



CITY OF SPEARFISH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2011



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

810 Quincy Street • Rapid City, SD 57701 • www.ktllp.com

CITY OF SPEARFISH

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Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2011, which collectively comprise the City's financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 22, 2013, on our consideration of the City'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. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on pages 47 through 50, and the Schedule of Funding Progress (OPEB) presented on page 50, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining nonmajor fund financial statements on pages 51-54 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



KETEL THORSTENSON, LLP
Certified Public Accountants

January 22, 2013

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2011

This section of the City of Spearfish (the City) annual financial report presents our discussion and analysis of the City's financial performance during the year ended December 31, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets from governmental and business-type activities increased by \$2,986,936, primarily due to the acquisition of capital assets.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$1,892,621 more than the \$11,844,179 governmental expenditures, excluding transfers.
- In the City's business-type activities, revenue decreased by 25.2% to \$6,032,013 while expenses increased by 4.6% to \$4,937,698, due to a significant decrease in infrastructure contributions and increases in operational costs.
- The total cost of the City's programs decreased by \$382,526, approximately 2.2%, due to mandated reductions in operating expenses by the Common Council.
- The general fund reported a \$286,620 current year increase primarily due to an increase in sales tax collections and mandated reductions in operating expenses.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.
- Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has six proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Parking Fund, the Solid Waste Fund, and the Campground Fund. In addition, the City has an Internal Service Fund for health insurance.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. In addition to the required elements, we have included a section with combining statements that provide details about our nonmajor governmental funds, each of which are added together and presented in a single column in the basic financial statements.

CITY OF SPEARFISH

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1 summarizes the major features of the City’s financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management’s discussion and analysis explains the structure and contents of each of the statements.

Figure A-1

Major Features of City of Spearfish's Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire City government (except fiduciary funds)	The activities of the City that are not proprietary or fiduciary, such as finance office, police, fire and parks	Activities the City operates similar to private businesses, the water and sewer systems
Required Financial Statements	Statement of Net Assets and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Balance Sheet; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in two categories:

- **Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems, as well as the solid waste program, the hydroelectric plant, the City campground, and a small parking district are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

Governmental Funds – Most of the City's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash flow in and out and (2) the balances left at the end of the year that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements, or on the subsequent page, that explains the relationship (or differences) between them.

Proprietary Funds – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's proprietary funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 4.5 percent between 2010 and 2011 – increasing by \$2,986,936 (see Table A-1).

Table A-1

Statement of Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2010	2011	2010	2011	2010	2011
Current & Other Assets	\$ 11,453,555	\$ 12,140,731	\$ 7,948,475	\$ 8,246,981	\$ 19,402,030	\$ 20,387,712
Capital Assets	50,628,699	51,180,730	23,364,438	24,947,922	73,993,137	76,128,652
Total Assets	\$ 62,082,254	\$ 63,321,461	\$ 31,312,913	\$ 33,194,903	\$ 93,395,167	\$ 96,516,364
Long-Term Debt	\$ 18,737,999	\$ 20,276,499	\$ 5,965,430	\$ 5,862,377	\$ 24,703,429	\$ 26,138,876
Other Liabilities	1,787,240	319,166	249,911	224,251	2,037,151	543,417
Total Liabilities	\$ 20,525,239	\$ 20,595,665	\$ 6,215,341	\$ 6,086,628	\$ 26,740,580	\$ 26,682,293
Net Assets:						
Invested in Capital Assets, Net of Related Debt	\$ 31,520,849	\$ 32,208,711	\$ 17,728,913	\$ 19,527,200	\$ 49,249,762	\$ 51,735,911
Restricted	3,087,555	3,257,244	-	-	3,087,555	3,257,244
Unrestricted	6,948,611	7,259,841	7,368,659	7,581,075	14,317,270	14,840,916
Total Net Assets	\$ 41,557,015	\$ 42,725,796	\$ 25,097,572	\$ 27,108,275	\$ 66,654,587	\$ 69,834,071
Beginning Net Assets	\$ 41,530,928	\$ 41,557,015	\$ 21,742,897	\$ 25,097,572	\$ 63,273,825	\$ 66,654,587
Prior Period Adjustment (Note 18)	-	192,548	-	-	-	192,548
Increase in Net Assets	26,087	976,233	3,354,675	2,010,703	3,380,762	2,986,936
Percentage of Increase						
Net Assets	0.06%	2.35%	15.43%	8.01%	5.34%	4.48%

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. The long-term liabilities of the City, consisting of compensated absences payable, tax increment district financing, sales tax revenue bonds payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Assets. The difference between the City's assets and liabilities is its net assets.

CITY OF SPEARFISH

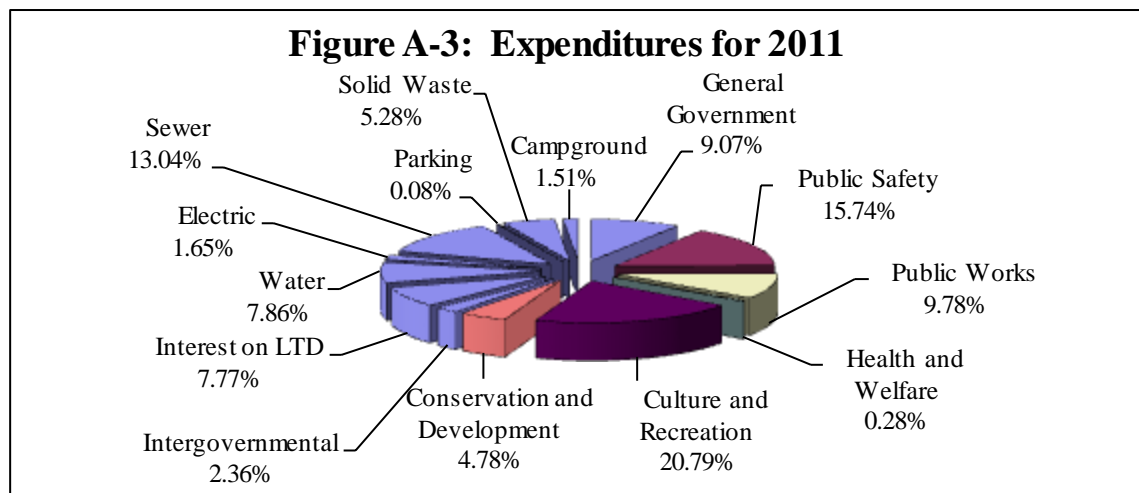
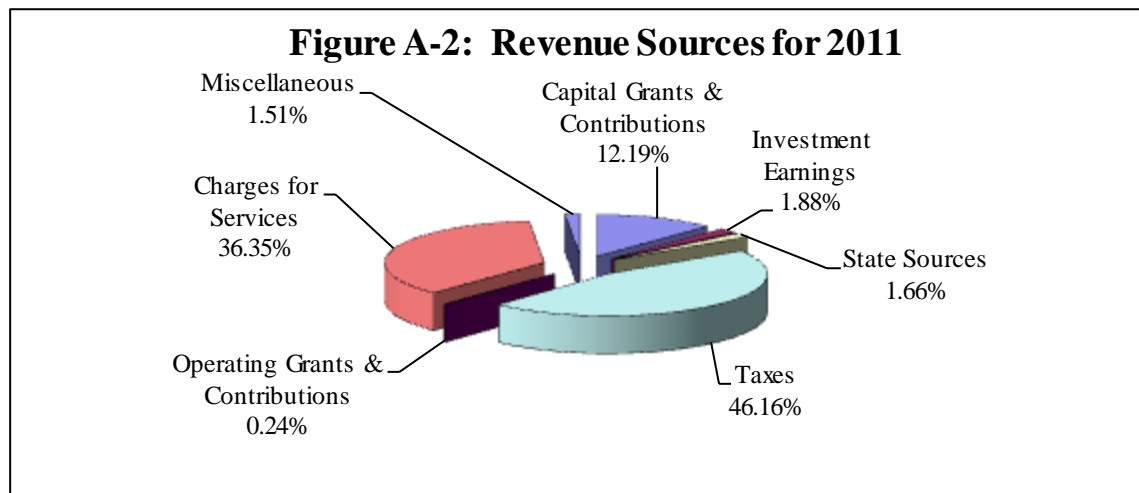
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City's total revenues (excluding transfers) totaled \$19,768,813 (see Table A-2). Well over three-fourths of the City's revenue comes from charges for services and tax, with 36 cents of every dollar raised coming from charges for services (primarily water, sewer, Recreation and Aquatic Park and solid waste operations) and 46 cents of every dollar raised comes from some type of tax. (See Figure A-2). Another 12 cents of every dollar raised comes from state and federal grants for capital purposes, and most of the rest comes from state-shared revenue and interest earnings.

The total cost of all programs and services decreased by 2.2 percent from 2010 to 2011. The City's expenses cover a range of services, with nearly 35 percent relating to public works administration, public safety, and general government. (See Figure A-3).



