



CITY OF SPEARFISH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2015



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

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CITY OF SPEARFISH

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2015, 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, 2015, 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, schedule of funding progress (OPEB), and pension schedules on pages 54 through 59, 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 60 through 63 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements 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 September 26, 2016, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 26, 2016

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015

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, 2015. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position from governmental and business-type activities increased by \$7,041,051, due to the addition of capital assets during 2015. During 2015 the City completed reconstruction of the TM One facility (now called the Atlas Building) that was destroyed in October 2013.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$3,126,810 more than the \$11,552,864 governmental expenditures, excluding transfers.
- In the City's business-type activities, revenue increased by 11 percent to \$8,381,691 while expenses decreased by 1 percent to \$5,060,325, due to increased utility rates, changes in fee structures in the business-type activities and acceptance of infrastructure contributions from developers.
- The total cost of the City's programs decreased by \$2,203,264 due to cost control measures being implemented in nearly every City department. Measures included the addition of City staff to reduce professional service fees paid to outside vendors and adherence to the City's purchasing policy.
- The general fund reported an \$864,833 current year increase primarily due to significant increases in revenues and minimal increases in expenditures during 2015. Significant revenues were seen in sales tax, gaming revenues, and licenses and permits.

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 seven proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Airport 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, 2015**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The table below 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.

	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, 2015

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. The Airport fund is new in 2015 in anticipation of the change in sponsorship of the Black Hills Airport to the City in 2016.

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, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 8.67 percent between 2014 and 2015 – increasing by \$7,041,051 (see Table A-1).

Statement of Net Position Table A-1						
	Governmental Activities		Business-Type Activities		Total	
	2014	2015	2014	2015	2014	2015
Current & Other Assets	\$ 18,928,209	\$ 16,626,601	\$ 11,279,908	\$ 9,192,986	\$ 30,208,117	\$ 25,819,587
Capital Assets	46,478,824	51,887,768	29,690,104	36,267,376	76,168,928	88,155,144
Total Assets	65,407,033	68,514,369	40,970,012	45,460,362	106,377,045	113,974,731
Pension Related Deferred Outflows of Resources	\$ -	\$ 1,536,680	\$ -	\$ 563,951	\$ -	\$ 2,100,631
Long-Term Debt	\$ 17,416,909	\$ 16,887,167	\$ 8,193,852	\$ 8,480,240	\$ 25,610,761	\$ 25,367,407
Other Liabilities	565,778	331,062	372,014	388,330	937,792	719,392
Total Liabilities	\$ 17,982,687	\$ 17,218,229	\$ 8,565,866	\$ 8,868,570	\$ 26,548,553	\$ 26,086,799
Pension Related Deferred Inflows of Resources	\$ -	\$ 1,289,508	\$ -	\$ 473,241	\$ -	1,762,749
Net Position:						
Net Investment in Capital Assets	\$ 31,324,695	\$ 35,729,634	\$ 22,308,198	\$ 28,001,124	\$ 53,632,893	\$ 63,730,758
Restricted	4,059,518	4,685,346	-	411,438	4,059,518	5,096,784
Unrestricted	12,040,133	11,128,332	10,095,948	8,269,940	22,136,081	19,398,272
Total Net Position	\$ 47,424,346	\$ 51,543,312	\$ 32,404,146	\$ 36,682,502	\$ 79,828,492	\$ 88,225,814
Beginning Net Position	\$ 44,158,061	\$ 47,424,346	\$ 27,807,331	\$ 32,404,146	\$ 71,965,392	\$ 79,828,492
Change in Accounting Principle	-	992,156	-	364,115	-	1,356,271
Change in Net Position	3,266,285	3,126,810	4,596,815	3,914,241	7,863,100	7,041,051
Percentage of Increase in Net Position	7.40%	6.46%	16.53%	11.95%	10.93%	8.67%

