



CITY OF SPEARFISH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2013



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

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

CITY OF SPEARFISH

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-12
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	13
Statement of Activities	14
<i>Fund Financial Statements:</i>	
Governmental Funds Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.	16
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	17-18
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	19
Proprietary Funds Statement of Net Position.	20
Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Proprietary Funds Statement of Cash Flows	22
Statement of Fiduciary Net Position	23
Notes to Financial Statements	24-48
<i>Required Supplementary Information:</i>	
Budgetary Comparison Schedule – General Fund – Budgetary Basis	49-50
Budgetary Comparison Schedule – Second Penny Sales Tax Fund – Budgetary Basis.	51
Budgetary Comparison Schedule – Municipal Highway and Bridge Fund – Budgetary Basis	52
Notes to Required Supplementary Information and Schedule of Funding Progress (OPEB).	53
<i>Other Supplementary Information:</i>	
Combining Balance Sheet - Nonmajor Governmental Funds.	54-55
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds.	56-57
<i>Single Audit Section:</i>	
Summary Schedule of Prior Audit Findings	58
Schedule of Findings and Questioned Costs	59-61
Schedule of Expenditures of Federal Awards	62

CITY OF STURGIS

TABLE OF CONTENTS (CONTINUED)

Other Reports:

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63-64
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.....	65-66



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on pages 49 through 52, and the schedule of funding progress (OPEB) presented on page 53, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinions that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements on pages 54-57 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards on page 62 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 14, 2014, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2013

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, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position from governmental and business-type activities decreased by \$2,456,407, primarily due to the collapse of the TMOne facility in October 2103.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$692,567 less than the \$14,285,032 governmental expenditures, excluding transfers.
- In the City's business-type activities, revenue decreased by 2 percent to \$6,055,682 while expenses increased by 1 percent to \$5,463,487, due to a significant decrease in billings for water consumption in 2013 and increasing operational costs by all business-type departments.
- The total cost of the City's programs increased by \$1,405,460, approximately 8 percent, due to spring flooding and winter storm Atlas clean-up costs.
- The general fund reported a \$127,342 current year decrease primarily due to the additional clean-up costs from winter storm Atlas and a loss in fair market value of investments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

CITY OF SPEARFISH

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (CONCLUDED)

Government-wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

The City has two kinds of funds:

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

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

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position decreased by 3.47 percent between 2012 and 2013 – decreasing by \$2,456,407 (see Table A-1).

Table A-1

Statement of Net Position						
	Governmental Activities		Business-Type Activities		Total	
	2012	2013	2012	2013	2012	2013
Current & Other Assets	\$ 14,064,052	\$ 14,917,339	\$ 9,174,418	\$ 8,954,501	\$ 23,238,470	\$ 23,871,840
Capital Assets	50,544,282	46,810,707	24,236,540	24,801,869	74,780,822	71,612,576
Total Assets	\$ 64,608,334	\$ 61,728,046	\$ 33,410,958	\$ 33,756,370	\$ 98,019,292	\$ 95,484,416
Long-Term Debt	\$ 20,815,481	\$ 16,897,326	\$ 5,689,867	\$ 5,616,519	\$ 26,505,348	\$ 22,513,845
Other Liabilities	390,134	672,659	266,662	332,520	656,796	1,005,179
Total Liabilities	\$ 21,205,615	\$ 17,569,985	\$ 5,956,529	\$ 5,949,039	\$ 27,162,144	\$ 23,519,024
Net Position:						
Net Investment in						
Capital Assets	\$ 31,369,707	\$ 31,862,334	\$ 19,101,767	\$ 19,888,790	\$ 50,471,474	\$ 51,751,124
Restricted	3,417,326	4,290,572	-	-	3,417,326	4,290,572
Unrestricted	8,615,686	8,005,155	8,352,662	7,918,541	16,968,348	15,923,696
Total Net Position	\$ 43,402,719	\$ 44,158,061	\$ 27,454,429	\$ 27,807,331	\$ 70,857,148	\$ 71,965,392
Beginning Net Position	\$ 42,725,796	\$ 43,402,719	\$ 27,108,275	\$ 27,454,429	\$ 69,834,071	\$ 70,857,148
Prior Period Adjustment	-	3,564,651	-	-	-	3,564,651
Increase (Decrease) in						
Net Position	676,923	(2,809,309)	346,154	352,902	1,023,077	(2,456,407)
Percentage of Increase						
(Decrease) in Net Position	1.58%	-6.47%	1.28%	1.29%	1.47%	-3.47%

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

CITY OF SPEARFISH

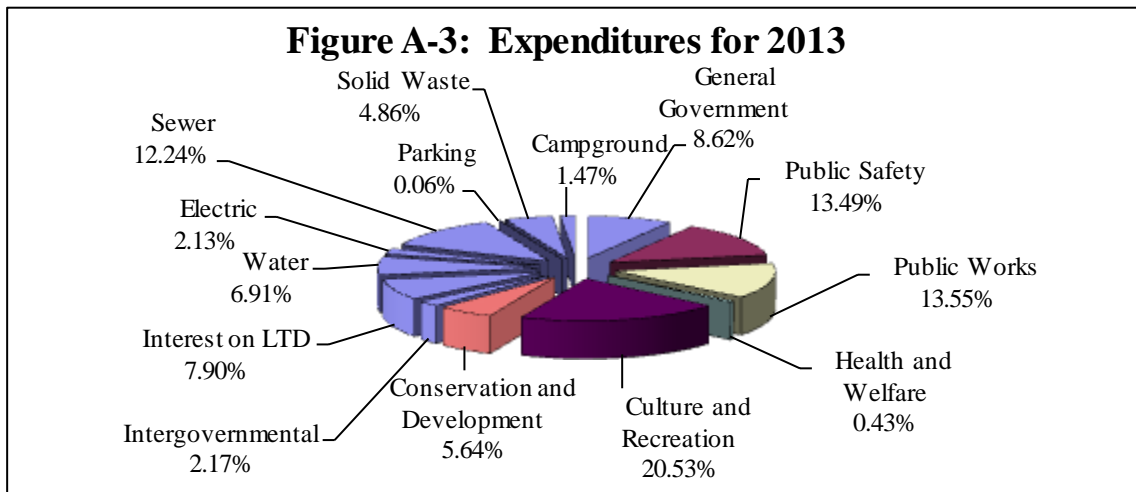
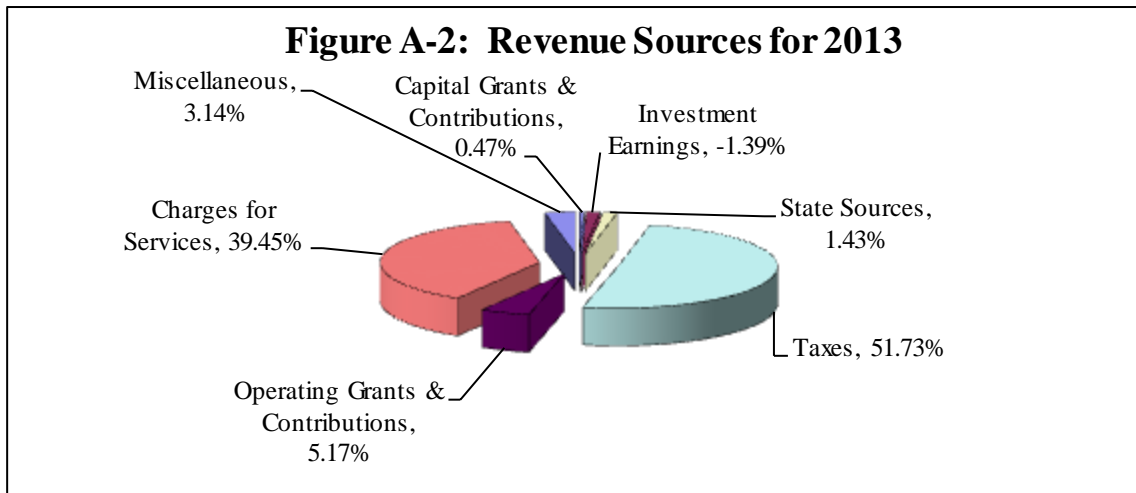
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's total revenues (excluding transfers) totaled \$19,648,148 (see Table A-2). Well over three-fourths of the City's revenue comes from charges for services and tax, with 39 cents of every dollar raised coming from charges for services (primarily water, sewer, recreation and aquatic park and solid waste operations) and 50 cents of every dollar raised comes from some type of tax. (See Figure A-2).

The total cost of all programs and services increased by 8 percent from 2012 to 2013. The City's expenses cover a range of services, including public works administration, public safety, and culture and recreation. (See Figure A-3).



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2012	2013	2012	2013	2012	2013
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,902,347	\$ 1,791,783	\$ 6,038,709	\$ 5,959,848	\$ 7,941,056	\$ 7,751,631
Operating Grants and Contributions	101,026	824,953	-	191,574	101,026	1,016,527
Capital Grants and Contributions	941,129	92,430	-	-	941,129	92,430
<i>General Revenues</i>						
Taxes	9,562,799	10,163,629	-	-	9,562,799	10,163,629
Revenue State Sources	324,673	280,937	-	-	324,673	280,937
Unrestricted Investment Earnings (Losses)	103,041	(162,934)	114,090	(110,605)	217,131	(273,539)
Miscellaneous	257,931	601,668	20,392	14,865	278,323	616,533
Total Revenues	\$13,192,946	\$ 13,592,466	\$ 6,173,191	\$ 6,055,682	\$19,366,137	\$ 19,648,148
Expenses						
General Government	\$ 1,591,003	\$ 1,701,723	\$ -	\$ -	\$ 1,591,003	\$ 1,701,723
Public Safety	2,739,553	2,664,193	-	-	2,739,553	2,664,193
Public Works	1,805,778	2,676,035	-	-	1,805,778	2,676,035
Health and Welfare	67,948	85,352	-	-	67,948	85,352
Culture and Recreation	3,788,442	4,055,092	-	-	3,788,442	4,055,092
Conservation and Development	1,156,703	1,114,235	-	-	1,156,703	1,114,235
Interest on Long-Term Debt	1,377,220	1,560,729	-	-	1,377,220	1,560,729
Intergovernmental	414,376	427,674	-	-	414,376	427,674
Water Services	-	-	1,435,036	1,364,401	1,435,036	1,364,401
Electric Services	-	-	382,708	421,328	382,708	421,328
Sewer Services	-	-	2,301,284	2,415,138	2,301,284	2,415,138
Parking	-	-	16,339	11,953	16,339	11,953
Solid Waste	-	-	964,999	960,339	964,999	960,339
Campground	-	-	301,671	290,328	301,671	290,328
Total Expenses	\$12,941,023	\$ 14,285,033	\$ 5,402,037	\$ 5,463,487	\$18,343,060	\$ 19,748,520
Excess Revenues (Expenses) Before Transfers, Special Item and Extraordinary Item	\$ 251,923	\$ (692,567)	\$ 771,154	\$ 592,195	\$ 1,023,077	\$ (100,372)
Transfers	425,000	239,293	(425,000)	(239,293)	-	-
Special Item	-	507,268	-	-	-	507,268
Extraordinary Item	-	(2,863,303)	-	-	-	(2,863,303)
Increase (Decrease) in Net Position	\$ 676,923	\$ (2,809,309)	\$ 346,154	\$ 352,902	\$ 1,023,077	\$ (2,456,407)
Prior Period Adjustment	\$ -	\$ 3,564,651	\$ -	\$ -	\$ -	\$ 3,564,651
Net Position - Ending	\$43,402,719	\$ 44,158,061	\$27,454,429	\$ 27,807,331	\$70,857,148	\$ 71,965,392

