



CITY OF SPEARFISH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2014



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

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

CITY OF SPEARFISH

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-12
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	13
Statement of Activities	14
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.	16
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	17-18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	19
Proprietary Funds Statement of Net Position.	20
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Proprietary Funds Statement of Cash Flows	22
Notes to Financial Statements	23-47
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund – Budgetary Basis	48-49
Budgetary Comparison Schedule – Second Penny Sales Tax Fund – Budgetary Basis.	50
Notes to Required Supplementary Information and Schedule of Funding Progress (OPEB).	51
<i>Other Supplementary Information:</i>	
Combining Balance Sheet - Nonmajor Governmental Funds.	52-53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.	54-55
<i>Single Audit Section:</i>	
Summary Schedule of Prior Audit Findings	56
Schedule of Findings and Questioned Costs	57-58
Schedule of Expenditures of Federal Awards	59

CITY OF SPEARFISH

TABLE OF CONTENTS (CONTINUED)

Other Reports:

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 <i>Government Auditing Standards</i>	60-61
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.....	62-63



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

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, 2014, 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, 2014, 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 48 through 51, and the schedule of funding progress (OPEB) presented on page 51, 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 52-55 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 59 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 August 17, 2015, 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

August 17, 2015

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014

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, 2014. 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 \$7,863,100, primarily due to the insurance reimbursement for the collapse of the TMOne facility in October 2013.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$870,050 more than the \$13,100,600 governmental expenditures, excluding transfers and extraordinary item.
- In the City's business-type activities, revenue increased by 25 percent to \$7,551,960 while expenses increased by 5 percent to \$5,715,852, due to increase in rates for sewer collection and treatment and increasing operational costs.
- The total cost of the City's programs decreased by \$932,067, approximately 5 percent, due to reduced expenses in the public works and conservation and development functions. Public works experienced increased costs in 2013 due to winter storm Atlas and the clean-up following the storm. Conservation and development expenses in 2013 included an allocation to begin a new economic development program for business growth and development. These costs were not continued in 2014.
- The general fund reported a \$733,943 current year increase primarily due to Federal Grants received for winter storm Atlas and an increase in fair market value of investments.

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, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2014

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, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 10.93 percent between 2013 and 2014 – increasing by \$7,863,100 (see Table A-1).

Table A-1

Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2013	2014	2013	2014	2013	2014
Current & Other Assets	\$ 14,917,339	\$ 18,928,209	\$ 8,954,501	\$ 11,279,908	\$ 23,871,840	\$ 30,208,117
Capital Assets	46,810,707	46,478,824	24,801,869	29,690,104	71,612,576	76,168,928
Total Assets	\$ 61,728,046	\$ 65,407,033	\$ 33,756,370	\$ 40,970,012	\$ 95,484,416	\$ 106,377,045
Long-Term Debt	\$ 16,897,326	\$ 17,416,909	\$ 5,616,519	\$ 8,193,852	\$ 22,513,845	\$ 25,610,761
Other Liabilities	672,659	565,778	332,520	372,014	1,005,179	937,792
Total Liabilities	\$ 17,569,985	\$ 17,982,687	\$ 5,949,039	\$ 8,565,866	\$ 23,519,024	\$ 26,548,553
Net Position:						
Net Investment in						
Capital Assets	\$ 31,862,334	\$ 31,324,695	\$ 19,888,790	\$ 22,308,198	\$ 51,751,124	\$ 53,632,893
Restricted	4,290,572	4,059,518	-	-	4,290,572	4,059,518
Unrestricted	8,005,155	12,040,133	7,918,541	10,095,948	15,923,696	22,136,081
Total Net Position	\$ 44,158,061	\$ 47,424,346	\$ 27,807,331	\$ 32,404,146	\$ 71,965,392	\$ 79,828,492
Beginning Net Position	\$ 43,402,719	\$ 44,158,061	\$ 27,454,429	\$ 27,807,331	\$ 70,857,148	\$ 71,965,392
Prior Period Adjustment	3,564,651	-	-	-	3,564,651	-
Increase (Decrease) in						
Net Position	(2,809,309)	3,266,285	352,902	4,596,815	(2,456,407)	7,863,100
Percentage of Increase						
(Decrease) in Net Position	-6.47%	7.40%	1.29%	16.53%	-3.47%	10.93%

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

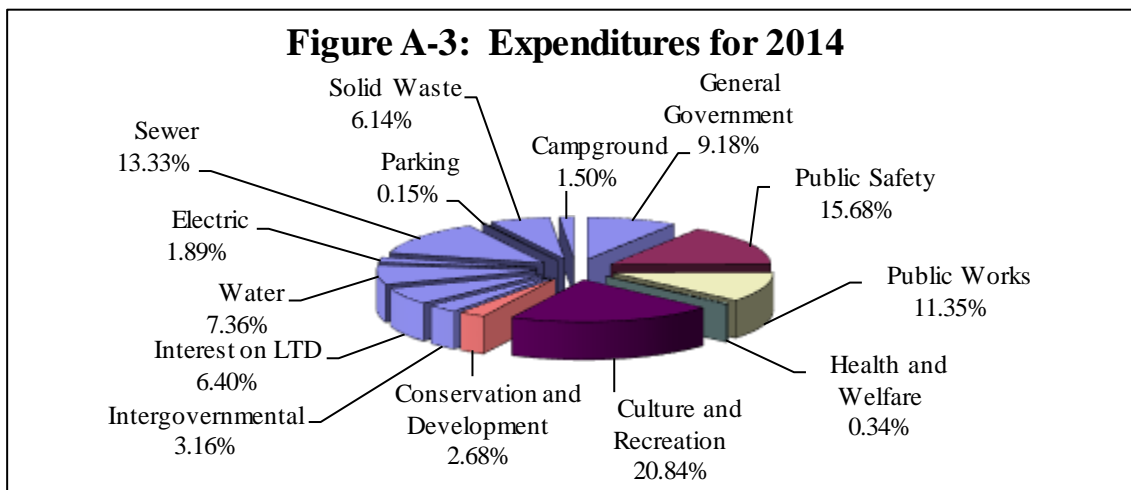
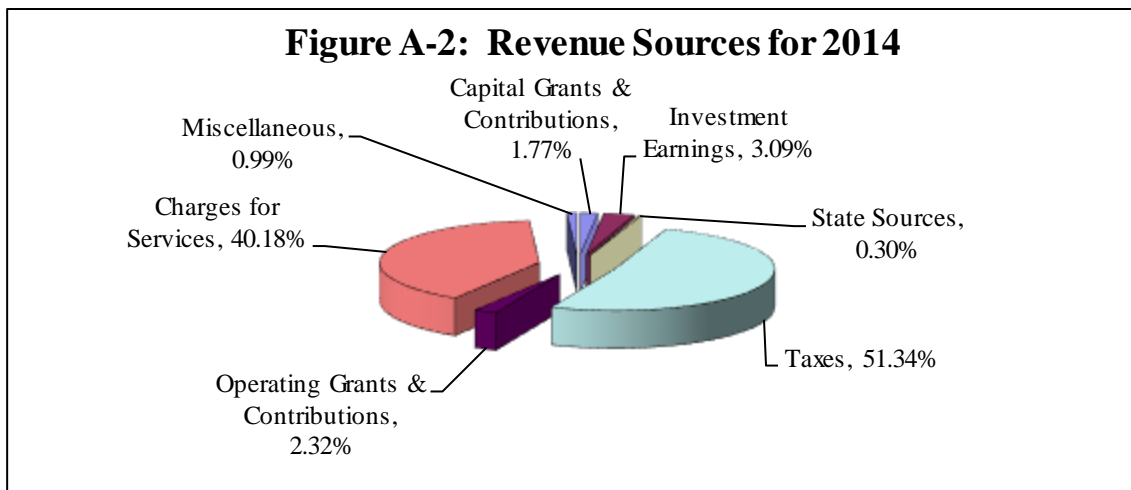
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's total revenues (excluding transfers) totaled \$21,522,611 (see Table A-2). Well over three-fourths of the City's revenue comes from charges for services and tax, with 40 cents of every dollar raised coming from charges for services (primarily water, sewer, recreation and aquatic park and solid waste operations) and 51 cents of every dollar raised comes from some type of tax. (See Figure A-2).

The total cost of all programs and services decreased by 5 percent from 2013 to 2014. The City's expenses cover a range of services, including public works administration, public safety, and culture and recreation. (See Figure A-3).