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

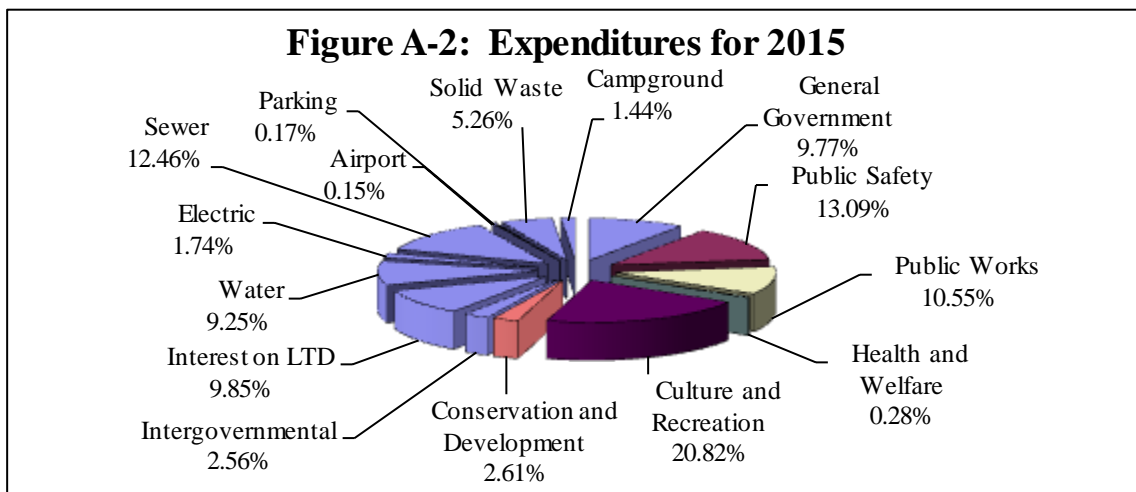
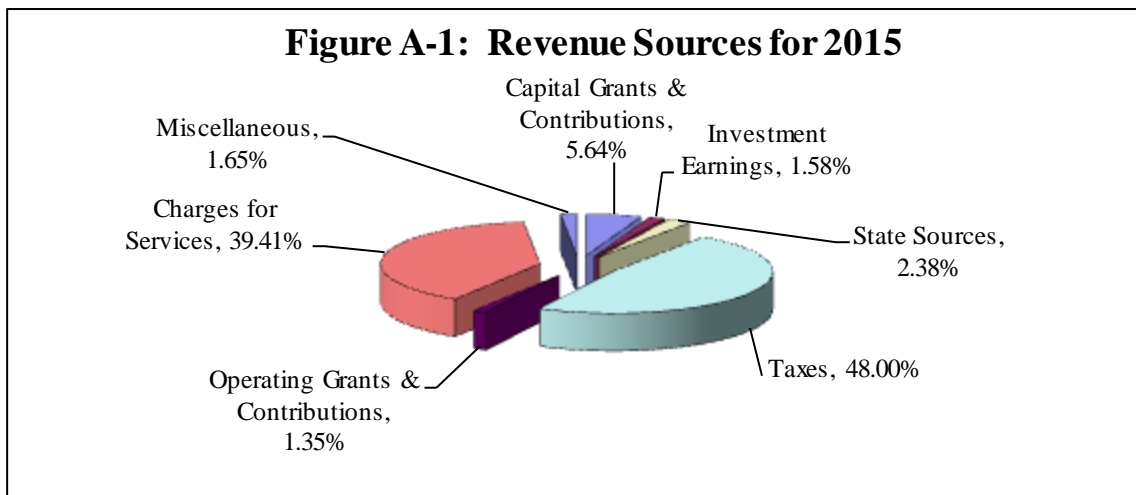
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Position

The City's total revenues (excluding transfers) totaled \$23,654,240 (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 48 cents of every dollar raised comes from some type of tax. (See Figure A-1).

The total cost of all programs and services decreased \$2,203,264 from 2014 to 2015. The City's expenses cover a range of services, including public works administration, public safety, and culture and recreation. (See Figure A-2).