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2010	2011	2010	2011	2010	2011
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,585,944	\$ 2,016,880	\$ 5,045,910	\$ 5,170,726	\$ 6,631,854	\$ 7,187,606
Operating Grants and Contributions	53,353	47,471	1,123	-	54,476	47,471
Capital Grants and Contributions	1,207,262	1,769,100	2,862,093	640,130	4,069,355	2,409,230
<i>General Revenues</i>						
Taxes	8,961,127	9,124,545	-	-	8,961,127	9,124,545
Revenue State Sources	308,324	328,652	-	-	308,324	328,652
Unrestricted Investment Earnings	120,617	191,146	62,707	181,120	183,324	372,266
Miscellaneous	246,663	259,006	90,042	40,037	336,705	299,043
Total Revenues	\$12,483,290	\$ 13,736,800	\$ 8,061,875	\$ 6,032,013	\$20,545,165	\$ 19,768,813
Expenses						
General Government	\$ 1,736,756	\$ 1,521,413	\$ -	\$ -	\$ 1,736,756	\$ 1,521,413
Public Safety	2,621,227	2,641,949	-	-	2,621,227	2,641,949
Public Works	2,220,631	1,641,777	-	-	2,220,631	1,641,777
Health and Welfare	46,209	47,251	-	-	46,209	47,251
Culture and Recreation	3,546,407	3,489,761	-	-	3,546,407	3,489,761
Conservation and Development	522,104	802,405	-	-	522,104	802,405
Interest on Long-Term Debt	1,348,550	1,303,496	-	-	1,348,550	1,303,496
Intergovernmental	401,362	396,127	-	-	401,362	396,127
Water Services	-	-	1,122,743	1,318,511	1,122,743	1,318,511
Electric Services	-	-	284,449	277,573	284,449	277,573
Sewer Services	-	-	2,034,483	2,187,924	2,034,483	2,187,924
Parking	-	-	23,526	13,485	23,526	13,485
Solid Waste	-	-	924,020	886,790	924,020	886,790
Campground	-	-	331,936	253,415	331,936	253,415
Total Expenses	\$12,443,246	\$ 11,844,179	\$ 4,721,157	\$ 4,937,698	\$17,164,403	\$ 16,781,877
Excess Revenues						
Before Transfers	\$ 40,044	\$ 1,892,621	\$ 3,340,718	\$ 1,094,315	\$ 3,380,762	\$ 2,986,936
Transfers	(13,957)	(916,388)	13,957	916,388	-	-
Increase in Net Assets	\$ 26,087	\$ 976,233	\$ 3,354,675	\$ 2,010,703	\$ 3,380,762	\$ 2,986,936
Prior Period Adjustment	\$ -	\$ 192,548	\$ -	\$ -	\$ -	\$ 192,548
Net Assets - Ending	\$41,557,015	\$ 42,725,796	\$25,097,572	\$ 27,108,275	\$66,654,587	\$ 69,834,071

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2011

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenses by \$1,892,621, excluding transfers. Factors contributing to these results included:

- The City received an increased amount of capital grants and contributions.
- The City also received an increase in revenues from operations at the Spearfish Recreation and Aquatic Center.
- The City also received an increase in sales tax revenues.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$1,094,315, excluding transfers. Factors contributing to these results included:

- The City received an increase in revenues of charges for goods and services as rates were increased and operating costs were reduced.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and six business-type funds. Nearly all of the City's funds had some gain during the year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City Council revised the City budget several times. These amendments fall into two categories:

- Supplemental appropriations approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations by contingency transfer to prevent budget overruns.
- Increases in appropriations for insurance proceeds for claims made by the City.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

CAPITAL ASSET ADMINISTRATION

By the end of 2011, the City had invested \$76,128,652 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$5,557,567.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2010	2011	2010	2011
Land	\$ 8,810,162	\$ 9,000,831	\$ 555,905	\$ 611,201
Buildings	12,363,969	13,240,177	5,753,578	5,742,372
Improvements	21,883,844	25,905,790	12,427,989	17,390,632
Machinery & Equipment	3,298,258	2,990,143	1,150,635	1,180,111
Construction Work in Progress	4,272,466	43,789	54,279	23,606
Totals	\$ 50,628,699	\$ 51,180,730	\$ 19,942,386	\$ 24,947,922

This year's major capital asset additions included:

- Completed improvements including roads, curb/gutter, street lights and sidewalks on Duke Lane and Brooks Loop located in the TID#1 Elkhorn Ridge area totaling \$2,903,904.
- Completed a street improvement project on Main Street to include a new street scape design totaling \$517,040. Project completed in conjunction with SD Department of Transportation.
- Completed construction of the new Fire Station #3 located on the west side of Spearfish totaling \$383,310.
- Completed construction of a new City Shop Administration Building located at Grant Street and Canyon Street totaling \$810,077.

Business-type major additions include:

- Completed Sewer Improvements in the TID#2 Business and Industrial Park area totaling \$415,358.
- Added new water and sewer lines totaling \$1,430,457.
- Accepted the water and sewer lines located in the Reserve on Higgins Creek addition for \$537,505.
- Purchased a new loader for \$155,059 and two power generators for water stations totaling \$114,860.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2011**

LONG-TERM DEBT

At year-end, the City had \$26,138,876 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2010 as shown on Table A-4 below.

Table A-4

	Outstanding Debt and Obligations			
	Governmental Activities		Business-type Activities	
	2010	2011	2010	2011
Compensated Absences	\$ 426,229	\$ 485,979	\$ 132,190	\$ 142,429
Other Post Employment Benefits (OPEB)	520,873	818,501	197,715	299,226
Sales Tax Revenue Bonds	7,842,551	7,485,000	-	-
TID #1 Elkhorn Ridge	8,211,540	8,211,540	-	-
TID #1 Accrued Interest	1,232,539	2,017,813	-	-
TID #2 Industrial Park Bond	1,536,806	1,257,666	-	-
SRF Loan - Sewer	-	-	5,557,185	5,349,397
Contracts Payable	200,000	-	-	-
Lease Payable	-	-	78,340	71,325
Total	\$ 19,970,538	\$ 20,276,499	\$ 5,965,430	\$ 5,862,377

The City made scheduled payments throughout the year on its debt balances.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City experienced an increase in total property valuation to a total of \$13,510,055, up 2.20 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in taxable sales of 2.50 percent over the prior year and has adopted a conservative budget with no increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will raise \$24,869. The largest portion of this increase is due to cost-of-living adjustments.

The City's business-type activities (water and sewer operations) expect that the results for 2012 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits and efforts to reduce the cost of operations.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2011**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and 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 questions about this report or need additional information, contact the City of Spearfish Finance Office, 625 Fifth Street, Spearfish, SD 57783.

CITY OF SPEARFISH

**STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 5,883,167	\$ 1,763,444	\$ 7,646,611
Investments (Note 2)	5,826,284	4,743,852	10,570,136
Accounts Receivable, Net	922,745	479,491	1,402,236
Internal Balances	(1,260,194)	1,260,194	-
Restricted Assets:			
Restricted Investments (Note 2)	669,941	-	669,941
Other Assets (Note 14)	98,788	-	98,788
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	9,044,620	634,807	9,679,427
Other Capital Assets, Net of Depreciation	42,136,110	24,313,115	66,449,225
TOTAL ASSETS	\$ 63,321,461	\$ 33,194,903	\$ 96,516,364
Liabilities:			
Accounts Payable	\$ 100,757	\$ 58,678	\$ 159,435
Deferred Revenue (Note 3)	20,000	-	20,000
Other Current Liabilities	198,409	165,573	363,982
Long-Term Liabilities (Note 7):			
Due Within One Year	1,236,589	364,440	1,601,029
Due in More Than One Year	19,039,910	5,497,937	24,537,847
TOTAL LIABILITIES	20,595,665	6,086,628	26,682,293
Net Assets:			
Invested in Capital Assets, Net of Related Debt	32,208,711	19,527,200	51,735,911
Restricted for:			
Debt Service	952,772	-	952,772
Capital Projects	20,119	-	20,119
SDPAA	98,788	-	98,788
Promoting the City	369,078	-	369,078
Library Purposes	82,778	-	82,778
Park Purposes	290,932	-	290,932
911 Purposes	213,261	-	213,261
Business Improvement District Purposes	50,735	-	50,735
Municipal Highway and Bridge	67,396	-	67,396
Special Assessments Revolving Loan Fund	694,491	-	694,491
Perpetual Care Cemetery			
Expendable	366,894	-	366,894
Nonexpendable	50,000	-	50,000
Unrestricted	7,259,841	7,581,075	14,840,916
TOTAL NET ASSETS	42,725,796	27,108,275	69,834,071
TOTAL LIABILITIES AND NET ASSETS	\$ 63,321,461	\$ 33,194,903	\$ 96,516,364

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2011

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 1,521,413	\$ 379,873	\$ -	\$ -	\$ (1,141,540)	\$ -	\$ (1,141,540)
Public Safety	2,641,949	140,796	45,041	-	(2,456,112)	-	(2,456,112)
Public Works	1,641,777	813,871	-	1,769,100	941,194	-	941,194
Health and Welfare	47,251	-	-	-	(47,251)	-	(47,251)
Culture and Recreation	3,489,761	682,340	2,430	-	(2,804,991)	-	(2,804,991)
Conservation and Development	802,405	-	-	-	(802,405)	-	(802,405)
Intergovernmental	396,127	-	-	-	(396,127)	-	(396,127)
Interest on Long-Term Debt	1,303,496	-	-	-	(1,303,496)	-	(1,303,496)
Total Governmental Activities	11,844,179	2,016,880	47,471	1,769,100	(8,010,728)	-	(8,010,728)
Business-Type Activities:							
Water	1,318,511	1,599,541	-	326,750	-	607,780	607,780
Electric	277,573	454,490	-	-	-	176,917	176,917
Sewer	2,187,924	1,849,595	-	293,880	-	(44,449)	(44,449)
Parking	13,485	15,203	-	-	-	1,718	1,718
Solid Waste	886,790	962,810	-	-	-	76,020	76,020
Campground	253,415	289,087	-	19,500	-	55,172	55,172
Total Business-Type Activities	4,937,698	5,170,726	-	640,130	-	873,158	873,158
Total Primary Government	\$ 16,781,877	\$ 7,187,606	\$ 47,471	\$ 2,409,230	(8,010,728)	873,158	(7,137,570)
General Revenues:							
Taxes:							
Property Taxes					2,302,981	-	2,302,981
Sales Taxes					6,636,445	-	6,636,445
Other Taxes					117,452	-	117,452
Gross Receipts Tax					67,667	-	67,667
State Shared Revenue					328,652	-	328,652
Grants and Contributions Not Restricted					160,675	-	160,675
Unrestricted Investment Earnings					191,146	181,120	372,266
Miscellaneous Revenue					98,331	40,037	138,368
Transfers					(916,388)	916,388	-
Total General Revenue and Transfers					8,986,961	1,137,545	10,124,506
Change in Net Assets					976,233	2,010,703	2,986,936
Net Assets, Beginning					41,557,015	25,097,572	66,654,587
Prior Period Adjustment (Note 18)					192,548	-	192,548
Net Assets, Beginning, as Restated					41,749,563	25,097,572	66,847,135
Net Assets, Ending					\$ 42,725,796	\$ 27,108,275	\$ 69,834,071