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2013

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Expenditures of the City's governmental activities exceeded revenues by \$692,567, excluding transfers, special, and extraordinary items, due to significant expenses in the Public Works divisions from winter storm Atlas and a fair market value loss in investments.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$592,195, excluding transfers, due to a decrease in revenues in charges for goods and services and a fair market value loss in investments.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

CAPITAL ASSET ADMINISTRATION

By the end of 2013, the City had invested \$71,612,576 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deductions) of \$6,732,897.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2012	2013	2012	2013
Land	\$ 9,703,871	\$ 8,946,834	\$ 642,008	\$ 642,008
Buildings	16,146,164	11,760,259	5,512,441	5,230,495
Improvements	25,484,002	22,122,434	16,600,102	16,468,150
Machinery and Equipment	2,698,353	2,624,698	1,382,619	1,415,535
Construction Work in Progress	76,543	1,356,482	99,370	1,045,681
Totals	\$ 54,108,933	\$ 46,810,707	\$ 24,236,540	\$ 24,801,869

This year's major capital asset changes included:

Governmental Fund Assets:

- Transferred ownership of Elkhorn Ridge Golf Course, Clubhouse and irrigation well to golf management company, net book value of \$3,927,667 (Note 17)
- Collapse of TMOne building from winter storm Atlas for loss of \$2,993,000 (Note 18)
- Street improvements including roads, sidewalks, recreation paths and curb/gutters on Evans Lane, Hillview Road and in the Industrial Park area for \$1,284,630
- Playground equipment, play structures and park improvements done at Spartan Park, \$154,339
- Cat Loader purchased for \$155,623
- Mill and overlay of Main Street from Hillcrest to Elgin Street for \$71,749
- Improvements made to Downtown Restroom Facility for \$52,770

Business-type Assets:

- Water and Sewer Line replacements on State Street and 8th Streets for \$414,164
- Engineering expenses for water and sewer line repairs and replacements in the Ramsdell area for \$243,173
- Removal and replacement of retaining walls on three water storage facilities for \$224,238
- Engineering expenses for new water storage facility for \$106,434
- Construction of main water line on Evans Lane for \$275,041
- Rear loader refuse truck for \$118,115

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2013**

LONG-TERM DEBT

At year-end, the City had \$22,513,845 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is a decrease from 2012 as shown on Table A-4 below.

Table A-4

	Outstanding Debt and Obligations			
	Governmental Activities		Business-type Activities	
	2012	2013	2012	2013
Compensated Absences	\$ 522,939	\$ 560,939	\$ 137,983	\$ 149,825
Other Post Employment Benefits (OPEB)	1,117,967	1,388,014	417,111	553,616
Sales Tax Revenue Bonds	7,130,000	6,760,000	-	-
TID #1 Elkhorn Ridge	8,211,540	3,776,605	-	-
TID #1 Accrued Interest	2,875,495	3,778,524	-	-
TID #2 Industrial Park Bond	957,540	633,244	-	-
SRF Loan - Sewer	-	-	5,134,773	4,913,078
Total	\$ 20,815,481	\$ 16,897,326	\$ 5,689,867	\$ 5,616,519

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City did experience an increase in total property valuation of \$28,600,358, or 4.67 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 \$127,000. The growth in property valuation also allows the City to reduce the property tax mill levy from \$3.019 per \$1,000 assessed valuation to \$3.014 per \$1,000 assessed valuation. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increased in taxable sales of 7.0 percent over the prior year and has adopted a conservative budget with a slight increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will raise \$229,052, or 3 percent. The largest portion of this increase is due to the addition of two full-time positions, Code Enforcement Officer and Plumbing/Mechanical Inspector, and a re-grading of patrol officer positions within the police department.

The City's business-type activities (water and sewer operations) expect that the results for 2014 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits, and infrastructure repairs and replacements.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2013**

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SPEARFISH

**STATEMENT OF NET POSITION
DECEMBER 31, 2013**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	\$ 7,369,995	\$ 3,035,061	\$ 10,405,056
Investments (Note 2)	6,388,354	3,897,645	10,285,999
Accounts and Notes Receivable, Net (Note 4)	1,647,023	761,601	2,408,624
Internal Balances	(1,260,194)	1,260,194	-
Restricted Assets:			
Restricted Investments (Notes 2 and 7)	669,941	-	669,941
Other Assets (Note 14)	102,220	-	102,220
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	10,303,316	1,687,689	11,991,005
Other Capital Assets, Net of Depreciation	36,507,391	23,114,180	59,621,571
TOTAL ASSETS	\$ 61,728,046	\$ 33,756,370	\$ 95,484,416
Liabilities:			
Accounts Payable	\$ 164,296	\$ 161,446	\$ 325,742
Unearned Revenue (Note 3)	32,456	-	32,456
Other Current Liabilities	475,907	171,074	646,981
Long-Term Liabilities (Note 7):			
Due Within One Year	1,469,744	378,793	1,848,537
Due in More Than One Year	15,427,582	5,237,726	20,665,308
TOTAL LIABILITIES	17,569,985	5,949,039	23,519,024
Net Position:			
Net Investment in Capital Assets	31,862,334	19,888,790	51,751,124
Restricted for:			
Debt Service	1,105,012	-	1,105,012
Capital Projects	217	-	217
SDPAA (Note 14)	98,788	-	98,788
Promoting the City	344,916	-	344,916
Library Purposes	79,013	-	79,013
Park Purposes	335,847	-	335,847
911 Purposes	371,588	-	371,588
Business Improvement District Purposes	63,409	-	63,409
Rifle Range Improvement Grant	8,500	-	8,500
Municipal Highway and Bridge	17,593	-	17,593
Special Assessments Revolving Loan Fund	1,427,325	-	1,427,325
Perpetual Care Cemetery			
Expendable	388,364	-	388,364
Nonexpendable	50,000	-	50,000
Unrestricted	8,005,155	7,918,541	15,923,696
TOTAL NET POSITION	44,158,061	27,807,331	71,965,392
TOTAL LIABILITIES AND NET POSITION	\$ 61,728,046	\$ 33,756,370	\$ 95,484,416

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
Governmental Activities:							
General Government	\$ 1,701,723	\$ 397,547	\$ -	\$ -	\$ (1,304,176)	\$ -	\$ (1,304,176)
Public Safety	2,664,193	58,225	27,360	-	(2,578,608)	-	(2,578,608)
Public Works	2,676,035	552,767	790,455	92,430	(1,240,383)	-	(1,240,383)
Health and Welfare	85,352	-	-	-	(85,352)	-	(85,352)
Culture and Recreation	4,055,092	783,244	7,138	-	(3,264,710)	-	(3,264,710)
Conservation and Development	1,114,235	-	-	-	(1,114,235)	-	(1,114,235)
Intergovernmental	427,674	-	-	-	(427,674)	-	(427,674)
Interest on Long-Term Debt	1,560,729	-	-	-	(1,560,729)	-	(1,560,729)
Total Governmental Activities	14,285,033	1,791,783	824,953	92,430	(11,575,867)	-	(11,575,867)
Business-Type Activities:							
Water	1,364,401	2,105,184	113,650	-	-	854,433	854,433
Electric	421,328	355,187	7,259	-	-	(58,882)	(58,882)
Sewer	2,415,138	2,057,303	23,790	-	-	(334,045)	(334,045)
Parking	11,953	21,824	-	-	-	9,871	9,871
Solid Waste	960,339	1,099,545	45,569	-	-	184,775	184,775
Campground	290,328	320,805	1,306	-	-	31,783	31,783
Total Business-Type Activities	5,463,487	5,959,848	191,574	-	-	687,935	687,935
Total Primary Government	\$ 19,748,520	\$ 7,751,631	\$ 1,016,527	\$ 92,430	(11,575,867)	687,935	(10,887,932)
General Revenues:							
Taxes:							
Property Taxes					2,572,480	-	2,572,480
Sales Taxes					7,376,406	-	7,376,406
Other Taxes					125,385	-	125,385
Gross Receipts Tax					89,358	-	89,358
State Shared Revenue					280,937	-	280,937
Grants and Contributions Not Restricted					433,178	-	433,178
Unrestricted Investment Earnings					(162,934)	(110,605)	(273,539)
Miscellaneous Revenue					168,490	14,865	183,355
Special Item - Transfer of Golf Course (Note 17)					507,268	-	507,268
Extraordinary Item - TMOne Impairment (Note 18)					(2,863,303)	-	(2,863,303)
Transfers (Note 10)					239,293	(239,293)	-
Total General Revenue and Transfers					8,766,558	(335,033)	8,431,525
Change in Net Position					(2,809,309)	352,902	(2,456,407)
Net Position, Beginning					43,402,719	27,454,429	70,857,148
Prior Period Adjustment (Note 16)					3,564,651	-	3,564,651
Net Position, Ending					\$ 44,158,061	\$ 27,807,331	\$ 71,965,392