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015

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	
	2014	2015	2014	2015	2014	2015
Revenues						
<i>Program Revenues</i>						
Charges for Services	\$ 1,927,045	\$ 2,005,932	\$ 6,720,763	\$ 7,317,160	\$ 8,647,808	\$ 9,323,092
Operating Grants and Contributions	320,793	299,414	179,500	19,466	500,293	318,880
Capital Grants and Contributions	12,508	513,184	368,813	819,867	381,321	1,333,051
<i>General Revenues</i>						
Taxes	11,050,522	11,353,435	-	-	11,050,522	11,353,435
Revenue State Sources	64,630	561,845	-	-	64,630	561,845
Unrestricted Investment						
Earnings (Losses)	437,283	241,533	228,518	131,166	665,801	372,699
Miscellaneous	157,869	297,206	54,367	94,032	212,236	391,238
Total Revenues	\$13,970,650	\$ 15,272,549	\$ 7,551,961	\$ 8,381,691	\$21,522,611	\$ 23,654,240
Expenses						
General Government	\$ 1,726,722	\$ 1,622,522	\$ -	\$ -	\$ 1,726,722	\$ 1,622,522
Public Safety	2,950,814	2,174,873	-	-	2,950,814	2,174,873
Public Works	2,135,551	1,752,789	-	-	2,135,551	1,752,789
Health and Welfare	64,059	46,717	-	-	64,059	46,717
Culture and Recreation	3,920,854	3,459,088	-	-	3,920,854	3,459,088
Conservation and Development	505,052	434,047	-	-	505,052	434,047
Interest on Long-Term Debt	1,203,708	1,636,842	-	-	1,203,708	1,636,842
Intergovernmental	593,840	425,986	-	-	593,840	425,986
Water Services	-	-	1,384,380	1,536,970	1,384,380	1,536,970
Electric Services	-	-	355,890	289,109	355,890	289,109
Sewer Services	-	-	2,510,550	2,070,271	2,510,550	2,070,271
Airport	-	-	-	24,451	-	24,451
Parking	-	-	27,319	27,577	27,319	27,577
Solid Waste	-	-	1,155,909	874,020	1,155,909	874,020
Campground	-	-	281,805	237,927	281,805	237,927
Total Expenses	\$13,100,600	\$ 11,552,864	\$ 5,715,853	\$ 5,060,325	\$18,816,453	\$ 16,613,189
Excess Revenues Before Transfers, Special Item and Extraordinary Item						
	\$ 870,050	\$ 3,719,685	\$ 1,836,108	\$ 3,321,366	\$ 2,706,158	\$ 7,041,051
Transfers	(2,760,707)	(592,875)	2,760,707	592,875	-	-
Extraordinary Item	5,156,942	-	-	-	5,156,942	-
Increase in Net Position	\$ 3,266,285	\$ 3,126,810	\$ 4,596,815	\$ 3,914,241	\$ 7,863,100	\$ 7,041,051
Change in Accounting Principle	\$ -	\$ 992,156	\$ -	\$ 364,115	\$ -	\$ 1,356,271
Net Position - Ending	\$47,424,346	\$ 51,543,312	\$32,404,146	\$ 36,682,502	\$79,828,492	\$ 88,225,814

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenditures by \$3,719,685 excluding transfers, due to increased tax revenues, acceptance of street infrastructure in development areas and implementation of cost control measures.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by \$3,321,366, excluding transfers, due to rate increases in all business-type funds, increased revenues in the City campground and acceptance of infrastructure dedications from developers.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

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

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the City had invested \$88,155,144 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$11,986,216.

	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Land	\$ 9,146,295	\$ 9,251,295	\$ 642,008	\$ 2,110,730
Buildings	11,468,819	17,016,581	5,000,942	4,798,153
Improvements	22,152,564	22,451,913	17,415,993	27,233,426
Machinery and Equipment	2,879,767	3,098,161	1,487,490	2,020,344
Construction Work in Progress	831,379	69,818	5,143,671	104,723
Totals	\$ 46,478,824	\$ 51,887,768	\$ 29,690,104	\$ 36,267,376

This year's major capital asset changes included:

Governmental Fund Assets:

- Construction of Atlas Building for \$5,658,565
- Construction of streets in the Industrial Park for \$625,581
- Acceptance of street improvements on Tumbleweed Trail for \$333,900
- Construction of drainage improvements in various locations for \$231,825
- Salt Storage facility located at WWTP for \$226,312
- Reconstruction of Saint Joe Street including curb, gutters, and sidewalks for \$185,901
- Freightliner Dump Truck for \$166,306

Business-type Assets:

- Construction of water and sewer lines in the Ramsdell Addition for \$4,925,643
- Purchase of land near Black Hills Airport for \$1,469,370
- Acceptance of water and sewer improvements on Tumbleweed Trail for \$736,325
- SCADA control system for all water wells and sewer stations for \$584,105
- Reconstruction of retaining walls near water tanks for \$277,476
- Caterpillar Loader for \$151,971

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2015**

LONG-TERM DEBT

At year-end, the City had \$25,367,407 in Sales Tax Refunding Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2014 as shown on Table A-4 below. The increase from 2014 is due to refunding of the Sale Tax Revenue Bonds and contract for deed for the Carlstrom Land. The City made scheduled payments throughout the year on its debt balances.

