741,908</b>	<b>\$ 2,876,894</b>

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

	Enterprise Funds			
	Campground Fund	Golf Fund	Ambulance Fund	Total Nonmajor Enterprise Funds
<b>Cash Flows from (used for) Operating Activities</b>				
Receipts from customers	\$ 328,546	\$ 369,825	\$ 758,852	\$ 1,457,223
Payments to suppliers	(121,547)	(276,543)	(235,503)	(527,693)
Payments to employees	(65,028)	(163,760)	(659,644)	(889,032)
Internal activity - payments to other funds	-	(98,591)	-	(98,591)
Other receipts (payments)	-	-	33,741	33,741
<b>Net Cash from (used for) Operating Activities</b>	<b>141,271</b>	<b>(163,069)</b>	<b>(102,554)</b>	<b>(124,352)</b>
<b>Cash Flows from (used for) Noncapital Financing Activities</b>				
Transfers to other funds	-	223,591	150,000	372,591
Other noncapital receipts	(86,100)	(12,580)	(35,060)	(133,740)
<b>Net Cash from (used for) Noncapital Financing Activities</b>	<b>(78,850)</b>	<b>210,257</b>	<b>114,940</b>	<b>246,347</b>
<b>Cash Flows from (used for) Capital and Related Financing Activities</b>				
Capital contributions	-	16,205	-	16,205
Purchase of capital assets	-	(47,672)	-	(47,672)
<b>Net Cash from (used for) Capital and Related Financing Activities</b>	<b>-</b>	<b>(31,467)</b>	<b>(12,287)</b>	<b>(43,754)</b>
<b>Cash Flows from (used for) Investing Activities</b>				
Interest earnings	89	20	78	187
<b>Net Cash from (used for) Investing Activities</b>	<b>89</b>	<b>20</b>	<b>78</b>	<b>187</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>62,510</b>	<b>15,741</b>	<b>177</b>	<b>78,428</b>
<b>Balance - Beginning</b>	<b>29,876</b>	<b>45,310</b>	<b>182,393</b>	<b>257,579</b>
<b>Balance - Ending</b>	<b>\$ 92,386</b>	<b>\$ 61,051</b>	<b>\$ 182,570</b>	<b>\$ 336,007</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from (used for) Operating Activities:</b>				
Operating income (loss)	\$ 99,465	\$ (206,009)	\$ (184,754)	\$ (291,298)
Adjustments to reconcile operating income (loss) to net cash from (used for) operating activities:				
Depreciation expense	43,492	52,007	76,342	171,841
Changes in assets and liabilities:				
Receivables	-	-	(11,277)	(11,277)
Accrued and other payables	(1,763)	(4,781)	18,251	11,707
Accrued wages payable	77	(653)	1,069	513
Accrued leave payable	-	(3,653)	(2,185)	(5,838)
<b>Net Cash from (used for) Operating Activities</b>	<b>\$ 141,271</b>	<b>\$ (163,069)</b>	<b>\$ (102,554)</b>	<b>\$ (124,352)</b>
<b>Noncash Investing, Capital and Financing Activities:</b>				
Loss on disposal of capital assets not affecting operating income	\$ (250)	\$ -	\$ (2,192)	\$ (2,642)
Other	207	-	-	207

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

	Housing and Redevelopment Commission
<b>Operating Activities</b>	
Receipts from tenant payments	\$ 487,323
Receipts for management fees and other	231,446
Payments to employees	(568,301)
Housing assistance payments	(1,505,888)
Payments to suppliers and others	(571,812)
<b>Net Cash used for Operating Activities</b>	<b>(1,927,232)</b>
<b>Noncapital Financing Activities</b>	
HUD grants received	1,688,014
<b>Net Cash from Noncapital Financing Activities</b>	<b>1,688,014</b>
<b>Capital and Related Financing Activities</b>	
Purchase of property and equipment	(176,151)
Payments for interest	(91,189)
Principal payments on long-term debt	(80,357)
<b>Net Cash used for Capital and Related Financing Activities</b>	<b>(347,697)</b>
<b>Investing Activities</b>	
Payments received on notes receivable	20,672
Repayment of advance to limited partnership	13,297
Interest received	87,149
<b>Net Cash from Investing Activities</b>	<b>121,118</b>
<b>Net Change in Cash</b>	<b>(465,797)</b>
<b>Cash Beginning of Year</b>	<b>3,966,217</b>
<b>Cash End of Year</b>	<b>\$ 3,500,420</b>
<b>Cash Consists of:</b>	
Cash	\$ 681,820
Funded security deposits	36,883
Restricted cash	36,263
Restricted deposits	2,743,454
	<b>\$ 3,500,420</b>

