

CITY OF SPEARFISH  
SPEARFISH, SOUTH DAKOTA

---

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2007

**CITY OF SPEARFISH**

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INDEPENDENT AUDITOR'S REPORT

City Council  
City of Spearfish  
Spearfish, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2007, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 10, 2008, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12, and the required supplementary budgetary information on pages 42 through 46, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KETEL THORSTENSON, LLP  
Certified Public Accountants

November 10, 2008

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2007**

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, 2007. Please read it in conjunction with the City's financial statements, which follow this section.

#### **FINANCIAL HIGHLIGHTS**

The City's net assets from governmental and business-type activities increased by \$5,723,256, primarily due to an increase in cash assets and recognition of capital assets.

During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$11,326,517, before transfers, and the governmental program expenditures were \$6,966,499.

The City's proprietary funds revenue exceeded expenses by \$1,189,874 after transfers.

The general fund reported a \$677,124 current year increase primarily due to increased property tax collections, increased sales and use tax collections, increased gaming tax, and increased interest earned, as well as expenditures in the Parks and Recreation and Public Safety areas being somewhat less than expected.

#### **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, 2007**

**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

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

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007**

#### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

##### Government-wide Statements

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

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

Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the City, you need to consider additional non-financial factors, such as changes in the City's property tax base and changes in the sales tax revenue base.

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

**Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.

**Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems, as well as the solid waste program, the hydro electric 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 three 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, 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)**

Fund Financial Statements (Continued)

Fiduciary Funds – The City is the trustee, or fiduciary, for various external and internal parties. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

Net Assets

The City's combined net assets increased by 12.16 percent between 2006 and 2007 – increasing by \$5,723,256.

Table A-1

	Statement of Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2006	2007	2006	2007	2006	2007
Current & Other Assets	\$12,317,318	<b>\$ 19,164,827</b>	\$ 5,160,747	<b>\$ 5,769,342</b>	\$17,478,065	<b>\$ 24,934,169</b>
Capital Assets	20,909,112	<b>27,656,514</b>	11,879,501	<b>12,225,262</b>	32,788,613	<b>39,881,776</b>
<b>Total Assets</b>	<b>\$33,226,430</b>	<b>\$ 46,821,341</b>	<b>\$17,040,248</b>	<b>\$ 17,994,604</b>	<b>\$50,266,678</b>	<b>\$ 64,815,945</b>
Long-Term Debt	\$ 2,063,250	<b>\$ 10,910,350</b>	\$ 716,116	<b>\$ 426,370</b>	\$ 2,779,366	<b>\$ 11,336,720</b>
Other Liabilities	273,332	<b>388,973</b>	141,472	<b>195,700</b>	414,804	<b>584,673</b>
<b>Total Liabilities</b>	<b>\$ 2,336,582</b>	<b>\$ 11,299,323</b>	<b>\$ 857,588</b>	<b>\$ 622,070</b>	<b>\$ 3,194,170</b>	<b>\$ 11,921,393</b>
Net Assets:						
Invested in Capital Assets,						
Net of Related Debt	\$19,179,182	<b>\$ 17,115,177</b>	\$11,493,332	<b>\$ 11,900,198</b>	\$30,672,514	<b>\$ 29,015,375</b>
Restricted	3,822,933	<b>11,308,300</b>	-	-	3,822,933	<b>11,308,300</b>
Unrestricted	7,887,733	<b>7,098,541</b>	4,689,328	<b>5,472,336</b>	12,577,061	<b>12,570,877</b>
<b>Total Net Assets</b>	<b>\$30,889,848</b>	<b>\$ 35,522,018</b>	<b>\$16,182,660</b>	<b>\$ 17,372,534</b>	<b>\$47,072,508</b>	<b>\$ 52,894,552</b>
Beginning Net Assets	\$26,792,805	<b>\$ 30,889,848</b>	\$14,974,081	<b>\$ 16,182,660</b>	\$41,766,886	<b>\$ 47,072,508</b>
Prior Period Adjustment	-	<b>98,788</b>	-	-	-	<b>98,788</b>
Increase in Net Assets	4,097,043	<b>4,533,382</b>	1,208,579	<b>1,189,874</b>	5,305,622	<b>5,723,256</b>
Percentage of Increase						
Net Assets	15.29%	<b>14.68%</b>	8.07%	<b>7.35%</b>	12.70%	<b>12.16%</b>

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

**CITY OF SPEARFISH**

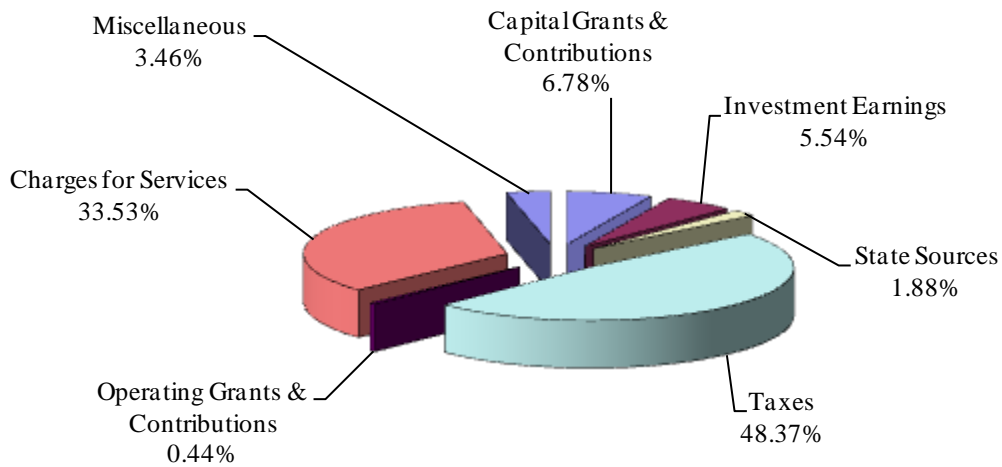
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007**

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

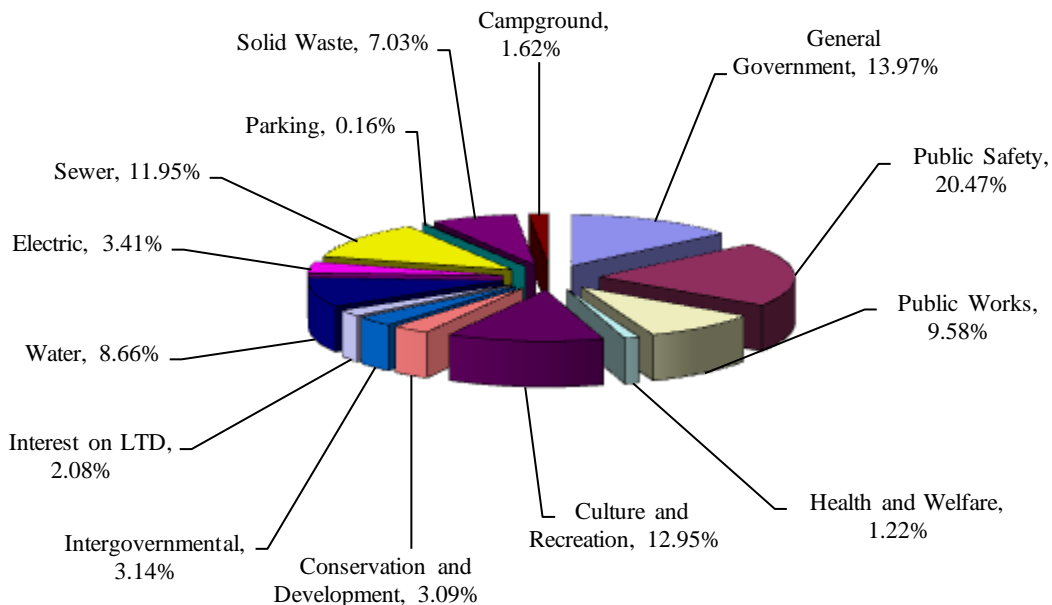
Changes in Net Assets

The City's total revenues (excluding transfers and gain (loss) on capital assets) totaled \$16,198,443. See Figure A-2 below. The total cost of all programs and services increased also. The City's expenses cover a range of services, with 45 percent related to public works, public safety, and general government. (See Figure A-3)

**Figure A-2: Revenue Sources for 2007**



**Figure A-3: Expenditures for 2007**



**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007**

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

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2006	2007	2006	2007	2006	2007
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 1,122,066	\$ 1,077,420	\$ 3,897,323	\$ 4,354,614	\$ 5,019,389	\$ 5,432,034
Operating Grants and Contributions	-	71,518	-	-	-	71,518
Capital Grants and Contributions	1,271,689	934,537	585,879	163,076	1,857,568	1,097,613
<i>General Revenues</i>						
Taxes	7,512,468	7,834,753	-	-	7,512,468	7,834,753
Revenue State Sources	284,801	304,450	-	-	284,801	304,450
Unrestricted Investment Earnings	451,396	623,403	186,789	274,706	638,185	898,109
Other	492,504	480,436	-	79,530	492,504	559,966
<b>Total Revenues</b>	\$ 11,134,924	\$ 11,326,517	\$ 4,669,991	\$ 4,871,926	\$ 15,804,915	\$ 16,198,443
<b>Expenses</b>						
General Government	\$ 1,409,644	\$ 1,463,827	\$ -	\$ -	\$ 1,409,644	\$ 1,463,827
Public Safety	2,168,079	2,144,499	-	-	2,168,079	2,144,499
Public Works	1,032,508	1,003,307	-	-	1,032,508	1,003,307
Health and Welfare	170,836	127,598	-	-	170,836	127,598
Culture and Recreation	1,730,469	1,356,917	-	-	1,730,469	1,356,917
Conservation and Development	333,200	323,348	-	-	333,200	323,348
Interest on Long-Term Debt	7,585	218,009	-	-	7,585	218,009
Intergovernmental	308,760	328,994	-	-	308,760	328,994
Water Services	-	-	886,675	976,779	886,675	976,779
Electric Services	-	-	294,361	356,768	294,361	356,768
Sewer Services	-	-	1,225,816	1,251,523	1,225,816	1,251,523
Parking	-	-	18,982	17,158	18,982	17,158
Solid Waste	-	-	717,585	736,693	717,585	736,693
Campground	-	-	194,793	169,767	194,793	169,767
<b>Total Expenses</b>	\$ 7,161,081	\$ 6,966,499	\$ 3,338,212	\$ 3,508,688	\$ 10,499,293	\$ 10,475,187
<b>Excess Revenues</b>						
<b>Before Transfers</b>	\$ 3,973,843	\$ 4,360,018	\$ 1,331,779	\$ 1,363,238	\$ 5,305,622	\$ 5,723,256
Transfers	123,200	173,364	(123,200)	(173,364)	-	-
<b>Increase in Net Assets</b>	\$ 4,097,043	\$ 4,533,382	\$ 1,208,579	\$ 1,189,874	\$ 5,305,622	\$ 5,723,256
<b>Net Assets - Ending</b>	\$ 30,889,848	\$ 35,522,018	\$ 16,182,660	\$ 17,372,534	\$ 47,072,508	\$ 52,894,552