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014

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	
	2013	2014	2013	2014	2013	2014
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,791,783	\$ 1,927,045	\$ 5,959,848	\$ 6,720,763	\$ 7,751,631	\$ 8,647,808
Operating Grants and Contributions	824,953	320,793	191,574	179,500	1,016,527	500,293
Capital Grants and Contributions	92,430	12,508	-	368,813	92,430	381,321
<i>General Revenues</i>						
Taxes	10,163,629	11,050,522	-	-	10,163,629	11,050,522
Revenue State Sources	280,937	64,630	-	-	280,937	64,630
Unrestricted Investment Earnings (Losses)	(162,934)	437,283	(110,605)	228,518	(273,539)	665,801
Miscellaneous	601,668	157,869	14,865	54,367	616,533	212,236
Total Revenues	\$13,592,466	\$ 13,970,650	\$ 6,055,682	\$ 7,551,961	\$19,648,148	\$ 21,522,611
Expenses						
General Government	\$ 1,701,723	\$ 1,726,722	\$ -	\$ -	\$ 1,701,723	\$ 1,726,722
Public Safety	2,664,193	2,950,814	-	-	2,664,193	2,950,814
Public Works	2,676,035	2,135,551	-	-	2,676,035	2,135,551
Health and Welfare	85,352	64,059	-	-	85,352	64,059
Culture and Recreation	4,055,092	3,920,854	-	-	4,055,092	3,920,854
Conservation and Development	1,114,235	505,052	-	-	1,114,235	505,052
Interest on Long-Term Debt	1,560,729	1,203,708	-	-	1,560,729	1,203,708
Intergovernmental	427,674	593,840	-	-	427,674	593,840
Water Services	-	-	1,364,401	1,384,380	1,364,401	1,384,380
Electric Services	-	-	421,328	355,890	421,328	355,890
Sewer Services	-	-	2,415,138	2,510,550	2,415,138	2,510,550
Parking	-	-	11,953	27,319	11,953	27,319
Solid Waste	-	-	960,339	1,155,909	960,339	1,155,909
Campground	-	-	290,328	281,805	290,328	281,805
Total Expenses	\$14,285,033	\$ 13,100,600	\$ 5,463,487	\$ 5,715,853	\$19,748,520	\$ 18,816,453
Excess Revenues (Expenses) Before Transfers, Special Item and Extraordinary Item	\$ (692,567)	\$ 870,050	\$ 592,195	\$ 1,836,108	\$ (100,372)	\$ 2,706,158
Transfers	239,293	(2,760,707)	(239,293)	2,760,707	-	-
Special Item	507,268	-	-	-	507,268	-
Extraordinary Item	(2,863,303)	5,156,942	-	-	(2,863,303)	5,156,942
Increase (Decrease) in Net Position	\$ (2,809,309)	\$ 3,266,285	\$ 352,902	\$ 4,596,815	\$ (2,456,407)	\$ 7,863,100
Prior Period Adjustment	\$ 3,564,651	\$ -	\$ -	\$ -	\$ 3,564,651	\$ -
Net Position - Ending	\$44,158,061	\$ 47,424,346	\$27,807,331	\$ 32,404,146	\$71,965,392	\$ 79,828,492

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenditures by \$870,050 excluding transfers and extraordinary items, due to decreased expenses in the Public Works divisions from 2013's winter storm Atlas and a fair market value gain in investments.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$1,836,108, excluding transfers, due to rate increases in sewer collection and treatment fees and an increase in infrastructure capital contributions from developers.

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.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

CAPITAL ASSET ADMINISTRATION

By the end of 2014, the City had invested \$76,168,928 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$4,556,352.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2013	2014	2013	2014
Land	\$ 8,946,834	\$ 9,146,295	\$ 642,008	\$ 642,008
Buildings	11,760,259	11,468,819	5,230,495	5,000,942
Improvements	22,122,434	22,152,564	16,468,150	17,415,993
Machinery and Equipment	2,624,698	2,879,767	1,415,535	1,487,490
Construction Work in Progress	1,356,482	831,379	1,045,681	5,143,671
Totals	\$ 46,810,707	\$ 46,478,824	\$ 24,801,869	\$ 29,690,104

This year's major capital asset changes included:

Governmental Fund Assets:

- Street improvements including roads and curb/gutters in the Exit 8 Industrial Park area for \$587,729
- Cat Motor Grader lease/purchase for \$258,240
- Purchase of land near City Shop for \$225,551
- Custom Cab Rescue Fire truck chassis for \$206,760
- Elgin Street Sweeper for \$165,450
- Construction of Atlas Building (replacement facility due to collapse in October 2013 of TMOne facility) for \$116,562
- Repairs to facilities and infrastructure in various locations within the City due to damage from winter storm Atlas in 2013 for \$70,970

Business-type Assets:

- Construction of new Gollilier Water Storage facility and water main on McGuigan Rd for \$3,558,999
- Sewer Line replacements and manhole repairs in the Ramsdell area for \$694,094
- Repairs to facilities and infrastructure in various locations within the City due to damage from winter storm Atlas and spring 2013 flooding for \$316,341
- Sewer jet truck for \$300,420
- Water Line replacements in the Exit 8 Industrial Park for \$277,384
- Engineering expenses for water and sewer line repairs and replacements in the Ramsdell area for \$160,782

CITY OF SPEARFISH

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2014**

LONG-TERM DEBT

At year-end, the City had \$25,610,761 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2013 as shown on Table A-4 below. The increase from 2013 is due to borrowings to purchase the Motor Grader and State Revolving Fund borrowings for the construction of the Gollisher Water Tank. The City made scheduled payments throughout the year on its debt balances.

Table A-4

	Outstanding Debt and Obligations			
	Governmental Activities		Business-type Activities	
	2013	2014	2013	2014
Compensated Absences	\$ 560,939	\$ 582,861	\$ 149,825	\$ 157,737
Other Post Employment Benefits (OPEB)	1,388,014	1,679,919	553,616	654,209
Sales Tax Revenue Bonds	6,760,000	6,375,000	-	-
TID #1 Elkhorn Ridge	3,776,605	3,776,605	-	-
TID #1 Accrued Interest	3,778,524	4,613,594	-	-
TID #2 Industrial Park Bond	633,244	151,832	-	-
SRF Loan - Sewer	-	-	4,913,079	4,684,099
Motor Grader	-	237,098	-	-
SRF Loan - Water	-	-	-	2,697,807
Total	\$ 16,897,326	\$ 17,416,909	\$ 5,616,520	\$ 8,193,852

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The City’s current economic position has shown continued growth. The City did experience an increase in total property valuation of \$31,194,986 or 4.86 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$66,000. The growth in property valuation also allows the City to reduce the property tax mill levy from \$3.014 per \$1,000 assessed valuation to \$2.97 per \$1,000 assessed valuation. 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 increased in taxable sales of 5.2 percent over the prior year and has adopted a conservative budget with a 4 percent increase in sales tax revenue for the next year.

The City’s adopted General Fund budget for the next fiscal year will raise \$196,603 or 2.5 percent. The largest portion of this increase is due to increased utility costs and increases in repair of infrastructure.

The City’s business-type activities (water and sewer operations) expect that the results for 2015 will improve based on an annual rate increase implemented to cover the increasing cost of repair and replacement of aging infrastructure.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2014**

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, 2014**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 10,545,840	\$ 6,064,929	\$ 16,610,769
Investments (Note 2)	7,768,899	3,059,334	10,828,233
Accounts and Notes Receivable, Net (Notes 1 and 4)	1,102,185	895,451	1,997,636
Internal Balances (Note 10)	(1,260,194)	1,260,194	-
Restricted Assets:			
Restricted Investments (Notes 2 and 7)	669,941	-	669,941
Other Assets (Note 14)	101,538	-	101,538
Capital Assets (Note 6):			
Land and Construction in Progress	9,977,674	5,785,679	15,763,353
Other Capital Assets, Net of Depreciation	36,501,150	23,904,425	60,405,575
TOTAL ASSETS	\$ 65,407,033	\$ 40,970,012	\$ 106,377,045
Liabilities:			
Accounts Payable	\$ 93,343	\$ 169,014	\$ 262,357
Unearned Revenue (Note 3)	48,721	19,466	68,187
Other Current Liabilities	423,714	183,534	607,248
Long-Term Liabilities (Note 7):			
Due Within One Year	1,301,813	613,784	1,915,597
Due in More Than One Year	16,115,096	7,580,068	23,695,164
TOTAL LIABILITIES	17,982,687	8,565,866	26,548,553
Net Position:			
Net Investment in Capital Assets	31,324,695	22,308,198	53,632,893
Restricted for (Note 1k):			
Debt Service	1,009,056	-	1,009,056
SDPAA (Note 14)	98,788	-	98,788
Promoting the City	350,613	-	350,613
Library Purposes	90,779	-	90,779
Park Purposes	348,057	-	348,057
911 Purposes	426,406	-	426,406
Business Improvement District Purposes	82,047	-	82,047
Rifle Range Improvement Grant	8,500	-	8,500
Municipal Highway and Bridge	470,895	-	470,895
Special Assessments Revolving Loan Fund	722,323	-	722,323
Perpetual Care Cemetery			
Expendable	402,054	-	402,054
Nonexpendable	50,000	-	50,000
Unrestricted	12,040,133	10,095,948	22,136,081
TOTAL NET POSITION	47,424,346	32,404,146	79,828,492
TOTAL LIABILITIES AND NET POSITION	\$ 65,407,033	\$ 40,970,012	\$ 106,377,045

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2014

Functions/Programs	--- Program Revenues ---				Net (Expense) Revenue and ----- Changes in Net Position -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 1,726,722	\$ 455,800	\$ -	\$ -	\$ (1,270,922)	\$ -	\$ (1,270,922)
Public Safety	2,950,814	59,860	-	12,508	(2,878,446)	-	(2,878,446)
Public Works	2,135,551	583,945	314,031	-	(1,237,575)	-	(1,237,575)
Health and Welfare	64,059	-	-	-	(64,059)	-	(64,059)
Culture and Recreation	3,920,854	827,440	6,762	-	(3,086,652)	-	(3,086,652)
Conservation and Development	505,052	-	-	-	(505,052)	-	(505,052)
Intergovernmental	593,840	-	-	-	(593,840)	-	(593,840)
Interest on Long-Term Debt	1,203,708	-	-	-	(1,203,708)	-	(1,203,708)
Total Governmental Activities	13,100,600	1,927,045	320,793	12,508	(10,840,254)	-	(10,840,254)
Business-Type Activities:							
Water	1,384,380	2,016,073	70,447	18,946	-	721,086	721,086
Electric	355,890	698,730	106,500	-	-	449,340	449,340
Sewer	2,510,550	2,539,350	2,508	349,867	-	381,175	381,175
Parking	27,319	22,438	-	-	-	(4,881)	(4,881)
Solid Waste	1,155,909	1,122,355	45	-	-	(33,509)	(33,509)
Campground	281,805	321,817	-	-	-	40,012	40,012
Total Business-Type Activities	5,715,853	6,720,763	179,500	368,813	-	1,553,223	1,553,223
Total Primary Government	\$ 18,816,453	\$ 8,647,808	\$ 500,293	\$ 381,321	(10,840,254)	1,553,223	(9,287,031)
General Revenues:							
Taxes:							
Property Taxes					3,081,568	-	3,081,568
Sales Taxes					7,751,995	-	7,751,995
Other Taxes					122,374	-	122,374
Gross Receipts Tax					94,585	-	94,585
State Shared Revenue					64,630	-	64,630
Grants and Contributions Not Restricted					46,539	-	46,539
Unrestricted Investment Earnings					437,283	228,518	665,801
Miscellaneous Revenue					111,330	54,367	165,697
Extraordinary Item - TMOne Impairment (Note 16)					5,156,942	-	5,156,942
Transfers (Note 10)					(2,760,707)	2,760,707	-
Total General Revenue and Transfers					14,106,539	3,043,592	17,150,131
Change in Net Position					3,266,285	4,596,815	7,863,100
Net Position, Beginning					44,158,061	27,807,331	71,965,392
Net Position, Ending					\$ 47,424,346	\$ 32,404,146	\$ 79,828,492