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

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

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

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number For Indirect Programs	Expenditures
Environmental Protection Agency Indirect Federal Funding: SD Department of Environment and Natural Resources: Nonpoint Source Implementation Grants	66.460	*****	\$ 20,328 <u>20,328</u>
Total Environmental Protection Agency			
Department of Interior Indirect Federal Funding: SD Department of Tourism and State Development, Historic Preservation Fund Grants-in-Aid	15.904	SD-12-015	<u>2,454</u> <u>2,454</u>
Total Department of Interior			
Department of Transportation Direct Federal Funding: Airport Improvement Program (3-46-0001-30, 31, 32)	20.106	N/A	<u>1,323,055</u>
Indirect Federal Funding: SD Department of Public Safety: Highway Safety Cluster: State and Locally Highway Safety Atmosphere Impaired Driving Countermeasures Incentive Grants	20.600 20.601	***** *****	7,113 <u>555</u> <u>7,668</u>
SD Department of Game, Fish, and Parks: Highway Planning and Construction Cluster	20.219	*****	70,000
SD Department of Transportation: Federal Transit Cluster Federal Capital Investment Grants (Section 5309)	20.500	811102-811173-811019-81099	14,011
Nonurbanized Area Formula Program Formula Grants for Other Than Urbanized Areas (Section 531 & RTPA)	20.509	811122-811123-811194-RTAP	196,210
Transit Service Programs Cluster Capital Assistance Program for Elderly Persons and Persons with Disabilities (Section 5310)	20.513	811174	<u>1,019</u> <u>288,908</u>
Total Department of Transportation			<u>1,611,963</u>
Department of Health and Human Services: Indirect Federal Funding: SD Department of Transportation: Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	811122-811123-811194	<u>17,814</u>
General Services Administration: Indirect Federal Funding: SD Federal Property Agency: Donation of Federal Surplus Personal Property (Note 2)	39.003	*****	<u>12,448</u>
National Endowment for the Arts: Indirect Federal Funding: SD Arts Council: Promotion of the Arts - Partnership Agreements	45.025	*****	<u>12,085</u>
Department of Agriculture: Indirect Federal Funding: SD Department of Agriculture: Cooperative Forestry Assistance	10.664	2011-UCF-009	<u>1,500</u>

**City of Aberdeen**  
**Summary Schedule of Prior Audit Findings**  
**December 31, 2012**

#### Financial Statement Findings

##### 2011-1 Financial Statement Adjustments

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

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

##### Federal Award Program Findings

###### Finding 2011-2 Program Income/Reporting

###### Department of Transportation

Pass-Through Entity – South Dakota Department of Transportation  
Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years Ending September 30, 2011 and 2012

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

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

###### Finding 2011-3 Allowable Costs/Reporting

###### Department of Transportation

Pass-Through Entity – South Dakota Department of Transportation  
Formula Grants for other than Urbanized Areas – CFDA #20.509; Grant Period – Grant Years Ending September 30, 2011 and 2012