	Governmental Activities		Business-type Activities	
	2014	2015	2014	2015
Compensated Absences	\$ 582,861	\$ 581,375	\$ 157,737	\$ 155,856
Other Post Employment Benefits (OPEB)	1,679,919	147,658	654,209	58,132
Sales Tax Revenue Bonds	6,375,000	-	-	-
Sales Tax Refunding Bonds	-	6,645,000	-	-
Premium on Refunding Bonds	-	241,989	-	-
TID #1 Elkhorn Ridge	3,776,605	3,776,605	-	-
TID #4 Creekside	-	32,716	-	-
TID #1 Accrued Interest	4,613,594	5,238,873	-	-
TID #2 Industrial Park Bond	151,832	-	-	-
SRF Loan - Sewer	-	-	4,684,099	4,447,588
Motor Grader	237,098	222,951	-	-
SRF Loan - Water	-	-	2,697,807	3,034,464
Carlstrom Land	-	-	-	784,200
Total	\$ 17,416,909	\$ 16,887,167	\$ 8,193,852	\$ 8,480,240

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued growth. The City did experience an increase in total property valuation of \$47,735,272 or 7 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 \$68,000. The growth in property valuation also allows the City to reduce the property tax mill levy from \$2.97 per \$1,000 assessed valuation to \$2.87 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 4.2 percent over the prior year and has adopted a conservative budget with a 3 percent increase in sales tax revenue for the next year.

The City's adopted General Fund budget for the next fiscal year will raise \$395,288 or 4.9 percent. The largest portion of this increase is due to salary increases to obtain median market salaries within the regional area and the addition of staff for the operations of the Spearfish Fire Department.

The City's business-type activities (water and sewer operations) expect that the results for 2016 will improve based on an annual rate increase implemented to cover the increasing cost of repair and replacement of aging infrastructure.

CITY OF SPEARFISH

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2015**

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, 2015**

	GOVERNMENTAL	BUSINESS-TYPE	
	ACTIVITIES	ACTIVITIES	TOTAL
Assets:			
Cash	\$ 8,518,678	\$ 4,026,745	\$ 12,545,423
Investments (Note 2)	7,426,146	3,124,321	10,550,467
Accounts and Notes Receivable, Net (Notes 1 and 4)	656,221	718,962	1,375,183
Internal Balances (Note 10)	(1,002,230)	1,002,230	-
Other Assets (Note 14)	153,851	-	153,851
Net Pension Asset (Note 11)	873,935	320,728	1,194,663
Capital Assets (Note 6):			
Land and Construction in Progress	9,321,113	2,215,453	11,536,566
Other Capital Assets, Net of Depreciation	42,566,655	34,051,923	76,618,578
TOTAL ASSETS	68,514,369	45,460,362	113,974,731
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources (Note 11)	1,536,680	563,951	2,100,631
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 70,051,049	\$ 46,024,313	\$ 116,075,362