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Assets			
101 Cash and Cash Equivalents	\$ 2,124,371	\$ 2,056,566	\$ -
104 Investments	2,232,161	1,374,944	-
107 Restricted Investments	-	669,941	-
108 Property Taxes Receivable	22,951	-	-
110 Sales Taxes Receivable	53,610	53,611	-
115 Accounts Receivable	9,783	-	-
121 Special Assessments Receivable	1,109	-	-
128 Notes Receivable (Note 4)	-	-	-
128 Contract Receivable (Notes 3 and 15)	-	20,000	-
132 Due from Other Governments	284,813	-	-
133 Advances to Other Funds (Note 10)	-	601,111	-
154 Deposits (Note 14)	98,788	-	-
Total Assets	\$ 4,827,586	\$ 4,776,173	\$ -
Liabilities and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 93,292	\$ -	\$ -
216 Accrued Wages Payable	88,951	-	-
224 Deferred Revenue (Note 3)	8,711	20,000	-
236 Advance from Other Funds (Note 10)	-	-	1,260,194
Total Liabilities	190,954	20,000	1,260,194
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.04 Advances	-	601,111	-
263.49 SDPAA	98,788	-	-
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264.01 Debt Service	-	669,941	-
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	-	-	-
264.05 Library Purposes	-	-	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	-
264.99 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-
265 <i>Committed (Note 1b)</i>			
265.99 Second Penny Restrictions	-	3,260,752	-
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
266 <i>Assigned:</i>			
266.01 Subsequent Year's Budget	205,423	224,369	-
267 Unassigned	4,332,421	-	(1,260,194)
Total Fund Balances	4,636,632	4,756,173	(1,260,194)
Total Liabilities and Fund Balances	\$ 4,827,586	\$ 4,776,173	\$ -

The accompanying notes are an integral part of the financial statements.

TID #3 McGuigan Ranch Capital Project Fund	Other Governmental Funds	Total Governmental Funds
\$ 60	\$ 1,660,949	\$ 5,841,946
-	2,118,664	5,725,769
-	-	669,941
-	-	22,951
-	10,954	118,175
-	1,076	10,859
-	59,940	61,049
-	378,725	378,725
-	-	20,000
-	26,173	310,986
-	-	601,111
-	-	98,788
\$ 60	\$ 4,256,481	\$ 13,860,300

\$ -	\$ 7,465	\$ 100,757
-	-	88,951
-	51,722	80,433
601,111	-	1,861,305
601,111	59,187	2,131,446

-	-	601,111
-	-	98,788
-	50,000	50,000
-	282,831	952,772
-	20,119	20,119
-	366,894	366,894
-	369,078	369,078
-	82,778	82,778
-	290,932	290,932
-	213,261	213,261
-	50,735	50,735
-	67,332	67,332
-	642,833	642,833
-	-	3,260,752
-	1,471,967	1,471,967
-	47,474	47,474
-	241,060	670,852
(601,051)	-	2,471,176
(601,051)	4,197,294	11,728,854
\$ 60	\$ 4,256,481	\$ 13,860,300

CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
DECEMBER 31, 2011**

Total Fund Balances - Governmental Funds	\$ 11,728,854
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	51,180,730
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the funds.	(20,276,499)
Assets such as delinquent taxes receivable and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	60,433
Accrued interest expense is not due and payable in the current period and therefore is not reported in the funds (See Note 7).	(109,458)
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 the governmental activities in the Statement of Net Assets.	141,736
Total Net Assets - Governmental Funds	\$ 42,725,796

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Revenue			
<i>Taxes:</i>			
311 General Property Taxes	\$ 1,708,022	\$ -	\$ -
313 General Sales and Use Taxes	3,066,728	3,066,727	-
314 Gross Receipts Tax	67,667	-	-
315 Amusement Taxes	804	-	-
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	3,408	-	-
320 Licenses and Permits	354,042	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	45,041	-	-
334 State Grants	2,430	-	-
<i>State Shared Revenue:</i>			
335.01 Bank Franchise Tax	2,903	-	-
335.03 Liquor Tax Reversion	53,824	-	-
335.04 Motor Vehicle Licenses (5%)	58,696	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
335.20 Other	271,925	-	-
<i>County Shared Revenue:</i>			
338.02 County HBR Tax	15,967	-	-
339 County Payments in Lieu of Taxes	230,421	-	-
<i>Charges for Goods and Services:</i>			
341 General Government	10,829	-	-
342 Public Safety	133,515	-	-
343 Highways and Streets	737	-	-
346 Culture and Recreation	662,349	-	-
348 Cemeteries	6,900	-	-
349 Other	30	-	-
<i>Fines and Forfeits:</i>			
351 Court Fines and Costs	882	-	-
354 Library	-	-	-
359 Other	5,662	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	79,081	49,948	210
362 Rentals	37,268	-	-
363 Special Assessments	97,619	-	-
367 Contributions and Donations - Private Sources	8,591	88,500	-
369 Other	5,207	219	-
Total Revenue	6,930,548	3,205,394	210

TID #3			
McGuigan Ranch	Other	Total	
Capital Project	Governmental	Governmental	
Fund	Funds	Funds	
\$ -	\$ 435,754	\$ 2,143,776	
-	502,990	6,636,445	
-	-	67,667	
-	192,333	193,137	
-	117,452	117,452	
-	3,265	6,673	
-	-	354,042	
-	-	45,041	
-	-	2,430	
-	-	2,903	
-	-	53,824	
-	-	58,696	
-	389,298	389,298	
-	-	271,925	
-	-	15,967	
-	-	230,421	
-	-	10,829	
-	-	133,515	
-	-	737	
-	19,991	682,340	
-	11,830	18,730	
-	-	30	
-	-	882	
-	15,002	15,002	
-	-	5,662	
-	59,470	188,709	
-	21,280	58,548	
-	34,374	131,993	
-	63,584	160,675	
-	18,390	23,816	
-	<u>1,885,013</u>	<u>12,021,165</u>	

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Expenditures			
<i>General Government:</i>			
411 Legislative	147,438	-	-
412 Executive	130,457	-	-
414 Financial Administration	250,445	-	-
419 Other	741,439	-	-
<i>Public Safety:</i>			
421 Police	1,838,812	-	-
422 Fire	179,501	-	-
423 Protective Inspection	145,727	-	-
<i>Public Works:</i>			
431 Highways and Streets	872,064	-	-
437 Cemeteries	103,472	-	-
<i>Health and Welfare:</i>			
441 Health	43,233	-	-
<i>Culture and Recreation:</i>			
451 Recreation	1,488,887	13,000	-
452 Parks	303,741	-	-
455 Library	327,176	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	15,615	-	-
465 Economic Development and Assistance	130,313	-	-
470 Debt Service	-	887,612	-
480 Intergovernmental Expenditures	331,691	-	-
485 Capital Outlay	-	1,563,654	374,838
Total Expenditures	7,050,011	2,464,266	374,838
Excess (Deficiency) of Revenue over Expenditures	(119,463)	741,128	(374,628)
Other Financing Sources			
391.01 Transfers In (Note 10)	406,083	-	-
Net Change in Fund Balances	286,620	741,128	(374,628)
Fund Balances - December 31, 2010	4,350,012	4,015,045	(885,566)
Prior Period Adjustment (Note 18)	-	-	-
Net Assets, December 31, 2010, as Restated	4,350,012	4,015,045	(885,566)
Fund Balances - December 31, 2011	\$ 4,636,632	\$ 4,756,173	\$ (1,260,194)

The accompanying notes are an integral part of the financial statements.

TID #3		
McGuigan Ranch	Other	Total
Capital Project	Governmental	Governmental
Fund	Funds	Funds
-	-	147,438
-	-	130,457
-	-	250,445
-	-	741,439
-	50,666	1,889,478
-	-	179,501
-	-	145,727
-	220	872,284
-	-	103,472
-	-	43,233
-	148,685	1,650,572
-	13,885	317,626
-	19,135	346,311
-	-	15,615
-	636,220	766,533
-	442,257	1,329,869
-	-	331,691
-	416,334	2,354,826
-	1,727,402	11,616,517
-	157,611	404,648
-	-	406,083
-	157,611	810,731
(601,051)	3,847,135	10,725,575
-	192,548	192,548
(601,051)	4,039,683	10,918,123
\$ (601,051)	\$ 4,197,294	\$ 11,728,854

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2011

Net Change in Fund Balances - Total Government Funds \$ 810,731

Amounts reported for governmental activities in the Statement of Activities are different because:

Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital Asset Purchases Capitalized	2,354,826
Depreciation Expense	(2,249,424)
	105,402
Capital assets contributed to the City, which are included in the Statement of Activities.	1,769,100
Capital assets transferred to the water and sewer proprietary funds.	(1,322,471)
The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(6,158)
Governmental funds report special assessments as revenue when "available," but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	(15,297)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e. grant, hospitality, and gaming tax receivables).	(34,447)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	924,994
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term debt in the Statement of Net Assets.	(873,577)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:	
Accrued Leave	(59,750)
OPEB	(297,628)
Accrued Interest	(25,044)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue of the internal service fund is reported with governmental activities.	378

Change in Net Assets of Governmental Activities \$ 976,233

The accompanying notes are an integral part of the financial statements.