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

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

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

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Energy: Direct Federal Funding: ARRA - Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	N/A	<u>59,307</u>
Department of Homeland Security: Direct Federal Funding: Law Enforcement Officer Reimbursement Agreement Program	97.090	N/A	<u>16,364</u>
Indirect Federal Funding: SD Department of Public Safety: Emergency Management Performance Grants Homeland Security Grant Program	97.042 97.067	***** *****	<u>531</u> <u>64,682</u>
Total Department of Homeland Security			<u>81,577</u>
Department of Justice: Direct Federal Funding: Bulldog Vest Partnership Program ARRA - Bulldog Vest Partnership and Community Policing Grants	16.607 16.710	N/A N/A	<u>341</u> <u>109,500</u>
Indirect Federal Funding: SD Department of Public Safety: Enforcing Underage Drinking Laws Program	16.727	*****	<u>10,079</u>
SD Attorney General: Missing Children's Assistance	16.543	2010-MC-CX-K023	<u>5,769</u>
Total Department of Justice			<u>125,859</u>
Total Expenditures of Federal Awards ***** "No" Pass-Through Entity Identifying Number Given			<u>\$ 1,945,165</u>

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

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



CPA & BUSINESS ADVISORS

**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

The City Council  
City of Aberdeen  
Aberdeen, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Aberdeen as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 7, 2013.

#### Internal Control over Financial Reporting

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

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

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



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#### Compliance and Other Matters

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

#### Purpose of this Report

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

*Eide Bailly LLP*

Aberdeen, South Dakota  
June 7, 2013

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

The City Council  
City of Aberdeen  
Aberdeen, South Dakota

#### Report on Compliance for Each Major Federal Program

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

#### Management's Responsibility

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

#### Auditor's Responsibility

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

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

#### Opinion on Each Major Federal Program

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

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#### City of Aberdeen Schedule of Findings and Questioned Costs December 31, 2012

#### Part I – Summary of Auditor's Results

##### Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- \* Material weakness(es) identified?

yes  no

- \* Significant deficiencies identified that are not considered to be material weaknesses?

yes  no  none reported

Noncompliance material to financial statements noted?

yes  no

##### Federal Awards

Internal control over major programs:

- \* Material weakness(es) identified?

yes  no

- \* Significant deficiencies identified that are not considered to be material weaknesses?

yes  no  none reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?

yes  no

Identification of major programs:

CFDA Number(s)

20.106  
20.509

Name of Federal Program or Cluster

Airport Improvement Program  
Formula Grants for Other Than Urbanized Areas

Dollar threshold used to distinguish between type A and type B programs?

\$ 300,000

Auditee qualified as low-risk auditee?

yes  no

#### Part II – Findings Relating to the Financial Statements

None in current year.

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

None in current year.

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## **APPENDIX C - DEFINITIONS**

In this Official Statement the following terms have the following meanings unless the context hereof clearly requires otherwise:

Act shall mean South Dakota Codified Laws, Chapter 11-9, as heretofore and hereafter amended or supplemented.

Bond Account shall mean the account created within the Tax Increment Fund by the Bond Ordinance from which the principal of and interest and premium, if any, on the Bonds are payable.

Bond Counsel shall mean a firm of nationally recognized bond counsel experienced in tax exempt financing selected by the City.

Bond Ordinance shall mean Ordinance No. 13-01-05 adopted by the City Council on January 22, 2013, as amended by Ordinance No. 13-11-01 adopted by the City Council on November 12, 2013.

Bondholder or Holder shall mean the person in whose name a Bond is registered in the Bond Register.

Bonds shall mean the City's Tax Incremental Revenue Bonds, Series 2013, issued in the original principal amount of \$1,695,000 pursuant to the Bond Ordinance.

Business Day shall mean any day other than a Saturday, Sunday, legal holiday or a day on which banking institutions in the City where the principal corporate trust office of the Trustee is located are authorized by law or executive order to close.

City shall mean the City of Aberdeen, South Dakota, its successors and assigns.

Code or Internal Revenue Code shall mean the Internal Revenue Code of 1986, as amended, and all applicable Treasury Regulations.

Council shall mean the City Council of the City or any successor governing body thereof.

Debt Service Reserve Requirement shall mean, as of the date of reference, an amount equal to the maximum amount of Principal and Interest Requirements on the Bonds in the then current or any future Fiscal Year.

