



**CITY OF SPEARFISH**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2012



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

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**CITY OF SPEARFISH**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Spearfish  
Spearfish, South Dakota

### **Report on the Financial Statements**

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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

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

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government 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 from material misstatement.

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

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

#### ***Opinions***

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

**Report on Required Supplementary Information**

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 45 through 48, and the schedule of funding progress (OPEB) presented on page 48, 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 basic 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.

**Report on Supplementary Information**

Our audit was conducted for the purpose of forming opinions that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 49-52 are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

September 16, 2013

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2012**

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, 2012. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

- The City's net position from governmental and business-type activities increased by \$1,023,077, primarily due to an increase in charges for services, operating grants and contributions, and taxes.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$251,923 more than the \$12,941,023 governmental expenditures, excluding transfers.
- In the City's business-type activities, revenue increased by 2 percent to \$6,173,191 while expenses increased by 9 percent to \$5,402,037, due to a large decrease in contributed capital in the enterprise funds.
- The total cost of the City's programs increased by \$1,561,183, approximately 9 percent, due to increased operational cost for the City.
- The general fund reported a \$579,960 current year increase primarily due to an increase in taxes, grants, and licenses and permits and lower increases in operational costs.

#### **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, 2012**

**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			
	<b>Government-wide</b>	<b>Fund Statements</b>	
	<b>Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	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
<b>Required Financial Statements</b>	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/ Liability Information</b>	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
<b>Type of Inflow/ Outflow Information</b>	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, 2012**

#### **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 position 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 position and how they have changed. Net position – 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 position 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, 2012**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE**

Net Position

The City's combined net position increased by 1.47 percent between 2011 and 2012 – increasing by \$1,023,077 (see Table A-1).

Table A-1

Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2011	2012	2011	2012	2011	2012
Current & Other Assets	\$ 12,140,731	\$ <b>14,064,052</b>	\$ 8,246,981	\$ <b>9,174,418</b>	\$ 20,387,712	\$ <b>23,238,470</b>
Capital Assets	51,180,730	<b>50,544,282</b>	24,947,922	<b>24,236,540</b>	76,128,652	<b>74,780,822</b>
Total Assets	\$ 63,321,461	\$ <b>64,608,334</b>	\$ 33,194,903	\$ <b>33,410,958</b>	\$ 96,516,364	\$ <b>98,019,292</b>
Long-Term Debt	\$ 20,276,499	\$ <b>20,815,481</b>	\$ 5,862,377	\$ <b>5,689,867</b>	\$ 26,138,876	\$ <b>26,505,348</b>
Other Liabilities	319,166	<b>390,134</b>	224,251	<b>266,662</b>	543,417	<b>656,796</b>
Total Liabilities	\$ 20,595,665	\$ <b>21,205,615</b>	\$ 6,086,628	\$ <b>5,956,529</b>	\$ 26,682,293	\$ <b>27,162,144</b>
Net Position:						
Net Investment in						
Capital Assets	\$ 32,208,711	\$ <b>31,369,707</b>	\$ 19,527,200	\$ <b>19,101,767</b>	\$ 51,735,911	\$ <b>50,471,474</b>
Restricted	3,257,244	<b>3,417,326</b>	-	-	3,257,244	<b>3,417,326</b>
Unrestricted	7,259,841	<b>8,615,686</b>	7,581,075	<b>8,352,662</b>	14,840,916	<b>16,968,348</b>
Total Net Position	\$ 42,725,796	\$ <b>43,402,719</b>	\$ 27,108,275	\$ <b>27,454,429</b>	\$ 69,834,071	\$ <b>70,857,148</b>
Beginning Net Position	\$ 41,557,015	\$ <b>42,725,796</b>	\$ 25,097,572	\$ <b>27,108,275</b>	\$ 66,654,587	\$ <b>69,834,071</b>
Prior Period Adjustment	192,548	-	-	-	192,548	-
Increase in Net Position	976,233	<b>676,923</b>	2,010,703	<b>346,154</b>	2,986,936	<b>1,023,077</b>
Percentage of Increase						
Net Position	2.35%	<b>1.58%</b>	8.01%	<b>1.28%</b>	4.48%	<b>1.47%</b>

The Statement of Net Position 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, other post-employment benefits, 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 Position. The difference between the City's assets and liabilities is its net position.



**CITY OF SPEARFISH**

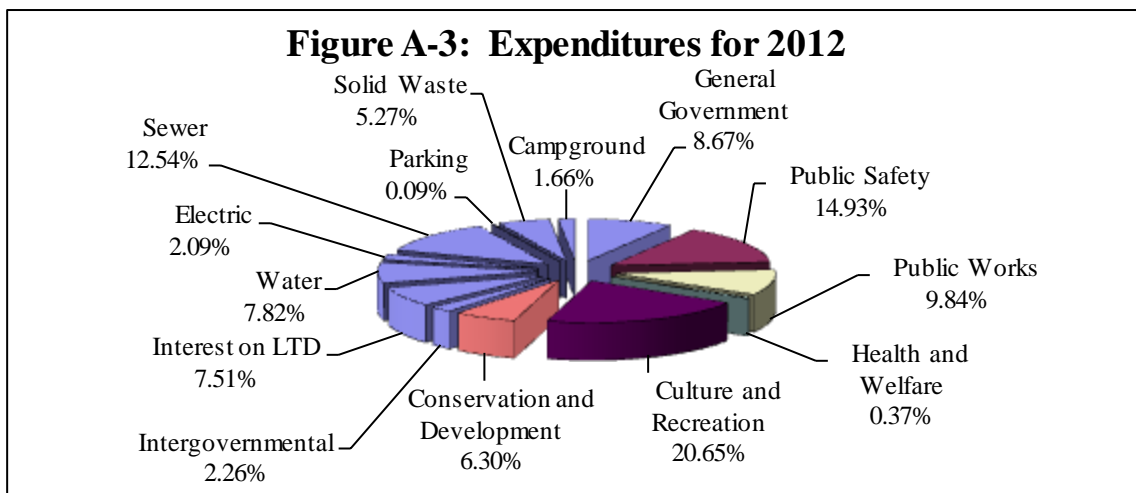
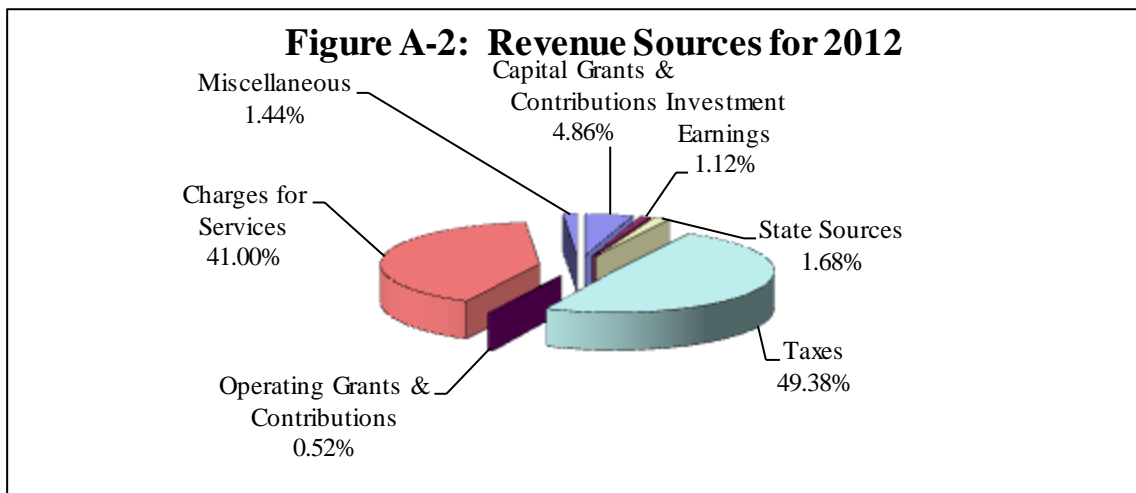
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)**

Changes in Net Position

The City's total revenues (excluding transfers) totaled \$19,366,137 (see Table A-2). Well over three-fourths of the City's revenue comes from charges for services and tax, with 41 cents of every dollar raised coming from charges for services (primarily water, sewer, recreation and aquatic park and solid waste operations) and 49 cents of every dollar raised comes from some type of tax. (See Figure A-2). Another 5 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 increased by 9 percent from 2011 to 2012. The City's expenses cover a range of services, with nearly 33 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, 2012