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2007**

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

##### **Governmental Activities**

Revenues of the City's governmental activities exceeded expenses by \$4,533,382. Factors contributing to these results included:

- The City received a significant increase in sales and use taxes, as well as a significant increase in investment earnings and gaming tax reversion.
- The City received significant contributions of land and improvements for streets, curb and gutter in new subdivisions.

##### **Business-Type Activities**

Revenues of the City's business-type activities exceeded expenses by \$1,189,874. Factors contributing to these results included:

- Significant contributions of capital in the form of water and sewer lines were recognized.
- The City received an increase of revenues in charges for goods, as rates were increased, and incurred a very dry summer. Investment earnings also increased.

The business-type - enterprise funds did transfer \$173,364 to the governmental activities – general fund to subsidize operations.

#### **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. Most 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 and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

There were no significant budgetary changes and no significant budget variances in the general fund during the year.

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2007, the City had invested \$39,881,776 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 \$7,093,163.

Table A-3

<b>Capital Assets (Net of Depreciation)</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Land	\$ 4,490,789	\$ <b>6,428,521</b>	\$ 483,843	\$ <b>483,843</b>
Buildings	6,369,712	<b>6,294,442</b>	2,589,114	<b>2,408,538</b>
Improvements	7,710,121	<b>9,313,563</b>	7,487,871	<b>7,774,572</b>
Machinery & Equipment	1,837,267	<b>1,664,183</b>	1,165,789	<b>1,093,807</b>
Construction Work in Progress	501,223	<b>3,955,805</b>	152,884	<b>464,502</b>
<b>Totals</b>	\$ 20,909,112	\$ <b>27,656,514</b>	\$ 11,879,501	\$ <b>12,225,262</b>

This year's major capital asset additions included:

- Construction of additional recreation paths, totaling \$753,355
- Completion of the Colorado Boulevard Improvement Project, totaling \$361,348
- Construction of the Harvard and King St. Improvements, totaling \$379,814

Business-type major additions include water and sewer line construction at a cost of \$355,630 and the purchase of a new tractor type bulldozer at a cost of \$140,680.

Construction in Progress includes the new City Recreation and Aquatics Center, with \$2,401,000 spent in 2007, and an estimated \$5,500,000 projected to complete the project in 2008. Additionally, the tax increment funded Elkhorn Ridge Municipal Golf Course has incurred \$1,488,233 in 2007 expenditures, and expects to spend an additional \$3,000,000 in 2008 to bring the project to substantial completion.

Business-type Construction in Progress includes an upgrade and expansion of the Wastewater Treatment Plant in the amount of \$364,704, with an additional \$5,000,000 projected to complete the project in 2008. This will be funded with SRF loan and Consolidated Water Facilities Construction Program grant proceeds.

In addition to the above, the City anticipates construction in 2008 of \$1,000,000 in overlays and drainage projects, a new well and reservoir totaling \$1,000,000, a sidewalk project totaling \$200,000, lighting at the Pope and Talbot fields in the amount of \$125,000, recreation path extension totaling \$600,000, and various smaller projects throughout the City. We will use resources on hand to accomplish these goals.

**LONG-TERM DEBT**

At year-end, the City had \$11,336,721 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is a significant increase from 2006 as shown on Table A-4 below.

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2007**

**LONG-TERM DEBT (CONTINUED)**

Table A-4

<b>Outstanding Debt and Obligations</b>				
	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2006	2007	2006	2007
Compensated Absences	\$ 333,320	\$ 369,013	\$ 80,947	\$ 101,306
Sales Tax Revenue Bonds	1,496,597	8,986,447	-	-
TIF #1	-	1,488,223	-	-
SRF Loan - Sewer	-	-	386,169	225,064
Contracts Payable	233,333	66,667	249,000	100,000
<b>Total</b>	<b>\$ 2,063,250</b>	<b>\$ 10,910,350</b>	<b>\$ 716,116</b>	<b>\$ 426,370</b>

The City is liable for the accrued vacation and sick leave payable (compensated absences) to all full-time employees who have been employed for more than one year. The increase is due to an increase in the amount of leave accumulated and outstanding at the end of the year.

The City has outstanding \$8,940,000 in sales tax revenue bonds used to finance the Recreation and Aquatics Center.

The City has outstanding debt for TIF #1 in the amount of \$1,488,223 for construction of the Elkhorn Ridge Municipal Golf Course.

The City has outstanding \$225,064 in Water Pollution Control Revolving Loan (SRF) funds. The bonds are secured and paid for by the Sewer Fund. The City does not anticipate the use of any tax dollars to pay for these bonds. These bonds were used to build an addition to the City's Wastewater Treatment Plant and will be fully paid in May of 2009.

The City also has outstanding Humane Society Bonds in the amount of \$46,447, used to purchase a building to house the Humane Society. These bonds mature in December of 2011, and the City does not anticipate use of any tax dollars to pay these bonds.

The City purchased an existing Hydro Electric Plant and has a \$100,000 outstanding contract payable to Homestake Mining Company. This amount is due and payable before May of 2008.

The City purchased land and has an outstanding \$66,667 contract payable to Jerrold and Norma Hanson. This amount is due and payable in January 2008.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's current economic position has shown continued improvement. The City did experience an increase in total property valuation of \$70,341,034 up 15 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 \$146,686. 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.

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
DECEMBER 31, 2007**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES (CONTINUED)**

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in taxable sales of 1 percent over the prior year and has budgeted for a small increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will rise to \$6,143,336. The largest portion of this increase is due to the addition of a Recreation and Aquatics center department and also to increases in wages and cost-of-living adjustments.

The City's business-type activities (water and sewer operations) expect that the results for 2008 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits and cost of operations.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Spearfish Finance Office, 625 Fifth Street, Spearfish, SD 57783.

**CITY OF SPEARFISH**

**STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Assets:</b>			
Cash	\$ 10,710,487	\$ 1,724,379	\$ 12,434,866
Investments (Note 2)	5,779,044	3,689,526	9,468,570
Accounts Receivable, Net	1,903,721	355,437	2,259,158
Restricted Assets:			
Restricted Investments	672,787	-	672,787
Other Assets	98,788	-	98,788
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	10,384,326	948,345	11,332,671
Other Capital Assets, Net of Depreciation	17,272,188	11,276,917	28,549,105
<b>TOTAL ASSETS</b>	<b>\$ 46,821,341</b>	<b>\$ 17,994,604</b>	<b>\$ 64,815,945</b>
<b>Liabilities:</b>			
Accounts Payable	\$ 98,258	\$ 55,316	\$ 153,574
Deferred Revenue (Note 3)	100,000	-	100,000
Other Current Liabilities	190,715	140,384	331,099
Long-Term Liabilities (Note 7):			
Due Within One Year	906,384	368,975	1,275,359
Due in More Than One Year	10,003,966	57,395	10,061,361
<b>TOTAL LIABILITIES</b>	<b>11,299,323</b>	<b>622,070</b>	<b>11,921,393</b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	17,115,177	11,900,198	29,015,375
Restricted for:			
Water Park	6,997,249	-	6,997,249
Special Assessment Projects	1,191,433	-	1,191,433
Debt Service	673,361	-	673,361
City Promotion	600,474	-	600,474
Street Maintenance	556,439	-	556,439
Parks	264,598	-	264,598
911 Services	239,598	-	239,598
Business Improvement District Projects	106,098	-	106,098
Tax Increment Financing District	91,892	-	91,892
Recreation Paths	68,244	-	68,244
Library	45,545	-	45,545
SDPAA	98,788	-	98,788
Permanently Restricted Purposes			
Expendable	324,581	-	324,581
Nonexpendable	50,000	-	50,000
Unrestricted	7,098,541	5,472,336	12,570,877
<b>TOTAL NET ASSETS</b>	<b>35,522,018</b>	<b>17,372,534</b>	<b>52,894,552</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 46,821,341</b>	<b>\$ 17,994,604</b>	<b>\$ 64,815,945</b>