District shall mean Tax Incremental District Number Seventeen of the City of Aberdeen as created, established and approved by the Council pursuant to the Act and a resolution adopted October 29, 2012, as amended on December 31, 2012, as such area may from time to time exist.

Fiscal Year shall mean the period commencing on the first day of January of any year and ending on the last day of December of that year, or any other twelve-month period, authorized by law and specified by the City Council as the City's fiscal year.

Interest Payment Date shall mean the Stated Maturity of an installment of interest on any of the Bonds.

Maturity Date shall mean any date on which principal of or interest or premium, if any, on Bonds is due, whether at maturity, on a scheduled interest payment date, or upon redemption or acceleration, or otherwise.

Outstanding shall mean, when used with reference to Bonds, as of the date of determination, all Bonds theretofore issued and delivered under the Bond Ordinance except:

(A) Bonds theretofore canceled by the Registrar or Paying Agent or delivered to the Registrar or Paying Agent canceled or for cancellation.

(B) Bonds for which payment or redemption moneys or securities shall have been theretofore deposited with the Registrar or Paying Agent in trust for the holders of such Bonds; provided,

however, that if such Bonds are to be redeemed, notice of such redemption shall have been duly given pursuant to the Bond Ordinance or irrevocable action shall have been taken to call such Bonds for redemption at a stated redemption date; and

(C) Bonds in exchange for or in lieu of which other Bonds shall have been issued and delivered pursuant to the Bond Ordinance; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned by the City shall be disregarded and deemed not to be Outstanding Bonds.

Owner shall mean with respect to a Bond the person in whose name the Bond is registered in the Bond Register.

Principal and Interest Requirements shall mean, with respect to Outstanding Bonds and for any Fiscal Year, the amount required to pay the principal of and interest on all such Outstanding Bonds during such Fiscal Year, assuming that Outstanding Serial Bonds are to be paid at their Stated Maturities and Outstanding Term Bonds are to be paid on Sinking Fund Payment Dates.

Principal Payment Date shall mean the Stated Maturity of principal of any Serial Bond and the Sinking Fund Payment Date for any Term Bond.

Project Costs shall mean costs which are, under generally accepted accounting principles, capital costs of a Project authorized in accordance with law.

Project Plan shall mean the “Project Plan - Tax Incremental District #17 –Roosevelt and Washington Schools Adaptive Reuse” adopted and approved by the Council pursuant to the Act on October 29, 2012, as amended on December 31, 2012, together with all amendments thereto and supplements thereto whether heretofore or hereafter adopted. Only the Roosevelt Project is being funded with the Bonds. No developer has been found for the Washington Project.

Redemption Account shall mean the account created within the Tax Increment Fund by the Bond Ordinance.

Redemption Date, when used with respect to any Bond to be redeemed, shall mean the date on which it is to be redeemed pursuant hereto.

Registrar or Paying Agent shall mean The First National Bank in Sioux Falls, Sioux Falls, South Dakota.

Reserve Account shall mean the account created within the Tax Increment Fund by the Bond Ordinance.

Stated Maturity when used with respect to any Bond shall mean the date specified in such Bond as the fixed date on which the principal of such Bond is due and payable.

Surplus Account shall mean the account created within the Tax Increment Fund by the Bond Ordinance.

Taxes shall mean all taxes levied on an ad valorem basis by a taxing body against property located within the District.

Tax Increments shall mean the positive tax increments received by the City pursuant to the Act from the extension of levies of Taxes (expressed in dollars per thousand), against the difference between the current taxable valuation of all taxable property within the District and the tax incremental base.

Tax Increment Fund shall mean the account created by Section 4 of the Bond Ordinance.