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2011	2012	2011	2012	2011	2012
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 2,016,880	\$ 1,902,347	\$ 5,170,726	\$ 6,038,709	\$ 7,187,606	\$ 7,941,056
Operating Grants and Contributions	47,471	101,026	-	-	47,471	101,026
Capital Grants and Contributions	1,769,100	941,129	640,130	-	2,409,230	941,129
<i>General Revenues</i>						
Taxes	9,124,545	9,562,799	-	-	9,124,545	9,562,799
Revenue State Sources	328,652	324,673	-	-	328,652	324,673
Unrestricted Investment Earnings	191,146	103,041	181,120	114,090	372,266	217,131
Miscellaneous	259,006	257,931	40,037	20,392	299,043	278,323
<b>Total Revenues</b>	\$13,736,800	\$ 13,192,946	\$ 6,032,013	\$ 6,173,191	\$19,768,813	\$ 19,366,137
<b>Expenses</b>						
General Government	\$ 1,521,413	\$ 1,591,003	\$ -	\$ -	\$ 1,521,413	\$ 1,591,003
Public Safety	2,641,949	2,739,553	-	-	2,641,949	2,739,553
Public Works	1,641,777	1,805,778	-	-	1,641,777	1,805,778
Health and Welfare	47,251	67,948	-	-	47,251	67,948
Culture and Recreation	3,489,761	3,788,442	-	-	3,489,761	3,788,442
Conservation and Development	802,405	1,156,703	-	-	802,405	1,156,703
Interest on Long-Term Debt	1,303,496	1,377,220	-	-	1,303,496	1,377,220
Intergovernmental	396,127	414,376	-	-	396,127	414,376
Water Services	-	-	1,318,511	1,435,036	1,318,511	1,435,036
Electric Services	-	-	277,573	382,708	277,573	382,708
Sewer Services	-	-	2,187,924	2,301,284	2,187,924	2,301,284
Parking	-	-	13,485	16,339	13,485	16,339
Solid Waste	-	-	886,790	964,999	886,790	964,999
Campground	-	-	253,415	301,671	253,415	301,671
<b>Total Expenses</b>	\$11,844,179	\$ 12,941,023	\$ 4,937,698	\$ 5,402,037	\$16,781,877	\$ 18,343,060
<b>Excess Revenues</b>						
<b>Before Transfers</b>	\$ 1,892,621	\$ 251,923	\$ 1,094,315	\$ 771,154	\$ 2,986,936	\$ 1,023,077
Transfers	(916,388)	425,000	916,388	(425,000)	-	-
<b>Increase in Net Position</b>	\$ 976,233	\$ 676,923	\$ 2,010,703	\$ 346,154	\$ 2,986,936	\$ 1,023,077
<b>Net Position - Ending</b>	\$42,725,796	\$ 43,402,719	\$27,108,275	\$ 27,454,429	\$69,834,071	\$ 70,857,148

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)**

**Governmental Activities**

Revenues of the City's governmental activities exceeded expenses by \$251,923, excluding transfers, due to an increase in operating grants and contributions and an increase in tax revenue.

**Business-Type Activities**

Revenues of the City's business-type activities exceeded expenses by \$771,154, excluding transfers, due to rate increases within the enterprise funds.

**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, 2012**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2012, the City had invested \$74,780,822 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deductions) of \$1,347,830.

Table A-3

<b>Capital Assets (Net of Depreciation)</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2011	2012	2011	2012
Land	\$ 9,000,831	\$ <b>9,265,871</b>	\$ 611,201	\$ <b>642,008</b>
Buildings	13,240,177	<b>13,223,001</b>	5,742,372	<b>5,512,441</b>
Improvements	25,905,790	<b>25,280,514</b>	17,390,632	<b>16,600,102</b>
Machinery & Equipment	2,990,143	<b>2,698,353</b>	1,180,111	<b>1,382,619</b>
Construction Work in Progress	43,789	<b>76,543</b>	23,606	<b>99,370</b>
<b>Totals</b>	<b>\$ 51,180,730</b>	<b>\$ 50,544,282</b>	<b>\$ 24,947,922</b>	<b>\$ 24,236,540</b>

This year's major capital asset additions included:

- Street improvements including roads, sidewalks, and curb/gutter in Jorgensen Addition area totaling \$715,977
- HVAC system in City Hall for \$217,145
- Construction of a data center in City Hall for \$70,430
- Dump truck with a sander and plow for \$130,126
- Spearfish Canyon Recreation Path for \$128,722

Business-type major additions include:

- Submersible pump at the Young Well for \$112,185
- Garbage truck for \$231,022
- Submersible pump at the Kyte Well for \$53,377

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2012**

**LONG-TERM DEBT**

At year-end, the City had \$26,505,348 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2011 as shown on Table A-4 below.

Table A-4

	<b>Outstanding Debt and Obligations</b>			
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2011	2012	2011	2012
Compensated Absences	\$ 485,979	\$ 522,939	\$ 142,429	\$ 137,983
Other Post Employment Benefits (OPEB)	818,501	1,117,967	299,226	417,111
Sales Tax Revenue Bonds	7,485,000	7,130,000	-	-
TID #1 Elkhorn Ridge	8,211,540	8,211,540	-	-
TID #1 Accrued Interest	2,017,813	2,875,495	-	-
TID #2 Industrial Park Bond	1,257,666	957,540	-	-
SRF Loan - Sewer	-	-	5,349,397	5,134,773
Contracts Payable	-	-	-	-
Lease Payable	-	-	71,325	-
<b>Total</b>	<b>\$ 20,276,499</b>	<b>\$ 20,815,481</b>	<b>\$ 5,862,377</b>	<b>\$ 5,689,867</b>

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 slow improvement. The City experienced a decrease in total property valuation to a total of \$19,251,747, down 3.04 percent from the prior year. The decrease in property valuation forced the City to increase the property tax mill levy to generate the revenue needed from property tax. The City fully expects to recover the decrease in a year or two. 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 3.80 percent over the prior year and has adopted a conservative budget with a minimal increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will raise \$175,013. The largest portion of this increase is due to increased operational costs of the Recreation and Aquatics Center and for operational costs of the City parks.

The City's business-type activities (water and sewer operations) expect that the results for 2013 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, 2012**

**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 POSITION  
DECEMBER 31, 2012**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Assets:</b>			
Cash	\$ 6,888,377	\$ 2,591,412	\$ 9,479,789
Investments (Note 2)	5,924,469	4,765,627	10,690,096
Accounts and Notes Receivable, Net	1,740,341	557,185	2,297,526
Internal Balances	(1,260,194)	1,260,194	-
Restricted Assets:			
Restricted Investments (Notes 2 and 7)	669,941	-	669,941
Other Assets (Note 14)	101,118	-	101,118
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	9,342,414	741,378	10,083,792
Other Capital Assets, Net of Depreciation	41,201,868	23,495,162	64,697,030
<b>TOTAL ASSETS</b>	<b>\$ 64,608,334</b>	<b>\$ 33,410,958</b>	<b>\$ 98,019,292</b>
<b>Liabilities:</b>			
Accounts Payable	\$ 101,819	\$ 100,887	\$ 202,706
Deferred Revenue (Note 3)	20,000	-	20,000
Other Current Liabilities	268,315	165,775	434,090
Long-Term Liabilities (Note 7):			
Due Within One Year	1,354,287	359,668	1,713,955
Due in More Than One Year	19,461,194	5,330,199	24,791,393
<b>TOTAL LIABILITIES</b>	<b>21,205,615</b>	<b>5,956,529</b>	<b>27,162,144</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	31,369,707	19,101,767	50,471,474
Restricted for:			
Debt Service	1,018,013	-	1,018,013
Capital Projects	38,687	-	38,687
SDPAA (Note 14)	98,788	-	98,788
Promoting the City	286,516	-	286,516
Library Purposes	80,282	-	80,282
Park Purposes	313,550	-	313,550
911 Purposes	280,500	-	280,500
Business Improvement District Purposes	78,802	-	78,802
ACHIEVE Grant	32,573	-	32,573
Rifle Range Improvement Grant	8,500	-	8,500
Municipal Highway and Bridge	37,071	-	37,071
Special Assessments Revolving Loan Fund	717,460	-	717,460
Perpetual Care Cemetery			
Expendable	376,584	-	376,584
Nonexpendable	50,000	-	50,000
Unrestricted	8,615,686	8,352,662	16,968,348
<b>TOTAL NET POSITION</b>	<b>43,402,719</b>	<b>27,454,429</b>	<b>70,857,148</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 64,608,334</b>	<b>\$ 33,410,958</b>	<b>\$ 98,019,292</b>