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	--- Program Revenues ---				Net (Expense) Revenue and ----- Changes in Net Assets -----		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 1,463,827	\$ 283,665	\$ -	\$ 934,537	\$ (245,625)	\$ -	\$ (245,625)
Public Safety	2,144,499	143,836	10,030	-	(1,990,633)	-	(1,990,633)
Public Works	1,003,307	627,960	61,488	-	(313,859)	-	(313,859)
Health and Welfare	127,598	-	-	-	(127,598)	-	(127,598)
Culture and Recreation	1,356,917	21,959	-	-	(1,334,958)	-	(1,334,958)
Conservation and Development	323,348	-	-	-	(323,348)	-	(323,348)
Intergovernmental	328,994	-	-	-	(328,994)	-	(328,994)
Interest on Long-Term Debt	218,009	-	-	-	(218,009)	-	(218,009)
<b>Total Governmental Activities</b>	<b>6,966,499</b>	<b>1,077,420</b>	<b>71,518</b>	<b>934,537</b>	<b>(4,883,024)</b>	<b>-</b>	<b>(4,883,024)</b>
Business-Type Activities:							
Water	976,779	1,439,363	-	81,763	-	544,347	544,347
Electric	356,768	300,354	-	-	-	(56,414)	(56,414)
Sewer	1,251,523	1,535,458	-	81,313	-	365,248	365,248
Parking	17,158	13,774	-	-	-	(3,384)	(3,384)
Solid Waste	736,693	786,700	-	-	-	50,007	50,007
Campground	169,767	278,965	-	-	-	109,198	109,198
<b>Total Business-Type Activities</b>	<b>3,508,688</b>	<b>4,354,614</b>	<b>-</b>	<b>163,076</b>	<b>-</b>	<b>1,009,002</b>	<b>1,009,002</b>
<b>Total Primary Government</b>	<b>\$ 10,475,187</b>	<b>\$ 5,432,034</b>	<b>\$ 71,518</b>	<b>\$ 1,097,613</b>	<b>(4,883,024)</b>	<b>1,009,002</b>	<b>(3,874,022)</b>
General Revenues:							
Taxes:							
Property Taxes					1,542,450	-	1,542,450
Sales Taxes					6,135,556	-	6,135,556
Other Taxes					110,435	-	110,435
Gross Receipts Tax					46,312	-	46,312
State Shared Revenue					304,450	-	304,450
Grants and Contributions Not Restricted					384,839	-	384,839
Unrestricted Investment Earnings					623,403	274,706	898,109
Miscellaneous Revenue					95,597	79,530	175,127
Transfers					173,364	(173,364)	-
<b>Total General Revenue and Transfers</b>					<b>9,416,406</b>	<b>180,872</b>	<b>9,597,278</b>
<b>Change in Net Assets</b>					<b>4,533,382</b>	<b>1,189,874</b>	<b>5,723,256</b>
Net Assets, Beginning					30,889,848	16,182,660	47,072,508
Prior Period Adjustment (Note 16)					98,788	-	98,788
Net Assets, Beginning, as Restated					30,988,636	16,182,660	47,171,296
<b>Net Assets, Ending</b>					<b>\$ 35,522,018</b>	<b>\$ 17,372,534</b>	<b>\$ 52,894,552</b>

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

**CITY OF SPEARFISH**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>Special Assessment Revolving Fund</b>	<b>Water Park Fund</b>
<b>Assets</b>				
101 Cash and Cash Equivalents	\$ 933,851	\$ 1,146,404	\$ 230,590	\$ 6,938,706
104 Investments	3,136,083	456,608	451,649	64,882
107 Restricted Investments	-	672,787	-	-
108 Property Taxes Receivable	29,992	-	-	-
110 Sales Taxes Receivable	349,107	349,107	-	-
121 Special Assessments Receivable	-	-	65,059	-
128 Notes Receivable (Note 4)	-	-	-	-
128 Contract Receivable	-	100,000	-	-
132 Due from Other Governments	270,806	-	-	-
154 Deposits	98,788	-	-	-
<b>Total Assets</b>	<b>\$ 4,818,627</b>	<b>\$ 2,724,906</b>	<b>\$ 747,298</b>	<b>\$ 7,003,588</b>
<b>Liabilities and Fund Balances</b>				
<i>Liabilities</i>				
202 Accounts Payable	\$ 24,269	\$ -	\$ -	\$ 6,339
216 Accrued Wages Payable	126,231	-	-	-
220 Customer Deposits	-	-	-	-
224 Deferred Revenue	29,992	100,000	65,059	-
<b>Total Liabilities</b>	<b>180,492</b>	<b>100,000</b>	<b>65,059</b>	<b>6,339</b>
<i>Fund Balances</i>				
261 <i>Reserved Fund Balances</i>				
261.04 Reserved for Debt Service	-	672,787	-	-
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-
261.00 SDPAA Reserve	98,788	-	-	-
262 <i>Unreserved Fund Balances</i>				
262.01 Designated for Next Year's Appropriations	560,763	93,000	163,000	6,997,249
262.09 Undesignated	3,978,584	1,859,119	519,239	-
262.09 Undesignated, Reported in Nonmajor:				
Special Revenue Funds	-	-	-	-
Debt Service Funds	-	-	-	-
Capital Projects Funds	-	-	-	-
Permanent Funds	-	-	-	-
<b>Total Fund Balances</b>	<b>4,638,135</b>	<b>2,624,906</b>	<b>682,239</b>	<b>6,997,249</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,818,627</b>	<b>\$ 2,724,906</b>	<b>\$ 747,298</b>	<b>\$ 7,003,588</b>

	<b>Recreation Paths Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	15,780	\$ 1,321,293	\$ 10,586,624
	64,675	1,533,019	5,706,916
	-	-	672,787
	-	-	29,992
	-	44,378	742,592
	-	9,400	74,459
	-	604,110	604,110
	-	-	100,000
	55,439	26,323	352,568
	-	-	98,788
<b>\$</b>	<b>135,894</b>	<b>\$ 3,538,523</b>	<b>\$ 18,968,836</b>

\$	67,650	\$ -	\$ 98,258
	-	-	126,231
	-	3,580	3,580
	-	1,546	196,597
	67,650	5,126	424,666

	-	-	672,787
	-	604,110	604,110
	-	-	98,788
	50,000	768,250	8,632,262
	18,244	-	6,375,186
	-	1,784,564	1,784,564
	-	574	574
	-	1,318	1,318
	-	374,581	374,581
	68,244	3,533,397	18,544,170
<b>\$</b>	<b>135,894</b>	<b>\$ 3,538,523</b>	<b>\$ 18,968,836</b>

**CITY OF SPEARFISH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
DECEMBER 31, 2007**

Total Fund Balances - Governmental Funds \$ 18,544,170

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

Capital assets used in governmental activities are not financial  
resources and therefore are not reported in the funds. 27,656,514

Long-term liabilities, including bonds payable are not due and  
payable in the current period and therefore not reported in the  
funds. (10,910,350)

Assets such as delinquent taxes receivable and special assessments  
receivable are not available to pay for current period expenditures  
and therefore are deferred in the funds. 96,597

Accrued interest expense is not due and payable in the current  
period and therefore is not reported in the funds. (60,904)

Internal service funds are used by management to charge the  
costs of activities, such as insurance, to individual funds.  
The assets and liabilities of internal service funds are included  
in the governmental activities in the Statement of Net Assets. 195,991

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**Total Net Assets - Governmental Funds \$ 35,522,018**

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

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>Special Assessment Revolving Fund</b>	<b>Water Park Fund</b>
<b>Revenue</b>				
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,432,769	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	2,852,815	2,852,835	-	-
314 Gross Receipts Tax	46,312	-	-	-
315 Amusement Taxes	1,092	-	-	-
319 Penalties and Interest on Delinquent Taxes	2,584	-	-	-
316 911 Telephone Surcharge	-	-	-	-
320 Licenses and Permits	259,108	-	-	-
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	-	-
334 State Grants	6,049	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	257,620	-	-	-
335.03 Liquor Tax Reversion	46,830	-	-	-
335.04 Motor Vehicle Licenses (5%)	42,575	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-	-
<i>County Shared Revenue:</i>				
339 County Payments in Lieu of Taxes	208,999	-	-	-
338.02 County HBR Tax	36,813	-	-	-
<i>Charges for Goods and Services:</i>				
341 General Government	9,108	-	-	-
342 Public Safety	135,924	-	-	-
343 Highways and Streets	50	-	-	-
346 Culture and Recreation	15,601	-	-	-
348 Cemeteries	7,006	-	-	-
349 Other	30	-	-	-
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,137	-	-	-
354 Library	-	-	-	-
359 Other	5,725	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	222,683	103,808	35,771	91,594
362 Rentals	27,731	-	-	-
363 Special Assessments	-	-	51,581	-
367 Contributions and Donations - Private Sources	300	34,500	-	252,179
369 Other	7,453	-	-	-
<b>Total Revenue</b>	<b>5,627,314</b>	<b>2,991,143</b>	<b>87,352</b>	<b>343,773</b>

<b>Recreation Paths Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 99,398	\$ 1,532,167
-	429,906	6,135,556
-	-	46,312
-	-	1,092
-	-	2,584
-	110,435	110,435
-	-	259,108
-	10,030	10,030
55,439	-	61,488
-	-	257,620
-	-	46,830
-	-	42,575
-	79,072	79,072
-	-	208,999
-	-	36,813
-	-	9,108
-	-	135,924
-	-	50
-	6,358	21,959
-	12,685	19,691
-	-	30
-	-	2,137
-	15,449	15,449
-	-	5,725
7,141	152,304	613,301
-	23,600	51,331
-	267,957	319,538
-	97,860	384,839
-	-	7,453
<u>62,580</u>	<u>1,305,054</u>	<u>10,417,216</u>