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

CITY OF SPEARFISH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Assets			
101 Cash and Cash Equivalents	\$ 3,449,159	\$ 4,961,633	\$ -
104 Investments (Note 2)	2,368,780	3,082,086	-
107 Restricted Investments (Notes 2 and 7)	-	669,941	-
108 Property Taxes Receivable (Note 5)	11,749	-	-
110 Sales Taxes Receivable	58,110	58,109	-
115 Accounts Receivable	11,946	2,671	-
121 Special Assessments Receivable	925	-	-
128 Notes Receivable (Note 4)	-	-	-
132 Due from Other Governments	239,884	-	-
133 Advances to Other Funds (Note 10)	-	532,844	-
141 Inventory of Supplies	2,750	-	-
154 Deposits (Note 14)	98,788	-	-
Total Assets	\$ 6,242,091	\$ 9,307,284	\$ -
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 55,342	\$ 33,117	\$ -
216 Accrued Wages Payable	118,367	-	-
223 Unearned Revenue - FEMA Grant Revenue	3,825	-	-
236 Advance from Other Funds (Note 10)	-	-	1,260,194
Total Liabilities	177,534	33,117	1,260,194
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	1,567	-	-
246 Unavailable Revenue - Special Assessments	112	-	-
247 Other Deferred Inflow of Resources - State Shared Gaming Revenue	239,685	-	-
Total Deferred Inflows of Resources	241,364	-	-
<i>Fund Balances (Note 1k)</i>			
263 Nonspendable	101,538	532,844	-
264 Restricted	-	678,441	-
265 Committed	-	8,062,882	-
266 Assigned	90,516	-	-
267 Unassigned	5,631,139	-	(1,260,194)
Total Fund Balances	5,823,193	9,274,167	(1,260,194)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,242,091	\$ 9,307,284	\$ -

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

	Other Governmental Funds		Total Governmental Funds
\$	2,051,881	\$	10,462,673
	2,215,238		7,666,104
	-		669,941
	-		11,749
	8,622		124,841
	-		14,617
	20,630		21,555
	659,244		659,244
	30,295		270,179
	-		532,844
	-		2,750
	-		98,788
\$	4,985,910	\$	20,535,285

\$	4,884	\$	93,343
	10,217		128,584
	-		3,825
	532,844		1,793,038
	547,945		2,018,790

	-		1,567
	12,684		12,796
	-		239,685
	12,684		254,048

	709,244		1,343,626
	3,232,289		3,910,730
	1,016,532		9,079,414
	-		90,516
	(532,784)		3,838,161
	4,425,281		18,262,447
\$	4,985,910	\$	20,535,285

CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total Fund Balances - Governmental Funds	\$ 18,262,447
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.	46,478,824
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.	(17,416,909)
Assets such as delinquent taxes receivable, special assessments receivable, and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	254,048
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).	(295,130)
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.	141,066
<hr/>	
Total Net Position - Governmental Activities	\$ 47,424,346

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, 2014**

Revenue	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
<i>Taxes:</i>			
311 General Property Taxes	\$ 1,928,567	\$ -	\$ -
313 General Sales and Use Taxes	3,586,180	3,586,180	-
314 Gross Receipts Tax	94,585	-	-
315 Amusement Taxes	1,296	-	-
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	2,358	-	-
320 Licenses and Permits	431,721	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	440,155	-	-
334 State Grants	55,945	-	-
<i>State Shared Revenue:</i>			
335.01 Bank Franchise Tax	5,132	-	-
335.03 Liquor Tax Reversion	59,498	-	-
335.04 Motor Vehicle Licenses (5%)	82,108	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
<i>County Shared Revenue:</i>			
338.02 County HBR Tax	139	-	-
339 County Payments in Lieu of Taxes	230,421	-	-
<i>Charges for Goods and Services:</i>			
341 General Government	24,079	-	-
342 Public Safety	53,567	-	-
343 Highways and Streets	5,134	-	-
346 Culture and Recreation	800,562	-	-
348 Cemeteries	7,000	-	-
<i>Fines and Forfeits:</i>			
351 Court Fines and Costs	1,313	-	-
354 Library	-	-	-
359 Other	4,980	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	145,644	178,004	-
362 Rentals	63,118	-	-
363 Special Assessments	104,197	-	-
367 Contributions and Donations - Private Sources	6,884	-	-
369 Other	3,588	-	-
Total Revenue	8,138,171	3,764,184	-

	Other Governmental Funds	Total Governmental Funds
\$	731,482	\$ 2,660,049
	579,635	7,751,995
	-	94,585
	174,974	176,270
	122,374	122,374
	3,366	5,724
	-	431,721
	-	440,155
	290,704	346,649
	-	5,132
	-	59,498
	-	82,108
	138,979	138,979
	-	139
	-	230,421
	-	24,079
	-	53,567
	-	5,134
	12,136	812,698
	13,690	20,690
	-	1,313
	14,742	14,742
	-	4,980
	108,505	432,153
	4,620	67,738
	16,628	120,825
	39,655	46,539
	43,651	47,239
	<u>2,295,141</u>	<u>14,197,496</u>

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Expenditures			
<i>General Government:</i>			
411 Legislative	165,149	-	-
412 Executive	129,115	-	-
414 Financial Administration	291,794	-	-
419 Other	750,347	106,291	-
<i>Public Safety:</i>			
421 Police	1,737,851	87,615	-
422 Fire	160,725	-	-
423 Protective Inspection	178,625	-	-
<i>Public Works:</i>			
431 Highways and Streets	946,547	239,058	-
437 Cemeteries	91,780	-	-
<i>Health and Welfare:</i>			
441 Health	61,565	-	-
<i>Culture and Recreation:</i>			
451 Recreation	1,417,840	124,522	-
452 Parks	391,783	133,031	-
455 Library	360,447	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	83,307	36,000	-
465 Economic Development and Assistance	173,329	-	-
470 Debt Service	-	688,496	-
480 Intergovernmental Expenditures	368,505	-	-
485 Capital Outlay	5,750	1,997,592	-
Total Expenditures	7,314,459	3,412,605	-
Excess of Revenue over Expenditures	823,712	351,579	-
Other Financing Sources (Uses)			
391.01 Transfers In (Note 10)	239,293	-	-
391.03 Sale of Municipal Property	15,634	-	-
391.04 Compensation for Loss or Damage	2,240	20,705	-
391.20 Long-Term Debt Issued	-	258,240	-
511 Transfers Out (Note 10)	(346,936)	(3,000,000)	-
Total Other Financing Sources (Uses)	(89,769)	(2,721,055)	-
Extraordinary Items			
391.05 Extraordinary Item - TMOne Impairments (Note 16)	-	5,156,942	-
Net Change in Fund Balances	733,943	2,787,466	-
Fund Balances - December 31, 2013	5,089,250	6,486,701	(1,260,194)
Fund Balances - December 31, 2014	\$ 5,823,193	\$ 9,274,167	\$ (1,260,194)

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

Other Governmental Funds	Total Governmental Funds
-	165,149
-	129,115
-	291,794
-	856,638
401,005	2,226,471
-	160,725
-	178,625
-	1,185,605
-	91,780
-	61,565
600,181	2,142,543
12,521	537,335
20,886	381,333
-	119,307
175,163	348,492
637,840	1,326,336
-	368,505
24,000	2,027,342
<u>1,871,596</u>	<u>12,598,660</u>
<u>423,545</u>	<u>1,598,836</u>
571,032	810,325
-	15,634
-	22,945
-	258,240
(224,096)	(3,571,032)
<u>346,936</u>	<u>(2,463,888)</u>
-	5,156,942
<u>770,481</u>	<u>4,291,890</u>
3,654,800	13,970,557
<u>\$ 4,425,281</u>	<u>\$ 18,262,447</u>

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, 2014

Net Change in Fund Balances - Total Government Funds \$ 4,291,890

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	2,000,611
Depreciation Expense	(2,318,912)
	(318,301)
Capital assets contributed to the City, which are included in the Statement of Activities.	12,508
The governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a loss on sale or disposal of capital assets.	(26,090)
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."	(160)
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.	(14,212)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds (Gaming revenue).	239,685
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds (FEMA grant receivables).	(466,011)
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.	997,641
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.	(1,203,397)
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	(21,922)
OPEB	(291,905)
Accrued Interest (excluding TID #1)	70,144
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.	(3,585)
	\$ 3,266,285