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2012

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	----- Changes in Net Position -----		
					Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 1,591,003	\$ 455,344	\$ -	\$ -	\$ (1,135,659)	\$ -	\$ (1,135,659)
Public Safety	2,739,553	64,282	49,018	8,840	(2,617,413)	-	(2,617,413)
Public Works	1,805,778	605,478	-	545,720	(654,580)	-	(654,580)
Health and Welfare	67,948	-	-	-	(67,948)	-	(67,948)
Culture and Recreation	3,788,442	777,243	52,008	4,363	(2,954,828)	-	(2,954,828)
Conservation and Development	1,156,703	-	-	382,206	(774,497)	-	(774,497)
Intergovernmental	414,376	-	-	-	(414,376)	-	(414,376)
Interest on Long-Term Debt	1,377,220	-	-	-	(1,377,220)	-	(1,377,220)
<b>Total Governmental Activities</b>	<b>12,941,023</b>	<b>1,902,347</b>	<b>101,026</b>	<b>941,129</b>	<b>(9,996,521)</b>	<b>-</b>	<b>(9,996,521)</b>
Business-Type Activities:							
Water	1,435,036	2,300,260	-	-	-	865,224	865,224
Electric	382,708	414,098	-	-	-	31,390	31,390
Sewer	2,301,284	2,035,292	-	-	-	(265,992)	(265,992)
Parking	16,339	17,854	-	-	-	1,515	1,515
Solid Waste	964,999	962,385	-	-	-	(2,614)	(2,614)
Campground	301,671	308,820	-	-	-	7,149	7,149
<b>Total Business-Type Activities</b>	<b>5,402,037</b>	<b>6,038,709</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>636,672</b>	<b>636,672</b>
<b>Total Primary Government</b>	<b>\$ 18,343,060</b>	<b>\$ 7,941,056</b>	<b>\$ 101,026</b>	<b>\$ 941,129</b>	<b>(9,996,521)</b>	<b>636,672</b>	<b>(9,359,849)</b>
General Revenues:							
Taxes:							
Property Taxes					2,477,744	-	2,477,744
Sales Taxes					6,892,316	-	6,892,316
Other Taxes					118,048	-	118,048
Gross Receipts Tax					74,691	-	74,691
State Shared Revenue					324,673	-	324,673
Grants and Contributions Not Restricted					124,165	-	124,165
Unrestricted Investment Earnings					103,041	114,090	217,131
Miscellaneous Revenue					133,766	20,392	154,158
Transfers					425,000	(425,000)	-
<b>Total General Revenue and Transfers</b>					<b>10,673,444</b>	<b>(290,518)</b>	<b>10,382,926</b>
<b>Change in Net Position</b>					<b>676,923</b>	<b>346,154</b>	<b>1,023,077</b>
Net Position, Beginning					42,725,796	27,108,275	69,834,071
<b>Net Position, Ending</b>					<b>\$ 43,402,719</b>	<b>\$ 27,454,429</b>	<b>\$ 70,857,148</b>

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



**CITY OF SPEARFISH**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 2,679,058	\$ 2,749,993	\$ -
104 Investments (Note 2)	2,258,895	1,955,610	-
107 Restricted Investments (Notes 2 and 7)	-	669,941	-
108 Property Taxes Receivable (Note 5)	17,650	-	-
110 Sales Taxes Receivable	49,153	49,154	-
115 Accounts Receivable	10,645	-	-
121 Special Assessments Receivable	1,082	-	-
128 Notes Receivable (Note 4)	-	-	-
128 Contract Receivable (Notes 3 and 15)	-	20,000	-
132 Due from Other Governments	276,125	-	-
133 Advances to Other Funds (Note 10)	-	601,111	-
141 Inventory of Supplies	2,330	-	-
154 Deposits (Note 14)	98,788	-	-
<b>Total Assets</b>	<b>\$ 5,393,726</b>	<b>\$ 6,045,809</b>	<b>\$ -</b>
<b>Liabilities and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 74,896	\$ -	\$ -
216 Accrued Wages Payable	95,757	-	-
224 Deferred Revenue (Note 3)	6,481	20,000	-
236 Advance from Other Funds (Note 10)	-	-	1,260,194
<b>Total Liabilities</b>	<b>177,134</b>	<b>20,000</b>	<b>1,260,194</b>
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.01 Inventory	2,330	-	-
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 ACHIEVE Grant	32,573	-	-
264.99 Rifle Range Improvement Grant	-	8,500	-
264.99 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-
265 <i>Committed (Note 1b):</i>			
265.99 Second Penny	-	3,915,494	-
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
266 <i>Assigned (Note 1b):</i>			
266.01 Subsequent Year's Budget	188,624	830,763	-
266.97 Historical Procurement Project	5,029	-	-
267 Unassigned	4,889,248	-	(1,260,194)
<b>Total Fund Balances</b>	<b>5,216,592</b>	<b>6,025,809</b>	<b>(1,260,194)</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 5,393,726</b>	<b>\$ 6,045,809</b>	<b>\$ -</b>

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	\$ 1,416,025	\$ 6,845,136
	-	1,608,435	5,822,940
	-	-	669,941
	-	-	17,650
	-	10,463	108,770
	-	1,614	12,259
	-	62,517	63,599
	-	1,220,804	1,220,804
	-	-	20,000
	-	21,134	297,259
	-	-	601,111
	-	-	2,330
	-	-	98,788
<b>\$</b>	<b>60</b>	<b>\$ 4,340,992</b>	<b>\$ 15,780,587</b>

\$	-	\$ 26,923	\$ 101,819
	-	-	95,757
	-	52,459	78,940
	601,111	-	1,861,305
	601,111	79,382	2,137,821

	-	-	2,330
	-	-	601,111
	-	-	98,788
	-	50,000	50,000
	-	348,072	1,018,013
	-	38,687	38,687
	-	376,584	376,584
	-	286,516	286,516
	-	80,282	80,282
	-	313,550	313,550
	-	280,500	280,500
	-	78,802	78,802
	-	-	32,573
	-	-	8,500
	-	37,031	37,031
	-	665,041	665,041
	-	-	3,915,494
	-	1,496,968	1,496,968
	-	56,512	56,512
	-	153,065	1,172,452
	-	-	5,029
	(601,051)	-	3,028,003
	(601,051)	4,261,610	13,642,766
<b>\$</b>	<b>60</b>	<b>\$ 4,340,992</b>	<b>\$ 15,780,587</b>

**CITY OF SPEARFISH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2012**

Total Fund Balances - Governmental Funds \$ 13,642,766

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

Capital assets used in governmental activities are not financial resources and  
therefore are not reported in the funds. 50,544,282

Long-term liabilities, including bonds payable accrued interest on TID #1, are  
not due and payable in the current period and therefore not reported in the  
funds. (20,815,481)

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. 58,940

Accrued interest expense, excluding TID #1, is not due and payable in the  
current period and therefore is not reported in the funds (See Note 7). (172,558)

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 Position. 144,770

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**Total Net Position - Governmental Activities \$ 43,402,719**

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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, 2012**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>TID #2 Industrial Park Capital Project Fund</b>
<b>Revenue</b>			
<i>Taxes:</i>			
311	\$ 1,775,141	\$ -	\$ -
313	3,182,059	3,182,058	-
314	74,691	-	-
315	1,056	-	-
316	-	-	-
319	2,987	-	-
320	439,440	-	-
<i>Intergovernmental Revenue:</i>			
331	101,026	382,206	-
334	13,203	-	-
<i>State Shared Revenue:</i>			
335.01	4,920	-	-
335.03	57,275	-	-
335.04	69,501	-	-
335.08	-	-	-
335.20	262,478	-	-
<i>County Shared Revenue:</i>			
338.02	16,036	-	-
339	230,421	-	-
<i>Charges for Goods and Services:</i>			
341	15,904	-	-
342	57,028	-	-
343	6,757	-	-
346	752,990	-	-
348	6,192	-	-
<i>Fines and Forfeits:</i>			
351	602	-	-
354	-	-	-
359	6,652	-	-
<i>Miscellaneous Revenue:</i>			
361	36,914	34,185	-
362	34,807	-	-
363	98,143	-	-
367	4,467	85,000	-
369	27,669	-	-
<b>Total Revenue</b>	<b>7,278,359</b>	<b>3,683,449</b>	<b>-</b>

<b>TID #3</b>			
<b>McGuigan Ranch</b>	<b>Other</b>	<b>Total</b>	
<b>Capital Project</b>	<b>Governmental</b>	<b>Governmental</b>	
<b>Fund</b>	<b>Funds</b>	<b>Funds</b>	
\$ -	\$ 509,540	\$ 2,284,681	
-	528,199	6,892,316	
-	-	74,691	
-	191,050	192,106	
-	118,048	118,048	
-	1,973	4,960	
-	-	439,440	
-	-	483,232	
-	295,026	308,229	
-	-	4,920	
-	-	57,275	
-	-	69,501	
-	119,832	119,832	
-	-	262,478	
-	-	16,036	
-	-	230,421	
-	-	15,904	
-	-	57,028	
-	-	6,757	
-	8,624	761,614	
-	9,690	15,882	
-	-	602	
-	15,629	15,629	
-	-	6,652	
-	30,912	102,011	
-	38,238	73,045	
-	62,432	160,575	
-	34,698	124,165	
-	4,916	32,585	
-	1,968,807	12,930,615	