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>Special Assessment Revolving Fund</b>	<b>Water Park Fund</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	91,529	-	-	-
413 Elections	436	-	-	-
414 Financial Administration	349,993	-	-	-
419 Other	687,240	2,995	-	-
<i>Public Safety:</i>				
421 Police	1,473,006	-	-	-
422 Fire	123,825	85,000	-	-
423 Protective Inspection	126,746	-	-	-
429 Other	-	-	-	-
<i>Public Works:</i>				
431 Highways and Streets	602,559	9,750	4,191	-
437 Cemeteries	88,905	-	-	-
<i>Health and Welfare:</i>				
441 Health	60,800	11,679	-	-
444 Humane Society	55,244	-	-	-
<i>Culture and Recreation:</i>				
451 Recreation	231,667	750	-	3,550
452 Parks	306,257	100,730	-	-
455 Library	262,170	-	-	-
456 Auditorium	-	-	-	-
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	126,092	-	-	-
465 Economic Development and Assistance	32,000	12,500	-	-
470 Debt Service	-	1,503,803	-	896,980
480 Intergovernmental Expenditures	296,790	-	-	-
485 Capital Outlay	259,266	200,905	-	3,857,890
<b>Total Expenditures</b>	<b>5,174,525</b>	<b>1,928,112</b>	<b>4,191</b>	<b>4,758,420</b>
<b>Excess (Deficiency) of Revenue Over Expenditures</b>	<b>452,789</b>	<b>1,063,031</b>	<b>83,161</b>	<b>(4,414,647)</b>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers In	223,364	-	-	2,260,000
391.03 Sale of Municipal Property	971	-	-	-
391.20 Sale of Bonds	-	794,941	-	8,874,059
511 Transfers Out	-	(2,810,000)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>224,335</b>	<b>(2,015,059)</b>	<b>-</b>	<b>11,134,059</b>
<b>Net Change in Fund Balances</b>	<b>677,124</b>	<b>(952,028)</b>	<b>83,161</b>	<b>6,719,412</b>
Fund Balances - December 31, 2006	3,820,470	3,576,934	599,078	277,837
Prior Period Adjustment (Note 16)	140,541	-	-	-
Fund Balances - December 31, 2006, as Restated	3,961,011	3,576,934	599,078	277,837
<b>Fund Balances - December 31, 2007</b>	<b>\$ 4,638,135</b>	<b>\$ 2,624,906</b>	<b>\$ 682,239</b>	<b>\$ 6,997,249</b>

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

<b>Recreation Paths Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
-	-	91,529
-	-	436
-	-	349,993
-	173,999	864,234
-	43,574	1,516,580
-	-	208,825
-	-	126,746
-	-	-
-	15,473	631,973
-	-	88,905
-	-	72,479
-	-	55,244
68,106	27,574	331,647
-	2,937	409,924
-	34,637	296,807
-	120,000	120,000
-	-	126,092
-	153,173	197,673
-	102,138	2,502,921
-	-	296,790
313,989	2,124,718	6,756,768
382,095	2,798,223	15,045,566
(319,515)	(1,493,169)	(4,628,350)
150,000	350,000	2,983,364
-	-	971
-	1,488,223	11,157,223
-	-	(2,810,000)
150,000	1,838,223	11,331,558
(169,515)	345,054	6,703,208
237,759	3,230,096	11,742,174
-	(41,753)	98,788
237,759	3,188,343	11,840,962
<b>\$ 68,244</b>	<b>\$ 3,533,397</b>	<b>\$ 18,544,170</b>

**CITY OF SPEARFISH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2007**

Net Change in Fund Balances - Total Government Funds \$ 6,703,208

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

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

Capital Asset Purchases Capitalized	6,756,768
Depreciation Expense	(943,903)
	5,812,865
Capital assets contributed to the City, which are included in the Statement of Activities.	934,537
The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	6,607
Governmental funds report special assessments as revenue when available, but the Statement of Activities includes special assessments receivable as revenue upon completion of the project at the point when an enforceable legal claim arises.	(41,945)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	2,345,816
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Assets.	(11,157,223)
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(35,693)
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. (i.e., accrued interest expense)	(60,904)
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.	26,114
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 4,533,382</b>

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

## CITY OF SPEARFISH

BALANCE SHEET  
PROPRIETARY FUNDS  
DECEMBER 31, 2007

	Water Fund	Electric Production Fund	Sewer Fund	Parking Fund
<b>Assets</b>				
<b>Current Assets</b>				
101 Cash and Cash Equivalents	\$ 648,143	\$ 34,893	\$ 694,217	\$ 19,523
104 Investments	1,891,207	58,305	999,698	88,132
115 Accounts Receivable, Net	124,214	-	158,655	-
<b>Total Current Assets</b>	<b>2,663,564</b>	<b>93,198</b>	<b>1,852,570</b>	<b>107,655</b>
<b>Capital Assets</b>				
160 Land	105,714	150,000	30,129	48,000
162 Buildings	1,908,468	50,000	3,920,494	-
163 Accumulated Depreciation - Buildings	(1,045,124)	(7,334)	(2,423,689)	-
164 Improvements Other Than Buildings	8,095,573	-	6,346,353	-
165 Accumulated Depreciation - Improvements Other Than Buildings	(3,769,716)	-	(2,940,644)	-
166 Machinery and Equipment	758,445	50,000	2,958,556	-
167 Accumulated Depreciation - Machinery and Equipment	(551,876)	(7,333)	(2,440,182)	-
168 Construction Work in Progress	-	-	464,502	-
<b>Total Capital Assets, Net</b>	<b>5,501,484</b>	<b>235,333</b>	<b>5,915,519</b>	<b>48,000</b>
<b>Total Assets</b>	<b>\$ 8,165,048</b>	<b>\$ 328,531</b>	<b>\$ 7,768,089</b>	<b>\$ 155,655</b>
<b>Liabilities and Net Assets</b>				
<b>Current Liabilities</b>				
202 Accounts Payable	\$ 6,620	\$ 25,890	\$ 6,132	\$ -
205 Current Portion of Long-Term Debt	-	100,000	167,669	-
216 Accrued Wages	10,178	5,529	21,080	252
233 Accrued Leave Payable	41,850	6,545	39,199	-
220 Customer Deposits	93,250	-	-	-
<b>Total Current Liabilities</b>	<b>151,898</b>	<b>137,964</b>	<b>234,080</b>	<b>252</b>
<b>Long-Term Liabilities</b>				
237 Long-Term Debt, Net of Current Portion	-	-	57,395	-
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>-</b>	<b>57,395</b>	<b>-</b>
<b>Total Liabilities</b>	<b>151,898</b>	<b>137,964</b>	<b>291,475</b>	<b>252</b>
<b>Net Assets</b>				
253.1 Invested in Capital Assets, Net of Related Debt	5,501,484	135,333	5,690,455	48,000
252.0 Unrestricted Net Assets	2,511,666	55,234	1,786,159	107,403
<b>Total Net Assets</b>	<b>8,013,150</b>	<b>190,567</b>	<b>7,476,614</b>	<b>155,403</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 8,165,048</b>	<b>\$ 328,531</b>	<b>\$ 7,768,089</b>	<b>\$ 155,655</b>

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

<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 29,320	\$ 298,283	\$ 1,724,379	\$ 123,863
492,497	159,687	3,689,526	72,128
72,568	-	355,437	-
<b>594,385</b>	<b>457,970</b>	<b>5,769,342</b>	<b>195,991</b>

-	150,000	483,843	-
-	144,533	6,023,495	-
-	(138,810)	(3,614,957)	-
11,375	78,569	14,531,870	-
(1,138)	(45,800)	(6,757,298)	-
846,774	151,445	4,765,220	-
(543,232)	(128,790)	(3,671,413)	-
-	-	464,502	-
<b>313,779</b>	<b>211,147</b>	<b>12,225,262</b>	<b>-</b>
<b>\$ 908,164</b>	<b>\$ 669,117</b>	<b>\$ 17,994,604</b>	<b>\$ 195,991</b>

\$ 16,674	\$ -	\$ 55,316	\$ -
-	-	267,669	-
9,655	440	47,134	-
13,712	-	101,306	-
-	-	93,250	-
<b>40,041</b>	<b>440</b>	<b>564,675</b>	<b>-</b>

-	-	57,395	-
-	-	<b>57,395</b>	<b>-</b>
<b>40,041</b>	<b>440</b>	<b>622,070</b>	<b>-</b>

313,779	211,147	11,900,198	-
554,344	457,530	5,472,336	195,991
<b>868,123</b>	<b>668,677</b>	<b>17,372,534</b>	<b>195,991</b>
<b>\$ 908,164</b>	<b>\$ 669,117</b>	<b>\$ 17,994,604</b>	<b>\$ 195,991</b>

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>	<b>Parking Fund</b>
<b>Operating Revenue</b>				
380 Charges for Goods and Services	\$ 1,439,363	\$ 300,354	\$ -	\$ 13,774
380 Charges for Goods and Services: Security for Revenue Bonds	-	-	1,535,458	-
369 Miscellaneous	-	-	-	-
<b>Total Operating Revenue</b>	<b>1,439,363</b>	<b>300,354</b>	<b>1,535,458</b>	<b>13,774</b>
<b>Operating Expenses</b>				
410 Personal Services	257,783	130,742	479,239	6,783
420 Other Current Expenses	478,797	222,026	365,152	10,375
457 Depreciation	240,199	4,000	394,617	-
<b>Total Operating Expenses</b>	<b>976,779</b>	<b>356,768</b>	<b>1,239,008</b>	<b>17,158</b>
<b>Operating Income (Loss)</b>	<b>462,584</b>	<b>(56,414)</b>	<b>296,450</b>	<b>(3,384)</b>
<b>Non-operating Income (Expense)</b>				
361 Earnings on Deposits and Investments	124,154	7,296	88,135	5,801
366 Gain on Disposition of Assets	211	-	338	-
369 Other	189	28,880	59,401	-
470 Interest Expense and Fiscal Charges	-	-	(12,515)	-
<b>Total Non-operating Income</b>	<b>124,554</b>	<b>36,176</b>	<b>135,359</b>	<b>5,801</b>
<b>Income (Loss) Before Contributions and Transfers</b>				
	587,138	(20,238)	431,809	2,417
391.07 Contributed Capital	81,763	-	81,313	-
391.1 Transfers In	500,000	50,000	500,000	-
511 Transfers Out	(605,057)	-	(556,000)	-
<b>Total Contributions and Transfers</b>	<b>(23,294)</b>	<b>50,000</b>	<b>25,313</b>	<b>-</b>
<b>Net Income</b>	<b>563,844</b>	<b>29,762</b>	<b>457,122</b>	<b>2,417</b>
<b>Net Assets - December 31, 2006</b>	<b>7,449,306</b>	<b>160,805</b>	<b>7,019,492</b>	<b>152,986</b>
<b>Net Assets - December 31, 2007</b>	<b>\$ 8,013,150</b>	<b>\$ 190,567</b>	<b>\$ 7,476,614</b>	<b>\$ 155,403</b>