CITY OF SPEARFISH

**STATEMENT OF NET POSITION (CONTINUED)
DECEMBER 31, 2015**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Liabilities:			
Accounts Payable	\$ 90,578	\$ 97,930	\$ 188,508
Unearned Revenue (Note 3)	60,343	-	60,343
Other Current Liabilities	180,141	290,400	470,541
Long-Term Liabilities (Note 7):			
Due Within One Year	1,296,315	863,937	2,160,252
Due in More Than One Year	15,590,852	7,616,303	23,207,155
TOTAL LIABILITIES	17,218,229	8,868,570	26,086,799
Deferred Inflows of Resources			
Pension Related Deferred Inflows of Resources (Note 11)	1,289,508	473,241	1,762,749
Net Position:			
Net Investment in Capital Assets Restricted for (Note 1k):	35,729,634	28,001,124	63,730,758
Debt Service	66,458	-	66,458
SDPAA (Note 14)	98,788	-	98,788
Promoting the City	392,693	-	392,693
Library Purposes	88,025	-	88,025
Park Purposes	261,607	-	261,607
911 Purposes	365,236	-	365,236
Business Improvement District Purposes	90,782	-	90,782
Rifle Range Improvement Grant	8,500	-	8,500
Municipal Highway and Bridge	995,112	-	995,112
Special Assessments Revolving Loan Fund	739,501	-	739,501
Pension - SDRS (Note 11)	1,121,107	411,438	1,532,545
Perpetual Care Cemetery			
Expendable	407,537	-	407,537
Nonexpendable	50,000	-	50,000
Unrestricted	11,128,332	8,269,940	19,398,272
TOTAL NET POSITION	51,543,312	36,682,502	88,225,814
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 70,051,049	\$ 46,024,313	\$ 116,075,362

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015

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	\$ 1,622,522	\$ 473,682	\$ -	\$ -	\$ (1,148,840)	\$ -	\$ (1,148,840)
Public Safety	2,174,873	63,453	-	-	(2,111,420)	-	(2,111,420)
Public Works	1,752,789	613,725	299,414	493,184	(346,466)	-	(346,466)
Health and Welfare	46,717	-	-	-	(46,717)	-	(46,717)
Culture and Recreation	3,459,088	855,072	-	20,000	(2,584,016)	-	(2,584,016)
Conservation and Development	434,047	-	-	-	(434,047)	-	(434,047)
Intergovernmental	425,986	-	-	-	(425,986)	-	(425,986)
Interest on Long-Term Debt	1,636,842	-	-	-	(1,636,842)	-	(1,636,842)
Total Governmental Activities	11,552,864	2,005,932	299,414	513,184	(8,734,334)	-	(8,734,334)
Business-Type Activities:							
Water	1,536,970	2,204,443	-	197,156	-	864,629	864,629
Electric	289,109	891,577	-	-	-	602,468	602,468
Sewer	2,070,271	2,651,389	-	622,711	-	1,203,829	1,203,829
Airport	24,451	-	-	-	-	(24,451)	(24,451)
Parking	27,577	23,796	-	-	-	(3,781)	(3,781)
Solid Waste	874,020	1,165,840	-	-	-	291,820	291,820
Campground	237,927	380,115	19,466	-	-	161,654	161,654
Total Business-Type Activities	5,060,325	7,317,160	19,466	819,867	-	3,096,168	3,096,168
Total Primary Government	\$ 16,613,189	\$ 9,323,092	\$ 318,880	\$ 1,333,051	(8,734,334)	3,096,168	(5,638,166)
General Revenues:							
Taxes:							
Property Taxes					3,026,048	-	3,026,048
Sales Taxes					8,117,454	-	8,117,454
Other Taxes					116,407	-	116,407
Gross Receipts Tax					93,526	-	93,526
State Shared Revenue					561,845	-	561,845
Grants and Contributions Not Restricted					32,240	-	32,240
Unrestricted Investment Earnings					241,533	131,166	372,699
Miscellaneous Revenue					264,966	94,032	358,998
Transfers (Note 10)					(592,875)	592,875	-
Total General Revenue and Transfers					11,861,144	818,073	12,679,217
Change in Net Position					3,126,810	3,914,241	7,041,051
Net Position, Beginning					47,424,346	32,404,146	79,828,492
Change in Accounting Principle (Note 15)					992,156	364,115	1,356,271
Net Position, Beginning, as Restated					48,416,502	32,768,261	81,184,763
Net Position, Ending					\$ 51,543,312	\$ 36,682,502	\$ 88,225,814