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

CITY OF SPEARFISH

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2014**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
<i>Current Assets</i>			
101 Cash and Cash Equivalents	\$ 2,556,931	\$ 452,178	\$ 2,407,508
104 Investments (Note 2)	204,635	550,930	1,193,964
115 Accounts Receivable, Net (Note 1n)	150,441	-	226,656
132 Due from Other Governments	70,121	81,660	-
135 Interest Receivable	237,952	-	32,729
Total Current Assets	3,220,080	1,084,768	3,860,857
<i>Noncurrent Asset</i>			
133 Advance to Other Funds (Note 10)	1,079,230	-	180,964
<i>Capital Assets (Note 6)</i>			
160 Land	208,583	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,430,409)	(21,334)	(3,666,430)
164 Improvements Other Than Buildings	13,349,611	202,558	14,926,090
165 Accumulated Depreciation - Improvements Other Than Buildings	(5,791,266)	(15,194)	(5,294,530)
166 Machinery and Equipment	1,384,406	139,140	3,341,917
167 Accumulated Depreciation - Machinery and Equipment	(880,166)	(64,406)	(2,844,238)
168 Construction Work in Progress	4,864,932	13,240	265,499
Total Capital Assets, Net	14,101,690	454,004	14,252,019
Total Assets	\$ 18,401,000	\$ 1,538,772	\$ 18,293,840
Liabilities and Net Position			
<i>Current Liabilities</i>			
202 Accounts Payable	\$ 129,595	\$ 500	\$ 7,359
205 Current Portion of Long-Term Debt (Note 7)	238,811	22,228	291,954
215 Accrued Interest Payable	6,170	-	31,715
216 Accrued Wages	8,692	6,794	19,352
220 Customer Deposits	99,200	-	-
223 Unearned Revenues	-	-	-
Total Current Liabilities	482,468	29,522	350,380
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	2,615,471	70,631	4,719,397
Total Liabilities	3,097,939	100,153	5,069,777
Net Position			
253.1 Net Investment in Capital Assets	11,403,883	454,004	9,567,920
252.0 Unrestricted Net Position	3,899,178	984,615	3,656,143
Total Net Position	15,303,061	1,438,619	13,224,063
Total Liabilities and Net Position	\$ 18,401,000	\$ 1,538,772	\$ 18,293,840

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 19,509	\$ 362,782	\$ 266,021	\$ 6,064,929	\$ 83,167
41,103	743,325	325,377	3,059,334	102,795
-	95,892	-	472,989	-
-	-	-	151,781	-
-	-	-	270,681	-
60,612	1,201,999	591,398	10,019,714	185,962
-	-	-	1,260,194	-
48,000	-	171,220	642,008	-
-	-	401,228	10,306,733	-
-	-	(187,618)	(5,305,791)	-
-	19,258	95,643	28,593,160	-
-	(5,505)	(70,672)	(11,177,167)	-
87,570	1,450,957	140,766	6,544,756	-
(24,812)	(1,118,292)	(125,352)	(5,057,266)	-
-	-	-	5,143,671	-
110,758	346,418	425,215	29,690,104	-
\$ 171,370	\$ 1,548,417	\$ 1,016,613	\$ 40,970,012	\$ 185,962
\$ -	\$ 31,560	\$ -	\$ 169,014	\$ -
-	60,791	-	613,784	-
-	-	-	37,885	-
-	9,645	1,966	46,449	-
-	-	-	99,200	-
-	-	19,466	19,466	44,896
-	101,996	21,432	985,798	44,896
2,357	125,553	46,659	7,580,068	-
2,357	227,549	68,091	8,565,866	44,896
110,758	346,418	425,215	22,308,198	-
58,255	974,450	523,307	10,095,948	141,066
169,013	1,320,868	948,522	32,404,146	141,066
\$ 171,370	\$ 1,548,417	\$ 1,016,613	\$ 40,970,012	\$ 185,962

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 2,016,073	\$ 698,730	\$ 2,539,350
Operating Expenses			
410 Personal Services	419,647	198,346	833,774
420 Other Current Expenses	466,462	136,722	831,078
457 Depreciation	492,101	20,822	690,345
Total Operating Expenses	1,378,210	355,890	2,355,197
Operating Income (Loss)	637,863	342,840	184,153
Non-Operating Income (Expense)			
320 Licenses and Permits	5,153	-	5,203
331 Federal Grants - FEMA	62,159	93,971	2,213
334 State Grants	8,288	12,529	295
361 Earnings on Deposits and Investments	85,728	27,843	59,463
363 Special Assessment	31,526	-	-
366 Gain on Disposition of Assets	-	-	-
369 Other	2,435	-	1,856
470 Interest Expense and Fiscal Charges	(6,170)	-	(155,353)
Total Non-Operating Income (Expense)	189,119	134,343	(86,323)
Income (Loss) before Transfers	826,982	477,183	97,830
Other Financing Sources (Uses)			
391.01 Transfers In (Note 10)	-	-	3,000,000
391.04 Compensation for Loss or Damage	528	724	-
391.07 Contributed Capital	18,946	-	349,867
511 Transfers Out (Note 10)	(97,704)	(6,079)	(115,646)
Total Other Financing Sources (Uses)	(78,230)	(5,355)	3,234,221
Net Income (Loss)	748,752	471,828	3,332,051
Net Position - December 31, 2013	14,554,309	966,791	9,892,012
Net Position - December 31, 2014	\$ 15,303,061	\$ 1,438,619	\$ 13,224,063

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 22,438	\$ 1,122,355	\$ 321,817	\$ 6,720,763	\$ 557,053
6,219	390,479	133,598	1,982,063	-
16,721	671,108	130,728	2,252,819	565,768
4,379	94,322	17,479	1,319,448	-
27,319	1,155,909	281,805	5,554,330	565,768
(4,881)	(33,554)	40,012	1,166,433	(8,715)
-	-	-	10,356	-
-	40	-	158,383	-
-	5	-	21,117	-
2,048	37,042	16,394	228,518	5,130
-	-	-	31,526	-
-	-	-	-	-
3,038	932	1,698	9,959	-
-	-	-	(161,523)	-
5,086	38,019	18,092	298,336	5,130
205	4,465	58,104	1,464,769	(3,585)
-	-	-	3,000,000	-
-	528	746	2,526	-
-	-	-	368,813	-
(145)	(13,735)	(5,984)	(239,293)	-
(145)	(13,207)	(5,238)	3,132,046	-
60	(8,742)	52,866	4,596,815	(3,585)
168,953	1,329,610	895,656	27,807,331	144,651
\$ 169,013	\$ 1,320,868	\$ 948,522	\$ 32,404,146	\$ 141,066

CITY OF SPEARFISH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 2,032,940	\$ 698,730	\$ 2,507,473
Payments to Suppliers	(397,637)	(136,222)	(894,488)
Payments to Employees	(394,706)	(196,874)	(777,571)
Net Cash Flows Provided by (Used in) Operating Activities	1,240,597	365,634	835,414
Cash Flows from Noncapital Financing Activities:			
Transfers In	-	-	3,000,000
Transfers Out	(97,704)	(6,079)	(115,646)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(97,704)	(6,079)	2,884,354
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(4,556,088)	(36,896)	(1,245,886)
Borrowings on Long-Term Debt	2,697,807	-	-
Principal Paid on Capital Debt	-	-	(228,980)
Interest Paid	-	-	(156,904)
Grant Revenue	13,976	32,099	26,298
Special Assessments Revenue	31,526	-	-
Other Receipts	8,116	724	7,059
Net Cash Flows Provided By (Used in) Capital and Related Financing Activities	(1,804,663)	(4,073)	(1,598,413)
Cash Flows Provided by Investing Activities:			
Investment Earnings	31,767	27,843	50,415
Increase (Decrease) in Cash and Investments	(630,003)	383,325	2,171,770
Cash and Investments - December 31, 2013	3,391,569	619,783	1,429,702
Cash and Investments - December 31, 2014	\$ 2,761,566	\$ 1,003,108	\$ 3,601,472
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 637,863	\$ 342,840	\$ 184,153
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	492,101	20,822	690,345
Change in Assets and Liabilities:			
Change in Accounts Receivable	12,617	-	(31,877)
Change in Accounts Payable	68,825	500	(63,410)
Change in Accrued Wages	28	2,169	199
Change in Customer Deposits	4,250	-	-
Change in OPEB and Accrued Leave	24,913	(697)	56,004
Change in Unearned Revenue	-	-	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 1,240,597	\$ 365,634	\$ 835,414
Noncash Capital and Related Financing Activities			
Capital Contributions	\$ 18,946	\$ -	\$ 349,867

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 22,438	\$ 1,130,981	\$ 321,817	\$ 6,714,379	\$ 601,949
(16,721)	(669,455)	(130,728)	(2,245,251)	(565,768)
(5,948)	(367,893)	(126,974)	(1,869,966)	-
(231)	93,633	64,115	2,599,162	36,181
-	-	-	3,000,000	-
(145)	(13,735)	(5,984)	(239,293)	-
(145)	(13,735)	(5,984)	2,760,707	-
-	-	-	(5,838,870)	-
-	-	-	2,697,807	-
-	-	-	(228,980)	-
-	-	-	(156,904)	-
-	45,614	20,772	138,759	-
-	-	-	31,526	-
3,038	1,460	2,444	22,841	-
3,038	47,074	23,216	(3,333,821)	-
2,048	37,042	16,394	165,509	5,130
4,710	164,014	97,741	2,191,557	41,311
55,902	942,093	493,657	6,932,706	144,651
\$ 60,612	\$ 1,106,107	\$ 591,398	\$ 9,124,263	\$ 185,962
\$ (4,881)	\$ (33,554)	\$ 40,012	\$ 1,166,433	\$ (8,715)
4,379	94,322	17,479	1,319,448	-
-	8,626	-	(10,634)	-
-	1,653	-	7,568	-
(125)	1,183	137	3,591	-
-	-	-	4,250	-
396	21,403	6,487	108,506	-
-	-	-	-	44,896
\$ (231)	\$ 93,633	\$ 64,115	\$ 2,599,162	\$ 36,181
\$ -	\$ -	\$ -	\$ 368,813	\$ -

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

(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, 2014

(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 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 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.

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.

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.

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, 2014**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (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.