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

<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 786,700	\$ 278,965	\$ 2,819,156	\$ -
-	-	1,535,458	-
-	-	-	413,073
<b>786,700</b>	<b>278,965</b>	<b>4,354,614</b>	<b>413,073</b>
252,815	59,379	1,186,741	-
421,505	94,810	1,592,665	397,061
62,373	15,578	716,767	-
<b>736,693</b>	<b>169,767</b>	<b>3,496,173</b>	<b>397,061</b>
50,007	109,198	858,441	16,012
28,099	21,221	274,706	10,102
(9,489)	-	(8,940)	-
-	-	88,470	-
-	-	(12,515)	-
<b>18,610</b>	<b>21,221</b>	<b>341,721</b>	<b>10,102</b>
68,617	130,419	1,200,162	26,114
-	-	163,076	-
-	-	1,050,000	-
(62,307)	-	(1,223,364)	-
<b>(62,307)</b>	<b>-</b>	<b>(10,288)</b>	<b>-</b>
6,310	130,419	1,189,874	26,114
861,813	538,258	16,182,660	169,877
<b>\$ 868,123</b>	<b>\$ 668,677</b>	<b>\$ 17,372,534</b>	<b>\$ 195,991</b>

## CITY OF SPEARFISH

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2007

	Water Fund	Electric Production Fund	Sewer Fund	Parking Fund
<b>Cash Flows from Operating Activities:</b>				
Receipts from Customers	\$ 1,429,653	\$ 303,212	\$ 1,527,341	\$ 13,774
Payments to Suppliers	(482,177)	(206,823)	(365,152)	(10,375)
Payments to Employees	(245,632)	(129,524)	(473,675)	(6,779)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>701,844</b>	<b>(33,135)</b>	<b>688,514</b>	<b>(3,380)</b>
<b>Cash Flows Provided by (Used in) Noncapital Financing Activities:</b>				
Transfers In	500,000	50,000	500,000	-
Transfers Out	(605,057)	-	(556,000)	-
	(105,057)	50,000	(56,000)	-
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Purchase of Capital Assets	(258,071)	-	(510,376)	-
Proceeds from Sale of Equipment	-	-	-	-
Principal Paid on Capital Debt	-	(149,000)	(161,105)	-
Interest Expense	-	-	(12,515)	-
Other Receipts	400	28,880	59,739	-
<b>Net Cash Flows Used in Capital and Related Financing Activities</b>	<b>(257,671)</b>	<b>(120,120)</b>	<b>(624,257)</b>	<b>-</b>
<b>Cash Flows Provided by Investing Activities:</b>				
Interest Earned	124,154	7,296	88,135	5,801
<b>Increase (Decrease) in Cash and Investments</b>	<b>463,270</b>	<b>(95,959)</b>	<b>96,392</b>	<b>2,421</b>
<b>Cash and Investments - December 31, 2006</b>	<b>2,076,080</b>	<b>189,157</b>	<b>1,597,523</b>	<b>105,234</b>
<b>Cash and Investments - December 31, 2007</b>	<b>\$ 2,539,350</b>	<b>\$ 93,198</b>	<b>\$ 1,693,915</b>	<b>\$ 107,655</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>				
Operating Income (Loss)	\$ 462,584	\$ (56,414)	\$ 296,450	\$ (3,384)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>				
Depreciation Expense	240,199	4,000	394,617	-
Change in Assets and Liabilities:				
Change in Accounts Receivable	(12,136)	-	(14,426)	-
Change in Accounts Payable	(3,380)	15,203	-	-
Change in Accrued Wages	351	1,218	5,564	4
Change in Accrued Leave Payable	2,426	2,858	6,309	-
Change in Customer Deposits	11,800	-	-	-
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ 701,844</b>	<b>\$ (33,135)</b>	<b>\$ 688,514</b>	<b>\$ (3,380)</b>
<b>Noncash Capital and Related Financing Activities</b>				
Capital Assets Contributed	\$ 81,763	\$ -	\$ 81,313	\$ -
Noncash Purchase of Equipment	-	-	-	-

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

<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 796,828	\$ 278,965	\$ 4,349,773	\$ 413,073
(404,831)	(94,810)	(1,564,168)	(397,061)
(252,324)	(59,208)	(1,167,142)	-
<u>139,673</u>	<u>124,947</u>	<u>1,618,463</u>	<u>16,012</u>
-	-	1,050,000	-
(62,307)	-	(1,223,364)	-
<u>(62,307)</u>	<u>-</u>	<u>(173,364)</u>	<u>-</u>
(137,066)	-	(905,513)	-
2,703	-	2,703	-
-	-	(310,105)	-
-	-	(12,515)	-
-	-	89,019	-
<u>(134,363)</u>	<u>-</u>	<u>(1,136,411)</u>	<u>-</u>
28,099	21,221	274,706	10,102
(28,898)	146,168	583,394	26,114
550,715	311,802	4,830,511	169,877
<u><b>\$ 521,817</b></u>	<u><b>\$ 457,970</b></u>	<u><b>\$ 5,413,905</b></u>	<u><b>\$ 195,991</b></u>
\$ 50,007	\$ 109,198	\$ 858,441	\$ 16,012
62,373	15,578	716,767	-
1,362	-	(25,200)	-
16,674	-	28,497	-
491	171	7,799	-
8,766	-	20,359	-
-	-	11,800	-
<u><b>\$ 139,673</b></u>	<u><b>\$ 124,947</b></u>	<u><b>\$ 1,618,463</b></u>	<u><b>\$ 16,012</b></u>
\$ -	\$ -	\$ 163,076	\$ -
<b>3,613</b>	<b>-</b>	<b>3,613</b>	<b>-</b>

**CITY OF SPEARFISH**

**STATEMENT OF FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<u>Agency Fund</u>
<b>Assets</b>	
101 Cash	\$ 1,970
<b>Total Assets</b>	<b>\$ 1,970</b>
<b>Liabilities</b>	
219 Amounts Held for Others	\$ 1,970
<b>Total Liabilities</b>	<b>\$ 1,970</b>

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

## **CITY OF SPEARFISH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2007**

#### **(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 12 entitled Joint Venture for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

##### **b. Basis of Presentation**

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

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

**b. Basis of Presentation (Continued)**

*Fund Financial Statements (Continued):*

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

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

Governmental Funds:

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

Special Revenue Funds – special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Second Penny Sales Tax Fund – to account for naming rights (Note 14) and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). This is a major fund.

Special Assessment Revolving Fund – to account for financing improvements for which, special assessments are to be levied. The fund may be used both to pay the portion of the cost of such improvements assumed by the municipality and to advance the portion of such cost ultimately to be paid from collections of assessments (SDCL 9-43-69). This is 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. 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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

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

##### b. Basis of Presentation (Continued)

###### Governmental Funds (Continued):

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

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

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

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

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

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.

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).

Water Park Fund – to account for the construction of an outdoor water park. This is a major fund.

Recreation Paths Fund – to account for the ongoing construction of a recreation path throughout the community. This is a major fund.

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.

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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

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

##### b. Basis of Presentation (Concluded)

###### Proprietary Funds:

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

The enterprise funds apply all FASB Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

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. The particular types of goods and services provided to other funds are employee health and accident insurance. Internal service funds are never considered major funds. The Employee Health Insurance Fund is the only internal service fund maintained by the City.

###### Fiduciary Funds:

Fiduciary funds consist of the following sub-categories and are never considered major funds:

Agency Funds – agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Two agency funds account for the monies contributed by employees for health and dependent care expenses.

##### 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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

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

##### c. Measurement Focus and Basis of Accounting (Continued)

###### *Measurement Focus:*

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

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

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

###### Fund Financial Statements:

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

###### *Basis of Accounting:*

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

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

###### Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Spearfish, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2007, are property and sales tax receivable, contract receivable, and special assessments receivable.

##### 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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

**d. Interfund Eliminations and Reclassifications (Continued)**

Government-wide Financial Statements: (Continued)

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:

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 and similar trust 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. There are no significant interfund utility charges.

**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 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.

The total December 31, 2007, balance of governmental activities capital assets includes approximately two percent for which the costs were determined by estimates of the original costs. Approximately two percent of the total December 31, 2007, balance of business-type capital assets includes costs that were determined by estimations of the original cost. These estimated original costs were established by reviewing applicable historical costs of similar items and basing the estimations thereon.

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.

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction period interest for capital assets used in business-type activities/proprietary fund’s operations, is capitalized in accordance with USGAAP.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

**e. Capital Assets (Continued)**

Government-wide Financial Statements (Continued):

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and Land Rights	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-50 yrs.
Buildings	\$ 5,000	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 general obligation bonds, revenue bonds, financing (capital acquisition) leases, and compensated absences.

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.

**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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

**g. Program Revenues (Continued)**

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. Application of Net Assets**

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

**k. Equity Classifications**

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements. Agency funds have no fund equity.

## **CITY OF SPEARFISH**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007**

#### **(1) Summary of Significant Accounting Policies (Concluded)**

##### **l. Compensated Absences**

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

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

##### **m. Inventory**

The City maintains no significant amounts of inventory at December 31, 2007.

#### **(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.

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 including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or may be deposited with any bank or trust account designated by the City as it fiscal agent.

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	1-11 years	\$ 6,210,686
Federal National Mortgage Association Notes	AAA	1-11 years	1,316,467
Federal Home Loan Mortgage Corporation Notes	AAA	1-7 years	1,155,163
Federal Farm Credit Bank Bonds	AAA	2 years	775,000
External Investment Pools:			
SDFIT	Unrated		446,559
<b>Total Investments</b>			<b>\$ 9,903,875</b>

*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, 2007, the City's investment in SDFIT pool was unrated.

*Custodial Credit Risk:*

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2007, none of the City's deposits were exposed to custodial credit risk.

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.

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 state law.