CITY OF SPEARFISH

**BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2011**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	\$ 210,786	\$ 303,850	\$ 646,594
104 Investments	1,967,435	538,761	1,179,017
115 Accounts Receivable, Net	131,230	3,120	172,039
135 Interest Receivable	76,067	-	5,584
Total Current Assets	2,385,518	845,731	2,003,234
Noncurrent Asset			
133 Advance to Other Funds (Note 10)	1,079,230	-	180,964
Capital Assets			
160 Land	177,776	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,241,002)	(15,334)	(3,101,440)
164 Improvements Other Than Buildings	12,743,409	22,566	13,277,592
165 Accumulated Depreciation - Improvements Other Than Buildings	(4,726,668)	(360)	(3,968,176)
166 Machinery and Equipment	1,144,346	88,025	2,986,682
167 Accumulated Depreciation - Machinery and Equipment	(704,433)	(34,129)	(2,624,277)
168 Construction Work in Progress	-	-	23,606
Total Capital Assets, Net	9,789,427	260,768	14,117,698
Total Assets	\$ 13,254,175	\$ 1,106,499	\$ 16,301,896
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	\$ 7,378	\$ 9,903	\$ 13,703
205 Current Portion of Long-Term Debt	25,763	16,270	267,359
215 Accrued Interest Payable	-	-	36,220
216 Accrued Wages	6,564	2,901	17,701
220 Customer Deposits	93,050	-	-
Total Current Liabilities	132,755	29,074	334,983
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion	64,471	31,799	5,260,718
Total Liabilities	197,226	60,873	5,595,701
Net Assets			
253.1 Invested in Capital Assets, Net of Related Debt	9,789,427	260,768	8,768,301
252.0 Unrestricted Net Assets	3,267,522	784,858	1,937,894
Total Net Assets	13,056,949	1,045,626	10,706,195
Total Liabilities and Net Assets	\$ 13,254,175	\$ 1,106,499	\$ 16,301,896

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 42,476	\$ 323,019	\$ 236,719	\$ 1,763,444	\$ 41,221
65,006	726,833	266,800	4,743,852	100,515
-	91,451	-	397,840	-
-	-	-	81,651	-
107,482	1,141,303	503,519	6,986,787	141,736
-	-	-	1,260,194	-
48,000	-	171,220	611,201	-
-	-	351,453	10,256,958	-
-	-	(156,810)	(4,514,586)	-
-	11,375	95,643	26,150,585	-
-	(2,958)	(61,791)	(8,759,953)	-
87,570	1,101,820	153,956	5,562,399	-
(11,676)	(866,944)	(140,829)	(4,382,288)	-
-	-	-	23,606	-
123,894	243,293	412,842	24,947,922	-
\$ 231,376	\$ 1,384,596	\$ 916,361	\$ 33,194,903	\$ 141,736
\$ -	\$ 26,431	\$ 1,263	\$ 58,678	\$ -
7,387	47,661	-	364,440	-
1,578	-	-	37,798	-
83	5,769	1,707	34,725	-
-	-	-	93,050	-
9,048	79,861	2,970	588,691	-
64,966	59,061	16,922	5,497,937	-
74,014	138,922	19,892	6,086,628	-
52,569	243,293	412,842	19,527,200	-
104,793	1,002,381	483,627	7,581,075	141,736
157,362	1,245,674	896,469	27,108,275	141,736
\$ 231,376	\$ 1,384,596	\$ 916,361	\$ 33,194,903	\$ 141,736

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2011**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 1,599,541	\$ 454,490	\$ 1,849,595
369 Miscellaneous	-	-	-
Total Operating Revenue	1,599,541	454,490	1,849,595
Operating Expenses			
410 Personal Services	373,261	182,777	737,143
420 Other Current Expenses	522,604	82,862	578,017
457 Depreciation	422,646	11,934	696,078
Total Operating Expenses	1,318,511	277,573	2,011,238
Operating Income (Loss)	281,030	176,917	(161,643)
Non-Operating Income (Expense)			
354 Fines and Forfeits	500	-	-
361 Earnings on Deposits and Investments	105,417	9,404	38,921
369 Other	748	38,592	117
470 Interest Expense and Fiscal Charges	-	-	(176,686)
Total Non-Operating Income (Expense)	106,665	47,996	(137,648)
Income (Loss) Before Contributions and Transfers			
	387,695	224,913	(299,291)
391.07 Contributed Capital	884,207	-	1,058,894
511 Transfers Out (Note 10)	(179,553)	(32,800)	(107,613)
Total Contributions and Transfers	704,654	(32,800)	951,281
Net Income	1,092,349	192,113	651,990
Net Assets - December 31, 2010	11,964,600	853,513	10,054,205
Net Assets - December 31, 2011	\$ 13,056,949	\$ 1,045,626	\$ 10,706,195

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 15,203	\$ 962,810	\$ 289,087	\$ 5,170,726	\$ -
-	-	-	-	564,980
15,203	962,810	289,087	5,170,726	564,980
4,571	343,625	93,282	1,734,659	-
531	448,220	143,944	1,776,178	567,039
4,378	94,945	16,189	1,246,170	-
9,480	886,790	253,415	4,757,007	567,039
5,723	76,020	35,672	413,719	(2,059)
-	-	-	500	-
1,750	18,273	7,355	181,120	2,437
40	40	-	39,537	-
(4,005)	-	-	(180,691)	-
(2,215)	18,313	7,355	40,466	2,437
3,508	94,333	43,027	454,185	378
-	-	19,500	1,962,601	-
-	(65,485)	(20,632)	(406,083)	-
-	(65,485)	(1,132)	1,556,518	-
3,508	28,848	41,895	2,010,703	378
153,854	1,216,826	854,574	25,097,572	141,358
\$ 157,362	\$ 1,245,674	\$ 896,469	\$ 27,108,275	\$ 141,736

CITY OF SPEARFISH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 1,580,637	\$ 453,130	\$ 1,845,877
Payments to Suppliers	(525,776)	(75,654)	(603,494)
Payments to Employees	(347,149)	(165,795)	(676,719)
Other Receipts for Interfund Services Provided	-	-	-
Net Cash Flows Provided by (Used in) Operating Activities	707,712	211,681	565,664
Cash Flows from Noncapital Financing Activities:			
Internal Activities - Advance to Other Funds	(12,184)	-	(138,251)
Transfers Out	(179,553)	(32,800)	(107,613)
Net Cash Flows Used in Noncapital Financing Activities	(191,737)	(32,800)	(245,864)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(760,059)	(8,255)	(97,019)
Principal Paid on Capital Debt	-	-	(207,788)
Interest Paid	-	-	(178,093)
Other Receipts	1,248	38,592	117
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(758,811)	30,337	(482,783)
Cash Flows Provided by Investing Activities:			
Interest Received	51,613	9,404	33,337
Increase (Decrease) in Cash and Investments	(191,223)	218,622	(129,646)
Cash and Investments - December 31, 2010	2,369,444	623,989	1,955,257
Cash and Investments - December 31, 2011	\$ 2,178,221	\$ 842,611	\$ 1,825,611
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 281,030	\$ 176,917	\$ (161,643)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	422,646	11,934	696,078
Change in Assets and Liabilities:			
Change in Accounts Receivable	(1,954)	(1,360)	(3,718)
Change in Accounts Payable	(3,172)	7,208	(25,477)
Change in Accrued Wages	1,996	580	8,796
Change in Customer Deposits	(16,950)	-	-
Change in OPEB and Accrued Leave	24,116	16,402	51,628
Net Cash Flows Provided by (Used in) Operating Activities	\$ 707,712	\$ 211,681	\$ 565,664
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	\$ 884,207	\$ -	\$ 1,058,894

The accompanying notes are an integral part of the financial statements.

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 15,203	\$ 961,484	\$ 289,087	\$ 5,145,418	\$ -
(531)	(449,472)	(142,681)	(1,797,608)	(567,039)
(4,979)	(325,216)	(88,769)	(1,608,627)	-
-	-	-	-	564,980
9,693	186,796	57,637	1,739,183	(2,059)
-	-	-	(150,435)	-
-	(65,485)	(20,632)	(406,083)	-
-	(65,485)	(20,632)	(556,518)	-
-	-	(1,720)	(867,053)	-
(7,015)	-	-	(214,803)	-
(4,160)	-	-	(182,253)	-
40	40	-	40,037	-
(11,135)	40	(1,720)	(1,224,072)	-
1,750	18,273	7,355	121,732	2,437
308	139,624	42,640	80,325	378
107,174	910,228	460,879	6,426,971	141,358
\$ 107,482	\$ 1,049,852	\$ 503,519	\$ 6,507,296	\$ 141,736
\$ 5,723	\$ 76,020	\$ 35,672	\$ 413,719	\$ (2,059)
4,378	94,945	16,189	1,246,170	-
-	(1,326)	-	(8,358)	-
-	(1,252)	1,263	(21,430)	-
(19)	1,524	1,405	14,282	-
-	-	-	(16,950)	-
(389)	16,885	3,108	111,750	-
\$ 9,693	\$ 186,796	\$ 57,637	\$ 1,739,183	\$ (2,059)
\$ -	\$ -	\$ 19,500	\$ 1,962,601	\$ -

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2011

(1) Summary of Significant Accounting Policies

a. Reporting Entity

The reporting entity of the City of Spearfish (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

The City participates in a cooperative unit with Northern Hills Multi-Jurisdictional Drug Task Force. See Note 13 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

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. 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.

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 reporting entity 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 fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2011

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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 projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund – to account for naming rights (Note 15) and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). This is a major fund.

Special Assessment Revolving Fund – to account for financing improvements for which, special assessments are to be levied. The fund may be used both to pay the portion of the cost of such improvements assumed by the municipality and to advance the portion of such cost ultimately to be paid from collections of assessments (SDCL 9-43-69). This is not a major fund.

Hospitality Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions. Tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the advertising and promotion of the City, its facilities, attractions, and activities (SDCL 10-52A). This is not a major fund.

Library Gift Fund – to account for donations restricted for library expenditures (SDCL 9-43-69). This is not a major fund.

Convention Center Business Improvement District Fund – to account for special assessments against hotels within the district; used to finance and promote projects within the district as allowed (SDCL 9-55-3). This is not a major fund.

911 Emergency Fund – to account for 911 emergency surcharges collected to be used for payments of nonrecurring and recurring costs, and for the general operational expenses of the 911 related services (SDCL 34-45-12). This is not a major fund.

Spearfish Economic Development Loan Fund – to account for the revolving loan fund established to loan new business funds which will be repaid over a period of years. This is not a major fund.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Continued):

Special Park Gift Fund – to account for any gift, grant, devise or bequest made by any person, private agency, agency of state government, the federal government, or any of its agencies for park purposes (SDCL 9-38-12). This is not a major fund.

Art in Public Places Fund – established to encourage visual art in the community, by providing matching grants. The revenue is derived from a percentage of building permit fees. This is not a major fund.

Municipal Highway and Bridge Fund – to account for the levy assessed for the purpose of maintaining or repairing street surfacing or pavement (SDCL 9-45-38). This is not a major fund.