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>TID #2 Industrial Park Capital Project Fund</b>
<b>Expenditures</b>			
<i>General Government:</i>			
411 Legislative	133,098	-	-
412 Executive	126,984	-	-
414 Financial Administration	265,045	1,650	-
419 Other	771,044	41,392	-
<i>Public Safety:</i>			
421 Police	1,920,661	29,317	-
422 Fire	167,115	1,000	-
423 Protective Inspection	148,594	10,724	-
<i>Public Works:</i>			
431 Highways and Streets	736,707	64,780	-
437 Cemeteries	98,787	-	-
<i>Health and Welfare:</i>			
441 Health	41,630	25,000	-
<i>Culture and Recreation:</i>			
451 Recreation	1,562,278	44,000	-
452 Parks	347,278	-	-
455 Library	342,025	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	5,969	-	-
465 Economic Development and Assistance	128,185	457,169	-
470 Debt Service	-	664,919	-
480 Intergovernmental Expenditures	337,047	-	-
485 Capital Outlay	3,052	723,862	-
<b>Total Expenditures</b>	<b>7,135,499</b>	<b>2,063,813</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>142,860</b>	<b>1,619,636</b>	<b>-</b>
<b>Other Financing Sources (Uses)</b>			
391.01 Transfers In (Note 10)	425,000	-	-
391.03 Sale of Municipal Property	12,100	-	-
511 Transfers Out (Note 10)	-	(350,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>437,100</b>	<b>(350,000)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>579,960</b>	<b>1,269,636</b>	<b>-</b>
Fund Balances - December 31, 2011	4,636,632	4,756,173	(1,260,194)
<b>Fund Balances - December 31, 2012</b>	<b>\$ 5,216,592</b>	<b>\$ 6,025,809</b>	<b>\$ (1,260,194)</b>

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

<b>TID #3</b>		
<b>McGuigan Ranch</b>	<b>Other</b>	<b>Total</b>
<b>Capital Project</b>	<b>Governmental</b>	<b>Governmental</b>
<b>Fund</b>	<b>Funds</b>	<b>Funds</b>
-	-	133,098
-	-	126,984
-	-	266,695
-	-	812,436
-	38,782	1,988,760
-	-	168,115
-	-	159,318
-	133,337	934,824
-	-	98,787
-	-	66,630
-	230,700	1,836,978
-	25,192	372,470
-	22,541	364,566
-	-	5,969
-	561,881	1,147,235
-	446,645	1,111,564
-	-	337,047
-	795,413	1,522,327
-	2,254,491	11,453,803
-	(285,684)	1,476,812
-	350,000	775,000
-	-	12,100
-	-	(350,000)
-	350,000	437,100
-	64,316	1,913,912
(601,051)	4,197,294	11,728,854
<b>\$ (601,051)</b>	<b>\$ 4,261,610</b>	<b>\$ 13,642,766</b>

**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, 2012**

Net Change in Fund Balances - Total Government Funds \$ 1,913,912

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.

Capital Asset Purchases Capitalized	1,522,327
Depreciation Expense	(2,409,469)
	<hr/>
	(887,142)
	<hr/>
Capital assets contributed to the City, which are included in the Statement of Activities.	250,694
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."	(4,003)
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.	2,510
Repayment of bond principal, including interest on TID #1, is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	743,659
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Position.	(946,215)
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	(36,960)
OPEB	(299,466)
Accrued Interest (excluding TID #1)	(63,100)
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.	3,034
	<hr/>
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 676,923</b>

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



**CITY OF SPEARFISH**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2012**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Assets</b>			
<b>Current Assets</b>			
101 Cash and Cash Equivalents	\$ 1,150,202	\$ 269,442	\$ 841,512
104 Investments	1,986,310	544,144	1,190,916
115 Accounts Receivable, Net	152,626	720	171,269
135 Interest Receivable	130,029	-	14,632
<b>Total Current Assets</b>	<b>3,419,167</b>	<b>814,306</b>	<b>2,218,329</b>
<b>Noncurrent Asset</b>			
133 Advance to Other Funds (Note 10)	<b>1,079,230</b>	-	<b>180,964</b>
<b>Capital Assets (Note 6)</b>			
160 Land	208,583	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,304,431)	(17,334)	(3,307,018)
164 Improvements Other Than Buildings	12,743,409	22,566	13,277,592
165 Accumulated Depreciation - Improvements Other Than Buildings	(5,079,470)	(1,377)	(4,400,784)
166 Machinery and Equipment	1,299,110	88,025	2,981,880
167 Accumulated Depreciation - Machinery and Equipment	(736,630)	(43,734)	(2,685,373)
168 Construction Work in Progress	10,672	59,472	29,226
<b>Total Capital Assets, Net</b>	<b>9,537,242</b>	<b>307,618</b>	<b>13,419,234</b>
<b>Total Assets</b>	<b>\$ 14,035,639</b>	<b>\$ 1,121,924</b>	<b>\$ 15,818,527</b>
<b>Liabilities and Net Position</b>			
<b>Current Liabilities</b>			
202 Accounts Payable	\$ 18,762	\$ 624	\$ 52,530
205 Current Portion of Long-Term Debt (Note 7)	12,690	20,015	273,404
215 Accrued Interest Payable	-	-	34,767
216 Accrued Wages	7,329	4,953	15,596
220 Customer Deposits	93,400	-	-
<b>Total Current Liabilities</b>	<b>132,181</b>	<b>25,592</b>	<b>376,297</b>
<b>Long-Term Liabilities</b>			
237 Long-Term Debt, Net of Current Portion (Note 7)	90,953	46,237	5,075,315
<b>Total Liabilities</b>	<b>223,134</b>	<b>71,829</b>	<b>5,451,612</b>
<b>Net Position</b>			
253.1 Net Investment in Capital Assets	9,537,242	307,618	8,284,461
252.0 Unrestricted Net Position	4,275,263	742,477	2,082,454
<b>Total Net Position</b>	<b>13,812,505</b>	<b>1,050,095</b>	<b>10,366,915</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 14,035,639</b>	<b>\$ 1,121,924</b>	<b>\$ 15,818,527</b>

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

<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 2,545	\$ 131,420	\$ 196,291	\$ 2,591,412	\$ 43,241
40,597	734,167	269,493	4,765,627	101,529
-	87,909	-	412,524	-
-	-	-	144,661	-
<b>43,142</b>	<b>953,496</b>	<b>465,784</b>	<b>7,914,224</b>	<b>144,770</b>
-	-	-	<b>1,260,194</b>	-
48,000	-	171,220	642,008	-
-	-	401,228	10,306,733	-
-	-	(165,509)	(4,794,292)	-
-	11,375	95,643	26,150,585	-
-	(3,413)	(65,439)	(9,550,483)	-
87,570	1,332,842	134,657	5,924,084	-
(16,055)	(934,944)	(124,729)	(4,541,465)	-
-	-	-	99,370	-
<b>119,515</b>	<b>405,860</b>	<b>447,071</b>	<b>24,236,540</b>	<b>-</b>
<b>\$ 162,657</b>	<b>\$ 1,359,356</b>	<b>\$ 912,855</b>	<b>\$ 33,410,958</b>	<b>\$ 144,770</b>
\$ -	\$ 28,191	\$ 780	\$ 100,887	\$ -
-	53,559	-	359,668	-
-	-	-	34,767	-
127	7,692	1,911	37,608	-
-	-	-	93,400	-
<b>127</b>	<b>89,442</b>	<b>2,691</b>	<b>626,330</b>	<b>-</b>
1,811	84,414	31,469	5,330,199	-
<b>1,938</b>	<b>173,856</b>	<b>34,160</b>	<b>5,956,529</b>	<b>-</b>
119,515	405,860	447,071	19,101,767	-
41,204	779,640	431,624	8,352,662	144,770
<b>160,719</b>	<b>1,185,500</b>	<b>878,695</b>	<b>27,454,429</b>	<b>144,770</b>
<b>\$ 162,657</b>	<b>\$ 1,359,356</b>	<b>\$ 912,855</b>	<b>\$ 33,410,958</b>	<b>\$ 144,770</b>

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Operating Revenue</b>			
380 Charges for Goods and Services	\$ 2,300,260	\$ 414,098	\$ 2,035,292
369 Miscellaneous	-	-	-
<b>Total Operating Revenue</b>	<b>2,300,260</b>	<b>414,098</b>	<b>2,035,292</b>
<b>Operating Expenses</b>			
410 Personal Services	397,741	195,822	703,310
420 Other Current Expenses	553,923	174,264	706,656
457 Depreciation	483,372	12,622	721,512
<b>Total Operating Expenses</b>	<b>1,435,036</b>	<b>382,708</b>	<b>2,131,478</b>
<b>Operating Income (Loss)</b>	<b>865,224</b>	<b>31,390</b>	<b>(96,186)</b>
<b>Non-Operating Income (Expense)</b>			
361 Earnings on Deposits and Investments	73,611	5,747	23,681
366 Gain on Disposition of Assets	-	-	-
369 Other	1,721	12,332	3,031
470 Interest Expense and Fiscal Charges	-	-	(169,806)
<b>Total Non-Operating Income (Expense)</b>	<b>75,332</b>	<b>18,079</b>	<b>(143,094)</b>
<b>Income (Loss) before Transfers</b>	<b>940,556</b>	<b>49,469</b>	<b>(239,280)</b>
511 Transfers Out (Note 10)	(185,000)	(45,000)	(100,000)
<b>Net Income (Loss)</b>	<b>755,556</b>	<b>4,469</b>	<b>(339,280)</b>
Net Position - December 31, 2011	13,056,949	1,045,626	10,706,195
<b>Net Position - December 31, 2012</b>	<b>\$ 13,812,505</b>	<b>\$ 1,050,095</b>	<b>\$ 10,366,915</b>