*Concentration of Credit Risk*

The City places no limit on the amount that may be invested in any one issuer. More than 5 percent of the City's investments are invested in Federal Home Loan Bank Bonds (62 percent), Federal National Mortgage Association Notes (13 percent), Federal Home Loan Mortgage Corporation Notes (12 percent), and Federal Farm Credit Bank Bonds (8 percent).

**(3) Deferred Revenue**

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

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

**(4) Notes Receivable**

The following is a summary of the notes receivable at December 31, 2007:

Loan	Collateral	Rate	Maturity	Balance
Lehman Trike	Property	3%	June 2014	\$ 263,621
Spearfish Economic Development Corp.	Cert. of Deposit	0%	February 2009	140,000
Miller Machine	Equipment	3%	December 2011	115,971
Precision Blending	Equipment	3%	August 2011	47,112
Kazco, Inc.	Property	0%	December 2012	11,406
Black Hills Properties	Property	0%	January 2013	10,000
Flanagan	Property	0%	May 2012	8,833
Dykstra Properties	Property	0%	August 2011	7,167
<b>Total</b>				<b>\$ 604,110</b>

**(5) Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

**(6) Changes in Capital Assets**

A summary of changes in capital assets for year ending December 31, 2007 is as follows:

<i>Governmental Activities:</i>	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
Capital Assets, not being Depreciated:				
Land	\$ 4,490,789	\$ 1,937,732	\$ -	\$ 6,428,521
Construction Work in Progress	501,223	3,948,305	493,723	3,955,805
<b>Total Capital Assets, not being Depreciated</b>	<b>4,992,012</b>	<b>5,886,037</b>	<b>493,723</b>	<b>10,384,326</b>
Capital Assets, being Depreciated:				
Buildings	8,399,559	112,614	34,590	8,477,583
Improvements Other Than Buildings	8,538,780	1,994,772	-	10,533,552
Machinery and Equipment	4,176,272	191,605	186,354	4,181,523
<b>Total Capital Assets, being Depreciated</b>	<b>21,114,611</b>	<b>2,298,991</b>	<b>220,944</b>	<b>23,192,658</b>
Less Accumulated Depreciation for:				
Buildings	2,029,847	187,884	34,590	2,183,141
Improvements Other Than Buildings	828,659	391,330	-	1,219,989
Machinery and Equipment	2,339,005	364,689	186,354	2,517,340
<b>Total Accumulated Depreciation</b>	<b>5,197,511</b>	<b>943,903</b>	<b>220,944</b>	<b>5,920,470</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>15,917,100</b>	<b>1,355,088</b>	<b>-</b>	<b>17,272,188</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 20,909,112</b>	<b>\$ 7,241,125</b>	<b>\$ 493,723</b>	<b>\$ 27,656,514</b>

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

Depreciation expense was charged to functions as follows:

Public Safety	\$ 299,286
Public Works	252,170
Culture and Recreation	199,864
General Government	159,618
Intergovernmental	32,965
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 943,903</b>

	Balance 1/1/2007	Additions	Deletions	Balance 12/31/2007
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 483,843	\$ -	\$ -	\$ 483,843
Construction Work in Progress	152,884	364,704	53,086	464,502
<b>Total Capital Assets, not being Depreciated</b>	<b>636,727</b>	<b>364,704</b>	<b>53,086</b>	<b>948,345</b>
Capital Assets, being Depreciated:				
Buildings	6,023,495	-	-	6,023,495
Improvements Other Than Buildings	13,960,078	571,792	-	14,531,870
Machinery and Equipment	4,659,698	194,922	89,400	4,765,220
<b>Total Capital Assets, being Depreciated</b>	<b>24,643,271</b>	<b>766,714</b>	<b>89,400</b>	<b>25,320,585</b>
Less Accumulated Depreciation for:				
Buildings	3,434,381	180,576	-	3,614,957
Improvements Other Than Buildings	6,472,207	285,091	-	6,757,298
Machinery and Equipment	3,493,909	251,100	73,596	3,671,413
<b>Total Accumulated Depreciation</b>	<b>13,400,497</b>	<b>716,767</b>	<b>73,596</b>	<b>14,043,668</b>
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	11,242,774	49,947	15,804	11,276,917
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 11,879,501</b>	<b>\$ 414,651</b>	<b>\$ 68,890</b>	<b>\$ 12,225,262</b>

Depreciation expense was charged to functions as follows:

Sewer	\$ 394,617
Water	240,199
Solid Waste	62,373
Campground	15,578
Electric Production	4,000
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 716,767</b>

As of December 31, 2007, the City has signed construction commitments in the amount of approximately \$9,000,000. These items are expected to be financed through grants, debt borrowings, and developer funded TIFs.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

**(7) Long-Term Debt**

The following is a summary of the long-term debt activity for the year ending December 31, 2007:

	Balance 1/1/2007	Borrowings	Repayments	Balance 12/31/2007	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Spearfish School Land	\$ 100,000	\$ -	\$ 100,000	\$ -	\$ -
Spearfish Industrial Land	133,333	-	66,666	66,667	66,667
TIF #1	-	1,488,223	-	1,488,223	-
Bond Anticipation Note	-	729,000	729,000	-	-
Series 2007 Bonds	-	8,940,000	-	8,940,000	460,000
Series 1997 Bonds	1,440,000	-	1,440,000	-	-
Humane Society	56,597	-	10,150	46,447	10,704
Compensated Absences	333,320	217,839	182,146	369,013	369,013
<b>Total Governmental Activities</b>	<b>2,063,250</b>	<b>11,375,062</b>	<b>2,527,962</b>	<b>10,910,350</b>	<b>906,384</b>
<b>Business-Type Activities:</b>					
Sewer-Water Revolving Loan	386,169	-	161,105	225,064	167,669
Electric Plant	249,000	-	149,000	100,000	100,000
Compensated Absences	80,947	78,873	58,514	101,306	101,306
<b>Total Business-Type Activities</b>	<b>716,116</b>	<b>78,873</b>	<b>368,619</b>	<b>426,370</b>	<b>368,975</b>
<b>Total Primary Government</b>	<b>\$ 2,779,366</b>	<b>\$11,453,935</b>	<b>\$ 2,896,581</b>	<b>\$ 11,336,720</b>	<b>\$1,275,359</b>

Interest expense for the year ended December 31, 2007 was \$230,524.

Long-term debt at December 31, 2007, is comprised of the following:

*Contracts Payable*

Hydro-electric Plant for \$250,000, bears no interest, and is due on or before May 2008. Financed through Electric Production Fund. \$ 100,000

Jerrold and Norma Hanson, purchase of Industrial land, for \$300,000 matures in January 2008, bears interest at a 6 percent rate, due in annual installments of \$66,667. Financed through Second Penny Sales Tax Fund. 66,667

*Revenue Bonds*

Water Pollution Control Revolving Loan for \$1,945,000, matures in May 2009, interest at 4 percent, due in monthly installments of \$14,468. Financed through Sewer Fund. 225,064

Series 2007 Bonds for \$8,940,000, mature in June 2027, interest at 3.5 to 4.4 percent, due in semi-annual installments from \$155,000 to \$325,000. Financed through Second Penny Sales Tax Special Revenue Fund. 8,940,000

Humane Society Bonds for \$100,000, mature in December 2011, interest at 5.38 percent, due in annual installments of \$6,530. Financed through Second Penny Sales Tax Fund. 46,447

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

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

*Tax Increment Financing Obligations*

TIF #1 for \$1,488,223, including interest at varying rates per annum, due in varying installments within 30 days of property tax collection from the county. Financed through the TIF Debt Service Fund.

	1,488,223
<b>Total Contracts Payable, Bonds, and Other Obligations</b>	<b>10,866,401</b>

*Compensated Absences*

General Fund	369,013
Water Fund	41,850
Sewer Fund	39,199
Electric Fund	6,545
Solid Waste Fund	13,712
<b>Total Compensated Absences</b>	<b>470,319</b>

**Total Long-Term Debt** **\$ 11,336,720**

The annual requirements to amortize long-term debt outstanding as of December 31, 2007, except for compensated absences, are as follows:

	Contracts Payable		Revenue Bonds		TIF Obligations		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2008	\$ 4,113	\$ 166,667	\$ 398,843	\$ 638,372	\$ -	\$ -	\$ 402,956	\$ 805,039
2009	-	-	348,655	388,683	137,748	41,174	486,403	429,857
2010	-	-	336,113	341,904	133,852	45,071	469,965	386,975
2011	-	-	323,285	357,552	129,586	49,335	452,871	406,887
2012	-	-	309,919	355,000	124,917	54,005	434,836	409,005
2013-2017	-	-	1,331,733	2,005,000	-	-	1,331,733	2,005,000
2018-2022	-	-	886,067	2,440,000	-	-	886,067	2,440,000
2023-2027	-	-	303,820	2,685,000	926,884	1,298,638	1,230,704	3,983,638
<b>Total</b>	<b>\$ 4,113</b>	<b>\$ 166,667</b>	<b>\$ 4,238,435</b>	<b>\$ 9,211,511</b>	<b>\$ 1,452,987</b>	<b>\$ 1,488,223</b>	<b>\$ 5,695,535</b>	<b>\$ 10,866,401</b>

On November 1, 2007, the City issued \$8,940,000 of Sales Tax Revenue Bonds, Series 2007, with an interest rate of 3.5-4.4 percent. These bonds were issued in part to refund outstanding Sales Tax Revenue Bonds, Series 1997, which were called on December 1, 2007. The refunded bonds had an average interest rate of 5.0 percent. Because the refunded bonds have been repaid, the liability for those bonds has been removed from the City's financial statements. The City refunded the bonds to obtain an economic gain of \$55,249.

**(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, 2007, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of **\$2,349,014**.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2007**

**(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 with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts to repay the related debt.