Golf Course Capital Fund – This fund was established pursuant to the Elkhorn Ridge Golf Course Management Agreement. The agreement states: “Management shall pay (5%) of gross revenue into an account maintained by the City to be reserved for capital improvement at the Golf Course. All capital improvements are subject to approval by the City and shall be considered as fixed assets of the City. When this agreement terminates, all funds in this account shall be an asset of the City. Any capital improvement, which may include building construction, new cart path construction, Golf Course improvements and development of new holes, shall be performed in accordance with the City’s requirements.” This is not a major fund.

Debt Service Funds - to account for the accumulation of resources for, and the payment of, general long-term debt principle, interest, and related costs.

Tax Increment District #1 Elkhorn Ridge Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of a municipal golf course and related infrastructure improvement made within the tax increment district. This is not a major fund.

Tax Increment District #2 Industrial Park Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of street and infrastructure improvements made within the tax increment district. This is not a major fund.

Tax Increment District #3 McGuigan Ranch Debt Fund – to account for property tax revenue received on the tax increment district to finance debt service and capital construction of street and infrastructure improvements made within the tax increment district. This is not a major fund.

Capital Project Funds – 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).

Tax Increment District #1 Elkhorn Ridge Capital Projects Fund – to account for construction of a municipal golf course and related infrastructure within the tax increment district. This is not a major fund.

Tax Increment District #2 Industrial Park Capital Projects Fund – to account for construction of infrastructure improvements within tax increment district #2. This is a major fund.

Tax Increment District #3 McGuigan Ranch Capital Projects Fund – to account for the purchase of 10 residential lots to be sold through Dakota Land Trust for affordable housing and for the purpose of one lot for a transit site. This is a major fund.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Concluded):

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.

Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This is not a major fund.

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.

Water Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City’s waterworks system and related facilities (SDCL 9-47-1). This is a major fund.

Electric Production Fund – to account for the operation of the hydroelectric plant and related sales to Black Hills Power & Light (SDCL 9-39-1 and 9-39-26). This is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction and operation of the City’s sanitary sewer system and related facilities (SDCL 9-48-2). This is a major fund.

Parking Fund – financed primarily by special assessments and fines in the parking district for use by the City. This is a major fund.

Solid Waste Fund – to account for the collection and disposal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Campground Fund – financed through revenues collected from the rental of campsites to account for expenditures in the City’s campground. This is a major fund.

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

Internal Service Funds:

Internal Service Funds – internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the primary governments and its component units, or to other governments, on a cost reimbursement basis. Internal service funds are never considered major funds.

Employee Health and Accident Insurance Fund – maintained for the purpose of employee health, dental, vision and accident insurance and related purposes.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fiduciary Funds:

Fiduciary Funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds.

The City has no fiduciary funds.

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.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities on the Statement of Net Assets.

Fund Financial Statements:

In the fund financial statements, the current financial resources measurement focus and the modified-accrual basis of accounting are applied to governmental funds, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary funds and fiduciary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Spearfish, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2011, are property, sales tax, contracts, special assessments, and hospitality tax receivables.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2011

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued):

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.
2. In order to minimize the doubling-up effect on the internal services fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to the funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reduction occurs in the Internal Service Fund, so that expenses are only reported in the function to which they relate.

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by 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.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, 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 are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

The accounting treatment over capital assets 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.

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated fair value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements (Continued):

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as Improvements Other Than Buildings.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, with net capital assets reflected in the Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-50 yrs.
Buildings	\$ 25,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$ 5,000	Straight-line	5-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate 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.

f. 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 primarily consist of revenue bonds, tax increment financing, capital leases, compensated absences and OPEB liability.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis for both the fund statements and the government-wide statements.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

Program revenues are derived 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:

1. Charges for services – 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.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Activities, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

i. Cash and Cash Equivalents

The City pools the cash and investment resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash and investment resources on demand. Accordingly, each proprietary fund's equity in the cash management pool, including restricted investments, is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

j. Deposits and Investments

For the purposes of financial reporting, "cash and cash equivalents" includes all demand and saving accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2011

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, which was implemented in the current year, the City classifies governmental fund balance as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has three Committed Fund Balances for the year ended December 31, 2011. The Second Penny Sales Tax Fund was established by the City Council passing Ordinance #961 for the purposes described in Note 1(b). The Spearfish Economic Revolving Fund was established by the City Council passing Ordinance #717 for the purposes described in Note 1(b). The Art in Public Places Fund was established by the City Council passing Ordinance #1015 for the purposes described in Note 1(b). The City Council is the highest decision making authority and would have to pass an ordinance to remove these commitments.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer. The City has two Assigned Fund Balances for the year ended December 31, 2011. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2012 Appropriation Ordinance for the City's 2012 budget. The Historical Procurement Project Fund was established by the City Council passing Resolution 2010-24. The balance for this project is assigned within the General Fund. At the end of the year, the fund balance for the Historical Procurement Project Fund was negative. In accordance with GASB 54, we classified the balance as unassigned within the General Fund as it is not proper to present a negative assigned balance.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2011

(1) Summary of Significant Accounting Policies (Concluded)

k. Equity Classifications (Continued)

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

With regard to the City's governmental funds, the City uses restricted amounts first when both restricted and unrestricted fund balances are 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.

Proprietary fund equity is classified the same as in the government-wide financial statements. The City does not have a formal minimum fund balance policy. With regard to the City's proprietary funds, it is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

l. Compensated Absences

Eligible employees shall be granted 3.08 hours of paid vacation per pay period for zero to six years of service. Upon completion of six full and continuous years of service, 40 additional hours of vacation shall be granted and 4.62 hours of paid vacation per pay period shall be accrued. Upon completion of ten full and continuous years of service, 40 additional hours of vacation shall be granted and 6.15 hours of paid vacation per pay period shall be accrued. Upon completion of twenty-five full and continuous years of service, 40 additional hours of vacation shall be granted and 7.70 hours of paid vacation per pay period shall be accrued. Eligible employees may accrue a maximum of 240 hours or 30 working days of vacation leave. Upon separation from employment, an employee will be paid for any accumulated vacation time at the employee's salary rate applicable on the last day of employment.

Eligible employees shall accrue sick leave at a rate of 3.69 hours of sick leave per pay period for zero to two years of service and 4.62 hours of sick leave per pay period for over two years of service. Employees may accumulate unlimited hours of sick leave. Upon separation from employment, an employee will be paid one-fourth of unused sick leave, but not more than 480 hours, at the employee's salary rate on the last day of employment, provided there has not been a break in service in the past seven years or the break in service was less than one year due to layoff; the employee has not been rehired prior to payment of sick leave; and termination was for other than cause; or the employee was laid off for a period of at least one year.

m. Inventory

The City maintains no significant amounts of inventory at December 31, 2011.

(2) Deposits and Investments

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 below:

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(2) Deposits and Investments (Continued)

Investments – In General, SDCL 4-5-6 permits City 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 investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

As of December 31, 2011, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	4-6 years	\$ 3,750,932 ¹
Federal National Mortgage Association Notes	AAA	3-5 years	3,152,335 ²
Federal Home Loan Mortgage Corporation Notes	AAA	4-6 years	550,941 ³
Federal Farm Credit Bank Bonds	AAA	5 years	1,852,313 ⁴
External Investment Pools:			
SDFIT	Unrated		457,073
Total Investments			9,763,594
Other Investments:			
Money Markets			11,178
Certificates of Deposits			1,465,305
			\$ 11,240,077

¹ Includes obligations with call dates of the following:

\$140,018	1/5/2012
\$1,000,320	1/11/2012
\$2,610,594	Anytime

² Includes obligations with call dates of the following:

\$171,035	5/23/2012
\$1,216,397	9/20/2012
\$758,873	11/16/2012
\$1,006,030	11/26/2012

³ Includes obligations with call dates of the following:

\$550,941	9/28/2012
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⁴ Includes obligations with call dates of the following:

\$213,070	1/12/2012
\$710,950	4/19/2012
\$597,118	7/15/2012
\$331,175	9/13/2012

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.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2011

(2) Deposits and Investments (Continued)

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2011, the City's investment in SDFIT pool was unrated.

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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 does not have a deposit policy for custodial credit risk. As of December 31, 2011, none of the City's deposits were exposed to custodial credit risk.

Custodial Credit Risk – Investments:

The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. As of December 31, 2011, none of the City's investments were exposed to custodial credit risk.

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by SDCL 9-32-18.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. The City's investments are invested as follows: Federal Home Loan Bank Bonds (38 percent), Federal National Mortgage Association Notes (32 percent), Federal Home Loan Mortgage Corporation Notes (6 percent), and Federal Farm Credit Bank Bonds (19 percent).

(3) Deferred Revenue

Under the modified-accrual basis of accounting, receivables may be measurable but not available. Receivables are considered available if they are collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues are deferred when the asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Deferred revenues consist primarily of contracts, delinquent property taxes, special assessments, and hospitality tax receivables.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2011:

<u>Loan</u>	<u>Collateral</u>	<u>Rate</u>	<u>Maturity</u>	<u>Balance</u>
Lehman Trike	Property	3%	July 2019	\$ 212,448
Ruth Engineering	Property	3%	July 2015	30,783
Façade Common Grounds	Property	0%	April 2015	6,667
Precision Blending of Idaho, LLC	Equipment	3%	July 2013	42,814
Kazco, Inc.	Property	0%	December 2012	2,282
Façade Versatile Carpet	Property	0%	April 2015	6,667
Flanagan	Property	0%	May 2012	833
Lehman Trike II	Property	3%	July 2019	59,591
RABCO Products, Inc.	Equipment	3%	May 2016	16,640
Total				\$ 378,725

In October 2011, the City approved a line of credit with TM1 Stop, LLC of up to \$375,000 with interest at 4%, with proceeds advanced in three installments not to exceed \$125,000 each. As of December 31, 2011, there were no borrowings on the line of credit.