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

CITY OF SPEARFISH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Assets			
101 Cash and Cash Equivalents	\$ 2,682,807	\$ 3,157,286	\$ -
104 Investments (Note 2)	2,237,135	1,878,779	-
107 Restricted Investments (Notes 2 and 7)	-	669,941	-
108 Property Taxes Receivable (Note 5)	15,917	-	-
110 Sales Taxes Receivable	48,267	48,266	-
115 Accounts Receivable	19,436	-	-
121 Special Assessments Receivable	630	-	-
128 Notes Receivable (Note 4)	956	-	-
132 Due from Other Governments	686,037	-	-
133 Advances to Other Funds (Note 10)	-	732,429	-
141 Inventory of Supplies	3,432	-	-
154 Deposits (Note 14)	98,788	-	-
Total Assets	\$ 5,793,405	\$ 6,486,701	\$ -
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 101,899	\$ -	\$ -
216 Accrued Wages Payable	101,912	-	-
223 Unearned Revenue - FEMA Grant Revenue	32,456	-	-
236 Advance from Other Funds (Note 10)	-	-	1,260,194
Total Liabilities	236,267	-	1,260,194
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	1,727	-	-
246 Unavailable Revenue - Special Assessments	150	-	-
247 Other Deferred Inflow of Resources - FEMA Grant Revenue	466,011	-	-
Total Deferred Inflows of Resources	467,888	-	-
<i>Fund Balances (Note 1k)</i>			
263 Nonspendable	103,176	732,429	-
264 Restricted	-	678,441	-
265 Committed	-	5,075,831	-
266 Assigned	153,794	-	-
267 Unassigned	4,832,280	-	(1,260,194)
Total Fund Balances	5,089,250	6,486,701	(1,260,194)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 5,793,405	\$ 6,486,701	\$ -

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

TID #3 McGuigan Ranch Capital Project Fund	Municipal Highway and Bridge Fund	Other Governmental Funds	Total Governmental Funds
\$ 60	\$ 79,122	\$ 1,403,753	\$ 7,323,028
-	-	2,174,756	6,290,670
-	-	-	669,941
-	-	-	15,917
-	-	10,135	106,668
-	209	4,340	23,985
-	-	35,120	35,750
-	-	746,483	747,439
-	-	31,227	717,264
-	-	-	732,429
-	-	-	3,432
-	-	-	98,788
\$ 60	\$ 79,331	\$ 4,405,814	\$ 16,765,311

\$ -	\$ 61,738	\$ 659	\$ 164,296
-	-	8,721	110,633
-	-	-	32,456
732,429	-	-	1,992,623
732,429	61,738	9,380	2,300,008

-	-	-	1,727
-	-	26,858	27,008
-	-	-	466,011
-	-	26,858	494,746

-	-	796,483	1,632,088
-	17,593	2,698,311	3,394,345
-	-	874,782	5,950,613
-	-	-	153,794
(732,369)	-	-	2,839,717
(732,369)	17,593	4,369,576	13,970,557

\$ 60	\$ 79,331	\$ 4,405,814	\$ 16,765,311
--------------	------------------	---------------------	----------------------

CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2013**

Total Fund Balances - Governmental Funds \$ 13,970,557

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

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 46,810,707

Long-term liabilities, including bonds payable accrued interest on TID #1, are
not due and payable in the current period and therefore not reported in the
funds. (16,897,326)

Assets such as delinquent taxes receivable, special assessments receivable, and
grants receivable are not available to pay for current period expenditures and
therefore are deferred in the funds. 494,746

Accrued interest expense, excluding TID #1, is not due and payable in the
current period and therefore is not reported in the funds (See Note 7). (365,274)

Internal service funds are used by management to charge the costs of activities,
such as insurance, to individual funds. The assets and liabilities of internal
service funds are included in the governmental activities in the Statement of
Net Position. 144,651

Total Net Position - Governmental Activities \$ 44,158,061

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, 2013**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Revenue			
<i>Taxes:</i>			
311 General Property Taxes	\$ 1,855,489	\$ -	\$ -
313 General Sales and Use Taxes	3,407,668	3,407,668	-
314 Gross Receipts Tax	89,358	-	-
315 Amusement Taxes	972	-	-
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	2,941	-	-
320 Licenses and Permits	371,144	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	64,472	-	-
334 State Grants	3,997	-	-
<i>State Shared Revenue:</i>			
335.01 Bank Franchise Tax	4,748	-	-
335.03 Liquor Tax Reversion	55,399	-	-
335.04 Motor Vehicle Licenses (5%)	74,637	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
335.20 Other	220,790	-	-
<i>County Shared Revenue:</i>			
338.02 County HBR Tax	15,841	-	-
339 County Payments in Lieu of Taxes	230,421	-	-
<i>Charges for Goods and Services:</i>			
341 General Government	26,403	-	-
342 Public Safety	52,823	-	-
343 Highways and Streets	4,288	-	-
346 Culture and Recreation	755,412	-	-
348 Cemeteries	5,960	-	-
349 Other	15	-	-
<i>Fines and Forfeits:</i>			
351 Court Fines and Costs	1,532	-	-
354 Library	-	-	-
359 Other	3,870	-	-
<i>Miscellaneous Revenue (Expenses):</i>			
361 Earnings (Losses) on Deposits and Investments	(95,692)	(43,278)	-
362 Rentals	50,022	-	-
363 Special Assessments	101,861	-	-
367 Contributions and Donations - Private Sources	6,698	20,000	-
369 Other	14,802	-	-
Total Revenue	7,325,871	3,384,390	-

TID #3 McGuigan Ranch Capital Project Fund	Municipal Highway and Bridge Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 528,713	\$ 2,384,202
-	-	561,070	7,376,406
-	-	-	89,358
-	-	184,942	185,914
-	-	125,385	125,385
-	-	1,911	4,852
-	-	-	371,144
-	-	-	64,472
-	290,473	-	294,470
-	-	-	4,748
-	-	-	55,399
-	-	-	74,637
-	122,195	-	122,195
-	-	-	220,790
-	-	-	15,841
-	-	-	230,421
-	-	-	26,403
-	-	-	52,823
-	-	-	4,288
-	-	10,366	765,778
-	-	11,780	17,740
-	-	-	15
-	-	-	1,532
-	-	17,466	17,466
-	-	-	3,870
-	28	(20,174)	(159,116)
-	-	44,438	94,460
-	40	29,302	131,203
-	368,310	38,170	433,178
-	-	20,872	35,674
-	781,046	1,554,241	13,045,548

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Expenditures			
<i>General Government:</i>			
411 Legislative	155,376	-	-
412 Executive	127,592	-	-
414 Financial Administration	272,108	-	-
419 Other	763,285	77,809	-
<i>Public Safety:</i>			
421 Police	1,583,186	-	-
422 Fire	168,160	11,110	-
423 Protective Inspection	151,007	-	-
<i>Public Works:</i>			
431 Highways and Streets	1,204,837	207,315	-
437 Cemeteries	81,864	-	-
<i>Health and Welfare:</i>			
441 Health	59,598	25,000	-
<i>Culture and Recreation:</i>			
451 Recreation	1,527,702	37,406	-
452 Parks	391,008	9,369	-
455 Library	348,858	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	31,688	189,000	-
465 Economic Development and Assistance	135,484	84,422	-
470 Debt Service	-	666,462	-
480 Intergovernmental Expenditures	349,492	4,380	-
485 Capital Outlay	-	785,487	-
Total Expenditures	7,351,245	2,097,760	-
Excess (Deficiency) of Revenue over Expenditures	(25,374)	1,286,630	-
Other Financing Sources (Uses)			
391.01 Transfers In (Note 10)	239,293	-	-
391.03 Sale of Municipal Property	2,500	-	-
511 Transfers Out (Note 10)	(343,761)	(927,000)	-
Total Other Financing Sources (Uses)	(101,968)	(927,000)	-
Net Change in Fund Balances	(127,342)	359,630	-
Fund Balances - December 31, 2012	5,216,592	6,025,809	(1,260,194)
Prior Period Adjustment (Note 16)	-	101,262	-
Fund Balances - December 31, 2012, as Restated	5,216,592	6,127,071	(1,260,194)
Fund Balances - December 31, 2013	\$ 5,089,250	\$ 6,486,701	\$ (1,260,194)

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

TID #3 McGuigan Ranch Capital Project Fund	Municipal Highway and Bridge Fund	Other Governmental Funds	Total Governmental Funds
-	-	-	155,376
-	-	-	127,592
-	-	-	272,108
-	-	-	841,094
-	-	372,780	1,955,966
-	-	-	179,270
-	-	-	151,007
-	385,030	-	1,797,182
-	-	-	81,864
-	-	-	84,598
-	-	304,274	1,869,382
-	-	10,711	411,088
-	-	21,951	370,809
-	-	-	220,688
-	-	593,688	813,594
30,056	-	462,762	1,159,280
-	-	-	353,872
-	1,342,454	6,839	2,134,780
30,056	1,727,484	1,773,005	12,979,550
(30,056)	(946,438)	(218,764)	65,998
-	927,000	343,761	1,510,054
-	-	20,000	22,500
-	-	-	(1,270,761)
-	927,000	363,761	261,793
(30,056)	(19,438)	144,997	327,791
(601,051)	37,031	4,224,579	13,642,766
(101,262)	-	-	-
(702,313)	37,031	4,224,579	13,642,766
\$ (732,369)	\$ 17,593	\$ 4,369,576	\$ 13,970,557

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, 2013

Net Change in Fund Balances - Total Government Funds \$ 327,791

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

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

Capital Asset Purchases Capitalized	2,134,780
Depreciation Expense	(2,551,833)
	(417,053)

Capital assets contributed to the City, which are included in the Statement of Activities. 92,430

The governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a loss on sale or disposal of capital assets. (182,633)

Reduction of capital assets through the transfer of the golf course. (3,927,667)

Extraordinary loss incurred on TMOne building from storm Atlas. (2,863,303)

The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available." (2,488)

Governmental funds report special assessments as revenue when "available," but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises. (27,717)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds (FEMA grant receivables). 466,011

Repayment of bond principal, including interest on TID #1, is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 792,299

Reduction of long-term debt for transfer of golf course, thus reducing long-term liabilities in the Statement of Net Position. 4,434,935

Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Position. (1,001,032)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:

Accrued Leave	(38,000)
OPEB	(270,047)
Accrued Interest (excluding TID #1)	(192,716)

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. (119)

Change in Net Position of Governmental Activities \$ (2,809,309)