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

CITY OF SPEARFISH

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Assets			
101 Cash and Cash Equivalents	\$ 3,924,044	\$ 1,433,832	\$ 129
104 Investments (Note 2)	2,508,094	2,685,892	-
106 Cash with Fiscal Agent	-	1,000	-
108 Property Taxes Receivable (Note 5)	24,316	-	-
110 Sales Taxes Receivable	129,166	129,165	-
115 Accounts Receivable	7,984	-	-
121 Special Assessments Receivable	1,190	-	-
128 Notes Receivable (Note 4)	-	-	-
132 Due from Other Governments	233,506	8,480	-
133 Advances to Other Funds (Note 10)	-	353,413	-
141 Inventory of Supplies	2,734	-	-
154 Deposits (Note 14)	98,788	-	-
Total Assets	\$ 6,929,822	\$ 4,611,782	\$ 129
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 64,353	\$ 12,033	\$ -
216 Accrued Wages Payable	131,585	-	-
223 Unearned Revenue - FEMA Grant Revenue	3,825	-	-
223 Unearned Revenue - Gift Cards	4,189	-	-
236 Advance from Other Funds (Note 10)	-	-	1,002,230
Total Liabilities	203,952	12,033	1,002,230
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	1,640	-	-
246 Unavailable Revenue - Special Assessments	-	-	-
246 Unavailable Revenue - 911 Telephone Surcharge	-	-	-
247 Other Deferred Inflow of Resources	36,204	-	-
Total Deferred Inflows of Resources	37,844	-	-
<i>Fund Balances (Note 1k)</i>			
263 Nonspendable	101,522	353,413	-
264 Restricted	-	8,500	-
265 Committed	-	4,237,836	-
266 Assigned	189,703	-	-
267 Unassigned	6,396,801	-	(1,002,101)
Total Fund Balances	6,688,026	4,599,749	(1,002,101)
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 6,929,822	\$ 4,611,782	\$ 129

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

	Other Governmental Funds		Total Governmental Funds
\$	3,121,000	\$	8,479,005
	2,127,081		7,321,067
	-		1,000
	-		24,316
	20,289		278,620
	-		7,984
	16,950		18,140
	63,818		63,818
	21,357		263,343
	-		353,413
	-		2,734
	-		98,788
\$	5,370,495	\$	16,912,228

\$	14,192	\$	90,578
	9,363		140,948
	-		3,825
	-		4,189
	353,413		1,355,643
	376,968		1,595,183

	-		1,640
	8,316		8,316
	10,743		10,743
	-		36,204
	19,059		56,903

	113,818		568,753
	3,406,951		3,415,451
	1,807,022		6,044,858
	-		189,703
	(353,323)		5,041,377
	4,974,468		15,260,142

\$	5,370,495	\$	16,912,228
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CITY OF SPEARFISH

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balances - Governmental Funds	\$ 15,260,142
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.	51,887,768
Long-term liabilities, including bonds payable accrued interest on TID #1, and unamortized premium on bond are not due and payable in the current period and therefore not reported in the funds.	(16,887,167)
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.	56,903
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).	(39,193)
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.	143,752
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	873,935
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	1,536,680
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(1,289,508)
Total Net Position - Governmental Activities	\$ 51,543,312

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, 2015**

Revenue	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
<i>Taxes:</i>			
311 General Property Taxes	\$ 2,010,153	\$ -	\$ -
313 General Sales and Use Taxes	3,738,219	3,738,219	-
314 Gross Receipts Tax	93,526	-	-
315 Amusement Taxes	612	-	-
319 Penalties and Interest on Delinquent Taxes	2,009	-	-
320 Licenses and Permits	457,788	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	4,000	66,667	-
334 State Grants	3,913	45,000	-
<i>State Shared Revenue:</i>			
335.01 Bank Franchise Tax	5,965	-	-
335.03 Liquor Tax Reversion	65,255	-	-
335.04 Motor Vehicle Licenses (5%)	93,310	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
335.09 911 Remittances	-	-	-
335.20 Other	400,868	41,461	-
<i>County Shared Revenue:</i>			
338.02 County HBR Tax	2	-	-
338.99 Other	17,172	31,124	-
339 County Payments in Lieu of Taxes	230,421	-	-
<i>Charges for Goods and Services:</i>			
341 General Government	15,894	-	-
342 Public Safety	57,720	-	-
343 Highways and Streets	6,540	-	-
346 Culture and Recreation	829,060	-	-
348 Cemeteries	8,150	-	-
<i>Fines and Forfeits:</i>			
351 Court Fines and Costs	828	-	-
354 Library	-	-	-
359 Other	4,905	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	70,492	107,036	8
362 Rentals	82,864	-	-
363 Special Assessments	110,269	-	-
367 Contributions and Donations - Private Sources	7,344	-	-
369 Other	17,210	-	-
Total Revenue	8,334,489	4,029,507	8