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 not a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

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, 2014

(1) Summary of Significant Accounting Policies (Continued)

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, 2014, are property, sales tax, special assessments, gaming, and FEMA grant receivables.

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.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

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, 2014**

(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, 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, 2014

(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, 2014**

(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, 2014. 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, 2014. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2015 Appropriation Ordinance for the City's 2015 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, 2014**

(1) Summary of Significant Accounting Policies (Continued)

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.

As of December 31, 2014, the City had the following governmental fund classifications:

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund	Other Governmental Funds	Total Governmental Funds
263 Nonspendable:					
263 Inventory	\$ 2,750	\$ -	\$ -	\$ -	\$ 2,750
263.04 Advances		532,844	-	-	532,844
263.05 Notes Receivable	-	-	-	659,244	659,244
263.49 SDPAA	98,788	-	-	-	98,788
263.51 Perpetual Care Cemetery	-	-	-	50,000	50,000
	101,538	532,844	-	709,244	1,343,626
264 Restricted:					
264.01 Debt Service	-	669,941	-	339,115	1,009,056
264.03 Perpetual Care Cemetery	-	-	-	402,054	402,054
264.04 Promoting the City	-	-	-	350,613	350,613
264.05 Library Purposes	-	-	-	90,779	90,779
264.06 Park Purposes	-	-	-	348,057	348,057
264.07 911 Purposes	-	-	-	426,406	426,406
264.09 BID Purposes	-	-	-	82,047	82,047
264.99 Rifle Range Improvement Grant	-	8,500	-	-	8,500
264.99 Municipal Highway and Bridge	-	-	-	470,895	470,895
264.99 Special Assessments Revolving Loan	-	-	-	722,323	722,323
	-	678,441	-	3,232,289	3,910,730
265 Committed					
265.99 Second Penny	-	8,062,882	-	-	8,062,882
265.99 Spearfish Economic Revolving Fund	-	-	-	956,661	956,661
265.99 Art in Public Places Fund	-	-	-	59,871	59,871
	-	8,062,882	-	1,016,532	9,079,414
266 Assigned					
266.01 Subsequent Year's Budget	90,516	-	-	-	90,516
267 Unassigned	5,631,139	-	(1,260,194)	(532,784)	3,838,161
Total Fund Balances	\$ 5,823,193	\$ 9,274,167	\$ (1,260,194)	\$ 4,425,281	\$ 18,262,447

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications (Concluded)

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.

As of December 31, 2014, the non-major TID #3 McGuigan Ranch Capital Projects Fund had a deficit fund balance of \$532,784.

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.

n. Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Appropriate allowances for estimated utility uncollectibles at December 31, 2014 total approximately \$6,000, \$8,000, and \$2,000 for the water, sewer, and solid waste funds, respectively. Included in utility accounts receivable at December 31, 2014 are unbilled accounts receivable totaling approximately \$44,000, \$67,000, and \$29,000 for the water, sewer, and solid waste funds, respectively.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Concluded)

o. Emerging Accounting Standards

In June 2012, GASB issued Statement Nos. 67 and 68, *Accounting and Reporting for Pensions*, which replace the requirements of Statement No. 50, *Pension Disclosures* and will require additional note disclosures for the City's cost-sharing multiple employer, defined benefit pension plan. These statements relate to accounting and financial reporting issues and how pension costs and obligations are measured and reported in audited financial statements. The standards describe the change from the funding-based approach to an accounting-based approach in order to improve pension information and increase the transparency, consistency, and comparability of pension information across governments.

The City will recognize its share of a collective net pension liability, as well as pension expense and deferred outflows or inflows of resources for its proportionate share. Within the governmental fund financial statements, pension expenditures should be recognized equal to the total of (1) amounts paid by the City to a pension plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. Note disclosures will include descriptive information about the plan and its terms, contribution rates and how they are determined, and amounts attributed to employee service and forfeitures in the current period.

The implementation of GASB 67 will not impact the entity's financial statements and is effective for the City's current year ending December 31, 2014. With regard to GASB 68, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends GASB No. 68. This statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and should be applied simultaneously with GASB No. 68. Management has not yet determined the impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

In February 2015, GASB issued Statements No. 72, *Fair Value Measurement and Application*. This statement provides guidance for determining a fair value measurement according to a three level hierarchy for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value investments. Management has not yet determined the impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2016.

In June 2015, GASB issued Statements No. 74 and 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, which replace GASB Statement Nos. 43 and 45, and will require additional note disclosures for the City's Other Post-Employment Benefits (OPEB) offered. These statements relate to accounting and financial reporting issues and how OPEB expenses and related obligations are measured and reported in audited financial statements. The standards describe the recognition of the entire net OPEB liability in the employer's financial statements. The implementation of GASB 74 will not impact the entity's financial statements. With regard to GASB 75, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. GASB Statement No. 75 is effective for the City's year ending December 31, 2018.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(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.

The actual bank balances at December 31, 2014 were as follows:

<u>Primary Government</u>	<u>Bank Balance</u>
Insured - FDIC	\$ 1,006,765
Uninsured, collateral jointly held by State's/City agent in the name of the State and pledging institution.	16,370,837
Total	\$ 17,377,602

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, 2014, the City had the following investments:

<u>Investments</u>	<u>Credit Rating</u>	<u>Maturity</u>	<u>Fair Value</u>
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	6-8 years	\$ 1,477,189 ¹
Federal National Mortgage Association Notes	AAA	4-7 years	3,905,302 ¹
Federal Home Loan Mortgage Corporation Notes	AAA	6 years	2,139,816 ¹
Federal Farm Credit Bank Bonds	AAA	6-7 years	2,788,880 ¹
External Investment Pools:			
SDFIT	Unrated		57,425
Total Investments			10,368,612
Other Investments:			
Money Markets			156,707
Certificates of Deposits			972,855
			\$ 11,498,174

¹ These investments may be called at anytime.

Within these investments, the City has bond reserves of \$669,941 at December 31, 2014, in accordance with debt covenants (Note 7).

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

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, 2014, 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.

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 Inflows of Resources and Unearned Revenue

The statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, special assessments, and state shared gaming revenue. Unearned revenues are liabilities of resources obtained prior to revenue recognition and consist of federal grant funds advanced to the City.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2014:

Loan	Collateral	Rate	Maturity	Balance
L. Ruth Engineering	Property/Corporate Guarantee	3%	July 2015	\$ 26,898
Façade Common Grounds	Property	0%	April 2015	667
RABCO Products, Inc.	Equipment/Personal Guarantee	3%	May 2016	9,257
Arrojo Property Investments, Inc.	Property/Personal Guarantee	4%	December 2017	465,903
Spearfish Economic Development Corp.	Equipment	0%	July 2017	156,519
Total				\$ 659,244

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(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.

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2014 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Capital Assets, not being Depreciated:				
Land	\$ 8,946,834	\$ 225,551	\$ 26,090	\$ 9,146,295
Construction Work in Progress	1,356,482	817,454	1,342,557	831,379
Total Capital Assets, not being Depreciated	10,303,316	1,043,005	1,368,647	9,977,674
Capital Assets, being Depreciated:				
Buildings	15,531,532	46,200	-	15,577,732
Improvements Other Than Buildings	28,856,934	1,343,780	-	30,200,714
Machinery and Equipment	7,597,622	922,691	62,423	8,457,890
Total Capital Assets, being Depreciated	51,986,088	2,312,671	62,423	54,236,336
Less Accumulated Depreciation for:				
Buildings	3,771,273	337,640	-	4,108,913
Improvements Other Than Buildings	6,734,500	1,313,650	-	8,048,150
Machinery and Equipment	4,972,924	667,622	62,423	5,578,123
Total Accumulated Depreciation	15,478,697	2,318,912	62,423	17,735,186
Total Governmental Activities Capital Assets, being Depreciated, Net	36,507,391	(6,241)	-	36,501,150
Total Governmental Capital Assets, Net	\$ 46,810,707	\$ 1,036,764	\$ 1,368,647	\$ 46,478,824

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 767,600
Public Works	832,921
Public Safety	250,344
General Government	235,395
Intergovernmental	215,683
Economic Development	16,969
Total Depreciation Expense - Governmental	\$ 2,318,912

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014

(6) Changes in Capital Assets (Continued)

	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 642,008	\$ -	\$ -	\$ 642,008
Construction Work in Progress	1,045,681	4,424,597	326,607	5,143,671
Total Capital Assets, not being Depreciated	1,687,689	4,424,597	326,607	5,785,679
Capital Assets, being Depreciated:				
Buildings	10,306,733	-	-	10,306,733
Improvements Other Than Buildings	26,814,108	1,779,052	-	28,593,160
Machinery and Equipment	6,214,115	330,641	-	6,544,756
Total Capital Assets, being Depreciated	43,334,956	2,109,693	-	45,444,649
Less Accumulated Depreciation for:				
Buildings	5,076,238	229,553	-	5,305,791
Improvements Other Than Buildings	10,345,958	831,209	-	11,177,167
Machinery and Equipment	4,798,580	258,686	-	5,057,266
Total Accumulated Depreciation	20,220,776	1,319,448	-	21,540,224
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	23,114,180	790,245	-	23,904,425
Total Business-Type Capital Assets, Net	\$ 24,801,869	\$ 5,214,842	\$ 326,607	\$ 29,690,104

Depreciation expense was charged to functions as follows:

Sewer	\$ 690,345
Water	492,101
Solid Waste	94,322
Campground	17,479
Electric Production	20,822
Parking	4,379
Total Depreciation Expense - Business-Type	\$ 1,319,448

As of December 31, 2014, the City has signed construction commitments in the amount of \$4,274,624. Of these commitments, \$43,379 are to be funded with Second Penny Sales Tax for street improvements in the Exit 8 Industrial Park. The remaining \$4,231,245 of commitments are for completion of the Gollither Water Storage Facility, the McGuigan Road Water Main, and the water and sewer improvements in the Ramsdell Addition. These projects are expected to be financed through the Water and Sewer Funds with operating revenues.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2014:

	Balance 12/31/2013	Borrowings	Repayments	Balance 12/31/2014	Due Within One Year
Primary Government:					
Governmental Activities:					
Series 2007 Bonds	\$ 6,760,000	\$ -	\$ 385,000	\$ 6,375,000	\$ 400,000
TID #1 Elkhorn Ridge	3,776,605	-	-	3,776,605	-
Accrued Interest - TID #1	3,778,524	945,157	110,087	4,613,594	152,973
TID #2 Industrial Park Bond	633,244	-	481,412	151,832	151,832
Motor Grader	-	258,240	21,142	237,098	14,147
Compensated Absences	560,939	295,991	274,069	582,861	582,861
OPEB (Note 12)	1,388,014	354,705	62,800	1,679,919	-
Total Governmental Activities	16,897,326	1,854,093	1,334,510	17,416,909	1,301,813
Business-Type Activities:					
Sewer SRF Loan	4,913,079	-	228,980	4,684,099	236,511
Water SRF Loan	-	2,697,807	-	2,697,807	219,536
Compensated Absences	149,825	81,937	74,025	157,737	157,737
OPEB (Note 12)	553,616	122,242	21,649	654,209	-
Total Business-Type Activities	5,616,520	2,901,986	324,654	8,193,852	613,784
Total Primary Government	\$ 22,513,846	\$ 4,756,079	\$ 1,659,164	\$ 25,610,761	\$ 1,915,597

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, 2014, property tax revenues were \$110,087, \$524,705, and \$96,690 for TID #1, #2, and #3, respectively. During 2014, the City created TID #4 authorizing up to \$1,423,636 in project development costs. Property tax revenues associated with TID #4 are expected to be collected beginning in 2016. Interest expenditures excluding corresponding accruals, related to TID obligations totaled \$134,016 for the year ended December 31, 2014.

Debt Covenants

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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(7) Long-Term Debt (Continued)

Debt Covenants (Continued)

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	\$ 384,333
Pledged Revenue	2,539,350

The City also has a commitment to pledge future revenues associated Drinking Water Revenue Bonds beginning in 2015.

Additionally, the 2013 Drinking Water SRF Bonds have a covenant requiring the City to keep net water revenue available for debt service at 110 percent of debt service expenses each year. The City is in compliance with these covenants at December 31, 2014.

Long-term debt at December 31, 2014, is comprised of the following:

Revenue Bonds

Series 2007 Bonds for \$8,940,000, mature in June 2027, interest at 3.80 to 4.40 percent, due in semi-annual installments from \$190,000 to \$325,000. Financed through Second Penny Sales Tax Fund for the Water Park.	\$ 6,375,000
---	--------------

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.	4,684,099
---	-----------

Drinking Water Revenue Borrower Bonds, Series 2013 for \$3,254,000, mature in February 2025, interest at 2.25 percent, due in quarterly installments of \$91,072. Water revenues pledged and financed through the Water Fund for the Gollither Water Tank construction.	2,697,807
---	-----------

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.	3,776,605
--	-----------

TID #2 Industrial Park Bond, Series 2009, for \$2,000,000, matures in June 2015, 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.	151,832
--	---------

Note Payable

Note payable with finance company for the purchase of motor grader for \$258,240, matures January 2021, interest at 2.95 percent, due in annual payments of \$21,143 and a balloon payment of \$150,000 upon maturity. Secured by equipment purchased. Financed through the Second Penny Sales Tax Fund.	237,098
--	---------

Total Revenue Bonds and Other Obligations	17,922,441
--	-------------------

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(7) Long-Term Debt (Concluded)

Compensated Absences

General Fund	582,861
Water Fund	19,275
Electric Fund	22,228
Sewer Fund	55,443
Solid Waste Fund	60,791
Total Compensated Absences	740,598

Other Post Employment Benefits (OPEB) (Note 12)

General Fund	1,679,919
Water Fund	137,200
Electric Fund	70,631
Sewer Fund	271,809
Parking Fund	2,357
Solid Waste Fund	125,553
Campground Fund	46,659
Total OPEB	2,334,128

Accrued Interest (TID #1)	4,613,594
----------------------------------	------------------

Total Long-Term Debt **\$ 25,610,761**

The annual requirements to amortize long-term debt outstanding as of December 31, 2014, except for compensated absences, OPEB, and TID #1 accrued interest are as follows:

	Revenue Bonds		TID Obligations *		Note Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2015	\$ 470,290	\$ 856,047	\$ 180,678	\$ 151,832	\$ -	\$ 14,147	\$ 650,968	\$ 1,022,026
2016	458,597	957,813	158,454	-	6,994	14,565	624,045	972,378
2017	426,987	992,624	152,973	-	6,577	14,994	586,537	1,007,618
2018	394,093	1,017,852	152,973	-	6,147	15,437	553,213	1,033,289
2019	359,954	1,058,511	152,973	-	5,705	15,892	518,632	1,074,403
2020-2024	1,228,001	5,292,231	764,865	-	14,329	162,063	2,007,195	5,454,294
2025-2029	288,508	3,391,223	764,865	-	-	-	1,053,373	3,391,223
2030-2034	2,326	190,605	2,320,974	3,776,605	-	-	2,323,300	3,967,210
Total	\$ 3,628,756	\$ 13,756,906	\$ 4,648,755	\$ 3,928,437	\$ 39,752	\$ 237,098	\$ 8,317,263	\$ 17,922,441

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(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, 2014, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$951,036.

(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) 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.

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2014, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 239,293	\$ 346,936
Water Fund	-	97,704
Electric Production Fund	-	6,079
Sewer Fund	3,000,000	115,646
Solid Waste Fund	-	13,735
Campground Fund	-	5,984
Parking Fund	-	145
911 Emergency Fund	346,936	-
TID #1 Elkhorn Ridge Debt Fund	217	-
TID #1 Elkhorn Ridge Capital Projects Fund	-	217
TID #3 McGuigan Ranch Debt Fund	-	223,879
TID #3 McGuigan Ranch Capital Projects Fund	223,879	-
Second Penny Sales Tax Fund	-	3,000,000
Total Transfers	\$ 3,810,325	\$ 3,810,325

Subsidies totaling \$239,293 were transferred from the Water, Electric Production, Sewer, Solid Waste, Campground, and Parking Funds to the General Fund to cover utility operation costs of the City. The General Fund transferred \$343,936 to the 911 Emergency Fund for operations. The Second Penny Sales Tax Fund transferred \$3,000,000 to the Sewer Fund to assist in paying for capital projects. The TID #1 Debt Fund transferred \$217 to the TID #1 Capital Projects Fund to close the TID #1 Fund. The TID #3 McGuigan Ranch Debt Fund transferred \$223,879 to the TID #3 McGuigan Ranch Capital Projects Fund for interfund debt payments.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(10) Interfund Transfers and Advances (Continued)

Interfund advances to and advances from balances at December 31, 2014, were as follows:

	Interfund Advance To	Interfund Advance From
Second Penny Sales Tax Fund	\$ 532,844	\$ -
TID #3 McGuigan Ranch Capital Project Fund	-	532,844
TID #2 Industrial Park Capital Project Fund	-	1,260,194
Water Fund	1,079,230	-
Sewer Fund	180,964	-
Total Interfund Advances	\$ 1,793,038	\$ 1,793,038

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. In 2014, the TID #3 McGuigan Ranch Capital Project Fund repaid the Second Penny Sales Tax Fund all interest due plus a portion of the outstanding principal. 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.

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, 2014, 2013, and 2012 were **\$308,835**, \$292,203, and \$281,897, 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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

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

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 30 years.

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 428,397
Interest on Net OPEB Obligation	48,542
Adjustment to Annual Required Contribution	(59,966)
Annual OPEB Costs	416,973
Contributions Made	(24,475)
Change in Net OPEB Obligation	392,498
Net OPEB Obligation - Beginning of Year	1,941,630
Net OPEB Obligation - End of Year	\$ 2,334,128

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 416,973	6%	\$ 2,334,128
2013	406,866	0%	1,941,630
2012	430,530	3%	1,535,078

Funded Status and Funding Progress:

As of December 31, 2014, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$2.4 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2.4 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.4 million, and the ratio of the UAAL to the covered payroll was 43.61 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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

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

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 10 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.

(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, 2014, 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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(14) Risk Management (Continued)

The agreement with the SDPAA 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, 2014, 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, 2014, no significant claims were filed for unemployment benefits.

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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2014**

(15) City Officers

The following were City officers for the year ended December 31, 2014:

Mayor:

Dana Boke

Council:

Mary Morgan

Travis Geppert

Paul Young

Doug Schmit

Don Aaker

David Baker

Finance Officer:

Dave Dutton

Attorney:

Richard Plumier

Brady Plumier, P.C.