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

<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 17,854	\$ 962,385	\$ 308,820	\$ 6,038,709	\$ -
-	-	-	-	585,178
<u>17,854</u>	<u>962,385</u>	<u>308,820</u>	<u>6,038,709</u>	<u>585,178</u>
7,221	376,047	138,030	1,818,171	-
621	520,496	148,094	2,104,054	583,174
4,379	68,456	15,547	1,305,888	-
<u>12,221</u>	<u>964,999</u>	<u>301,671</u>	<u>5,228,113</u>	<u>583,174</u>
5,633	(2,614)	7,149	810,596	2,004
602	7,440	3,009	114,090	1,030
-	-	1,500	1,500	-
1,240	-	568	18,892	-
(4,118)	-	-	(173,924)	-
<u>(2,276)</u>	<u>7,440</u>	<u>5,077</u>	<u>(39,442)</u>	<u>1,030</u>
3,357	4,826	12,226	771,154	3,034
-	(65,000)	(30,000)	(425,000)	-
3,357	(60,174)	(17,774)	346,154	3,034
157,362	1,245,674	896,469	27,108,275	141,736
<u><b>\$ 160,719</b></u>	<u><b>\$ 1,185,500</b></u>	<u><b>\$ 878,695</b></u>	<u><b>\$ 27,454,429</b></u>	<u><b>\$ 144,770</b></u>

**CITY OF SPEARFISH**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 2,279,214	\$ 416,498	\$ 2,036,062
Payments to Suppliers	(542,539)	(183,543)	(667,829)
Payments to Employees	(383,567)	(175,587)	(670,149)
Other Receipts for Interfund Services Provided	-	-	-
<b>Net Cash Flows Provided by Operating Activities</b>	<b>1,353,108</b>	<b>57,368</b>	<b>698,084</b>
<b>Cash Flows Used in Noncapital Financing Activities:</b>			
Transfers Out	(185,000)	(45,000)	(100,000)
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of Capital Assets	(231,187)	(59,472)	(23,048)
Proceeds from Sale of Capital Assets	-	-	-
Principal Paid on Capital Debt	-	-	(214,624)
Interest Paid	-	-	(171,259)
Other Receipts	1,721	12,332	3,031
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(229,466)</b>	<b>(47,140)</b>	<b>(405,900)</b>
<b>Cash Flows Provided by Investing Activities:</b>			
Interest Received	19,649	5,747	14,633
<b>Increase (Decrease) in Cash and Investments</b>	<b>958,291</b>	<b>(29,025)</b>	<b>206,817</b>
Cash and Investments - December 31, 2011	2,178,221	842,611	1,825,611
<b>Cash and Investments - December 31, 2012</b>	<b>\$ 3,136,512</b>	<b>\$ 813,586</b>	<b>\$ 2,032,428</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities</b>			
Operating Income (Loss)	\$ 865,224	\$ 31,390	\$ (96,186)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:</i>			
Depreciation Expense	483,372	12,622	721,512
Change in Assets and Liabilities:			
Change in Accounts Receivable	(21,396)	2,400	770
Change in Accounts Payable	11,384	(9,279)	38,827
Change in Accrued Wages	765	2,052	(2,105)
Change in Customer Deposits	350	-	-
Change in OPEB and Accrued Leave	13,409	18,183	35,266
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 1,353,108</b>	<b>\$ 57,368</b>	<b>\$ 698,084</b>
<b>Noncash Capital and Related Financing Activities</b>			
Gain on Sale of Capital Assets	\$ -	\$ -	\$ -

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

<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 17,854	\$ 965,927	\$ 308,820	\$ 6,024,375	\$ -
(621)	(518,736)	(148,577)	(2,061,845)	(583,174)
(6,394)	(342,873)	(123,279)	(1,701,849)	-
-	-	-	-	585,178
10,839	104,318	36,964	2,260,681	2,004
-	(65,000)	(30,000)	(425,000)	-
-	(231,023)	(49,776)	(594,506)	-
-	-	1,500	1,500	-
(71,325)	-	-	(285,949)	-
(5,696)	-	-	(176,955)	-
1,240	-	568	18,892	-
(75,781)	(231,023)	(47,708)	(1,037,018)	-
602	7,440	3,009	51,080	1,030
(64,340)	(184,265)	(37,735)	849,743	3,034
107,482	1,049,852	503,519	6,507,296	141,736
<b>\$ 43,142</b>	<b>\$ 865,587</b>	<b>\$ 465,784</b>	<b>\$ 7,357,039</b>	<b>\$ 144,770</b>
\$ 5,633	\$ (2,614)	\$ 7,149	\$ 810,596	\$ 2,004
4,379	68,456	15,547	1,305,888	-
-	3,542	-	(14,684)	-
-	1,760	(483)	42,209	-
44	1,923	204	2,883	-
-	-	-	350	-
783	31,251	14,547	113,439	-
<b>\$ 10,839</b>	<b>\$ 104,318</b>	<b>\$ 36,964</b>	<b>\$ 2,260,681</b>	<b>\$ 2,004</b>
\$ -	\$ -	\$ 1,500	\$ 1,500	\$ -

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2012

#### (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 Position 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, 2012**

**(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, 2012

#### (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 9-38-112). 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, 2012

#### (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.

###### 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, 2012

#### (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 Position 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 Position.

###### 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 Position 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, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2012, are property, sales tax, contracts, special assessments, and hospitality tax receivables.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2012

#### (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, 2012**

**(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 Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position/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, 2012**

**(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. Investments are recorded at fair market value.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(1) Summary of Significant Accounting Policies (Continued)**

**k. Equity Classifications**

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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, 2012. 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, 2012. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2013 Appropriation Ordinance for the City's 2013 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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2012

#### (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 position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position 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

Inventory consists of concessions inventory held for resale, which is recorded at the lower of cost or market, using the first-in, first-out method.

#### (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, 2012**

**(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, 2012, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	7 years	\$ 566,832 <sup>1</sup>
Federal National Mortgage Association Notes	AAA	5-7 years	2,241,806 <sup>1</sup>
Federal Home Loan Mortgage Corporation Notes	AAA	5-7 years	4,720,338 <sup>1</sup>
Federal Farm Credit Bank Bonds	AAA	7 years	2,478,789 <sup>1</sup>
External Investment Pools:			
SDFIT	Unrated		457,211
Total Investments			10,464,976
Other Investments:			
Money Markets			1,636
Certificates of Deposits			893,425
			<b>\$ 11,360,037</b>

<sup>1</sup> These investments may be called at anytime.

Within these investments the City has bond reserves of \$669,941 at December 31, 2012, in accordance with debt covenants.

*Interest Rate Risk:*

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

*Credit Risk:*

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2012, 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.

*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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(2) Deposits and Investments (Continued)**

*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.

**(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, and special assessments.

**(4) Notes Receivable**

The following is a summary of the notes receivable at December 31, 2012:

Loan	Collateral	Rate	Maturity	Balance
L. Ruth Engineering	Property/Corporate Guarantee	3%	July 2015	\$ 29,526
Façade Common Grounds	Property	0%	April 2015	4,667
Precision Blending of Idaho, LLC	Equipment/Personal Guarantee	3%	July 2013	16,011
Façade Versatile Carpet	Property	0%	April 2015	4,667
RABCO Products, Inc.	Equipment/Personal Guarantee	3%	May 2016	14,252
Arrojo Property Investments, Inc.	Property/Personal Guarantee	4%	December 2017	500,000
Spearfish Economic Development Corp.	Equipment	0%	July 2017	276,681
TM1 Stop, LLC	Property	4%	October 2015	375,000
<b>Total</b>				<b>\$ 1,220,804</b>

**(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, 2012**

**(6) Changes in Capital Assets**

A summary of changes in capital assets for year ending December 31, 2012 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
Capital Assets, not being Depreciated:				
Land	\$ 9,000,831	\$ 265,040	\$ -	\$ 9,265,871
Construction Work in Progress	43,789	76,542	43,788	76,543
<b>Total Capital Assets, not being Depreciated</b>	<b>9,044,620</b>	<b>341,582</b>	<b>43,788</b>	<b>9,342,414</b>
Capital Assets, being Depreciated:				
Buildings	16,444,214	318,819	-	16,763,033
Improvements Other Than Buildings	30,983,684	907,244	-	31,890,928
Machinery and Equipment	7,076,918	249,164	119,118	7,206,964
<b>Total Capital Assets, being Depreciated</b>	<b>54,504,816</b>	<b>1,475,227</b>	<b>119,118</b>	<b>55,860,925</b>
Less Accumulated Depreciation for:				
Buildings	3,204,037	335,995	-	3,540,032
Improvements Other Than Buildings	5,077,894	1,532,520	-	6,610,414
Machinery and Equipment	4,086,775	540,954	119,118	4,508,611
<b>Total Accumulated Depreciation</b>	<b>12,368,706</b>	<b>2,409,469</b>	<b>119,118</b>	<b>14,659,057</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>42,136,110</b>	<b>(934,242)</b>	<b>-</b>	<b>41,201,868</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 51,180,730</b>	<b>\$ (592,660)</b>	<b>\$ 43,788</b>	<b>\$ 50,544,282</b>