	Other Governmental Funds	Total Governmental Funds
\$	829,858	\$ 2,840,011
	641,016	8,117,454
	-	93,526
	181,189	181,801
	1,934	3,943
	-	457,788
	650	71,317
	382,885	431,798
	-	5,965
	-	65,255
	-	93,310
	141,163	141,163
	116,407	116,407
	-	442,329
	-	2
	-	48,296
	-	230,421
	-	15,894
	-	57,720
	-	6,540
	11,190	840,250
	12,500	20,650
	-	828
	14,822	14,822
	-	4,905
	61,696	239,232
	900	83,764
	5,109	115,378
	24,896	32,240
	155,065	172,275
	<u>2,581,280</u>	<u>14,945,284</u>

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund
Expenditures			
<i>General Government:</i>			
411 Legislative	91,385	-	-
412 Executive	126,571	-	-
414 Financial Administration	443,095	-	-
419 Other	768,308	179,177	-
<i>Public Safety:</i>			
421 Police	1,692,560	129,324	-
422 Fire	148,821	-	-
423 Protective Inspection	194,818	-	-
<i>Public Works:</i>			
431 Highways and Streets	922,173	81,286	-
437 Cemeteries	99,853	-	-
<i>Health and Welfare:</i>			
441 Health	62,972	-	-
<i>Culture and Recreation:</i>			
451 Recreation	1,549,537	197,490	-
452 Parks	387,403	50,707	-
455 Library	373,692	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	3,591	36,000	-
465 Economic Development and Assistance	190,400	-	-
470 Debt Service	-	1,574,202	333,239
480 Intergovernmental Expenditures	357,356	-	-
485 Capital Outlay	-	6,974,384	-
Total Expenditures	7,412,535	9,222,570	333,239
Excess (Deficiency) of Revenue over (Under) Expenditures	921,954	(5,193,063)	(333,231)
Other Financing Sources (Uses)			
391.01 Transfers In (Note 10)	241,035	-	591,324
391.03 Sale of Municipal Property	1,750	-	-
391.04 Compensation for Loss or Damage	7,175	-	-
391.20 Long-Term Debt Issued	-	-	-
391.25 Refunding Bonds Issued	-	6,895,000	-
391.26 Premium on Bonds Issued	-	251,669	-
511 Transfers Out (Note 10)	(307,081)	(801,194)	-
513 Payments to Refunded Debt Escrow Agent (Note 7)	-	(5,826,830)	-
Total Other Financing Sources (Uses)	(57,121)	518,645	591,324
Net Change in Fund Balances	864,833	(4,674,418)	258,093
Fund Balances - December 31, 2014	5,823,193	9,274,167	(1,260,194)
Fund Balances - December 31, 2015	\$ 6,688,026	\$ 4,599,749	\$ (1,002,101)

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

Other Governmental Funds	Total Governmental Funds
-	91,385
-	126,571
-	443,095
-	947,485
488,082	2,309,966
-	148,821
-	194,818
-	1,003,459
7,217	107,070
-	62,972
568,722	2,315,749
11,387	449,497
24,342	398,034
-	39,591
226,332	416,732
333,888	2,241,329
-	357,356
120,596	7,094,980
<u>1,780,566</u>	<u>18,748,910</u>
<u>800,714</u>	<u>(3,803,626)</u>
512,946	1,345,305
-	1,750
-	7,175
32,716	32,716
-	6,895,000
-	251,669
(797,189)	(1,905,464)
-	(5,826,830)
<u>(251,527)</u>	<u>801,321</u>
<u>549,187</u>	<u>(3,002,305)</u>
4,425,281	18,262,447
<u><u>\$ 4,974,468</u></u>	<u><u>\$ 15,260,142</u></u>

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2015

Net Change in Fund Balances - Total Government Funds \$ (3,002,305)

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	7,094,980
Depreciation Expense	(2,166,504)
	<hr/> 4,928,476 <hr/>

Capital assets contributed to the City, which are included in the Statement of Activities. 513,184

Capital assets transferred to the sewer proprietary fund. (32,716)

The fund financial statement governmental fund accruals differ from the government-wide statement accruals in that the fund financial statements require the amounts to be "available."