(5) 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 before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2011 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
Capital Assets, not being Depreciated:				
Land	\$ 8,810,162	\$ 190,669	\$ -	\$ 9,000,831
Construction Work in Progress	4,272,466	1,143,931	5,372,608	43,789
Total Capital Assets, not being Depreciated	13,082,628	1,334,600	5,372,608	9,044,620
Capital Assets, being Depreciated:				
Buildings	15,250,827	1,193,387	-	16,444,214
Improvements Other Than Buildings	25,539,778	5,443,906	-	30,983,684
Machinery and Equipment	6,874,748	202,170	-	7,076,918
Total Capital Assets, being Depreciated	47,665,353	6,839,463	-	54,504,816
Less Accumulated Depreciation for:				
Buildings	2,886,858	317,179	-	3,204,037
Improvements Other Than Buildings	3,655,934	1,421,960	-	5,077,894
Machinery and Equipment	3,576,490	510,285	-	4,086,775
Total Accumulated Depreciation	10,119,282	2,249,424	-	12,368,706
Total Governmental Activities Capital Assets, being Depreciated, Net	37,546,071	4,590,039	-	42,136,110
Total Governmental Capital Assets, Net	\$ 50,628,699	\$ 5,924,639	\$ 5,372,608	\$ 51,180,730

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 1,079,929
Public Works	658,892
Public Safety	277,284
General Government	172,770
Intergovernmental	54,531
Economic Development	6,018
Total Depreciation Expense - Governmental	\$ 2,249,424

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(6) Changes in Capital Assets (Continued)

	Balance 12/31/2010	Additions	Deletions	Balance 12/31/2011
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 589,981	\$ 21,220	\$ -	\$ 611,201
Construction Work in Progress	46,985	750,321	773,700	23,606
Total Capital Assets, not being Depreciated	636,966	771,541	773,700	634,807
Capital Assets, being Depreciated:				
Buildings	10,256,958	-	-	10,256,958
Improvements Other Than Buildings	23,675,885	2,474,700	-	26,150,585
Machinery and Equipment	5,205,286	357,113	-	5,562,399
Total Capital Assets, being Depreciated	39,138,129	2,831,813	-	41,969,942
Less Accumulated Depreciation for:				
Buildings	4,236,955	277,631	-	4,514,586
Improvements Other Than Buildings	8,031,824	728,129	-	8,759,953
Machinery and Equipment	4,141,878	240,410	-	4,382,288
Total Accumulated Depreciation	16,410,657	1,246,170	-	17,656,827
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	22,727,472	1,585,643	-	24,313,115
Total Business-Type Capital Assets, Net	\$ 23,364,438	\$ 2,357,184	\$ 773,700	\$ 24,947,922

Depreciation expense was charged to functions as follows:

Sewer	\$ 696,078
Water	422,646
Solid Waste	94,945
Campground	16,189
Electric Production	11,934
Parking	4,378
Total Depreciation Expense - Business-Type	\$ 1,246,170

As of December 31, 2011, the City has a signed construction commitment in the amount of \$720,191. This item is expected to be financed through the Municipal Highway & Bridge Fund with state highway funds and sales tax revenue.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2011:

	Balance 12/31/2010	Borrowings	Repayments	Balance 12/31/2011	Due Within One Year
Primary Government:					
Governmental Activities:					
Meier-Della Vecchia Land	\$ 200,000	\$ -	\$ 200,000	\$ -	\$ -
Series 2007 Bonds	7,830,000	-	345,000	7,485,000	355,000
Humane Society	12,551	-	12,551	-	-
TID #1 Elkhorn Ridge	8,211,540	-	-	8,211,540	-
Accrued Interest - TID #1	1,232,539	873,577	88,303	2,017,813	88,470
TID #2 Industrial Park Bond	1,536,806	-	279,140	1,257,666	307,140
Compensated Absences	426,229	237,252	177,502	485,979	485,979
OPEB (Note 12)	520,873	320,216	22,588	818,501	-
Total Governmental Activities	19,970,538	1,431,045	1,125,084	20,276,499	1,236,589
Business-Type Activities:					
Sewer-Water Revolving Loan	5,557,185	-	207,788	5,349,397	214,624
Portable Stage	78,340	-	7,015	71,325	7,387
Compensated Absences	132,190	83,046	72,807	142,429	142,429
OPEB (Note 12)	197,715	109,215	7,704	299,226	-
Total Business-Type Activities	5,965,430	192,261	295,314	5,862,377	364,440
Total Primary Government	\$ 25,935,968	\$ 1,623,306	\$ 1,420,398	\$ 26,138,876	\$ 1,601,029

Tax Increment Districts (TID) Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvement within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such fund shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2011, property tax revenues were \$88,303 and \$347,451 for TID #1 and #2.

Pledged Revenues

The City has pledged future revenue associated with the Clean Water Revenue Borrower Bonds. The debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with the debt issue have been pledged through the maturity date listed below. Below is a comparison of principal and interest payments and total pledged revenue for the Sewer Fund for the current year.

Current Year Principal and Interest	\$ 384,474
Pledged Revenue	1,849,595

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2011, is comprised of the following:

Lease Payable

Wells Fargo Lease/Purchase of Portable Stage for \$85,000, matures in July 2019, interest at 5.31 percent, due in annual installments of \$11,174. Financed through Parking Fund. \$ 71,325

Revenue Bonds

Series 2007 Bonds for \$8,940,000, mature in June 2027, interest at 3.50 to 4.40 percent, due in semi-annual installments from \$170,000 to \$325,000. Financed through Second Penny Sales Tax Fund for the Water Park. 7,485,000

Clean Water Revenue Borrower Bonds, Series 2008 for \$5,658,584, mature in April 2030, interest at 3.25 percent, due in quarterly installments of \$325,000. Sewer revenues pledged and financed through the Sewer Fund for the Wastewater Treatment Plant expansion. 5,349,397

Tax Increment Financing Obligations

TID #1 Elkhorn Ridge, including interest at 9.25 percent, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #1 Elkhorn Ridge Debt Service Fund. 8,211,540

TIF #2 Industrial Park Bond, Series 2009, for \$2,000,000, matures in June 2021, interest at 5.00 percent, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #2 Industrial Park Debt Service Fund. 1,257,666

Total Lease Payable, Bonds, and Other Obligations 22,374,928

Compensated Absences

General Fund 485,979

Water Fund 25,763

Electric Fund 16,270

Sewer Fund 52,735

Solid Waste Fund 47,661

Total Compensated Absences 628,408

Other Post Employment Benefits (OPEB) (Note 12)

General Fund 818,501

Water Fund 64,471

Electric Fund 31,799

Sewer Fund 125,945

Parking Fund 1,028

Solid Waste Fund 59,061

Campground Fund 16,922

Total OPEB 1,117,727

Accrued Interest 2,017,813

Total Long-Term Debt \$ 26,138,876

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2011, except for compensated absences and OPEB, are as follows:

	Lease Payable		Revenue Bonds		TID Obligations *		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2012	\$ 3,787	\$ 7,387	\$ 481,176	\$ 569,624	\$ 1,224,731	\$ 307,140	\$ 1,709,694	\$ 884,151
2013	3,395	7,779	460,659	591,685	1,209,005	322,866	1,673,059	922,330
2014	2,982	8,192	439,257	613,978	934,040	597,831	1,376,279	1,220,001
2015	2,547	8,627	416,609	636,511	735,602	728,335	1,154,758	1,373,473
2016	2,089	9,085	392,828	659,292	685,992	479,523	1,080,909	1,147,900
2017-2021	3,268	30,255	1,567,052	3,692,432	2,646,513	3,181,065	4,216,833	6,903,752
2022-2026	-	-	777,366	4,474,143	850,374	3,852,446	1,627,740	8,326,589
2027-2030	-	-	86,005	1,596,732	-	-	86,005	1,596,732
Total	\$ 18,068	\$ 71,325	\$ 4,620,952	\$ 12,834,397	\$ 8,286,257	\$ 9,469,206	\$ 12,925,277	\$ 22,374,928

* TID Obligation maturities are based on project amortization schedules. Actual repayments could vary dependent on property tax increments received.

(8) 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 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, the State of South Dakota, and any other political subdivision of the state are not 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, 2011, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$1,519,491.

(9) Lease

In 1997, the City issued Series 1997 bonds for the construction of a convention center on the City's land. In December 1997, the City entered into a lease agreement (at a cost of \$1.00) with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts to repay the related debt.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2011, were as follows:

	Transfers In	Transfers Out
<i>Major Funds</i>		
General Fund	\$ 406,083	\$ -
Water Fund	-	179,553
Electric Production Fund	-	32,800
Sewer Fund	-	107,613
Solid Waste Fund	-	65,485
Campground Fund	-	20,632
Total Transfers	\$ 406,083	\$ 406,083

Subsidies totaling \$406,083 were transferred from the Water, Electric Production, Sewer, Solid Waste, and Campground Funds to the General Fund to cover utility operation costs of the City.

Interfund advances to and advances from balances at December 31, 2011, were as follows:

	Interfund Advance To	Interfund Advance From
<i>Major Funds</i>		
Second Penny Sales Tax Fund	\$ 601,111	\$ -
TID #3 McGuigan Ranch Capital Project Fund	-	601,111
TID #2 Industrial Park Capital Project Fund	-	1,260,194
Water Fund	1,079,230	-
Sewer Fund	180,964	-
Total Interfund Advances	\$ 1,861,305	\$ 1,861,305

In 2009, the Second Penny Sales Tax Fund advanced \$601,111 to TID #3 McGuigan Ranch Capital Project Fund for 10 housing lots to be purchased and the Water Fund advanced \$320,222 to TID #2 Industrial Park Capital Project Fund for a water well as a part of the expansion of the Industrial Park. In the prior year, the Water Fund advanced additional amounts of \$746,824 and the Sewer Fund advanced \$42,713 to TID #2 Industrial Park Capital Project Fund for the expansion of the Industrial Park. During the current year, the Water Fund advanced additional amounts of \$12,184 and the Sewer Fund advanced additional amounts of \$138,251 to TID #2 Industrial Park Capital Project Fund for the expansion of the Industrial Park.

(11) Retirement Plan -- South Dakota Retirement System

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(11) Retirement Plan -- South Dakota Retirement System (Continued)

General employees are required by state statute to contribute 6.0 percent of their salary to the plan, while public safety and judicial employees contribute 8.0 and 9.0 percent, 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 percent 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 years ended December 31, 2011, 2010, and 2009 were \$273,471, \$268,071, and \$268,245, respectively, equal to the required contributions each year.