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

CITY OF SPEARFISH

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2013**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	\$ 1,217,978	\$ 96,249	\$ 1,283,890
104 Investments (Note 2)	2,173,591	523,534	145,812
115 Accounts Receivable, Net	163,058	-	194,779
132 Due from Other Governments	13,650	7,259	23,790
135 Interest Receivable	183,991	-	23,681
Total Current Assets	3,752,268	627,042	1,671,952
Noncurrent Asset			
133 Advance to Other Funds (Note 10)	1,079,230	-	180,964
Capital Assets (Note 6)			
160 Land	208,583	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,367,420)	(19,334)	(3,512,595)
164 Improvements Other Than Buildings	12,812,303	188,221	13,698,683
165 Accumulated Depreciation - Improvements Other Than Buildings	(5,432,223)	(5,800)	(4,835,392)
166 Machinery and Equipment	1,384,406	128,755	3,021,661
167 Accumulated Depreciation - Machinery and Equipment	(810,098)	(54,977)	(2,766,866)
168 Construction Work in Progress	827,207	1,065	217,409
Total Capital Assets, Net	10,018,757	437,930	13,346,611
Total Assets	\$ 14,850,255	\$ 1,064,972	\$ 15,199,527
Liabilities and Net Position			
Current Liabilities			
202 Accounts Payable	\$ 60,770	\$ -	\$ 70,769
205 Current Portion of Long-Term Debt (Note 7)	19,025	21,755	281,066
215 Accrued Interest Payable	-	-	33,266
216 Accrued Wages	8,664	4,625	19,153
220 Customer Deposits	94,950	-	-
Total Current Liabilities	183,409	26,380	404,254
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	112,537	71,801	4,903,261
Total Liabilities	295,946	98,181	5,307,515
Net Position			
253.1 Net Investment in Capital Assets	10,018,757	437,930	8,433,532
252.0 Unrestricted Net Position	4,535,552	528,861	1,458,480
Total Net Position	14,554,309	966,791	9,892,012
Total Liabilities and Net Position	\$ 14,850,255	\$ 1,064,972	\$ 15,199,527

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 16,842	\$ 235,731	\$ 184,371	\$ 3,035,061	\$ 46,967
39,060	706,362	309,286	3,897,645	97,684
-	104,518	-	462,355	-
-	45,569	1,306	91,574	-
-	-	-	207,672	-
55,902	1,092,180	494,963	7,694,307	144,651
-	-	-	1,260,194	-
48,000	-	171,220	642,008	-
-	-	401,228	10,306,733	-
-	-	(176,889)	(5,076,238)	-
-	19,258	95,643	26,814,108	-
-	(4,262)	(68,281)	(10,345,958)	-
87,570	1,450,957	140,766	6,214,115	-
(20,433)	(1,025,213)	(120,993)	(4,798,580)	-
-	-	-	1,045,681	-
115,137	440,740	442,694	24,801,869	-
\$ 171,039	\$ 1,532,920	\$ 937,657	\$ 33,756,370	\$ 144,651
\$ -	\$ 29,907	\$ -	\$ 161,446	\$ -
-	56,947	-	378,793	-
-	-	-	33,266	-
125	8,462	1,829	42,858	-
-	-	-	94,950	-
125	95,316	1,829	711,313	-
1,961	107,994	40,172	5,237,726	-
2,086	203,310	42,001	5,949,039	-
115,137	440,740	442,694	19,888,790	-
53,816	888,870	452,962	7,918,541	144,651
168,953	1,329,610	895,656	27,807,331	144,651
\$ 171,039	\$ 1,532,920	\$ 937,657	\$ 33,756,370	\$ 144,651

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2013**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 2,105,184	\$ 355,187	\$ 2,057,303
Operating Expenses			
410 Personal Services	404,327	254,493	790,835
420 Other Current Expenses	470,864	149,169	739,940
457 Depreciation	489,210	17,666	721,678
Total Operating Expenses	1,364,401	421,328	2,252,453
Operating Income (Loss)	740,783	(66,141)	(195,150)
Non-Operating Income (Expense)			
331 Federal Grants - FEMA	13,650	7,259	23,790
334 State Grants	100,000	-	-
361 Losses on Deposits and Investments	(16,883)	(20,150)	(34,376)
366 Gain on Disposition of Assets	-	-	-
369 Other	1,958	1,807	9,164
470 Interest Expense and Fiscal Charges	-	-	(162,685)
Total Non-Operating Income (Expense)	98,725	(11,084)	(164,107)
Income (Loss) before Transfers	839,508	(77,225)	(359,257)
511 Transfers Out (Note 10)	(97,704)	(6,079)	(115,646)
Net Income (Loss)	741,804	(83,304)	(474,903)
Net Position - December 31, 2012	13,812,505	1,050,095	10,366,915
Net Position - December 31, 2013	\$ 14,554,309	\$ 966,791	\$ 9,892,012

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 21,824	\$ 1,099,545	\$ 320,805	\$ 5,959,848	\$ 596,000
5,921	394,171	135,799	1,985,546	-
1,654	475,050	136,293	1,972,970	592,301
4,378	91,118	18,236	1,342,286	-
11,953	960,339	290,328	5,300,802	592,301
9,871	139,206	30,477	659,046	3,699
-	45,569	1,306	91,574	-
-	-	-	100,000	-
(1,535)	(27,756)	(9,905)	(110,605)	(3,818)
-	-	850	850	-
43	826	217	14,015	-
-	-	-	(162,685)	-
(1,492)	18,639	(7,532)	(66,851)	(3,818)
8,379	157,845	22,945	592,195	(119)
(145)	(13,735)	(5,984)	(239,293)	-
8,234	144,110	16,961	352,902	(119)
160,719	1,185,500	878,695	27,454,429	144,770
\$ 168,953	\$ 1,329,610	\$ 895,656	\$ 27,807,331	\$ 144,651

CITY OF SPEARFISH

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 2,096,302	\$ 355,907	\$ 2,033,793
Payments to Suppliers	(428,856)	(149,793)	(721,701)
Payments to Employees	(375,073)	(227,517)	(729,975)
Net Cash Flows Provided by (Used in) Operating Activities	1,292,373	(21,403)	582,117
Cash Flows Used in Noncapital Financing Activities:			
Transfers Out	(97,704)	(6,079)	(115,646)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(970,725)	(147,978)	(649,055)
Proceeds from Sale of Capital Assets	-	-	-
Principal Paid on Capital Debt	-	-	(221,695)
Interest Paid	-	-	(164,186)
Grant Revenue	100,000	-	-
Other Receipts	1,958	1,807	9,164
Net Cash Flows Provided By (Used in) Capital and Related Financing Activities	(868,767)	(146,171)	(1,025,772)
Cash Flows Used in Investing Activities:			
Investment Loss	(70,845)	(20,150)	(43,425)
Increase (Decrease) in Cash and Investments	255,057	(193,803)	(602,726)
Cash and Investments - December 31, 2012	3,136,512	813,586	2,032,428
Cash and Investments - December 31, 2013	\$ 3,391,569	\$ 619,783	\$ 1,429,702
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 740,783	\$ (66,141)	\$ (195,150)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	489,210	17,666	721,678
Change in Assets and Liabilities:			
Change in Accounts Receivable	(10,432)	720	(23,510)
Change in Accounts Payable	42,008	(624)	18,239
Change in Accrued Wages	1,335	(328)	3,557
Change in Customer Deposits	1,550	-	-
Change in OPEB and Accrued Leave	27,919	27,304	57,303
Net Cash Flows Provided by (Used in) Operating Activities	\$ 1,292,373	\$ (21,403)	\$ 582,117
Noncash Capital and Related Financing Activities			
Gain on Sale of Capital Assets	\$ -	\$ -	\$ -

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 21,824	\$ 1,082,936	\$ 320,805	\$ 5,911,567	\$ 596,000
(1,654)	(473,334)	(137,073)	(1,912,411)	(592,301)
(5,773)	(366,433)	(127,178)	(1,831,949)	-
14,397	243,169	56,554	2,167,207	3,699
(145)	(13,735)	(5,984)	(239,293)	-
-	(125,998)	(13,859)	(1,907,615)	-
-	-	850	850	-
-	-	-	(221,695)	-
-	-	-	(164,186)	-
-	-	-	100,000	-
43	826	217	14,015	-
43	(125,172)	(12,792)	(2,178,631)	-
(1,535)	(27,756)	(9,905)	(173,616)	(3,818)
12,760	76,506	27,873	(424,333)	(119)
43,142	865,587	465,784	7,357,039	144,770
\$ 55,902	\$ 942,093	\$ 493,657	\$ 6,932,706	\$ 144,651
\$ 9,871	\$ 139,206	\$ 30,477	\$ 659,046	\$ 3,699
4,378	91,118	18,236	1,342,286	-
-	(16,609)	-	(49,831)	-
-	1,716	(780)	60,559	-
(2)	770	(82)	5,250	-
-	-	-	1,550	-
150	26,968	8,703	148,347	-
\$ 14,397	\$ 243,169	\$ 56,554	\$ 2,167,207	\$ 3,699
\$ -	\$ -	\$ 850	\$ 850	\$ -

CITY OF SPEARFISH

**STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2013**

	Agency Fund
Assets	
Interest Bearing Accounts	\$ 9,474
Total Assets	\$ 9,474
Liabilities	
Amounts Held for Others	\$ 9,474
Total Liabilities	\$ 9,474

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies

a. Reporting Entity

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

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

b. Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

Governmental Funds:

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

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

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

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

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

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

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

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Governmental Funds (Continued):

Special Park Gift Fund – to account for any gift, grant, devise or bequest made by any person, private agency, agency of state government, the federal government, or any of its agencies for park purposes (SDCL 9-38-112). This is not a major fund.

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

Municipal Highway and Bridge Fund – to account for the levy assessed for the purpose of maintaining or repairing street surfacing or pavement (SDCL 9-45-38). This is a major fund.

Golf Course Capital Fund – This fund was established pursuant to the Elkhorn Ridge Golf Course Management Agreement. The agreement states: “Management shall pay (5%) of gross revenue into an account maintained by the City to be reserved for capital improvement at the Golf Course. All capital improvements are subject to approval by the City and shall be considered as fixed assets of the City. When this agreement terminates, all funds in this account shall be an asset of the City. Any capital improvement, which may include building construction, new cart path construction, Golf Course improvements and development of new holes, shall be performed in accordance with the City’s requirements.” This agreement ended in 2013 when the golf course was transferred (Note 17). This is not a major fund.

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

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

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

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

Capital Project Funds – to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

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

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Governmental Funds (Concluded):

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City’s programs – that is for the benefit of the City and its citizenry.

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

Proprietary Funds:

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

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

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

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

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

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

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

Internal Service Funds:

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Fiduciary Funds:

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

Agency funds – agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are used to hold employee FLEX funds.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2013, are property, sales tax, special assessments, gaming, and FEMA grant receivables.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued):

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Noncurrent portions of long-term interfund receivables (reported in "Advance to" asset accounts) are equally offset by nonspendable fund balance which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered available spendable resources.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets.

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

Government-wide Financial Statements:

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements (Continued):

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

f. Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of revenue bonds, tax increment financing, compensated absences and OPEB liability.