(16) Extraordinary Item – TMOne Building Impairment

In October 2013, the City's TMOne building collapsed due to winter storm Atlas, resulting in a permanent impairment. An extraordinary loss of \$2,863,303 was recorded on the previous years' Statement of Activities at the net book value of the building as of the date of impairment. In 2014, the City received insurance proceeds of \$5,156,942 to reconstruct the TMOne building. This amount is recorded as an extraordinary item on the accompanying Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
311	\$ 1,945,475	\$ 1,945,475	\$ 1,928,567	\$ (16,908)
313	3,375,847	3,375,847	3,586,180	210,333
314	77,000	77,000	94,585	17,585
315	1,000	1,000	1,296	296
319	4,650	4,650	2,358	(2,292)
320	355,500	355,500	431,721	76,221
<i>Intergovernmental Revenue:</i>				
331	-	11,551	440,155	428,604
334	-	4,000	55,945	51,945
<i>State Shared Revenue:</i>				
335.01	5,000	5,000	5,132	132
335.03	56,500	56,500	59,498	2,998
335.04	65,000	65,000	82,108	17,108
335.20	275,000	275,000	-	(275,000)
<i>County Shared Revenue:</i>				
338.02	16,500	16,500	139	(16,361)
339	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341	27,430	27,449	24,079	(3,370)
342	62,100	63,039	53,567	(9,472)
343	1,063	3,224	5,134	1,910
346	732,675	732,675	800,562	67,887
348	8,860	8,860	7,000	(1,860)
<i>Fines and Forfeits:</i>				
351	2,300	2,300	1,313	(987)
359	6,000	6,000	4,980	(1,020)
<i>Miscellaneous Revenue:</i>				
361	Earnings (Loss) on Deposits and Investments	70,500	70,500	145,644
				75,144
362	Rentals	40,875	40,875	63,118
				22,243
363	Special Assessments	100,250	100,250	104,197
				3,947
367	Contributions and Donations - Private Sources	4,500	4,500	6,884
				2,384
369	Other	10,500	12,173	3,588
				(8,585)
Total Revenue	7,474,946	7,495,289	8,138,171	642,882

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	139,950	176,569	165,149	11,420
411.5 Contingency	183,573	183,573	-	183,573
Amount Transferred	-	(174,000)	-	(174,000)
412 Executive	128,207	132,707	129,115	3,592
414 Financial Administration	303,412	303,412	291,794	11,618
419 Other	786,662	787,995	750,347	37,648
<i>Public Safety:</i>				
421 Police	1,776,975	1,776,975	1,737,851	39,124
422 Fire	169,400	169,400	166,475	2,925
423 Protective Inspection	187,516	187,516	178,625	8,891
<i>Public Works:</i>				
431 Highways and Streets	868,523	984,093	946,547	37,546
437 Cemeteries	97,089	97,429	91,780	5,649
<i>Health and Welfare:</i>				
441 Health	63,578	63,578	61,565	2,013
<i>Culture and Recreation:</i>				
451 Recreation	1,576,124	1,576,505	1,417,840	158,665
452 Parks	357,124	420,253	391,783	28,470
455 Library	372,264	372,264	360,447	11,817
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	6,000	97,103	83,307	13,796
465 Economic Development and Assistance	188,722	188,722	173,329	15,393
480 Intergovernmental Expenditures	327,304	397,792	368,505	29,287
Total Expenditures	7,532,423	7,741,886	7,314,459	427,427
Excess (Deficiency) of Revenue over (under)				
Expenditures	(57,477)	(246,597)	823,712	1,070,309
Other Financing Sources (Uses):				
391.01 Transfers In	239,293	239,293	239,293	-
391.03 Sale of Municipal Property	-	-	15,634	15,634
391.04 Compensation for Loss or Damage	-	-	2,240	2,240
511 Transfers Out	(346,936)	(346,936)	(346,936)	-
Total Other Financing Sources (Uses)	(107,643)	(107,643)	(89,769)	17,874
Net Change in Fund Balance	(165,120)	(354,240)	733,943	1,088,183
Fund Balance - December 31, 2013	5,089,250	5,089,250	5,089,250	-
Fund Balance - December 31, 2014	\$ 4,924,130	\$ 4,735,010	\$ 5,823,193	\$ 1,088,183

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

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 3,375,847	\$ 3,375,847	\$ 3,586,180	\$ 210,333
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	57,500	57,500	178,004	120,504
367 Contributions and Donations - Private Sources	5,000	5,000	-	(5,000)
Total Revenue	3,438,347	3,438,347	3,764,184	325,837
Expenditures				
<i>General Government:</i>				
419 Other	105,183	130,547	106,291	24,256
<i>Public Safety:</i>				
421 Police	96,000	96,000	87,615	8,385
<i>Public Works:</i>				
431 Highways and Streets	60,000	238,608	239,058	(450)
<i>Culture and Recreation:</i>				
451 Recreation	91,500	157,059	124,522	32,537
452 Parks	156,500	219,460	133,031	86,429
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	46,500	84,900	84,900	-
470 Debt Service	688,496	688,496	688,496	-
485 Capital Outlay	2,387,000	2,748,944	1,948,692	800,252
Total Expenditures	3,631,179	4,364,014	3,412,605	951,409
Excess (Deficiency) of Revenue over (under) Expenditures	(192,832)	(925,667)	351,579	1,277,246
Other Financing Sources (Uses):				
391.04 Compensation for Loss or Damange	-	732,385	5,177,647	4,445,262
391.20 Long-Term Debt Issued	-	-	258,240	258,240
511 Transfers Out	(3,000,000)	(3,000,000)	(3,000,000)	-
Total Other Financing Sources (Uses)	(3,000,000)	(2,267,615)	2,435,887	4,703,502
Net Change in Fund Balance	(3,192,832)	(3,193,282)	2,787,466	5,980,748
Fund Balance - December 31, 2013	6,486,701	6,486,701	6,486,701	-
Fund Balance - December 31, 2014	\$ 3,293,869	\$ 3,293,419	\$ 9,274,167	\$ 5,980,748

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, 2014**

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 10 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, 2014.
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.

Schedule of Funding Progress (OPEB)

As of December 31, 2014 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)
12/31/2012	-	2,518,300	2,518,300	0.00%	4,917,413	51.21%
12/31/2013	-	2,377,325	2,377,325	0.00%	5,217,997	45.56%
12/31/2014	-	2,377,323	2,377,323	0.00%	5,450,758	43.61%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2014**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets			
101 Cash and Cash Equivalents	\$ 240,261	\$ 37,285	\$ 74,101
104 Investments	106,614	53,494	-
110 Sales Taxes Receivable	8,622	-	-
121 Special Assessments Receivable	-	-	7,946
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
Total Assets	\$ 355,497	\$ 90,779	\$ 82,047

**Liabilities, Deferred Inflows of Resources
and Fund Balances**

Liabilities

202 Accounts Payable	\$ 4,884	\$ -	\$ -
216 Accrued Wages	-	-	-
236 Advance from Other Funds	-	-	-
Total Liabilities	4,884	-	-

Deferred Inflows of Resources

246 Unavailable Revenue - Special Assessments	-	-	-
Total Deferred Inflows of Resources	-	-	-

Fund Balances

263 Nonspendable:

263.04 Notes Receivable	-	-	-
263.51 Perpetual Care Cemetery	-	-	-

264 Restricted:

264.01 Debt Service	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	350,613	-	-
264.05 Library Purposes	-	90,779	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	82,047
264.10 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-

265 Committed:

265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-

267 Unassigned

Total Fund Balances	350,613	90,779	82,047
----------------------------	----------------	---------------	---------------

**Total Liabilities, Deferred Inflows of Resources
and Fund Balances**

	\$ 355,497	\$ 90,779	\$ 82,047
--	-------------------	------------------	------------------

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ 260,582	\$ 192,711	\$ 305,387	\$ 137,719	\$ 12,976
145,746	529,612	651,274	210,338	46,895
-	-	-	-	-
-	12,684	-	-	-
-	-	659,244	-	-
30,295	-	-	-	-
\$ 436,623	\$ 735,007	\$ 1,615,905	\$ 348,057	\$ 59,871

\$ -	\$ -	\$ -	\$ -	\$ -
10,217	-	-	-	-
-	-	-	-	-
10,217	-	-	-	-

-	12,684	-	-	-
-	12,684	-	-	-

-	-	659,244	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	348,057	-
426,406	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	722,323	-	-	-
-	-	956,661	-	-
-	-	-	-	59,871
-	-	-	-	-
426,406	722,323	1,615,905	348,057	59,871

\$ 436,623	\$ 735,007	\$ 1,615,905	\$ 348,057	\$ 59,871
-------------------	-------------------	---------------------	-------------------	------------------

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2014**

	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund
Assets				
101 Cash and Cash Equivalents	\$ 470,895	\$ 13,575	\$ 273,400	\$ 25,989
104 Investments	-	-	-	26,151
110 Sales Taxes Receivable	-	-	-	-
121 Special Assessments Receivable	-	-	-	-
128 Notes Receivable	-	-	-	-
132 Due from Other Governments	-	-	-	-
Total Assets	\$ 470,895	\$ 13,575	\$ 273,400	\$ 52,140

**Liabilities, Deferred Inflows of Resources
and Fund Balances**

Liabilities

202 Accounts Payable	\$ -	\$ -	\$ -	\$ -
216 Accrued Wages	-	-	-	-
236 Advance from Other Funds	-	-	-	-
Total Liabilities	-	-	-	-

Deferred Inflows of Resources

246 Unavailable Revenue - Special Assessments	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-

Fund Balances

263 Nonspendable:

263.04 Notes Receivable	-	-	-	-
263.51 Perpetual Care Cemetery	-	-	-	-

264 Restricted:

264.01 Debt Service	-	13,575	273,400	52,140
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	-	-	-	-
264.10 Municipal Highway and Bridge	470,895	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-	-

265 Committed:

265.99 Spearfish Economic Revolving Fund	-	-	-	-
265.99 Art in Public Places Fund	-	-	-	-

267 Unassigned

Total Fund Balances	470,895	13,575	273,400	52,140
----------------------------	----------------	---------------	----------------	---------------

**Total Liabilities, Deferred Inflows of Resources
and Fund Balances**

\$ 470,895 \$ 13,575 \$ 273,400 \$ 52,140

Cemetery Perpetual Care Fund	TID #3 McGuigan Ranch Capital Projects Fund	Total
\$ 6,940	\$ 60	\$ 2,051,881
445,114	-	2,215,238
-	-	8,622
-	-	20,630
-	-	659,244
-	-	30,295
\$ 452,054	\$ 60	\$ 4,985,910