**APPENDIX D -  
FORM OF BOND COUNSEL OPINION**

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City of Aberdeen  
Aberdeen, South Dakota

Dougherty & Company LLC  
Minneapolis, Minnesota

Re: \$1,695,000 Tax Increment Revenue Bonds, Series 2013  
City of Aberdeen, South Dakota

Ladies and Gentlemen:

We have acted as Bond Counsel to the City of Aberdeen, South Dakota (the City) in connection with the authorization, sale and issuance by the City of the Bonds described above, dated, as originally issued, as of December 30, 2013 (the Bonds). For the purpose of this opinion, we have examined certified copies of certain proceedings taken and certain certificates and affidavits furnished by the City in the authorization, sale and issuance of the Bonds, including (i) the form of the Bonds and (ii) an ordinance adopted by the City Council on January 22, 2013, as amended by an ordinance adopted on November 12, 2013 (as so amended, the Ordinance). From our examination of such proceedings, certificates and affidavits, assuming the authenticity thereof, the genuineness of the signatures thereon and the accuracy of the facts stated therein, and on the basis of federal and South Dakota laws, regulations, rulings and decisions enacted, promulgated or rendered and in effect on the date hereof, in our opinion:

1. The Bonds are valid and binding special obligations of the City enforceable in accordance with their terms. The Bonds are not general obligations of the City and the general credit and taxing powers of the City are not pledged to the payment of the principal thereof or interest thereon.

2. The principal of and interest on the Bonds are payable from the collections of tax increments (the "Tax Increment Revenues") pledged to the Tax Increment Fund established by the City in the Ordinance.

3. Interest on the Bonds: (a) is not includable in gross income for federal income tax purposes; (b) is not an item of tax preference includable in alternative minimum taxable income for purposes of the federal alternative minimum tax applicable to all taxpayers; (c) is includable in adjusted current earnings of corporations in determining alternative minimum taxable income for purposes of the federal alternative minimum tax imposed on corporations; and (d) is includable in gross income for South Dakota tax purposes when the owner is a financial institution as defined in South Dakota Codified Laws, Chapter 10-43.

4. The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the Code), and financial institutions described in Section 265(b)(5) of the Code may treat the Bonds for purposes of Sections 265(b)(2) and 291(e)(1)(B) of the Code as if they were acquired on August 7, 1986.

The opinions expressed in paragraphs 1 and 2 above, are subject as to enforceability to the effect of any state or federal law relating to bankruptcy, insolvency, reorganization, moratorium or creditors' rights and the exercise of judicial discretion.

The opinions expressed in paragraphs 3 and 4 above are subject to the condition of the City's compliance with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon may be, and continue to be, excluded from gross income for federal income tax purposes, and the Bonds be and continue to be qualified tax-exempt obligations. The City has covenanted to comply with these continuing requirements. Its failure to do so could result in the inclusion of interest on the Bonds in federal gross income retroactive to the date of issuance of the Bonds. Except as stated in this opinion, we express no opinion regarding federal, state or other tax consequences to holders of the Bonds.

Dated: December \_\_, 2013.

Very truly yours,

*(This page has been left blank intentionally.)*

## **APPENDIX E - BOOK-ENTRY ONLY SYSTEM**

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organization. DTC is a wholly-owned subsidiary of The Depository Trust and Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Form Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). The foregoing internet addresses are included for reference only and the information on these internet sites is not incorporated by reference herein.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other DTC name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the securities within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, redemption price and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds or corresponding detail information from the City or the Registrar, on each payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, redemption price (if applicable) and interest to Cede & Co., (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bonds are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor depository). In that event, the Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof

## **APPENDIX F - CONTINUING DISCLOSURE COVENANTS**

In order to permit the Underwriter and other participating underwriters in the primary offering of the Bonds to comply with paragraph (b)(5) of Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the “Rule”), the Issuer will covenant and agree in its Continuing Disclosure Undertaking (the “Disclosure Undertaking”), for the benefit of the Owners (as hereinafter defined) from time to time of any Bonds which are Outstanding, to provide annual reports of specified information and notice of the occurrence of certain events, if material, as hereinafter described (the “Disclosure Covenants”). The Issuer is the only “obligated person” in respect of the Bonds within the meaning of the Rule for purposes of identifying the entities in respect of which continuing disclosure must be made.