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

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

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

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

i. Cash and Cash Equivalents

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

j. Deposits and Investments

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The City has three Committed Fund Balances for the year ended December 31, 2013. The Second Penny Sales Tax Fund was established by the City Council passing Ordinance #961 for the purposes described in Note 1(b). The Spearfish Economic Revolving Fund was established by the City Council passing Ordinance #717 for the purposes described in Note 1(b). The Art in Public Places Fund was established by the City Council passing Ordinance #1015 for the purposes described in Note 1(b). The City Council is the highest decision making authority and would have to pass an ordinance to remove these commitments.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer. The City has two Assigned Fund Balances for the year ended December 31, 2013. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2014 Appropriation Ordinance for the City's 2014 budget. The Historical Procurement Project Fund was established by the City Council passing Resolution 2010-24. The balance for this project is assigned within the General Fund.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications (Continued)

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

As of December 31, 2013, the City had the following governmental fund classifications:

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund	TID #3 McGuigan Ranch Capital Project Fund	Municipal Highway and Bridge Fund	Other Governmental Funds	Total Governmental Funds
263 Nonspendable:							
263 Inventory	\$ 3,432	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,432
263.04 Advances	-	732,429	-	-	-	-	732,429
263.05 Notes Receivable	956	-	-	-	-	746,483	747,439
263.49 SDPAA	98,788	-	-	-	-	-	98,788
263.51 Perpetual Care Cemetery	-	-	-	-	-	50,000	50,000
	103,176	732,429	-	-	-	796,483	1,632,088
264 Restricted:							
264.01 Debt Service	-	669,941	-	-	-	435,071	1,105,012
264.02 Capital Projects	-	-	-	-	-	217	217
264.03 Perpetual Care Cemetery	-	-	-	-	-	388,364	388,364
264.04 Promoting the City	-	-	-	-	-	344,916	344,916
264.05 Library Purposes	-	-	-	-	-	79,013	79,013
264.06 Park Purposes	-	-	-	-	-	335,847	335,847
264.07 911 Purposes	-	-	-	-	-	371,588	371,588
264.09 BID Purposes	-	-	-	-	-	63,409	63,409
264.99 Rifle Range Improvement Grant	-	8,500	-	-	-	-	8,500
264.99 Municipal Highway and Bridge	-	-	-	-	17,593	-	17,593
264.99 Special Assessments Revolving Loan	-	-	-	-	-	679,886	679,886
	-	678,441	-	-	17,593	2,698,311	3,394,345
265 Committed							
265.99 Second Penny	-	5,075,831	-	-	-	-	5,075,831
265.99 Spearfish Economic Revolving Fund	-	-	-	-	-	809,453	809,453
265.99 Art in Public Places Fund	-	-	-	-	-	65,329	65,329
	-	5,075,831	-	-	-	874,782	5,950,613
266 Assigned							
266.01 Subsequent Year's Budget	150,370	-	-	-	-	-	150,370
266.97 Historical Procurement Project	3,424	-	-	-	-	-	3,424
	153,794	-	-	-	-	-	153,794
267 Unassigned	4,832,280	-	(1,260,194)	(732,369)	-	-	2,839,717
Total Fund Balances	\$ 5,089,250	\$ 6,486,701	\$ (1,260,194)	\$ (732,369)	\$ 17,593	\$ 4,369,576	\$ 13,970,557

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications (Concluded)

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

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

l. Compensated Absences

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

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

m. Inventory

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

n. Emerging Accounting Standards

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies (Concluded)

n. Emerging Accounting Standards (Continued)

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

The guidance related to the new standards is effective for the City's year ending December 31, 2014 for GASB 67 and December 31, 2015 for GASB 68.

o. Subsequent Events

At December 31, 2013, the City was involved in a lawsuit with Spearfish Valley Sanitary District (the District), pertaining to a dispute over collection and treatment of sanitary sewer flows. In April 2014 the City entered into a Universal Agreement of Resolution with the District, and received \$144,742 in conjunction with the terms of the settlement agreement. Such revenue will be recognized by the City in 2014.

(2) Deposits and Investments

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

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

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(2) Deposits and Investments (Continued)

As of December 31, 2013, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	6-8 years	\$ 1,404,221 ¹
Federal National Mortgage Association Notes	AAA	4-7 years	4,398,907 ¹
Federal Home Loan Mortgage Corporation Notes	AAA	6 years	1,159,899 ¹
Federal Farm Credit Bank Bonds	AAA	6-7 years	2,679,804 ¹
External Investment Pools:			
SDFIT	Unrated		457,348
Total Investments			10,100,179
Other Investments:			
Money Markets			104,318
Certificates of Deposits			751,443
			\$ 10,955,940

¹ These investments may be called at anytime.

Within these investments, the City has bond reserves of \$669,941 at December 31, 2013, in accordance with debt covenants.

Interest Rate Risk:

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

Credit Risk:

State law limits eligible investments for the City, as discussed above. The City has no investment policy that would further limit its investment choices. As of December 31, 2013, the City's investment in SDFIT pool was unrated.

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

Custodial Credit Risk - Deposits:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Custodial Credit Risk – Investments:

The risk that, in the event of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

Assignment of Investment Income:

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

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(3) Deferred Inflows of Resources and Unearned Revenue

Government Accounting Standards Board (GASB) No. 65, *Items Previously Reported as Assets and Liabilities*, which was implemented in the current year, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, deferred inflows of resources, and unearned revenue, certain items that were previously reported as assets and liabilities. In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes, special assessments and a federal grant. Unearned revenues are liabilities of resources obtained prior to revenue recognition and consist of federal grant funds advanced to the City.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2013:

Loan	Collateral	Rate	Maturity	Balance
L. Ruth Engineering	Property/Corporate Guarantee	3%	July 2015	\$ 28,232
Façade Common Grounds	Property	0%	April 2015	2,667
Façade Versatile Carpet	Property	0%	April 2015	2,667
RABCO Products, Inc.	Equipment/Personal Guarantee	3%	May 2016	11,792
Arrojo Property Investments, Inc.	Property/Personal Guarantee	4%	December 2017	484,018
Spearfish Economic Development Corp.	Equipment	0%	July 2017	217,107
Runyan	None	0%	2014	956
Total				\$ 747,439

(5) Property Taxes

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2013 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2012 (Note 17)	Additions	Deletions	Balance 12/31/2013
Capital Assets, not being Depreciated:				
Land	\$ 9,703,871	\$ 29,057	\$ 786,094	\$ 8,946,834
Construction Work in Progress	76,543	1,284,630	4,691	1,356,482
Total Capital Assets, not being Depreciated	9,780,414	1,313,687	790,785	10,303,316
Capital Assets, being Depreciated:				
Buildings (Note 18)	19,756,033	43,428	4,267,929	15,531,532
Improvements Other Than Buildings (Note 17)	32,109,928	427,349	3,680,343	28,856,934
Machinery and Equipment	7,206,964	447,437	56,779	7,597,622
Total Capital Assets, being Depreciated	59,072,925	918,214	8,005,051	51,986,088
Less Accumulated Depreciation for:				
Buildings	3,609,869	422,583	261,179	3,771,273
Improvements Other Than Buildings	6,625,926	1,608,158	1,499,584	6,734,500
Machinery and Equipment	4,508,611	521,092	56,779	4,972,924
Total Accumulated Depreciation	14,744,406	2,551,833	1,817,542	15,478,697
Total Governmental Activities Capital Assets, being Depreciated, Net	44,328,519	(1,633,619)	6,187,509	36,507,391
Total Governmental Capital Assets, Net	\$ 54,108,933	\$ (319,932)	\$ 6,978,294	\$ 46,810,707

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 1,146,865
Public Works	791,921
Public Safety	259,450
General Government	218,849
Intergovernmental	68,869
Economic Development	65,879
Total Depreciation Expense - Governmental	\$ 2,551,833

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(6) Changes in Capital Assets (Continued)

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 642,008	\$ -	\$ -	\$ 642,008
Construction Work in Progress	99,370	1,035,009	88,698	1,045,681
Total Capital Assets, not being Depreciated	741,378	1,035,009	88,698	1,687,689
Capital Assets, being Depreciated:				
Buildings	10,306,733	-	-	10,306,733
Improvements Other Than Buildings	26,150,585	663,523	-	26,814,108
Machinery and Equipment	5,924,084	297,781	7,750	6,214,115
Total Capital Assets, being Depreciated	42,381,402	961,304	7,750	43,334,956
Less Accumulated Depreciation for:				
Buildings	4,794,292	281,946	-	5,076,238
Improvements Other Than Buildings	9,550,483	795,475	-	10,345,958
Machinery and Equipment	4,541,465	264,865	7,750	4,798,580
Total Accumulated Depreciation	18,886,240	1,342,286	7,750	20,220,776
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	23,495,162	(380,982)	-	23,114,180
Total Business-Type Capital Assets, Net	\$ 24,236,540	\$ 654,027	\$ 88,698	\$ 24,801,869

Depreciation expense was charged to functions as follows:

Sewer	\$ 721,678
Water	489,210
Solid Waste	91,118
Campground	18,236
Electric Production	17,666
Parking	4,378
Total Depreciation Expense - Business-Type	\$ 1,342,286

As of December 31, 2013, the City has a signed construction commitment of approximately \$90,000. This item is expected to be financed through the Sewer Fund with operating revenues. The City also has signed engineering commitments of approximately \$298,000. These items include engineering for a new water storage facility, water and sewer improvements in the Ramsdell Addition, and a water line replacement on Colorado Boulevard. These projects are expected to be financed through the Water and Sewer Funds with operating revenues and State Revolving Fund (SRF) bonds. The SRF bonds total \$3,254,000, but no advances occurred during 2013.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2013:

	Balance 12/31/2012	Borrowings	Repayments	Balance 12/31/2013	Due Within One Year
Primary Government:					
Governmental Activities:					
Series 2007 Bonds	\$ 7,130,000	\$ -	\$ 370,000	\$ 6,760,000	\$ 385,000
TID #1 Elkhorn Ridge (Note 17)	8,211,540	-	4,434,935	3,776,605	-
Accrued Interest - TID #1	2,875,495	1,001,032	98,003	3,778,524	110,087
TID #2 Industrial Park Bond	957,540	-	324,296	633,244	413,718
Compensated Absences	522,939	263,146	225,146	560,939	560,939
OPEB (Note 12)	1,117,967	301,761	31,714	1,388,014	-
Total Governmental Activities	20,815,481	1,565,939	5,484,094	16,897,326	1,469,744
Business-Type Activities:					
Sewer SRF Loan	5,134,773	-	221,695	4,913,078	228,968
Compensated Absences	137,983	77,546	65,704	149,825	149,825
OPEB (Note 12)	417,111	152,536	16,031	553,616	-
Total Business-Type Activities	5,689,867	230,082	303,430	5,616,519	378,793
Total Primary Government	\$ 26,505,348	\$ 1,796,021	\$ 5,787,524	\$ 22,513,845	\$ 1,848,537

Tax Increment Districts (TID) Obligations

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

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

During the year ended December 31, 2013, property tax revenues were \$95,812, \$352,504, and \$80,397 for TID #1, #2, and #3, respectively.