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 1,116,536
Public Works	744,075
Public Safety	288,201
General Government	194,224
Intergovernmental	66,433
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 2,409,469</b>

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(6) Changes in Capital Assets (Continued)**

	Balance 12/31/2011	Additions	Deletions	Balance 12/31/2012
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 611,201	\$ 30,807	\$ -	\$ 642,008
Construction Work in Progress	23,606	75,764	-	99,370
<b>Total Capital Assets, not being Depreciated</b>	<b>634,807</b>	<b>106,571</b>	<b>-</b>	<b>741,378</b>
Capital Assets, being Depreciated:				
Buildings	10,256,958	49,775	-	10,306,733
Improvements Other Than Buildings	26,150,585	-	-	26,150,585
Machinery and Equipment	5,562,399	438,160	76,475	5,924,084
<b>Total Capital Assets, being Depreciated</b>	<b>41,969,942</b>	<b>487,935</b>	<b>76,475</b>	<b>42,381,402</b>
Less Accumulated Depreciation for:				
Buildings	4,514,586	279,706	-	4,794,292
Improvements Other Than Buildings	8,759,953	790,530	-	9,550,483
Machinery and Equipment	4,382,288	235,652	76,475	4,541,465
<b>Total Accumulated Depreciation</b>	<b>17,656,827</b>	<b>1,305,888</b>	<b>76,475</b>	<b>18,886,240</b>
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	24,313,115	(817,953)	-	23,495,162
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 24,947,922</b>	<b>\$ (711,382)</b>	<b>\$ -</b>	<b>\$ 24,236,540</b>

Depreciation expense was charged to functions as follows:

Sewer	\$ 721,512
Water	483,372
Solid Waste	68,456
Campground	15,547
Electric Production	12,622
Parking	4,379
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 1,305,888</b>

As of December 31, 2012, the City has no signed construction commitments.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(7) Long-Term Debt**

The following is a summary of the long-term debt activity for the year ending December 31, 2012:

	Balance 12/31/2011	Borrowings	Repayments	Balance 12/31/2012	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Series 2007 Bonds	\$ 7,485,000	\$ -	\$ 355,000	\$ 7,130,000	\$ 370,000
TID #1 Elkhorn Ridge	8,211,540	-	-	8,211,540	-
Accrued Interest - TID #1	2,017,813	946,215	88,533	2,875,495	95,811
TID #2 Industrial Park Bond	1,257,666	-	300,126	957,540	365,537
Compensated Absences	485,979	242,041	205,081	522,939	522,939
OPEB (Note 12)	818,501	333,635	34,169	1,117,967	-
<b>Total Governmental Activities</b>	<b>20,276,499</b>	<b>1,521,891</b>	<b>982,909</b>	<b>20,815,481</b>	<b>1,354,287</b>
<b>Business-Type Activities:</b>					
Sewer-Water Revolving Loan	5,349,397	-	214,624	5,134,773	221,685
Portable Stage	71,325	-	71,325	-	-
Compensated Absences	142,429	67,027	71,473	137,983	137,983
OPEB (Note 12)	299,226	131,415	13,530	417,111	-
<b>Total Business-Type Activities</b>	<b>5,862,377</b>	<b>198,442</b>	<b>370,952</b>	<b>5,689,867</b>	<b>359,668</b>
<b>Total Primary Government</b>	<b>\$ 26,138,876</b>	<b>\$ 1,720,333</b>	<b>\$ 1,353,861</b>	<b>\$ 26,505,348</b>	<b>\$ 1,713,955</b>

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 was 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, 2012, property tax revenues were \$88,533, \$373,276, and \$47,731 for TID #1, #2, and #3, respectively.

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	\$ 384,430
Pledged Revenue	2,026,216

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(7) Long-Term Debt (Continued)**

Long-term debt at December 31, 2012, is comprised of the following:

*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. 7,130,000

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. 5,134,773

*Tax Increment Financing Obligations*

TID #1 Elkhorn Ridge, including interest at 9.25 percent, matures in 2030, 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

TID #2 Industrial Park Bond, Series 2009, for \$2,000,000, matures in June 2023, 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. 957,540

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Total Revenue Bonds and Other Obligations 21,433,853

*Compensated Absences*

General Fund 522,939  
Water Fund 12,690  
Electric Fund 20,015  
Sewer Fund 51,719  
Solid Waste Fund 53,559

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Total Compensated Absences 660,922

*Other Post Employment Benefits (OPEB) (Note 12)*

General Fund 1,117,967  
Water Fund 90,953  
Electric Fund 46,237  
Sewer Fund 162,227  
Parking Fund 1,811  
Solid Waste Fund 84,414  
Campground Fund 31,469

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Total OPEB 1,535,078

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Accrued Interest (TID #1) 2,875,495

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**Total Long-Term Debt** \$ 26,505,348

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**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(7) Long-Term Debt (Concluded)**

The annual requirements to amortize long-term debt outstanding as of December 31, 2012, except for compensated absences and OPEB, are as follows:

	Revenue Bonds		TID Obligations *		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2013	\$ 460,659	\$ 591,685	\$ 1,210,340	\$ 365,537	\$ 1,670,999	\$ 957,222
2014	439,257	613,978	931,605	385,652	\$ 1,370,862	\$ 999,630
2015	416,609	636,511	730,717	206,351	\$ 1,147,326	\$ 842,862
2016	392,828	659,292	685,992	-	\$ 1,078,820	\$ 659,292
2017	367,992	687,329	638,618	-	\$ 1,006,610	\$ 687,329
2018-2022	1,423,716	3,831,760	2,345,460	-	\$ 3,769,176	\$ 3,831,760
2023-2027	596,970	4,321,258	512,809	-	\$ 1,109,779	\$ 4,321,258
2028-2030	41,745	922,960	-	8,211,540	\$ 41,745	\$ 9,134,500
<b>Total</b>	<b>\$ 4,139,776</b>	<b>\$ 12,264,773</b>	<b>\$ 7,055,541</b>	<b>\$ 9,169,080</b>	<b>\$ 11,195,317</b>	<b>\$ 21,433,853</b>

\* TID Obligation maturities are based on projected future property tax increments. Actual repayments could vary dependent on property tax increments received.

The City has bond reserves of \$669,941 at December 31, 2012, in accordance with debt covenants.

**(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, 2012, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$1,401,211.

**(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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

**(10) Interfund Transfers and Advances**

Interfund transfers during the year ended December 31, 2012, were as follows:

	Transfers In	Transfers Out
<i>Major Funds</i>		
General Fund	\$ 425,000	\$ -
Water Fund	-	185,000
Electric Production Fund	-	45,000
Sewer Fund	-	100,000
Solid Waste Fund	-	65,000
Campground Fund	-	30,000
Highway Bridge Fund	350,000	-
Second Penny Sales Tax Fund	-	350,000
<b>Total Transfers</b>	<b>\$ 775,000</b>	<b>\$ 775,000</b>

Subsidies totaling \$425,000 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. The Second Penny Sales Tax Fund transferred \$350,000 to the Highway Bridge Fund to assist in street project costs.

Interfund advances to and advances from balances at December 31, 2012, 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	-
<b>Total Interfund Advances</b>	<b>\$ 1,861,305</b>	<b>\$ 1,861,305</b>

In prior years, the Second Penny Sales Tax Fund advanced \$601,111 to TID #3 McGuigan Ranch Capital Project Fund for 10 housing lots to be purchased. Additionally, the Water and Sewer Funds advanced a total of \$1,260,194 in prior years to the TID #2 Industrial Park Capital Project Fund for expansions to 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, 2012**

**(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, 2012, 2011, and 2010 were \$281,897, \$273,471, and \$268,071, 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)	\$	437,108
Interest on Net OPEB Obligation		27,942
Adjustment to Annual Required Contribution		(34,520)
Annual OPEB Costs		430,530
Contributions Made		(13,179)
Change in Net OPEB Obligation		417,351
Net OPEB Obligation - Beginning of Year		1,117,727
Net OPEB Obligation - End of Year	\$	1,535,078

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
2012	\$ 430,530	3%	\$ 1,535,078
2011	415,059	5%	1,117,727
2010	373,920	5%	718,588

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2012**

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

Funded Status and Funding Progress:

As of December 31, 2012, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$2.5 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2.5 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.9 million, and the ratio of the UAAL to the covered payroll was 51.21 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 position 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, 2012

#### (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, 2012, 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 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, 2012, 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, 2012, one claim was filed for unemployment benefits. This claim resulted in the payment of benefit amounts of \$6,327.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2012**

**(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 received in 2013.

**(16) City Officers**

The following were City officers for the year ended December 31, 2012:

**Mayor:**

Jerry Krambeck

**Council:**

Mary Morgan

Travis Geppert

Paul Young

Doug Schmit

Don Aaker

David Baker

**Finance Officer:**

Dave Dutton

**Attorney:**

Richard Plumier

Brady Plumier, P.C.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

<b>Revenue</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,825,300	\$ 1,825,300	\$ 1,775,141	\$ (50,159)
313 General Sales and Use Taxes	3,035,000	3,035,000	3,182,059	147,059
314 Gross Receipts Tax	60,000	60,000	74,691	14,691
315 Amusement Taxes	1,000	1,000	1,056	56
319 Penalties and Interest on Delinquent Taxes	4,500	4,500	2,987	(1,513)
320 Licenses and Permits	273,100	273,100	439,440	166,340
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	54,000	69,899	101,026	31,127
334 State Grants	-	-	13,203	13,203
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	4,000	4,000	4,920	920
335.03 Liquor Tax Reversion	52,000	52,000	57,275	5,275
335.04 Motor Vehicle Licenses (5%)	50,000	50,000	69,501	19,501
335.20 Other	266,000	266,000	262,478	(3,522)
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	16,500	16,500	16,036	(464)
339 County Payments in Lieu of Taxes	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341 General Government	17,900	17,900	15,904	(1,996)
342 Public Safety	59,000	59,112	57,028	(2,084)
343 Highways and Streets	260	6,883	6,757	(126)
346 Culture and Recreation	620,350	620,350	752,990	132,640
348 Cemetery	7,300	7,300	6,192	(1,108)
349 Other	100	100	-	(100)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,000	2,000	602	(1,398)
359 Other	6,500	6,500	6,652	152
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	100,000	100,000	36,914	(63,086)
362 Rentals	38,390	38,390	34,807	(3,583)
363 Special Assessments	98,300	98,300	98,143	(157)
367 Contributions and Donations - Private Sources	5,000	5,000	4,467	(533)
369 Other	2,700	2,700	27,669	24,969
<b>Total Revenue</b>	<b>6,829,621</b>	<b>6,852,255</b>	<b>7,278,359</b>	<b>426,104</b>

**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	133,132	133,132	133,098	34
411.5 Contingency	140,200	140,200	-	
Amount Transferred	-	(133,643)	-	6,557
412 Executive	127,553	127,553	126,984	569
414 Financial Administration	282,225	282,225	265,045	17,180
419 Other	794,729	814,229	774,096	40,133
<i>Public Safety:</i>				
421 Police	1,974,073	1,974,073	1,920,661	53,412
422 Fire	169,398	169,398	167,115	2,283
423 Protective Inspection	151,946	151,946	148,594	3,352
<i>Public Works:</i>				
431 Highways and Streets	875,071	929,594	736,707	192,887
437 Cemeteries	102,696	102,696	98,787	3,909
<i>Health and Welfare:</i>				
441 Health	49,810	49,810	41,630	8,180
<i>Culture and Recreation:</i>				
451 Recreation	1,519,389	1,587,288	1,562,278	25,010
452 Parks	308,011	349,673	347,278	2,395
455 Library	354,380	354,380	342,025	12,355
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	6,000	6,000	5,969	31
465 Economic Development and Assistance	134,997	134,997	128,185	6,812
480 Intergovernmental Expenditures	311,434	371,627	337,047	34,580
<b>Total Expenditures</b>	<b>7,435,044</b>	<b>7,545,178</b>	<b>7,135,499</b>	<b>409,679</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	<b>(605,423)</b>	<b>(692,923)</b>	<b>142,860</b>	<b>835,783</b>
<b>Other Financing Sources:</b>				
391.01 Transfers In	425,000	425,000	425,000	-
391.03 Sale of Municipal Property	-	-	12,100	12,100
<b>Total Other Financing Sources</b>	<b>425,000</b>	<b>425,000</b>	<b>437,100</b>	<b>12,100</b>
<b>Net Change in Fund Balance</b>	<b>(180,423)</b>	<b>(267,923)</b>	<b>579,960</b>	<b>847,883</b>
Fund Balance - December 31, 2011	4,636,632	4,636,632	4,636,632	-
<b>Fund Balance - December 31, 2012</b>	<b>\$ 4,456,209</b>	<b>\$ 4,368,709</b>	<b>\$ 5,216,592</b>	<b>\$ 847,883</b>

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

**BUDGETARY COMPARISON SCHEDULE  
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 3,035,000	\$ 3,035,000	\$ 3,182,058	\$ 147,058
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	382,206	382,206
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	50,000	50,000	34,185	(15,815)
367 Contributions and Donations - Private Sources	20,000	20,000	85,000	65,000
<b>Total Revenue</b>	<b>3,105,000</b>	<b>3,105,000</b>	<b>3,683,449</b>	<b>578,449</b>
<b>Expenditures</b>				
<i>General Government:</i>				
414 Financial Administration	1,650	1,650	1,650	-
419 Other	41,392	41,392	41,392	-
<i>Public Safety:</i>				
421 Police	29,317	29,317	29,317	-
422 Fire	1,000	1,000	1,000	-
423 Protective Inspection	10,724	10,724	10,724	-
<i>Public Works:</i>				
431 Highways & Streets	64,780	64,780	64,780	-
<i>Health and Welfare:</i>				
441 Health	25,000	25,000	25,000	-
<i>Culture and Recreation:</i>				
451 Recreation	10,000	44,278	44,000	278
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	457,169	457,169	457,169	-
470 Debt Service	664,919	664,919	664,919	-
485 Capital Outlay	1,400,139	1,400,139	723,862	676,277
<b>Total Expenditures</b>	<b>2,706,090</b>	<b>2,740,368</b>	<b>2,063,813</b>	<b>676,555</b>
<b>Excess of Revenue Over Expenditures</b>	<b>398,910</b>	<b>364,632</b>	<b>1,619,636</b>	<b>1,255,004</b>
<b>Other Financing Uses:</b>				
511 Transfers Out	(762,000)	(762,000)	(350,000)	412,000
<b>Total Other Financing Uses</b>	<b>(762,000)</b>	<b>(762,000)</b>	<b>(350,000)</b>	<b>412,000</b>
<b>Net Change in Fund Balance</b>	<b>(363,090)</b>	<b>(397,368)</b>	<b>1,269,636</b>	<b>1,667,004</b>
Fund Balance - December 31, 2011	4,756,173	4,756,173	4,756,173	-
<b>Fund Balance - December 31, 2012</b>	<b>\$ 4,393,083</b>	<b>\$ 4,358,805</b>	<b>\$ 6,025,809</b>	<b>\$ 1,667,004</b>

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, 2012**

**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, 2012.
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, 2012 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)
12/31/2010	-	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%
12/31/2012	-	2,518,300	2,518,300	0.00%	4,917,413	51.21%

OTHER SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2012**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 111,563	\$ 27,447	\$ 68,744
104 Investments	308,211	52,835	-
110 Sales Taxes Receivable	10,463	-	-
115 Accounts Receivable	-	-	-
121 Special Assessments Receivable	-	-	10,058
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
<b>Total Assets</b>	<b>\$ 430,237</b>	<b>\$ 80,282</b>	<b>\$ 78,802</b>
<b>Liabilities and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 13,056	\$ -	\$ -
224 Deferred Revenue	-	-	-
<b>Total Liabilities</b>	<b>13,056</b>	<b>-</b>	<b>-</b>
<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	286,516	-	-
264.05 Library Purposes	-	80,282	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	78,802
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	130,665	-	-
<b>Total Fund Balances</b>	<b>417,181</b>	<b>80,282</b>	<b>78,802</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 430,237</b>	<b>\$ 80,282</b>	<b>\$ 78,802</b>

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
\$ 160,305	\$ 147,952	\$ 264,628	\$ 200,817	\$ 15,466	\$ 50,097
99,061	523,089	11,536	129,934	41,046	-
-	-	-	-	-	-
-	-	-	-	-	-
-	52,419	-	-	-	40
-	-	1,220,804	-	-	-
21,134	-	-	-	-	-
<b>\$ 280,500</b>	<b>\$ 723,460</b>	<b>\$ 1,496,968</b>	<b>\$ 330,751</b>	<b>\$ 56,512</b>	<b>\$ 50,137</b>

\$ -	\$ -	\$ -	\$ 801	\$ -	\$ 13,066
-	52,419	-	-	-	40
-	52,419	-	801	-	13,106

-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	313,550	-	-
280,500	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	37,031
-	665,041	-	-	-	-
-	-	1,496,968	-	-	-
-	-	-	-	56,512	-
-	6,000	-	16,400	-	-
280,500	671,041	1,496,968	329,950	56,512	37,031
<b>\$ 280,500</b>	<b>\$ 723,460</b>	<b>\$ 1,496,968</b>	<b>\$ 330,751</b>	<b>\$ 56,512</b>	<b>\$ 50,137</b>