\$ -	\$ -	\$ 4,884
-	-	10,217
-	532,844	532,844
-	532,844	547,945

-	-	12,684
-	-	12,684

-	-	659,244
50,000	-	50,000
-	-	339,115
402,054	-	402,054
-	-	350,613
-	-	90,779
-	-	348,057
-	-	426,406
-	-	82,047
-	-	470,895
-	-	722,323
-	-	956,661
-	-	59,871
-	(532,784)	(532,784)
452,054	(532,784)	4,425,281

\$ 452,054	\$ 60	\$ 4,985,910
-------------------	--------------	---------------------

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	579,635	-	-
315 Amusement Taxes	-	-	174,974
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	-	-	-
<i>Charges for Goods and Services:</i>			
346 Culture and Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines and Forfeits:</i>			
354 Library	-	14,742	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	6,404	2,670	26
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	-	15,240	17,940
369 Other	-	-	700
Total Revenue	586,039	32,652	193,640
Expenditures:			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	580,181	-	-
452 Parks	-	-	-
455 Library	-	20,886	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	161	-	175,002
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
Total Expenditures	580,342	20,886	175,002
Excess (Deficiency) of Revenue over Expenditures	5,697	11,766	18,638
Other Financing Sources (Uses)			
390 Transfers In	-	-	-
511 Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	5,697	11,766	18,638
Fund Balances (Deficit), December 31, 2013	344,916	79,013	63,409
Fund Balances (Deficit), December 31, 2014	\$ 350,613	\$ 90,779	\$ 82,047

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
122,374	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	12,136
-	-	-	-	-
-	-	-	-	-
7,328	26,638	50,920	10,638	2,406
-	-	4,620	-	-
-	15,799	829	-	-
-	-	-	-	-
-	-	3,600	14,093	-
129,702	42,437	59,969	24,731	14,542
401,005	-	-	-	-
-	-	-	-	20,000
-	-	-	12,521	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
20,815	-	-	-	-
421,820	-	-	12,521	20,000
(292,118)	42,437	59,969	12,210	(5,458)
346,936	-	-	-	-
-	-	-	-	-
346,936	-	-	-	-
54,818	42,437	59,969	12,210	(5,458)
371,588	679,886	1,555,936	335,847	65,329
\$ 426,406	\$ 722,323	\$ 1,615,905	\$ 348,057	\$ 59,871

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund
Revenue:				
<i>Taxes:</i>				
311 General Property Taxes	\$ -	\$ 110,087	\$ 524,705	\$ 96,690
313 General Sales and Use Taxes	-	-	-	-
315 Amusement Taxes	-	-	-	-
316 911 Telephone Surcharge	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	3,366	-
<i>Intergovernmental Revenue:</i>				
334 State Grants	290,704	-	-	-
335.08 Local Government Highway and Bridge Fund	138,979	-	-	-
<i>Charges for Goods and Services</i>				
346 Culture and Recreation	-	-	-	-
348 Cemeteries	-	-	-	-
<i>Fines and Forfeits:</i>				
354 Library	-	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	71	4	80	1,320
362 Rentals	-	-	-	-
363 Special Assessments	-	-	-	-
367 Contributions and Donations - Private Sources	6,475	-	-	-
369 Other	20,258	-	-	5,000
Total Revenue	456,487	110,091	528,151	103,010
Expenditures:				
<i>Public Safety:</i>				
421 Police	-	-	-	-
<i>Culture and Recreation:</i>				
451 Recreation	-	-	-	-
452 Parks	-	-	-	-
455 Library	-	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	-	-
470 Debt Service	-	108,112	505,434	-
485 Capital Outlay	3,185	-	-	-
Total Expenditures	3,185	108,112	505,434	-
Excess (Deficiency) of Revenue over Expenditures	453,302	1,979	22,717	103,010
Other Financing Sources (Uses)				
390.01 Transfers In	-	217	-	-
511 Transfers Out	-	-	-	(223,879)
Total Other Financing Sources (Uses)	-	217	-	(223,879)
Net Change in Fund Balances	453,302	2,196	22,717	(120,869)
Fund Balances (Deficit), December 31, 2013	17,593	11,379	250,683	173,009
Fund Balances (Deficit), December 31, 2014	\$ 470,895	\$ 13,575	\$ 273,400	\$ 52,140

Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects Fund	TID #3 McGuigan Ranch Capital Projects Fund	Total
\$ -	\$ -	\$ -	\$ 731,482
-	-	-	579,635
-	-	-	174,974
-	-	-	122,374
-	-	-	3,366
-	-	-	290,704
-	-	-	138,979
-	-	-	12,136
13,690	-	-	13,690
-	-	-	14,742
-	-	-	108,505
-	-	-	4,620
-	-	-	16,628
-	-	-	39,655
-	-	-	43,651
13,690	-	-	2,295,141
-	-	-	401,005
-	-	-	600,181
-	-	-	12,521
-	-	-	20,886
-	-	-	175,163
-	-	24,294	637,840
-	-	-	24,000
-	-	24,294	1,871,596
13,690	-	(24,294)	423,545
-	-	-	-
-	-	223,879	571,032
-	(217)	-	(224,096)
-	(217)	223,879	346,936
13,690	(217)	199,585	770,481
438,364	217	(732,369)	3,654,800
\$ 452,054	\$ -	\$ (532,784)	\$ 4,425,281

SINGLE AUDIT SECTION

CITY OF SPEARFISH

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2014**

Status of Prior Audit Findings:

The City does not consider the additional costs of preparing its financial statements and SEFA to be necessary, so finding #2013-001 will be repeated as Finding #2014-001 for the year ending December 31, 2014.

Significant audit adjustments were made during the 2014 audit, so finding #2013-02 will be revised and repeated as finding #2014-002 for the year ending December 31, 2014.

The City was in compliance with all debt covenants during 2014, so finding #2013-003 will not be repeated for the year ending December 31, 2014.

Internal control deficiencies within the rubble site were corrected and therefore finding #2013-004 is not repeated for the year ending December 31, 2014.

Internal control processes to monitor the status of suspended and debarred vendors were implemented so finding #2014-005 is not repeated for the year ending December 31, 2014.

CITY OF SPEARFISH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Spearfish (the City).
2. Material weaknesses were disclosed during the audit of the financial statements and are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. A material weakness was disclosed during the audit of the major federal award program as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City expresses an unmodified opinion.
6. Audit findings related to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as major was as follows:
 - a. Capitalization Grants for Drinking Water State Revolving Funds (CFDA #66.468)
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City was not considered a low-risk auditee under the criteria established in OMB Circular A-133.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2014-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition and Cause: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and SEFA as part of our regular audit services. 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. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do with municipalities of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements and SEFA that could have been prevented or detected by the City's management.

Questioned Costs: None

Recommendation: As in prior years, we have instructed management to review a draft of the auditor-prepared financials and SEFA 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 the completed financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

CITY OF SPEARFISH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2014**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2014-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)

Response and Corrective Action Plan: The City accepts the degree of risk with the drafting of the Financial Statement and SEFA preparation by the audit firm. All information presented has been reviewed and approved by the Finance Officer and Assistant Finance Officer prior to dissemination.

2014-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. Adjustments posted in the accompanying financial statements pertained to FEMA grant receivables, deferred inflows and revenue, interfund loans, utility receivables and revenue, internal service unearned revenue, a reduction in retainage relating to McGuigan water line, Gollhofer water tank project debt balance, motor grader bond proceeds and capital outlay expenditures as well as several reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

Recommendation: We recommend that management consider reconciling and adjusting balance sheet accounts at the end of the year. Specifically, grant receivables and deferred inflows should be adjusted for expenditures pertaining to reimbursement monies the City has earned, but not received during the 60-day availability period, based on project worksheets completed as part of the grant. Additionally, interfund debt balances should be adjusted to actual on the TID #3 interfund debt; utility receivables and corresponding revenue should be reviewed at the end of each year; capital outlay and the related debt proceeds should be recorded when capital assets are purchased; and debt balances should be adjusted to reflect the unpaid balance at the end of the year.

Response and Corrective Action Plan: The Finance Officer and the Assistant Finance Officer will diligently review all transactions to verify revenue receivables and deferred inflows are recorded appropriately in all grant programs. The Finance Officer and the Assistant Finance Officer will review all activity to accurately report debt and corresponding payments. The Assistant Finance Officer will work with the utility software provider to obtain accurate utility revenue and receivable reports in a timely manner.

C. FINDINGS – COMPLIANCE AUDIT

Findings #2014-001 and #2014-002 listed in Part B relate to major federal award program #66.468. These findings relate to the reporting and allowable cost compliance requirements, respectively.

CITY OF SPEARFISH

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	CFDA Number	Amount
<i>U.S. Department of Interior:</i>		
Pass-Through the S.D. Department of Education and Cultural Affairs:		
Historic Preservation Fund Grants-in-Aid	15.904	\$ 6,762
<i>U.S. Environmental Protection Agency:</i>		
Pass-Through the S.D. Department of Environment and Natural Resources:		
Capitalization Grants for Drinking Water State Revolving Funds	66.468	2,311,248
<i>U.S. Department of Homeland Security:</i>		
Pass-Through S.D. Department of Public Safety:		
Disaster Grants - Public Assistance - Presidentially Declared Disasters	97.036	208,033
Total		\$ 2,526,043

Note 1: This schedule is presented on the modified accrual basis of accounting.

OTHER REPORTS



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

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

City Council
City of Spearfish
Spearfish, South Dakota

We have audited, 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 **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 17, 2015.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2014-001 and #2014-002 to be material weaknesses.

Compliance and Other Matters

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

City Council

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 17, 2015



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE AS REQUIRED BY OMB CIRCULAR A-133

City Council
City of Spearfish
Spearfish, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **CITY OF SPEARFISH** (the City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the City's major federal program for the year ended December 31, 2014. The City's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Unmodified Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

City Council

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2014-001 and #2014-002 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 17, 2015