Pledged Revenues

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

Current Year Principal and Interest	\$ 384,380
Pledged Revenue	2,057,303

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2013, is comprised of the following:

Revenue Bonds

Series 2007 Bonds for \$8,940,000, mature in June 2027, interest at 3.50 to 4.40 percent, due in semi-annual installments from \$170,000 to \$325,000. Financed through Second Penny Sales Tax Fund for the Water Park. \$ 6,760,000

Clean Water Revenue Borrower Bonds, Series 2008 for \$5,658,584, mature in April 2030, interest at 3.25 percent, due in quarterly installments of \$325,000. Sewer revenues pledged and financed through the Sewer Fund for the Wastewater Treatment Plant expansion. 4,913,078

Tax Increment Financing Obligations

TID #1 Elkhorn Ridge, including interest at 9.25 percent, matures in 2030, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #1 Elkhorn Ridge Debt Service Fund. 3,776,605

TID #2 Industrial Park Bond, Series 2009, for \$2,000,000, matures in June 2015, interest at 5.00 percent, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #2 Industrial Park Debt Service Fund. 633,244

Total Revenue Bonds and Other Obligations 16,082,927

Compensated Absences

General Fund	560,939
Water Fund	19,025
Electric Fund	21,755
Sewer Fund	52,098
Solid Waste Fund	56,947
Total Compensated Absences	710,764

Other Post Employment Benefits (OPEB) (Note 12)

General Fund	1,388,014
Water Fund	112,537
Electric Fund	71,802
Sewer Fund	219,150
Parking Fund	1,961
Solid Waste Fund	107,994
Campground Fund	40,172
Total OPEB	1,941,630

Accrued Interest (TID #1) 3,778,524

Total Long-Term Debt **\$ 22,513,845**

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2013, except for compensated absences and OPEB, are as follows:

	Revenue Bonds		TID Obligations *		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2014	\$ 439,257	\$ 613,968	\$ 137,791	\$ 413,718	\$ 577,048	\$ 1,027,686
2015	416,609	636,511	115,568	219,526	532,177	856,037
2016	392,828	659,292	110,087	-	502,915	659,292
2017	367,992	687,329	110,087	-	478,079	687,329
2018	342,026	705,630	110,087	-	452,113	705,630
2019-2023	1,273,246	3,987,546	550,433	-	1,823,679	3,987,546
2024-2028	431,050	3,820,089	550,433	-	981,483	3,820,089
2029-2033	16,110	562,713	2,127,226	3,776,605	2,143,336	4,339,318
Total	\$ 3,679,118	\$ 11,673,078	\$ 3,811,712	\$ 4,409,849	\$ 7,490,830	\$ 16,082,927

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

The City has bond reserves of \$669,941 at December 31, 2013, in accordance with debt covenants on the 2007 Sales Tax Revenue Bonds. Additionally, the 2008 Clean Water SRF Bonds have a covenant requiring the City to keep net sewer revenue available for debt service at 110 percent of debt service expenses each year. The City is out of compliance with such covenant at December 31, 2013, but has received correspondence from South Dakota Department of Environmental Resources that the debt will not be called, and thus does not need presented as current.

(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, 2013, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$1,181,715.

(9) Lease

In 1997, the City issued Series 1997 bonds for the construction of a convention center on the City's land. In December 1997, the City entered into a lease agreement (at a cost of \$1) with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2013, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 239,293	\$ 343,761
Water Fund	-	97,704
Electric Production Fund	-	6,079
Sewer Fund	-	115,646
Solid Waste Fund	-	13,735
Campground Fund	-	5,984
Parking Fund	-	145
911 Emergency Fund	343,761	-
Municipal Highway and Bridge Fund	927,000	-
Second Penny Sales Tax Fund	-	927,000
Total Transfers	\$ 1,510,054	\$ 1,510,054

Subsidies totaling \$239,293 were transferred from the Water, Electric Production, Sewer, Solid Waste, Campground, and Parking Funds to the General Fund to cover utility operation costs of the City. The General Fund transferred \$343,761 to the 911 Emergency Fund due to the State of South Dakota requiring the accounting for dispatch funds in the Emergency Fund, rather than the General Fund, as in prior years. The Second Penny Sales Tax Fund transferred \$927,000 to the Municipal Highway and Bridge Fund to assist in street project costs.

Interfund advances to and advances from balances at December 31, 2013, were as follows:

	Interfund Advance To	Interfund Advance From
Second Penny Sales Tax Fund	\$ 732,429	\$ -
TID #3 McGuigan Ranch Capital Project Fund	-	732,429
TID #2 Industrial Park Capital Project Fund	-	1,260,194
Water Fund	1,079,230	-
Sewer Fund	180,964	-
Total Interfund Advances	\$ 1,992,623	\$ 1,992,623

In prior years, the Second Penny Sales Tax Fund advanced \$601,111 to TID #3 McGuigan Ranch Capital Project Fund for 10 housing lots to be purchased. The additional \$131,318 advance pertains to interest on the interfund loan, of which \$101,262 was recorded in the prior period adjustment at Note 16. Additionally, the Water and Sewer Funds advanced a total of \$1,260,194 in prior years to the TID #2 Industrial Park Capital Project Fund for expansions to the industrial park.

(11) Retirement Plan -- South Dakota Retirement System

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

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

General employees are required by state statute to contribute 6.0 percent of their salary to the plan, while public safety and judicial employees contribute 8.0 and 9.0 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$292,203, \$281,897, and \$273,471, respectively, equal to the required contributions each year.

(12) Other Post-Employment Benefits – Healthcare Plan

Plan Description:

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

Funding Policy:

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

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

Annual OPEB Cost and Net OPEB Obligation:

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

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$	415,919
Interest on Net OPEB Obligation		38,377
Adjustment to Annual Required Contribution		(47,410)
<hr/>		
Annual OPEB Costs		406,886
Contributions Made		(334)
<hr/>		
Change in Net OPEB Obligation		406,552
Net OPEB Obligation - Beginning of Year		1,535,078
<hr/>		
Net OPEB Obligation - End of Year	\$	1,941,630

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual	Net OPEB Obligation
2013	\$ 406,886	2%	\$ 1,941,630
2012	430,530	3%	1,535,078
2011	415,059	5%	1,117,727

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

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

Funded Status and Funding Progress:

As of December 31, 2013, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$2.4 million, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$2.4 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5.2 million, and the ratio of the UAAL to the covered payroll was 45.56 percent.

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

Actuarial Methods and Assumptions:

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

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

(13) Joint Venture

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

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

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

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2013, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

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

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

As of December 31, 2013, the City has a vested balance in the cumulative reserve fund of \$98,788 and is considered to be fully vested.

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

Unemployment Benefits:

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

During the year ended December 31, 2013, no significant claims were filed for unemployment benefits.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2013**

(14) Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and resolve any worker's compensation claims. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees, under a retro-actively rated policy, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

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

(15) City Officers

The following were City officers for the year ended December 31, 2013:

Mayor:

Dana Boke

Council:

Mary Morgan

Travis Geppert

Paul Young

Doug Schmit

Don Aaker

David Baker

Finance Officer:

Dave Dutton

Attorney:

Richard Plumier

Brady Plumier, P.C.

(16) Prior Period Adjustments

A capital contribution of the building now known as the TMOne building, land, and parking lot was donated to the City in 2011. The capital contribution of \$3,650,000 and corresponding depreciation of \$85,349 was not recorded, resulting in an understatement of governmental capital assets and net position totaling \$3,564,651 as of December 31, 2012.

Interfund loan interest relating to TID #3 was not recorded when the TID originated, resulting in an understatement of governmental interfund receivables, payables and net position between the Second Penny Fund and the TID #3 Capital Projects Funds totaling \$101,262 as of December 31, 2012.

(17) Special Item – Transfer of Golf Course

In 2013, the City transferred a golf course with a net book value of \$3,927,667 in exchange for reduction of related debt of \$4,434,935, resulting in a gain on the transfer totaling \$507,268, presented in the Statement of Activities for the year ended December 31, 2013.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2013**

(18) Extraordinary Item – TMOne Building Impairment

In October 2013, the City's TMOne building collapsed due to winter storm Atlas, resulting in a permanent impairment. An extraordinary loss of \$2,863,303 is recorded on the Statement of Activities at the net book value of the building as of the date of impairment. The building will be reconstructed in 2014 with insurance proceeds received in 2014.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Revenue	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,864,103	\$ 1,864,103	\$ 1,855,489	\$ (8,614)
313 General Sales and Use Taxes	3,150,000	3,150,000	3,407,668	257,668
314 Gross Receipts Tax	70,500	70,500	89,358	18,858
315 Amusement Taxes	1,000	1,000	972	(28)
319 Penalties and Interest on Delinquent Taxes	4,650	4,650	2,941	(1,709)
320 Licenses and Permits	283,950	283,950	371,144	87,194
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	60,000	108,352	64,472	(43,880)
334 State Grants	-	10,482	3,997	(6,485)
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	4,000	4,000	4,748	748
335.03 Liquor Tax Reversion	54,000	54,000	55,399	1,399
335.04 Motor Vehicle Licenses (5%)	53,500	53,500	74,637	21,137
335.20 Other	275,000	275,000	220,790	(54,210)
<i>County Shared Revenue:</i>				
338.02 County HBR Tax	16,500	16,500	15,841	(659)
339 County Payments in Lieu of Taxes	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341 General Government	18,200	22,110	26,403	4,293
342 Public Safety	62,450	63,199	52,823	(10,376)
343 Highways and Streets	363	2,838	4,288	1,450
346 Culture and Recreation	645,700	645,700	755,412	109,712
348 Cemetery	7,825	7,825	5,960	(1,865)
349 Other	100	100	15	(85)
<i>Fines and Forfeits:</i>				
351 Court Fines and Costs	2,000	2,000	1,532	(468)
359 Other	6,650	6,650	3,870	(2,780)
<i>Miscellaneous Revenue:</i>				
361 Earnings (Loss) on Deposits and Investments	65,500	65,500	(95,692)	(161,192)
362 Rentals	41,170	41,170	50,022	8,852
363 Special Assessments	100,325	100,325	101,861	1,536
367 Contributions and Donations - Private Sources	5,000	5,000	6,698	1,698
369 Other	8,523	8,523	14,802	6,279
Total Revenue	7,031,430	7,097,398	7,325,871	228,473