Breach of the Disclosure Covenants will not constitute a default under the Bonds. A broker or dealer is to consider a known breach of the Disclosure Covenants, however, before recommending the purchase or sale of Bonds in the secondary market. Thus, a failure on the part of the Issuer to observe the Disclosure Covenants may adversely affect the transferability and liquidity of the Bonds and their market price.

As used herein, “Owner” or “Bondowner” means, in respect of a Bond, the registered holder or holders thereof appearing in the bond register maintained by the Registrar or any “Beneficial Owner” (as hereinafter defined) thereof, if such Beneficial Owner provides to the Registrar evidence of such beneficial ownership in form and substance reasonably satisfactory to the Registrar. As used herein, “Beneficial Owner” means, in respect of a Bond, any person or entity which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, such Bond (including persons or entities holding Bonds through nominees, depositaries or other intermediaries), or (b) is treated as the owner of the Bond for federal income tax purposes.

As used herein, a “Material Fact” is a fact as to which a substantial likelihood exists that a reasonably prudent investor would attach importance thereto in deciding to buy, hold or sell a Bond or, if not disclosed, would significantly alter the total information otherwise available to an investor from the Official Statement, information disclosed hereunder or information generally available to the public. Notwithstanding the foregoing sentence, a Material Fact is also an event that would be deemed “material” for purposes of the purchase, holding or sale of a Bond within the meaning of applicable federal securities laws, as interpreted at the time of discovery of the occurrence of the event.

### **Information To Be Disclosed**

The Issuer will provide, in the manner set forth under “Manner of Disclosure” below, either directly or indirectly through an agent designated by the Issuer, the following information at the following times:

#### *Annual Information*

As soon as available, but not later than twelve (12) months after the end of each fiscal year of the Issuer, commencing with the fiscal year ending December 31, 2013, the following financial information and operating data (the “Disclosure Information”):

(A) The audited financial statements of the Issuer for such fiscal year, prepared in accordance with the governmental accounting standards promulgated by the Governmental Accounting Standards Board or as otherwise provided under South Dakota law, as in effect from time to time, or, if and to the extent such financial statements have not been prepared in accordance with such generally accepted accounting principles for reasons beyond the reasonable control of the Issuer, noting the discrepancies therefrom and the effect thereof, and certified as to accuracy and completeness in all material respects by the fiscal officer of the Issuer; and

(B) To the extent not included in the financial statements referred to in paragraph (A) hereof, the information of the type set forth below, which information may be unaudited, but is to be certified as to accuracy and completeness in all material respects by the Issuer’s fiscal officer to the best of his or her

knowledge, which certification may be based on the reliability of information obtained from governmental or other third party sources:

Information contained in the Official Statement under the heading “**TAXABLE VALUE, TAX INCREMENTS AND DEBT SERVICE COVERAGE**” and in Appendix A to the Official Statement under the headings: “Tax Rates, Tax Levies and Collections, Outstanding Direct Debt, Debt Limitations and Property Values.”

Notwithstanding the foregoing paragraph, if the audited financial statements are not available by the date specified, the Issuer shall provide on or before such date unaudited financial statements in the format required for the audited financial statements as part of the Disclosure Information and, within 10 days after the receipt thereof, the Issuer shall provide the audited financial statements.

Any or all of the Disclosure Information may be incorporated, if it is updated as required by the Disclosure Covenants, by reference from other documents, including official statements, which have been submitted to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access System (“EMMA”) or to the SEC. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Issuer shall clearly identify in the Disclosure Information each document so incorporated by reference.

If any part of the Disclosure Information can no longer be generated because the operations of the Issuer have materially changed or been discontinued, such Disclosure Information need no longer be provided if the Issuer includes in the Disclosure Information a statement to such effect, provided, however, if such operations have been replaced by other Issuer operations in respect of which data is not included in the Disclosure Information and the Issuer determines that certain specified data regarding such replacement operations would be a Material Fact (as defined in paragraph (2) hereof), then, from and after such determination, the Disclosure Information shall include such additional specified data regarding the replacement operations.