(12) Other Post-Employment Benefits – Healthcare Plan

Plan Description:

The Retiree Benefit Plan is a single-employer defined benefit healthcare plan administered by the City. The Retiree Benefit Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended by the City Council. The health plan does not issue separately stated standalone financial statements.

Funding Policy:

The contribution requirements of plan members and the City are established and may be amended by the City Council. An employee who retires from the City that is eligible for SDRS Retirement and has at least 10 years of consecutive service with the City, may be eligible for retiree health, dental and vision coverage.

Coverage ceases when the retiree attains the age of 65. The retiree is responsible for 100% of the full active premium rates for either single, two-person or family coverage.

Annual OPEB Cost and Net OPEB Obligation:

The City's annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$	415,059
Interest on Net OPEB Obligation		14,372
Adjustment to Annual Required Contribution		(13,611)
<hr/>		
Annual OPEB Costs		415,820
Contributions Made		(16,681)
<hr/>		
Change in Net OPEB Obligation		399,139
Net OPEB Obligation - Beginning of Year		718,588
<hr/>		
Net OPEB Obligation - End of Year	\$	1,117,727

The City's annual OPEB cost data and net OPEB obligation was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual	Net OPEB Obligation
2011	\$ 415,059	5%	\$ 1,117,727
2010	373,920	5%	718,588
2009	371,325	2%	362,385

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(12) Other Post-Employment Benefits – Healthcare Plan (Continued)

Funded Status and Funding Progress:

As of December 31, 2011, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$2.0 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2.0 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.8 million, and the ratio of the UAAL to the covered payroll was 42.33 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the subjective plan (the plan as understood by the employer and the plan members) and includes the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the alternative measurement method actuarial valuation, the entry age method was used. The actuarial assumptions included a -0- percent rate of return and an annual healthcare cost trend rate of 8 percent for health, 3 percent for dental and 3 percent for vision, initially, reduced by decrements to an ultimate rate of 4 percent for health, 3 percent for dental, and 3 percent for vision, respectively, after 10 years. Both rates include a 2 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll for 30 years.

(13) Joint Venture

The City previously participated in a joint venture, known as the Northern Hills Multi-Jurisdictional Drug Task Force, formed for the purpose of implementing and improving state and local drug law enforcement. The task force is no longer active, and the city is in the process of withdrawing their participation.

The members of the joint venture, each with 10 percent participation, are as follows:

Butte County	Newell City
Lawrence County	Deadwood City
Meade County	Belle Fourche City
Spearfish City	Lead City
Sturgis City	Whitewood City

The joint venture's governing board is composed of ten representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

Separate financial statements for this joint venture are available from the Lawrence County Sheriff's Office.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2011, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

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

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit.

A portion of the member premiums are also allocated to a cumulative reserve fund.

As of December 31, 2011, the City has a vested balance in the cumulative reserve fund of \$98,788 and is considered to be fully vested.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. The City has not reserved equity for the payment of future unemployment benefits.

During the year ended December 31, 2011, three claims were filed for unemployment benefits. These claims resulted in the payment of benefit amounts of \$803.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2011**

(14) Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the 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 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 give its employees safe and sanitary working conditions and to promptly report to and resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retro-actively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

(15) Contracts Receivable

In 2002, the City entered into a contract with Black Hills Corporation for naming rights on the new Sports Complex. The agreement calls for Black Hills Corporation to pay the City \$200,000 in ten annual installments of \$20,000, with the last installment due March 1, 2012.

(16) City Officers

The following were City officers for the year ended December 31, 2011:

Mayor:
Jerry Krambeck
Council:
Mary Morgan
Travis Geppert
Paul Young
Doug Schmit
Dan Aaker
David Baker
Acting Finance Officer:
Dave Dutton
Attorney:
Richard Plumier
Brady Plumier, P.C.

(17) GASB No. 54 Implementation

In the current year the City implemented GASB No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Such implementation required restating prior year fund balances, as well as combining several funds that no longer meet the requirements to remain stand-alone funds. As such, the Historical Procurement Fund is now reported within the General Fund and the Recreation Path Fund is now reported within the Second Penny Sales Tax Fund. These changes had no effect on the total net assets at the beginning of the year.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2011**

(18) Prior Period Adjustment

A receivable was not recorded at December 31, 2010 for expenditures totaling \$192,548 incurred in 2010 in relation to TID #1. These expenditures were reimbursed by the developer in 2011. The error resulted in an understatement of revenue and net assets in the TID #1 Elkhorn Ridge Capital Projects Fund for 2010.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
311	\$ 1,731,880	\$ 1,731,880	\$ 1,708,022	\$ (23,858)
313	2,900,000	2,900,000	3,066,728	166,728
314	55,245	55,245	67,667	12,422
315	700	700	804	104
319	3,500	3,500	3,408	(92)
320	258,750	258,750	354,042	95,292
<i>Intergovernmental Revenue:</i>				
331	52,000	52,000	45,041	(6,959)
334	-	-	2,430	2,430
<i>State Shared Revenue:</i>				
335.01	4,400	4,400	2,903	(1,497)
335.03	50,000	50,000	53,824	3,824
335.04	46,600	46,600	58,696	12,096
335.20	265,000	265,000	271,925	6,925
<i>County Shared Revenue:</i>				
338.02	16,000	16,000	15,967	(33)
339	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341	17,675	17,675	10,829	(6,846)
342	123,575	129,409	133,515	4,106
343	53	53	737	684
346	579,829	579,829	662,349	82,520
348	6,000	6,000	6,900	900
349	38	38	30	(8)
<i>Fines and Forfeits:</i>				
351	1,500	1,500	882	(618)
359	5,566	5,566	5,662	96
<i>Miscellaneous Revenue:</i>				
361	100,000	100,000	79,081	(20,919)
362	30,070	30,070	37,268	7,198
363	95,200	95,200	97,619	2,419
367	-	-	8,591	8,591
369	2,650	2,650	5,207	2,557
Total Revenue	6,576,652	6,582,486	6,930,548	348,062

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	159,675	159,675	147,438	12,237
411.5 Contingency	150,000	150,000	-	
Amount Transferred	-	(115,000)	-	35,000
412 Executive	132,886	132,886	130,457	2,429
414 Financial Administration	284,899	284,899	250,445	34,454
419 Other	815,615	815,615	741,439	74,176
<i>Public Safety:</i>				
421 Police	1,938,650	1,939,384	1,838,812	100,572
422 Fire	184,477	184,477	179,501	4,976
423 Protective Inspection	148,618	148,618	145,727	2,891
<i>Public Works:</i>				
431 Highways and Streets	849,141	906,641	872,064	34,577
437 Cemeteries	109,329	109,329	103,472	5,857
<i>Health and Welfare:</i>				
441 Health	47,171	47,171	43,233	3,938
<i>Culture and Recreation:</i>				
451 Recreation	1,530,961	1,619,911	1,488,887	131,024
452 Parks	305,989	310,989	303,741	7,248
455 Library	341,443	341,443	327,176	14,267
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	-	15,650	15,615	35
465 Economic Development and Assistance	131,962	134,162	130,313	3,849
480 Intergovernmental Expenditures	350,348	350,448	331,691	18,757
Total Expenditures	7,481,164	7,536,298	7,050,011	486,287
Excess of Revenue Over (Under)				
Expenditures	(904,512)	(953,812)	(119,463)	834,349
Other Financing Sources:				
391.1 Transfers In	292,766	406,083	406,083	-
Total Other Financing Sources	292,766	406,083	406,083	-
Net Change in Fund Balance	(611,746)	(547,729)	286,620	834,349
Fund Balance - December 31, 2010	4,350,012	4,350,012	4,350,012	-
Fund Balance - December 31, 2011	\$ 3,738,266	\$ 3,802,283	\$ 4,636,632	\$ 834,349

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 2,900,000	\$ 2,900,000	\$ 3,066,727	\$ 166,727
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	42,989	42,989	49,948	6,959
367 Contributions and Donations - Private Sources	-	-	88,500	88,500
369 Other	-	-	219	219
Total Revenue	2,942,989	2,942,989	3,205,394	262,405
Expenditures				
<i>Culture and Recreation:</i>				
451 Recreation	13,000	33,000	13,000	20,000
470 Debt Service	887,615	887,615	887,612	3
485 Capital Outlay	1,454,200	1,636,200	1,563,654	72,546
Total Expenditures	2,354,815	2,556,815	2,464,266	92,549
Excess of Revenue Over (Under) Expenditures	588,174	386,174	741,128	354,954
Other Financing Sources (Uses):				
511 Transfers Out	(1,043,000)	(1,043,000)	-	1,043,000
Total Other Financing Sources (Uses)	(1,043,000)	(1,043,000)	-	1,043,000
Net Change in Fund Balance	(454,826)	(656,826)	741,128	1,397,954
Fund Balance - December 31, 2010	4,015,045	4,015,045	4,015,045	-
Fund Balance (Deficit) - December 31, 2011	\$ 3,560,219	\$ 3,358,219	\$ 4,756,173	\$ 1,397,954

The accompanying notes to required supplementary information are an integral part of this statement.