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	136,744	169,544	155,376	14,168
411.5 Contingency	238,792	238,792	-	238,792
Amount Transferred	-	(238,792)	-	(238,792)
412 Executive	127,348	128,348	127,592	756
414 Financial Administration	296,267	296,267	272,108	24,159
419 Other	757,210	776,960	763,285	13,675
<i>Public Safety:</i>				
421 Police	2,009,327	2,016,671	1,583,186	433,485
422 Fire	169,397	169,397	168,160	1,237
423 Protective Inspection	177,625	177,625	151,007	26,618
<i>Public Works:</i>				
431 Highways and Streets	839,497	1,212,262	1,204,837	7,425
437 Cemeteries	96,140	96,140	81,864	14,276
<i>Health and Welfare:</i>				
441 Health	62,027	62,027	59,598	2,429
<i>Culture and Recreation:</i>				
451 Recreation	1,577,813	1,600,861	1,527,702	73,159
452 Parks	344,896	392,016	391,008	1,008
455 Library	361,626	361,626	348,858	12,768
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	6,000	33,200	31,688	1,512
465 Economic Development and Assistance	128,501	135,501	135,484	17
480 Intergovernmental Expenditures	315,847	353,847	349,492	4,355
Total Expenditures	7,645,057	7,982,292	7,351,245	631,047
Deficiency of Revenue under Expenditures	(613,627)	(884,894)	(25,374)	859,520
Other Financing Sources (Uses):				
391.01 Transfers In	425,000	425,000	239,293	(185,707)
391.03 Sale of Municipal Property	-	-	2,500	2,500
511 Transfers Out	-	(363,761)	(343,761)	20,000
Total Other Financing Sources (Uses)	425,000	61,239	(101,968)	(163,207)
Net Change in Fund Balance	(188,627)	(823,655)	(127,342)	696,313
Fund Balance - December 31, 2012	5,216,592	5,216,592	5,216,592	-
Fund Balance - December 31, 2013	\$ 5,027,965	\$ 4,392,937	\$ 5,089,250	\$ 696,313

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, 2013**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 3,150,000	\$ 3,150,000	\$ 3,407,668	\$ 257,668
<i>Miscellaneous Revenue:</i>				
361 Earnings (Losses) on Deposits and Investments	57,500	57,500	(43,278)	(100,778)
367 Contributions and Donations - Private Sources	5,000	90,000	20,000	(70,000)
Total Revenue	3,212,500	3,297,500	3,384,390	86,890
Expenditures				
<i>General Government:</i>				
419 Other	-	81,500	77,809	3,691
<i>Public Safety:</i>				
422 Fire	-	21,000	11,110	9,890
<i>Public Works:</i>				
431 Highways and Streets	-	207,898	207,315	583
<i>Health and Welfare:</i>				
441 Health	-	25,000	25,000	-
<i>Culture and Recreation:</i>				
451 Recreation	25,000	40,500	37,406	3,094
452 Parks	-	10,000	9,369	631
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	-	189,000	189,000	-
465 Economic Development and Assistance	-	84,983	84,422	561
470 Debt Service	666,463	666,463	666,462	1
480 Intergovernmental Expenditures	-	4,380	4,380	-
485 Capital Outlay	2,424,800	1,785,539	785,487	1,000,052
Total Expenditures	3,116,263	3,116,263	2,097,760	1,018,503
Excess of Revenue over Expenditures	96,237	181,237	1,286,630	1,105,393
Other Financing Uses:				
511 Transfers Out	(927,000)	(927,000)	(927,000)	-
Total Other Financing Uses	(927,000)	(927,000)	(927,000)	-
Net Change in Fund Balance	(830,763)	(745,763)	359,630	1,105,393
Fund Balance - December 31, 2012	6,025,809	6,025,809	6,025,809	-
Prior Period Adjustment (Note 16)	101,262	101,262	101,262	-
Fund Balances - December 31, 2012, as Restated	6,127,071	6,127,071	6,127,071	-
Fund Balance - December 31, 2013	\$ 5,296,308	\$ 5,381,308	\$ 6,486,701	\$ 1,105,393

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

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
MUNICIPAL HIGHWAY AND BRIDGE FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Intergovernmental Revenue:</i>				
334 State Grants	\$ 300,000	\$ 300,000	\$ 290,473	\$ (9,527)
<i>State Shared Revenue:</i>				
5.08 Local Government Highway and Bridge Fund	94,000	94,000	122,195	28,195
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	1,000	1,000	28	(972)
363 Special Assessments	-	-	40	40
367 Contributions and Donations - Private Sources	559,000	559,000	368,310	(190,690)
Total Revenue	954,000	954,000	781,046	(172,954)
Expenditures				
<i>Public Works:</i>				
431 Highways and Streets	1,881,000	1,881,000	1,727,484	153,516
Deficiency of Revenue under Expenditures	(927,000)	(927,000)	(946,438)	(19,438)
Other Financing Uses:				
511 Transfers Out	927,000	927,000	927,000	-
Total Other Financing Uses	927,000	927,000	927,000	-
Net Change in Fund Balance	-	-	(19,438)	(19,438)
Fund Balance - December 31, 2012	37,031	37,031	37,031	-
Fund Balance - December 31, 2013	\$ 37,031	\$ 37,031	\$ 17,593	\$ (19,438)

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

CITY OF SPEARFISH

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING
PROGRESS (OPEB)
DECEMBER 31, 2013**

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year, or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2013.
7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.
8. Budgets for the general fund, special revenue funds, capital projects funds, and debt service funds are adopted on a basis consistent with the modified-cash basis of accounting.

Schedule of Funding Progress (OPEB)

As of December 31, 2013 the plan's statistics were as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	-	2,024,819	2,024,819	0.00%	4,783,562	42.33%
12/31/2012	-	2,518,300	2,518,300	0.00%	4,917,413	51.21%
12/31/2013	-	2,377,325	2,377,325	0.00%	5,217,997	45.56%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2013**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets			
101 Cash and Cash Equivalents	\$ 134,218	\$ 28,180	\$ 55,147
104 Investments	200,563	50,833	-
110 Sales Taxes Receivable	10,135	-	-
115 Accounts Receivable	-	-	-
121 Special Assessments Receivable	-	-	8,262
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
Total Assets	\$ 344,916	\$ 79,013	\$ 63,409
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ -	\$ -	\$ -
216 Accrued Wages	-	-	-
Total Liabilities	-	-	-
<i>Deferred Inflows of Resources</i>			
246 Unavailable Revenue - Special Assessments	-	-	-
Total Deferred Inflows of Resources	-	-	-
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.04 Notes Receivable	-	-	-
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264.01 Debt Service	-	-	-
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	344,916	-	-
264.05 Library Purposes	-	79,013	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	63,409
264.99 Special Assessments Revolving Loan Fund	-	-	-
265 <i>Committed:</i>			
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
Total Fund Balances	344,916	79,013	63,409
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 344,916	\$ 79,013	\$ 63,409

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ 210,584	\$ 176,609	\$ 251,247	\$ 136,493	\$ 838
138,498	503,277	553,866	200,013	64,491
-	-	-	-	-
-	-	4,340	-	-
-	26,858	-	-	-
-	-	746,483	-	-
31,227	-	-	-	-
\$ 380,309	\$ 706,744	\$ 1,555,936	\$ 336,506	\$ 65,329

\$ -	\$ -	\$ -	\$ 659	\$ -
8,721	-	-	-	-
8,721	-	-	659	-

-	26,858	-	-	-
-	26,858	-	-	-

-	-	746,483	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	335,847	-
371,588	-	-	-	-
-	-	-	-	-
-	679,886	-	-	-
-	-	809,453	-	-
-	-	-	-	65,329
371,588	679,886	1,555,936	335,847	65,329

\$ 380,309	\$ 706,744	\$ 1,555,936	\$ 336,506	\$ 65,329
-------------------	-------------------	---------------------	-------------------	------------------

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2013**

	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund
Assets				
101 Cash and Cash Equivalents	\$ 11,379	\$ 250,683	\$ 148,158	\$ -
104 Investments	-	-	24,851	438,364
110 Sales Taxes Receivable	-	-	-	-
115 Accounts Receivable	-	-	-	-
121 Special Assessments Receivable	-	-	-	-
128 Notes Receivable	-	-	-	-
132 Due from Other Governments	-	-	-	-
Total Assets	\$ 11,379	\$ 250,683	\$ 173,009	\$ 438,364
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ -	\$ -	\$ -	\$ -
216 Accrued Wages	-	-	-	-
Total Liabilities	-	-	-	-
<i>Deferred Inflows of Resources</i>				
246 Unavailable Revenue - Special Assessments	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<i>Fund Balances</i>				
263 <i>Nonspendable:</i>				
263.04 Notes Receivable	-	-	-	-
263.51 Perpetual Care Cemetery	-	-	-	50,000
264 <i>Restricted:</i>				
264.01 Debt Service	11,379	250,683	173,009	-
264.02 Capital Projects	-	-	-	-
264.03 Perpetual Care Cemetery	-	-	-	388,364
264.04 Promoting the City	-	-	-	-
264.05 Library Purposes	-	-	-	-
264.06 Park Purposes	-	-	-	-
264.07 911 Purposes	-	-	-	-
264.09 Business Improvement District Purposes	-	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-	-
265 <i>Committed:</i>				
265.99 Spearfish Economic Revolving Fund	-	-	-	-
265.99 Art in Public Places Fund	-	-	-	-
Total Fund Balances	11,379	250,683	173,009	438,364
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 11,379	\$ 250,683	\$ 173,009	\$ 438,364

**TID #1
Elkhorn
Ridge
Capital Projects**

Fund	Total
\$ 217	\$ 1,403,753
-	2,174,756
-	10,135
-	4,340
-	35,120
-	746,483
-	31,227
\$ 217	\$ 4,405,814

\$ -	\$ 659
-	8,721
-	9,380

-	26,858
-	26,858

-	746,483
-	50,000
-	435,071
217	217
-	388,364
-	344,916
-	79,013
-	335,847
-	371,588
-	63,409
-	679,886
-	809,453
-	65,329
217	4,369,576