**(10) Interfund Transfers**

Interfund transfers during the year ended December 31, 2007, were as follows:

	Transfers In	Transfers Out
<i>Major Funds</i>		
General Fund	\$ 223,364	\$ -
Second Penny Sales Tax Fund	-	2,810,000
Water Park Fund	2,260,000	-
Recreation Paths Fund	150,000	-
Water Fund	500,000	605,057
Electric Production Fund	50,000	-
Sewer Fund	500,000	556,000
Solid Waste Fund	-	62,307
<i>Nonmajor Funds</i>		
Municipal Highway and Bridge Fund	350,000	-
<b>Total Transfers</b>	<b>\$ 4,033,364</b>	<b>\$ 4,033,364</b>

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**(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 six percent of their salary to the plan, while public safety and judicial employees contribute eight and nine 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, 2007, 2006, 2005, 2004, and 2003 were **\$204,068**, \$201,618, \$187,845, \$169,587, and \$156,561, respectively, equal to the required contributions each year.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2007

#### (12) Joint Venture

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

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

The joint venture's governing board is composed of ten representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget.

The City retains no equity in the net assets of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

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

At December 31, 2007, this joint venture had total cash in banks of \$111,902 (unaudited).

#### (13) 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, 2007, the City managed its risks as follows:

##### Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. The City covers \$400 of an employee's health insurance benefits. The employee is responsible for additional charges based on the coverage and deductible plan selected by the employee. The City also reimburses employees for seventy percent of the deductible between \$500 and \$1000 (maximum of \$350) on the employee. Excess funds are kept in the Health and Accident Insurance Fund and are used to stabilize premium costs.

##### Liability Insurance:

The City purchases liability insurance for torts; theft of or damage to property; and errors and omissions of public officials from the South Dakota Public Assurance Alliance, 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, 2007**

**(13) Risk Management (Continued)**

Liability Insurance: (Continued)

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided up to a \$1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 to the upper limit. The City carries a \$500 deductible on physical auto; \$500 deductible on boiler and machine; \$500 deductible on property; \$1,000 deductible on errors and omissions; and \$5,000 on law enforcement professional liability.

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.

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

End of the City's First Full Year	50%
End of the City's Second Full Year	60%
End of the City's Third Full Year	70%
End of the City's Fourth Full Year	80%
End of the City's Fifth Full Year	90%
End of the City's Sixth Full Year	100%

As of December 31, 2007, the City has a vested balance in the cumulative reserve fund of \$98,788 and is considered to be fully vested.

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of 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 \$325,000 of any claim per individual. The pool has reinsurance, which covers up to \$1,675,000 per individual per incident.

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

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, 2007, no claims for unemployment benefits were paid. At December 31, 2007, no claims had been filed for unemployment benefits, and none are anticipated in the next fiscal year.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2007**

**(14) Contracts Receivable**

In 2002, the City entered into a contract with Black Hills Corporation for naming rights on the new Sports Complex. The agreement calls for Black Hills Corporation to pay the City \$200,000 in ten annual installments of \$20,000 beginning March 1, 2003. This amount is reflected in the financial statements as long-term contracts receivable in the Second Penny Sales Tax Fund.

**(15) City Officers**

The following were City officers for the year ended December 31, 2007:

**Mayor:**

Jerry Krambeck

**Council:**

Shawn Rosenau

Mary Morgan

Tom Quinn

Doug Schmit

Eric Davis

Paul Young

**Finance Officer:**

Elizabeth A. Benning

**Attorney:**

E. James Hood

Hood, Nies, P.C.

**(16) Prior Period Adjustment**

The City purchases liability insurance from the SDPAA (Note 13). The City has a vested balance in the cumulative reserve fund of \$98,788, which was recorded in full at December 31, 2007 as an adjustment to fund balance in the General Fund.

South Dakota state law requires income from cemetery perpetual care investments to be credited to the General Fund. At December 31, 2007, \$41,753 of previously recorded interest income was transferred from the Cemetery Perpetual Care Fund to the General Fund.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
311	\$ 1,461,168	\$ 1,461,168	\$1,432,769	\$ (28,399)
313	2,500,000	2,500,000	2,852,815	352,815
314	45,000	45,000	46,312	1,312
315	1,500	1,500	1,092	(408)
319	2,000	2,000	2,584	584
320	261,600	261,600	259,108	(2,492)
<i>Intergovernmental Revenue:</i>				
331	12,000	12,000	-	(12,000)
334	6,000	6,000	6,049	49
<i>State Shared Revenue:</i>				
335	4,000	4,000	257,620	253,620
335	44,000	44,000	46,830	2,830
335	34,000	34,000	42,575	8,575
335.20	100,000	100,000	-	(100,000)
<i>County Shared Revenue:</i>				
339	209,000	209,000	208,999	(1)
338	18,000	18,000	36,813	18,813
<i>Charges for Goods and Services:</i>				
341	11,500	11,500	9,108	(2,392)
342	80,000	80,000	135,924	55,924
343	30	30	50	20
346	5,900	5,900	15,601	9,701
348	5,500	5,500	7,006	1,506
349	-	-	30	30
<i>Fines and Forfeits:</i>				
351	3,500	3,500	2,137	(1,363)
359	3,500	3,500	5,725	2,225
<i>Miscellaneous Revenue:</i>				
361	85,000	85,000	222,683	137,683
362	24,250	24,250	27,731	3,481
367	-	-	300	300
369	-	-	7,453	7,453
<b>Total Revenue</b>	<b>4,917,448</b>	<b>4,917,448</b>	<b>5,627,314</b>	<b>709,866</b>

## CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)**  
**GENERAL FUND - BUDGETARY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	91,891	91,891	91,529	362
411.5 Contingency	100,000	100,000	-	
Amount Transferred	-	(53,000)	-	47,000
413 Elections	1,690	1,690	436	1,254
414 Financial Administration	361,560	381,530	349,993	31,537
419 Other	716,062	722,062	823,757	(101,695)
<i>Public Safety:</i>				
421 Police	1,599,078	1,627,378	1,517,735	109,643
422 Fire	181,954	181,954	130,606	51,348
423 Protective Inspection	131,977	131,977	126,746	5,231
<i>Public Works:</i>				
431 Highways and Streets	673,441	673,441	602,559	70,882
437 Cemeteries	107,643	107,643	88,905	18,738
<i>Health and Welfare:</i>				
441 Health	60,800	60,800	60,800	-
444 Humane Society	60,823	60,823	55,244	5,579
<i>Culture and Recreation:</i>				
451 Recreation	230,965	242,965	231,667	11,298
452 Parks	368,859	368,859	339,303	29,556
455 Library	261,342	263,692	262,170	1,522
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	123,262	128,262	126,092	2,170
465 Economic Development and Assistance	32,000	32,000	32,000	-
480 Intergovernmental Expenditures	340,749	340,749	334,983	5,766
<b>Total Expenditures</b>	<b>5,444,096</b>	<b>5,464,716</b>	<b>5,174,525</b>	<b>290,191</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	<b>(526,648)</b>	<b>(547,268)</b>	<b>452,789</b>	<b>1,000,057</b>
<b>Other Financing Sources (Uses):</b>				
391.1 Transfers In	110,750	110,750	223,364	112,614
391.03 Sale of Municipal Property	-	-	971	971
511 Transfers Out	-	(38,000)	-	38,000
<b>Total Other Financing Sources</b>	<b>110,750</b>	<b>72,750</b>	<b>224,335</b>	<b>151,585</b>
<b>Net Change in Fund Balance</b>	<b>(415,898)</b>	<b>(474,518)</b>	<b>677,124</b>	<b>1,151,642</b>
<b>Fund Balance - December 31, 2006, as Restated</b>	<b>3,961,011</b>	<b>3,961,011</b>	<b>3,961,011</b>	<b>-</b>
<b>Fund Balance - December 31, 2007</b>	<b>\$ 3,545,113</b>	<b>\$ 3,486,493</b>	<b>\$ 4,638,135</b>	<b>\$ 1,151,642</b>

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, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 2,500,000	\$ 2,500,000	\$ 2,852,835	\$ 352,835
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	110,000	110,000	103,808	(6,192)
367 Contributions and Donations - Private Sources	30,000	30,000	34,500	4,500
<b>Total Revenue</b>	<b>2,640,000</b>	<b>2,640,000</b>	<b>2,991,143</b>	<b>351,143</b>
<b>Expenditures</b>				
<i>General Government:</i>				
419 Other	60,000	60,000	59,622	378
<i>Public Safety:</i>				
421 Police	23,000	23,000	22,783	217
422 Fire	85,000	85,000	85,000	-
<i>Public Works:</i>				
431 Highways and Streets	290,000	290,000	81,079	208,921
<i>Health and Welfare:</i>				
441 Health	13,500	13,500	11,679	1,821
<i>Culture and Recreation:</i>				
451 Recreation	1,985,000	2,720,000	26,646	2,693,354
452 Parks	125,000	125,000	125,000	-
465 Economic Development and Assistance	12,500	12,500	12,500	-
470 Debt Service	1,035,000	1,920,000	1,503,803	416,197
<b>Total Expenditures</b>	<b>3,629,000</b>	<b>5,249,000</b>	<b>1,928,112</b>	<b>3,320,888</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>(989,000)</b>	<b>(2,609,000)</b>	<b>1,063,031</b>	<b>3,672,031</b>
<b>Other Financing Sources (Uses):</b>				
391.20 Sale of Bonds	-	885,000	794,941	(90,059)
511 Transfers Out	(850,000)	(2,810,000)	(2,810,000)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(850,000)</b>	<b>(1,925,000)</b>	<b>(2,015,059)</b>	<b>(90,059)</b>
<b>Net Change in Fund Balance</b>	<b>(1,839,000)</b>	<b>(4,534,000)</b>	<b>(952,028)</b>	<b>3,581,972</b>
<b>Fund Balance - December 31, 2006</b>	<b>3,576,934</b>	<b>3,576,934</b>	<b>3,576,934</b>	<b>-</b>
<b>Fund Balance (Deficit) - December 31, 2007</b>	<b>\$ 1,737,934</b>	<b>\$ (957,066)</b>	<b>\$ 2,624,906</b>	<b>\$ 3,581,972</b>