CITY OF SPEARFISH

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING
PROGRESS (OPEB)
DECEMBER 31, 2011**

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2011.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund, special revenue funds, capital projects funds, and debt service funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

In the general fund, the financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances; however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

(2) Schedule of Funding Progress (OPEB)

As of December 31, 2011 the plan's statistics were as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2009	-	1,620,496	1,620,496	0.00%	4,415,472	36.70%
12/31/2010	-	1,620,496	1,620,496	0.00%	4,704,297	34.45%
12/31/2011	-	2,024,819	2,024,819	0.00%	4,783,562	42.33%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2011**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets			
101 Cash and Cash Equivalents	\$ 165,828	\$ 30,471	\$ 42,517
104 Investments	329,995	52,307	-
110 Sales Taxes Receivable	10,954	-	-
115 Accounts Receivable	-	-	-
121 Special Assessments Receivable	-	-	8,218
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
Total Assets	\$ 506,777	\$ 82,778	\$ 50,735
Liabilities and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 7,139	\$ -	\$ -
224 Deferred Revenue	-	-	-
Total Liabilities	7,139	-	-
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264.01 Debt Service	-	-	-
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	369,078	-	-
264.05 Library Purposes	-	82,778	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	50,735
264.99 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-
265 <i>Committed</i>			
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
266 <i>Assigned:</i>			
266.01 Subsequent Year's Budget	130,560	-	-
Total Fund Balances	499,638	82,778	50,735
Total Liabilities and Fund Balances	\$ 506,777	\$ 82,778	\$ 50,735

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund
\$ 89,017	\$ 203,970	\$ 584,550	\$ 194,123	\$ 6,838	\$ 67,332
98,071	517,863	508,692	128,635	40,636	-
-	-	-	-	-	-
-	-	-	-	-	-
-	51,658	-	-	-	64
-	-	378,725	-	-	-
26,173	-	-	-	-	-
\$ 213,261	\$ 773,491	\$ 1,471,967	\$ 322,758	\$ 47,474	\$ 67,396

\$ -	\$ -	\$ -	\$ 326	\$ -	\$ -
-	51,658	-	-	-	64
-	51,658	-	326	-	64

-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	290,932	-	-
213,261	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	67,332
-	642,833	-	-	-	-
-	-	1,471,967	-	-	-
-	-	-	-	47,474	-
-	79,000	-	31,500	-	-
213,261	721,833	1,471,967	322,432	47,474	67,332
\$ 213,261	\$ 773,491	\$ 1,471,967	\$ 322,758	\$ 47,474	\$ 67,396

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2011**

	Golf Course Capital	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund
Assets			
101 Cash and Cash Equivalents	\$ 18,826	\$ 13,551	\$ 243,709
104 Investments	-	-	-
110 Sales Taxes Receivable	-	-	-
115 Accounts Receivable	1,076	-	-
121 Special Assessments Receivable	-	-	-
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
Total Assets	\$ 19,902	\$ 13,551	\$ 243,709
Liabilities and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ -	\$ -	\$ -
224 Deferred Revenue	-	-	-
Total Liabilities	-	-	-
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264.01 Debt Service	-	13,551	243,709
264.02 Capital Projects	19,902	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	-	-	-
264.05 Library Purposes	-	-	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	-
264.99 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-
265 <i>Committed</i>			
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
266 <i>Assigned:</i>			
266.01 Subsequent Year's Budget	-	-	-
Total Fund Balances	19,902	13,551	243,709
Total Liabilities and Fund Balances	\$ 19,902	\$ 13,551	\$ 243,709

TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects Fund	Total
\$ -	\$ -	\$ 217	\$ 1,660,949
25,571	416,894	-	2,118,664
-	-	-	10,954
-	-	-	1,076
-	-	-	59,940
-	-	-	378,725
-	-	-	26,173
\$ 25,571	\$ 416,894	\$ 217	\$ 4,256,481

\$ -	\$ -	\$ -	\$ 7,465
-	-	-	51,722
-	-	-	59,187

-	50,000	-	50,000
25,571	-	-	282,831
-	-	217	20,119
-	366,894	-	366,894
-	-	-	369,078
-	-	-	82,778
-	-	-	290,932
-	-	-	213,261
-	-	-	50,735
-	-	-	67,332
-	-	-	642,833
-	-	-	1,471,967
-	-	-	47,474
-	-	-	241,060
25,571	416,894	217	4,197,294
\$ 25,571	\$ 416,894	\$ 217	\$ 4,256,481

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	502,990	-	-
315 Amusement Taxes	-	-	192,333
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-
<i>Intergovernmental Revenue:</i>			
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines & Forfeits:</i>			
354 Library	-	15,002	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	9,206	1,435	138
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	163	4,870	18,111
369 Other	-	-	10,706
Total Revenue	512,359	21,307	221,288
Expenditures:			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Public Works:</i>			
431 Highway and Streets	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	130,470	-	-
452 Parks	-	-	-
455 Library	-	19,135	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	444,843	-	190,020
470 Debt Service	-	-	-
485 Capital Outlay	8,665	-	-
Total Expenditures	583,978	19,135	190,020
Net Change in Fund Balances	(71,619)	2,172	31,268
Fund Balances, December 31, 2010	571,257	80,606	19,467
Prior Period Adjustment	-	-	-
Net Assets, December 31, 2010, as Restated	571,257	80,606	19,467
Fund Balances, December 31, 2011	\$ 499,638	\$ 82,778	\$ 50,735

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
117,452	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	389,298
-	-	-	-	19,991	-
-	-	-	-	-	-
-	-	-	-	-	-
2,987	13,734	26,037	3,829	1,025	135
-	-	4,310	16,970	-	-
-	31,124	943	-	-	290
-	-	-	2	-	6,153
-	-	7,684	-	-	-
120,439	44,858	38,974	20,801	21,016	395,876
50,666	-	-	-	-	-
-	220	-	-	-	-
-	-	-	-	16,500	-
-	-	-	13,885	-	-
-	-	-	-	-	-
-	-	1,357	-	-	-
-	-	-	-	-	-
49,881	-	-	-	-	339,331
100,547	220	1,357	13,885	16,500	339,331
19,892	44,638	37,617	6,916	4,516	56,545
193,369	677,195	1,434,350	315,516	42,958	10,787
-	-	-	-	-	-
193,369	677,195	1,434,350	315,516	42,958	10,787
\$ 213,261	\$ 721,833	\$ 1,471,967	\$ 322,432	\$ 47,474	\$ 67,332

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2011**

	Golf Course Capital	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund
Revenue:			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ 88,303	\$ 347,451
313 General Sales and Use Taxes	-	-	-
315 Amusement Taxes	-	-	-
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	3,265
<i>Intergovernmental Revenue:</i>			
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines & Forfeits:</i>			
354 Library	-	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	16	43	246
362 Rentals	-	-	-
363 Special Assessments	2,017	-	-
367 Contributions and Donations - Private Sources	15,828	-	-
369 Other	-	-	-
Total Revenue	17,861	88,346	350,962
Expenditures:			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Public Works:</i>			
431 Highway and Streets	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	1,715	-	-
452 Parks	-	-	-
455 Library	-	-	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	-	-	-
470 Debt Service	-	88,303	353,954
485 Capital Outlay	-	-	-
Total Expenditures	1,715	88,303	353,954
Net Change in Fund Balances	16,146	43	(2,992)
Fund Balances, December 31, 2010	3,756	13,508	246,701
Prior Period Adjustment	-	-	-
Net Assets, December 31, 2010, as Restated	3,756	13,508	246,701
Fund Balances, December 31, 2011	\$ 19,902	\$ 13,551	\$ 243,709

TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects	Total
\$ -	\$ -	\$ -	\$ 435,754
-	-	-	502,990
-	-	-	192,333
-	-	-	117,452
-	-	-	3,265
-	-	-	389,298
-	-	-	19,991
-	11,830	-	11,830
-	-	-	15,002
639	-	-	59,470
-	-	-	21,280
-	-	-	34,374
-	-	18,457	63,584
-	-	-	18,390
639	11,830	18,457	1,885,013
-	-	-	50,666
-	-	-	220
-	-	-	148,685
-	-	-	13,885
-	-	-	19,135
-	-	-	636,220
-	-	-	442,257
-	-	18,457	416,334
-	-	18,457	1,727,402
639	11,830	-	157,611
24,932	405,064	(192,331)	3,847,135
-	-	192,548	192,548
24,932	405,064	217	4,039,683
\$ 25,571	\$ 416,894	\$ 217	\$ 4,197,294

OTHER REPORTS



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: ktllp@ktllp.com

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

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 22, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Auditor's Comments and Closing Conference as Findings #11-1 and #11-2 to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

City Council
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The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Mayor, City Council, and management, and is not intended to be, and should not be, used by anyone other than those specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink that reads "Ketel Thorstenson, LLP". The signature is written in a cursive, flowing style.

KETEL THORSTENSON, LLP
Certified Public Accountants

January 22, 2013

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE DECEMBER 31, 2011

A. Status of Prior Audit Findings and Recommendations

The City continues to improve on recording year-end adjustments; however, as several audit adjustments were necessary, Finding #09-1 will be repeated as Finding #11-1 for the year ending December 31, 2011.

The City has implemented the appropriate segregation of duties. Therefore, Finding #09-2 will not be repeated for the year ending December 31, 2011.

The Mayor was able to periodically review listings of all manual checks issued by the City with his signature stamp to determine the completeness and appropriateness of manual checks issued. Therefore, Finding #09-3 will not be repeated for the year ending December 31, 2011.

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding #09-4 will be repeated as Finding #11-2 for the year ending December 31, 2011.

B. Current Year Audit Findings and Recommendations

Significant Deficiencies

11-1 Finding: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included various reclassifications between revenue or expenditure accounts, as well as adjusting deferred revenue, accrued interest, landscape deposits, and customer deposits.

Criteria and Effect: These adjustments would not have been identified as a result of the City's existing internal controls, and therefore, could have resulted in a misstatement of the City's financial statements.

Recommendation: We recommend Management consider the following:

- Deposit balances should be analyzed and adjusted for amounts paid during the year.
- Receivables should be reclassified out of deferred revenue and recognized if considered earned during the year.
- Fassbender photo expenditures should not be recorded within debt service, as the City does not have corresponding debt relating to such items.
- Accrued interest should be calculated and recorded each year on enterprise fund debt.

Corrective Action Plan: The proposed recommendations were accepted by the City and changes have been implemented to follow the recommendations in future years.

11-2 Finding: Financial Statement Preparation

Condition and Cause: We were requested to assist with the drafting of the financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. This is not unusual for cities of your size.

Criteria and Effect: It is our responsibility to inform the City Council that this deficiency could result in a misstatement to the financial statements that would not have been prevented or detected by the City's management.

CITY OF SPEARFISH

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2011**

B. Current Year Audit Findings and Recommendations (Continued)

Significant Deficiencies (Continued)

11-2 Finding: Financial Statement Preparation (Continued)

Recommendation: We have instructed management to review a draft of the revised financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with complete financial statements. It is the City Council's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan: The City accepts the degree of risk with the drafting of the financial statements by the audit firm. All information presented has been reviewed and approved by the City prior to dissemination.