If the Disclosure Information is changed or the Disclosure Covenants are amended as permitted by the Disclosure Undertaking, then the Issuer is to include in the next Disclosure Information to be delivered under the Disclosure Covenants, to the extent necessary, an explanation of the reasons for the amendment and the effect of any change in the type of financial information or operating data provided.

#### *Certain Material Events*

In a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of security holders, if material;

- (8) Bond calls (other than scheduled mandatory redemptions, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or a similar event with respect to the Issuer;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

*Certain Other Information*

In a timely manner, notice of the occurrence of any of the following events or conditions:

- (A) the failure of the Issuer to provide the Disclosure Information at the time specified under “Annual Information: above;
- (B) the amendment or supplementing of Disclosure Covenants pursuant the Disclosure Undertaking, together with a copy of such amendment or supplement and any explanation provided by the Issuer under the Disclosure Covenants;
- (C) the termination of the obligations of the Issuer under the Disclosure Covenants pursuant to the Disclosure Undertaking;
- (D) any change in the accounting principles pursuant to which the financial statements constituting a portion of the Disclosure Information are prepared; and
- (E) any change in the fiscal year of the Issuer.

**Manner of Disclosure**

The Issuer agrees to make available to the MSRB through EMMA, in an electronic format as prescribed by the MSRB, the information described above. All documents provided to the MSRB pursuant to this subsection (c) shall be accompanied by identifying information as prescribed by the MSRB from time to time.

**Term**

The Disclosure Covenants shall remain in effect so long as any Bonds are Outstanding. Notwithstanding the preceding sentence, however, the Disclosure Covenants shall terminate and be without further effect as of any date on which the Issuer delivers to the Registrar an opinion of Bond Counsel to the effect that, because of legislative action or final judicial or administrative actions or proceedings, the failure of the Issuer to comply with the Disclosure Covenants will not cause participating underwriters in the primary offering of the Bonds to be in violation of the Rule or other applicable requirements of the Securities Exchange Act of 1934, as amended, or any statutes or laws successive thereto or amendatory thereof.

### **Amendments; Interpretation**

The Disclosure Covenants (and the form and requirements of the Disclosure Information) may be amended or supplemented by the Issuer from time to time, without notice to or the consent of the Owners of any Bonds, by a resolution of the governing body of the Issuer filed with the Registrar accompanied by an opinion of Bond Counsel, who may rely on certificates of the Issuer and others and the opinion may be subject to customary qualifications, to the effect that: (i) such amendment or supplement (a) is made in connection with a change in circumstances that arises from a change in law or regulation or a change in the identity, nature or status of the Issuer or the type of operations conducted by the Issuer, or (b) is required by, or better complies with, the provisions of paragraph (b)(5) of the Rule; (ii) the Disclosure Covenants as so amended or supplemented would have complied with the requirements of paragraph (b)(5) of the Rule at the time of the primary offering of the Bonds, giving effect to any change in circumstances applicable under clause (i)(a) and assuming that the Rule as in effect and interpreted at the time of the amendment or supplement was in effect at the time of the primary offering; and (iii) such amendment or supplement does not materially impair the interests of the Bondholders under the Rule. If the Disclosure Information is so amended, the Issuer agrees to provide, contemporaneously with the effectiveness of such amendment, an explanation of the reasons for the amendment and the effect, if any, of the change in the type of financial information or operating data being provided hereunder.

The Disclosure Covenants are to be construed so as to satisfy the requirements of paragraph (b)(5) of the Rule.

### **Default; Remedies**

If the Issuer fails to comply with any of the Disclosure Covenants, any person aggrieved thereby, including the Owners of any Outstanding Bonds, may take whatever action at law or in equity may appear necessary or appropriate to enforce performance and observance of any such covenant. Direct, indirect, consequential and punitive damages shall not be recoverable, however, for any default thereunder to the extent permitted by law. In no event shall a default under the Disclosure Covenants constitute a default under the Bonds.