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

**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE  
SPECIAL ASSESSMENT REVOLVING FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	\$ 5,000	\$ 5,000	\$ 35,771	\$ 30,771
363 Special Assessments	5,000	5,000	51,581	46,581
<b>Total Revenue</b>	<b>10,000</b>	<b>10,000</b>	<b>87,352</b>	<b>77,352</b>
<b>Expenditures</b>				
<i>Public Works:</i>				
431 Highways and Streets	10,000	10,000	4,191	5,809
<b>Total Expenditures</b>	<b>10,000</b>	<b>10,000</b>	<b>4,191</b>	<b>5,809</b>
<b>Net Change in Fund Balance</b>	<b>-</b>	<b>-</b>	<b>83,161</b>	<b>83,161</b>
<b>Fund Balance - December 31, 2006</b>	<b>599,078</b>	<b>599,078</b>	<b>599,078</b>	<b>-</b>
<b>Fund Balance - December 31, 2007</b>	<b>\$ 599,078</b>	<b>\$ 599,078</b>	<b>\$ 682,239</b>	<b>\$ 83,161</b>

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

## **CITY OF SPEARFISH**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION DECEMBER 31, 2007**

#### **(1) Budgets and Budgetary Accounting**

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2007.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund, special revenue funds, capital projects funds, and debt service funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

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

OTHER SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2007**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>	<b>911 Emergency Fund</b>	<b>Spearfish Economic Revolving Fund</b>
<b>Assets</b>					
101 Cash and Cash Equivalents	\$ 353,026	\$ 11,700	\$ 62,107	\$ 113,134	\$ 340,710
104 Investments	203,070	33,845	36,137	100,141	292,908
110 Sales Taxes Receivable	44,378	-	-	-	-
121 Special Assessments Receivable	-	-	7,854	-	-
128 Notes Receivable	-	-	-	-	604,110
132 Due from Other Governments	-	-	-	26,323	-
<b>Total Assets</b>	<b>\$ 600,474</b>	<b>\$ 45,545</b>	<b>\$ 106,098</b>	<b>\$ 239,598</b>	<b>\$ 1,237,728</b>
<b>Liabilities and Fund Balances</b>					
<i>Liabilities</i>					
220 Customer Deposits	\$ -	\$ -	\$ -	\$ -	\$ 3,580
224 Deferred Revenue	-	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,580</b>
<i>Fund Balances</i>					
261 <i>Reserved Fund Balances</i>					
261.16 Reserved for Long-Term Notes Receivable	-	-	-	-	604,110
262 <i>Unreserved Fund Balances</i>					
262.01 Designated for Next Year's Appropriations	176,000	-	28,000	46,250	-
262.09 Undesignated	424,474	45,545	78,098	193,348	630,038
<b>Total Fund Balances</b>	<b>600,474</b>	<b>45,545</b>	<b>106,098</b>	<b>239,598</b>	<b>1,234,148</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 600,474</b>	<b>\$ 45,545</b>	<b>\$ 106,098</b>	<b>\$ 239,598</b>	<b>\$ 1,237,728</b>

Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects Fund	Total
\$ 148,860	\$ 20,602	\$ 94,499	\$ 89,736	\$ 85,613	\$ 1,306	\$ 1,321,293
115,738	192	461,170	838	288,968	12	1,533,019
-	-	-	-	-	-	44,378
-	-	1,546	-	-	-	9,400
-	-	-	-	-	-	604,110
-	-	-	-	-	-	26,323
<b>\$ 264,598</b>	<b>\$ 20,794</b>	<b>\$ 557,215</b>	<b>\$ 90,574</b>	<b>\$ 374,581</b>	<b>\$ 1,318</b>	<b>\$ 3,538,523</b>

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,580
-	-	1,546	-	-	-	1,546
-	-	1,546	-	-	-	5,126

-	-	-	-	-	-	604,110
-	12,000	416,000	90,000	-	-	768,250
264,598	8,794	139,669	574	374,581	1,318	2,161,037
264,598	20,794	555,669	90,574	374,581	1,318	3,533,397
<b>\$ 264,598</b>	<b>\$ 20,794</b>	<b>\$ 557,215</b>	<b>\$ 90,574</b>	<b>\$ 374,581</b>	<b>\$ 1,318</b>	<b>\$ 3,538,523</b>

**CITY OF SPEARFISH**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2007**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>	<b>911 Emergency Fund</b>	<b>Spearfish Economic Revolving Fund</b>
<b>Revenue:</b>					
<i>Taxes:</i>					
311 General Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	429,906	-	-	-	-
316 911 Telephone Surcharge	-	-	-	110,435	-
<i>Intergovernmental Revenue:</i>					
331 Federal Grants	-	10,030	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-	-	-
346 Culture & Recreation	-	-	-	-	-
348 Cemeteries	-	-	-	-	-
<i>Fines &amp; Forfeits:</i>					
354 Library	-	15,449	-	-	-
<i>Miscellaneous Revenue:</i>					
361 Earnings on Deposits and Investments	30,255	2,120	7,313	10,143	44,366
362 Rentals	-	-	-	-	4,620
363 Special Assessments	-	-	173,602	-	-
367 Contributions and Donations - Private Sources	50,000	12,731	19,714	-	-
<b>Total Revenue</b>	<b>510,161</b>	<b>40,330</b>	<b>200,629</b>	<b>120,578</b>	<b>48,986</b>
<b>Expenditures:</b>					
<i>General Government:</i>					
419 Other	173,999	-	-	-	-
<i>Public Safety:</i>					
421 Police	-	-	-	43,574	-
<i>Public Works:</i>					
431 Highway and Streets	-	-	-	-	-
<i>Culture and Recreation:</i>					
451 Recreation	27,574	-	-	-	-
452 Parks	-	-	-	-	-
455 Library	-	34,637	-	-	-
456 Auditorium	120,000	-	-	-	-
<i>Conservation and Development:</i>					
465 Economic Development and Assistance	32,000	-	118,029	-	3,144
470 Debt Service	-	-	90,000	-	-
485 Capital Outlay	111,979	-	-	-	-
<b>Total Expenditures</b>	<b>465,552</b>	<b>34,637</b>	<b>208,029</b>	<b>43,574</b>	<b>3,144</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>44,609</b>	<b>5,693</b>	<b>(7,400)</b>	<b>77,004</b>	<b>45,842</b>
<b>Other Financing Sources:</b>					
391.1 Transfers In	-	-	-	-	-
391.25 Tax Increment Financing Debt Issued	-	-	-	-	-
<b>Total Other Financing Sources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>44,609</b>	<b>5,693</b>	<b>(7,400)</b>	<b>77,004</b>	<b>45,842</b>
<b>Fund Balances, December 31, 2006</b>	<b>555,865</b>	<b>39,852</b>	<b>113,498</b>	<b>162,594</b>	<b>1,188,306</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Fund Balances, December 31, 2006, as Restated</b>	<b>555,865</b>	<b>39,852</b>	<b>113,498</b>	<b>162,594</b>	<b>1,188,306</b>
<b>Fund Balances, December 31, 2007</b>	<b>\$ 600,474</b>	<b>\$ 45,545</b>	<b>\$ 106,098</b>	<b>\$ 239,598</b>	<b>\$ 1,234,148</b>

Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects Fund	Total
\$ -	\$ -	\$ -	\$ 99,398	\$ -	\$ -	\$ 99,398
-	-	-	-	-	-	429,906
-	-	-	-	-	-	110,435
-	-	-	-	-	-	10,030
-	-	79,072	-	-	-	79,072
-	6,358	-	-	-	-	6,358
-	-	-	-	12,685	-	12,685
-	-	-	-	-	-	15,449
13,190	928	35,315	3,314	4,032	1,328	152,304
18,980	-	-	-	-	-	23,600
-	-	94,355	-	-	-	267,957
15,415	-	-	-	-	-	97,860
47,585	7,286	208,742	102,712	16,717	1,328	1,305,054
-	-	-	-	-	-	173,999
-	-	-	-	-	-	43,574
-	-	15,473	-	-	-	15,473
-	-	-	-	-	-	27,574
2,937	-	-	-	-	-	2,937
-	-	-	-	-	-	34,637
-	-	-	-	-	-	120,000
-	-	-	-	-	-	153,173
-	-	-	12,138	-	-	102,138
64,744	-	459,762	-	-	1,488,233	2,124,718
67,681	-	475,235	12,138	-	1,488,233	2,798,223
(20,096)	7,286	(266,493)	90,574	16,717	(1,486,905)	(1,493,169)
-	-	350,000	-	-	-	350,000
-	-	-	-	-	1,488,223	1,488,223
-	-	350,000	-	-	1,488,223	1,838,223
(20,096)	7,286	83,507	90,574	16,717	1,318	345,054
284,694	13,508	472,162	-	399,617	-	3,230,096
-	-	-	-	(41,753)	-	(41,753)
284,694	13,508	472,162	-	357,864	-	3,188,343
<b>\$ 264,598</b>	<b>\$ 20,794</b>	<b>\$ 555,669</b>	<b>\$ 90,574</b>	<b>\$ 374,581</b>	<b>\$ 1,318</b>	<b>\$ 3,533,397</b>

COMPLIANCE AUDIT SECTION

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

City Council  
City of Spearfish  
Spearfish, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and recommendations as 07-1.

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

KETEL THORSTENSON, LLP  
Certified Public Accountants

November 10, 2008

**CITY OF SPEARFISH**

**AUDITOR'S COMMENTS AND CLOSING CONFERENCE  
DECEMBER 31, 2007**

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

There were no prior year audit findings.

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

07-1 Finding: Budgetary Overdraft

Condition: The City has a \$101,695 budgetary overdraft for the General Government – Other subfunction in violation of South Dakota Codified Law 9-21-9.

Recommendation: The City in the future should complete supplemental appropriations for unbudgeted expenditures.