**CITY OF SPEARFISH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
DECEMBER 31, 2012**

	<b>Golf Course Capital</b>	<b>TID #1 Elkhorn Ridge Debt Fund</b>	<b>TID #2 Industrial Park Debt Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 36,856	\$ 13,564	\$ 260,941
104 Investments	-	-	-
110 Sales Taxes Receivable	-	-	-
115 Accounts Receivable	1,614	-	-
121 Special Assessments Receivable	-	-	-
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
<b>Total Assets</b>	<b>\$ 38,470</b>	<b>\$ 13,564</b>	<b>\$ 260,941</b>
<b>Liabilities and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ -	\$ -	\$ -
224 Deferred Revenue	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264.01 Debt Service	-	13,564	260,941
264.02 Capital Projects	38,470	-	-
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	-	-	-
<b>Total Fund Balances</b>	<b>38,470</b>	<b>13,564</b>	<b>260,941</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 38,470</b>	<b>\$ 13,564</b>	<b>\$ 260,941</b>

<b>TID #3 McGuigan Ranch Debt Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>TID #1 Elkhorn Ridge Capital Projects Fund</b>	<b>Total</b>
\$ 47,738	\$ 9,690	\$ 217	\$ 1,416,025
25,829	416,894	-	1,608,435
-	-	-	10,463
-	-	-	1,614
-	-	-	62,517
-	-	-	1,220,804
-	-	-	21,134
<b>\$ 73,567</b>	<b>\$ 426,584</b>	<b>\$ 217</b>	<b>\$ 4,340,992</b>

\$ -	\$ -	\$ -	\$ 26,923
-	-	-	52,459
-	-	-	79,382

-	50,000	-	50,000
73,567	-	-	348,072
-	-	217	38,687
-	376,584	-	376,584
-	-	-	286,516
-	-	-	80,282
-	-	-	313,550
-	-	-	280,500
-	-	-	78,802
-	-	-	37,031
-	-	-	665,041
-	-	-	1,496,968
-	-	-	56,512
-	-	-	153,065
73,567	426,584	217	4,261,610
<b>\$ 73,567</b>	<b>\$ 426,584</b>	<b>\$ 217</b>	<b>\$ 4,340,992</b>

**CITY OF SPEARFISH**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>
<b>Revenue:</b>			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	528,199	-	-
315 Amusement Taxes	-	-	191,050
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-
<i>Intergovernmental Revenue:</i>			
334 State Grants	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines &amp; Forfeits:</i>			
354 Library	-	15,629	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	3,676	569	65
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	-	3,847	11,954
369 Other	-	-	-
<b>Total Revenue</b>	<b>531,875</b>	<b>20,045</b>	<b>203,069</b>
<b>Expenditures:</b>			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Public Works:</i>			
431 Highway and Streets	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	228,700	-	-
452 Parks	-	-	-
455 Library	-	22,541	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	385,632	-	175,002
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
<b>Total Expenditures</b>	<b>614,332</b>	<b>22,541</b>	<b>175,002</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>(82,457)</b>	<b>(2,496)</b>	<b>28,067</b>
<b>Other Financing Sources</b>			
390 Transfers In (Note 10)	-	-	-
<b>Net Change in Fund Balances</b>	<b>(82,457)</b>	<b>(2,496)</b>	<b>28,067</b>
Fund Balances, December 31, 2011	499,638	82,778	50,735
<b>Fund Balances, December 31, 2012</b>	<b>\$ 417,181</b>	<b>\$ 80,282</b>	<b>\$ 78,802</b>

<b>911 Emergency Fund</b>	<b>Special Assessments Revolving Fund</b>	<b>Spearfish Economic Revolving Fund</b>	<b>Special Park Gift Fund</b>	<b>Art in Public Places Fund</b>	<b>Municipal Highway and Bridge Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
118,048	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	295,026
-	-	-	-	-	119,832
-	-	-	-	8,624	-
-	-	-	-	-	-
-	-	-	-	-	-
1,201	5,669	17,267	1,631	414	38
-	-	7,659	30,579	-	-
-	59,841	906	-	-	23
-	-	-	-	-	-
-	4,000	416	500	-	-
<b>119,249</b>	<b>69,510</b>	<b>26,248</b>	<b>32,710</b>	<b>9,038</b>	<b>414,919</b>
38,782	-	-	-	-	-
-	120,302	-	-	-	13,035
-	-	-	-	-	-
-	-	-	25,192	-	-
-	-	-	-	-	-
-	-	1,247	-	-	-
-	-	-	-	-	-
13,228	-	-	-	-	782,185
<b>52,010</b>	<b>120,302</b>	<b>1,247</b>	<b>25,192</b>	<b>-</b>	<b>795,220</b>
67,239	(50,792)	25,001	7,518	9,038	(380,301)
-	-	-	-	-	350,000
<b>67,239</b>	<b>(50,792)</b>	<b>25,001</b>	<b>7,518</b>	<b>9,038</b>	<b>(30,301)</b>
213,261	721,833	1,471,967	322,432	47,474	67,332
<b>\$ 280,500</b>	<b>\$ 671,041</b>	<b>\$ 1,496,968</b>	<b>\$ 329,950</b>	<b>\$ 56,512</b>	<b>\$ 37,031</b>



**CITY OF SPEARFISH**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<b>Golf Course Capital</b>	<b>TID #1 Elkhorn Ridge Debt Fund</b>	<b>TID #2 Industrial Park Debt Fund</b>
<b>Revenue:</b>			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ 88,533	\$ 373,276
313 General Sales and Use Taxes	-	-	-
315 Amusement Taxes	-	-	-
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	1,973
<i>Intergovernmental Revenue:</i>			
334 State Grants	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines &amp; Forfeits:</i>			
354 Library	-	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	9	13	95
362 Rentals	-	-	-
363 Special Assessments	1,662	-	-
367 Contributions and Donations - Private Sources	18,897	-	-
369 Other	-	-	-
<b>Total Revenue</b>	<b>20,568</b>	<b>88,546</b>	<b>375,344</b>
<b>Expenditures:</b>			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Public Works:</i>			
431 Highway and Streets	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	2,000	-	-
452 Parks	-	-	-
455 Library	-	-	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	-	-	-
470 Debt Service	-	88,533	358,112
485 Capital Outlay	-	-	-
<b>Total Expenditures</b>	<b>2,000</b>	<b>88,533</b>	<b>358,112</b>
<b>Excess (Deficiency) of Revenue over Expenditures</b>	<b>18,568</b>	<b>13</b>	<b>17,232</b>
<b>Other Financing Sources</b>			
390 Transfers In (Note 10)	-	-	-
<b>Net Change in Fund Balances</b>	<b>18,568</b>	<b>13</b>	<b>17,232</b>
<b>Fund Balances, December 31, 2011</b>	<b>19,902</b>	<b>13,551</b>	<b>243,709</b>
<b>Fund Balances, December 31, 2012</b>	<b>\$ 38,470</b>	<b>\$ 13,564</b>	<b>\$ 260,941</b>

<b>TID #3 McGuigan Ranch Debt Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>TID #1 Elkhorn Ridge Capital Projects</b>	<b>Total</b>
\$ 47,731	\$ -	\$ -	\$ 509,540
-	-	-	528,199
-	-	-	191,050
-	-	-	118,048
-	-	-	1,973
-	-	-	295,026
-	-	-	119,832
-	-	-	8,624
-	9,690	-	9,690
-	-	-	15,629
265	-	-	30,912
-	-	-	38,238
-	-	-	62,432
-	-	-	34,698
-	-	-	4,916
<b>47,996</b>	<b>9,690</b>	<b>-</b>	<b>1,968,807</b>
-	-	-	38,782
-	-	-	133,337
-	-	-	230,700
-	-	-	25,192
-	-	-	22,541
-	-	-	561,881
-	-	-	446,645
-	-	-	795,413
-	-	-	2,254,491
<b>47,996</b>	<b>9,690</b>	<b>-</b>	<b>(285,684)</b>
-	-	-	350,000
<b>47,996</b>	<b>9,690</b>	<b>-</b>	<b>64,316</b>
25,571	416,894	217	4,197,294
<b>\$ 73,567</b>	<b>\$ 426,584</b>	<b>\$ 217</b>	<b>\$ 4,261,610</b>

## OTHER REPORTS



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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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, 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, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 16, 2013.

### **Internal Control over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Auditor's Comments and Closing Conference as #12-1, that we consider to be a significant deficiency.

### **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*.

**The City's Response to the Finding**

The City's response to the finding identified in our audit is described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's response and, accordingly, we express no opinion on it.

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

September 16, 2013

**CITY OF SPEARFISH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE  
DECEMBER 31, 2012**

**A. Status of Prior Audit Findings and Recommendations**

Several audit adjustments were posted in the prior year. Finding #11-1 will not be repeated in the current year, as no significant audit adjustments were posted during the course of the audit.

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding #11-2 will be repeated as Finding #12-1 for the year ending December 31, 2012.

**B. Current Year Audit Findings and Recommendations**

**Significant Deficiency**

**12-1 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.

*Recommendation:* We have instructed management to review a draft of the auditor-prepared 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.

*Response and 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.