\$ 217	\$ 4,405,814
---------------	---------------------

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	561,070	-	-
315 Amusement Taxes	-	-	184,942
316 911 Telephone Surcharge	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	-
<i>Charges for Goods and Services:</i>			
346 Culture and Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines and Forfeits:</i>			
354 Library	-	17,466	-
<i>Miscellaneous Revenue:</i>			
361 Earnings (Loss) on Deposits and Investments	(7,330)	(1,995)	15
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	930	5,211	12,552
369 Other	-	-	100
Total Revenue	554,670	20,682	197,609
Expenditures:			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	246,249	-	-
452 Parks	-	-	-
455 Library	-	21,951	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	380,686	-	213,002
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
Total Expenditures	626,935	21,951	213,002
Excess (Deficiency) of Revenue over Expenditures	(72,265)	(1,269)	(15,393)
Other Financing Sources			
390 Transfers In	-	-	-
391.03 Sale of Municipal Property	-	-	-
Total Other Financing Sources	-	-	-
Net Change in Fund Balances	(72,265)	(1,269)	(15,393)
Fund Balances, December 31, 2012	417,181	80,282	78,802
Fund Balances, December 31, 2013	\$ 344,916	\$ 79,013	\$ 63,409

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
125,385	-	-	-	-
-	-	-	-	-
-	-	-	-	10,366
-	-	-	-	-
-	-	-	-	-
(5,515)	(19,523)	21,164	(4,590)	(1,549)
-	-	16,401	28,037	-
-	28,368	868	-	-
-	-	-	-	-
237	-	20,535	-	-
120,107	8,845	58,968	23,447	8,817
372,780	-	-	-	-
-	-	-	-	-
-	-	-	10,711	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	6,839	-
372,780	-	-	17,550	-
(252,673)	8,845	58,968	5,897	8,817
343,761	-	-	-	-
-	-	-	-	-
343,761	-	-	-	-
91,088	8,845	58,968	5,897	8,817
280,500	671,041	1,496,968	329,950	56,512
\$ 371,588	\$ 679,886	\$ 1,555,936	\$ 335,847	\$ 65,329

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013**

	TID #1	TID #2	TID #3	
	Golf	Elkhorn	Industrial	
	Course	Ridge	Park	
	Capital	Debt Fund	Debt Fund	
		Debt Fund	McGuigan	
			Ranch	
			Debt Fund	
Revenue:				
<i>Taxes:</i>				
311 General Property Taxes	\$ -	\$ 95,812	\$ 352,504	\$ 80,397
313 General Sales and Use Taxes	-	-	-	-
315 Amusement Taxes	-	-	-	-
316 911 Telephone Surcharge	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	1,911	-
<i>Intergovernmental Revenue:</i>				
346 Culture and Recreation	-	-	-	-
348 Cemeteries	-	-	-	-
<i>Fines and Forfeits:</i>				
354 Library	-	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings (Loss) on Deposits and Investments	12	6	86	(955)
362 Rentals	-	-	-	-
363 Special Assessments	66	-	-	-
367 Contributions and Donations - Private Sources	19,477	-	-	-
369 Other	-	-	-	-
Total Revenue	19,555	95,818	354,501	79,442
Expenditures:				
<i>Public Safety:</i>				
421 Police	-	-	-	-
<i>Culture and Recreation:</i>				
451 Recreation	58,025	-	-	-
452 Parks	-	-	-	-
455 Library	-	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	-	-
470 Debt Service	-	98,003	364,759	-
485 Capital Outlay	-	-	-	-
Total Expenditures	58,025	98,003	364,759	-
Excess (Deficiency) of Revenue over Expenditures	(38,470)	(2,185)	(10,258)	79,442
Other Financing Sources				
390 Transfers In	-	-	-	-
391.03 Sale of Municipal Property	-	-	-	20,000
Total Other Financing Sources	-	-	-	20,000
Net Change in Fund Balances	(38,470)	(2,185)	(10,258)	99,442
Fund Balances, December 31, 2012	38,470	13,564	260,941	73,567
Fund Balances, December 31, 2013	\$ -	\$ 11,379	\$ 250,683	\$ 173,009

Cemetery Perpetual Care Fund	TID #1 Elkhorn Ridge Capital Projects Fund	Total
\$ -	\$ -	\$ 528,713
-	-	561,070
-	-	184,942
-	-	125,385
-	-	1,911
-	-	10,366
11,780	-	11,780
-	-	17,466
-	-	(20,174)
-	-	44,438
-	-	29,302
-	-	38,170
-	-	20,872
11,780	-	1,554,241
-	-	372,780
-	-	304,274
-	-	10,711
-	-	21,951
-	-	593,688
-	-	462,762
-	-	6,839
-	-	1,773,005
11,780	-	(218,764)
-	-	343,761
-	-	20,000
-	-	363,761
11,780	-	144,997
426,584	217	4,224,579
\$ 438,364	\$ 217	\$ 4,369,576

SINGLE AUDIT SECTION

CITY OF SPEARFISH

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2013**

Status of Prior Audit Findings:

The City does not consider the additional costs of preparing its financial statements to be necessary, so Finding #12-1 will be repeated as Finding #2013-001 for the year ending December 31, 2013.

CITY OF SPEARFISH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED DECEMBER 31, 2013

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on the financial statements of the City of Spearfish (the City).
2. Material weaknesses and significant deficiencies were disclosed during the audit of the financial statements and are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. A significant deficiency and a material weakness were disclosed during the audit of the major federal award program as reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance as Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program for the City expresses an unmodified opinion.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as major was as follows:
 - a. Disaster Grants – Public Assistance – Presidentially Declared Disasters (CFDA #97.036)
8. The threshold for distinguishing type A and B programs was \$300,000.
9. The City was not considered a low-risk auditee under the criteria established in OMB Circular A-133.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

2013-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Condition and Cause: As in prior years, we were requested to draft the audited financial statements, related footnote disclosures, and SEFA as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do with municipalities of your size.

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

Questioned Costs: None

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

CITY OF SPEARFISH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

2013-001 FINDING: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation (Continued)

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

2013-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. Adjustments primarily pertained to FEMA grant receivables, deferrals, and revenue; prior period adjustments for the TMOne building contribution and TID #3 interest receivable and accrual, as well as several reclassification entries with no effect on net income. Furthermore, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance on the financial statements.

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

Recommendation: We recommend that management consider adjusting grant receivables and deferrals for expenditures pertaining to reimbursement monies the City has earned, but not received during the 60-day availability period, based on project worksheets completed as part of the grant. Additionally, donated capital assets should be recorded when received and interfund interest activity when it occurs, in order to prevent prior period adjustments.

Response and Corrective Action Plan: The Finance Officer and Assistant Finance Officer will diligently review all grant project worksheets and record grant receivables and deferrals appropriately. The process to accept donated assets has been modified to include financial statement entries and verification to prevent this omission in the future.

SIGNIFICANT DEFICIENCIES

2013-003 FINDING: Compliance with Debt Covenants

Condition and Cause: The City is not in compliance with debt covenants for 2008 Revenue Bonds that require net revenues of the sewer fund to be at least 110 percent of debt service requirements.

Criteria/Effect: The City is out of compliance with the requirements of the revenue bond agreements. The bonds could be called as a result of the City's noncompliance. Subsequently, the State did not call the debt and is working with the City on correcting the issue.

Recommendation: The City should ensure that the City is in compliance with all debt covenants by performing accrual-basis covenant calculations on at least a quarterly basis.

Response and Corrective Action Plan: The Finance Officer and Assistant Finance Officer will review all the debt covenant requirements quarterly to ensure compliance to prevent this in the future.

CITY OF SPEARFISH

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONCLUDED)
FOR THE YEAR ENDED DECEMBER 31, 2013**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONCLUDED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

2013-004 FINDING: Rubble Site Punch Cards

Condition and Cause: The City does not have an internal control process in place to track the sale of rubble site punch cards.

Criteria and Effect: A lack of internal controls could lead to a misstatement in the financial statements or potentially a misappropriation of cash.

Recommendation: The City should sell prenumbered punch cards and periodically review the number of cards sold and reconcile such revenue to the general ledger.

Response and Corrective Action Plan: The current stock of punch cards were immediately numbered and inventoried. All future cards printed will contain sequential numbering. The Finance Officer will periodically review the inventory of cards for accuracy.

C. FINDINGS – COMPLIANCE AUDIT

Finding #2013-001 listed in Part B relates to major federal award program #97.036. This finding relates to the reporting compliance requirement.

SIGNIFICANT DEFICIENCY

2013-005 FINDING: FEMA Suspension and Debarment

Condition and Cause: The City does not have controls in place to monitor whether vendors who are utilized for the expenditure of federal funds have been suspended or debarred. This finding pertains to the suspension and debarment compliance requirement.

Criteria and Effect: Non-federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

When a non-federal entity enters into a covered transaction with an entity at a lower tier, the non-federal entity must verify that the entity is not suspended or debarred or otherwise excluded. This verification may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the covered transaction with that entity.

Questioned Costs: None

Applicable Major Program: Disaster Grants – Public Assistance – Presidentially Declared Disasters (CFDA #97.036)

Recommendation: The City should ensure vendors are not suspended/debarred prior to utilizing them for federal projects.

Response and Corrective Action Plan: The City Finance Officer has implemented a required certification from vendors who are paid or possibly paid with federal funds. Vendors not submitting the certification will be verified through the EPLS system prior to payment.

CITY OF SPEARFISH

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2013**

	CFDA Number	Amount
<i>U.S. Department of Interior:</i>		
Pass-Through the S.D. Department of Education and Cultural Affairs: Historic Preservation Fund Grants-in-Aid	15.904	\$ 7,138
<i>U.S. Department of Justice Direct Funding:</i>		
Public Safety Partnership and Community Policing Grants	16.710	20,016
<i>U.S. Department of Transportation:</i>		
Pass-Through the S.D. Department of Public Safety: State and Community Highway Safety	20.600	7,344
<i>U.S. Department of Health and Human Services:</i>		
Pass-Through the Centers for Disease Control and Prevention: ACHIEVE Grant	93.283	32,573
<i>U.S. Department of Homeland Security:</i>		
Pass-Through S.D. Department of Public Safety: Disaster Grants - Public Assistance - Presidentially Declared Disasters	97.036	527,231
Total		\$ 594,302

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

OTHER REPORTS



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

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

City Council
City of Spearfish
Spearfish, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 14, 2014.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2013-001 and #2013-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as #2013-003 and #2013-004 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* as #2013-003 in the accompanying Schedule of Findings and Questioned Costs.

City Council

City's Response to Findings

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

Purpose of this Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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

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

City Council
City of Spearfish
Spearfish, South Dakota

Report on Compliance for Each Major Federal Program

We have audited the compliance of **CITY OF SPEARFISH** (the City) with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City's major federal program is identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program identified in the summary of audit results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2013.

Report on Internal Control over Compliance

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

City Council

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2013-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as #2013-005 to be a significant deficiency.

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

Purpose of Report

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



KETEL THORSTENSON, LLP
Certified Public Accountants

August 14, 2014