These include:

Property Taxes	73
Special Assessments	(4,480)
911 Revenue	10,743
Gaming Revenue	(203,701)
Miscellaneous Receivables	220

Repayment of bond principal, payment made to escrow agent, 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. 6,941,794

Premium on bond issue is a revenue in the governmental funds but is capitalized and amortized in the Statement of Net Position. 9,680

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. (7,955,479)

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	1,486
OPEB	1,532,261
Accrued Interest (excluding TID #1)	255,937

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. 2,686

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. 228,688

Pension expense reported in the Statement of Activities does not require the use of current financial resources and are not reported as expenditures in the governmental funds. (99,737)

Change in Net Position of Governmental Activities \$ 3,126,810

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

CITY OF SPEARFISH

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2015**

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
<i>Current Assets</i>			
101 Cash and Cash Equivalents	\$ 1,192,412	\$ 970,279	\$ 1,003,525
104 Investments (Note 2)	307,735	563,170	1,220,489
115 Accounts Receivable, Net (Note 1n)	172,063	-	250,694
121 Special Assessment Receivable	39,295	-	-
132 Due from Other Governments	70,121	81,660	-
155 Prepaid Expenses	-	-	-
Total Current Assets	1,781,626	1,615,109	2,474,708
<i>Noncurrent Asset</i>			
133 Advance to Other Funds (Note 10)	1,002,230	-	-
189 Net Pension Asset (Note 11)	70,740	42,168	135,770
Total Noncurrent Assets	1,072,970	42,168	135,770
<i>Capital Assets (Note 6)</i>			
160 Land	208,583	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,492,504)	(23,334)	(3,794,394)
164 Improvements Other Than Buildings	20,928,028	202,558	18,022,810
165 Accumulated Depreciation - Improvements Other Than Buildings	(6,242,159)	(25,067)	(5,826,833)
166 Machinery and Equipment	1,840,248	139,140	3,540,895
167 Accumulated Depreciation - Machinery and Equipment	(975,036)	(74,637)	(2,937,944)
168 Construction Work in Progress	41,580	46,070	-
Total Capital Assets, Net	16,704,739	464,730	16,528,245
Total Assets	19,559,335	2,122,007	19,138,723
Deferred Outflows of Resources			
196 Pension Related Deferred Outflows (Note 11)	124,384	74,145	238,732
Total Assets and Deferred Outflows of Resources	\$ 19,683,719	\$ 2,196,152	\$ 19,377,455

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ 96,067	\$ 18,136	\$ 422,803	\$ 323,523	\$ 4,026,745	\$ 38,673
-	42,016	759,839	231,072	3,124,321	105,079
-	-	105,129	-	527,886	-
-	-	-	-	39,295	-
-	-	-	-	151,781	-
-	-	-	-	-	52,329
96,067	60,152	1,287,771	554,595	7,870,028	196,081
-	-	-	-	1,002,230	-
-	86	60,528	11,436	320,728	-
-	86	60,528	11,436	1,322,958	-
1,468,722	48,000	-	171,220	2,110,730	-
-	-	-	401,228	10,306,733	-
-	-	-	(198,348)	(5,508,580)	-
-	-	19,258	236,076	39,408,730	-
-	-	(6,748)	(74,497)	(12,175,304)	-
-	87,570	1,602,928	149,848	7,360,629	-
-	(29,190)	(1,193,350)	(130,128)	(5,340,285)	-
-	-	-	17,073	104,723	-
1,468,722	106,380	422,088	572,472	36,267,376	-
1,564,789	166,618	1,770,387	1,138,503	45,460,362	196,081
-	151	106,430	20,109	563,951	-
\$ 1,564,789	\$ 166,769	\$ 1,876,817	\$ 1,158,612	\$ 46,024,313	\$ 196,081

CITY OF SPEARFISH

**STATEMENT OF NET POSITION (CONTINUED)
 PROPRIETARY FUNDS
 DECEMBER 31, 2015**

	Water Fund	Electric Production Fund	Sewer Fund
Liabilities and Net Position			
<i>Current Liabilities</i>			
202 Accounts Payable	\$ 15,287	\$ -	\$ 40,153
205 Current Portion of Long-Term Debt (Note 7)	314,946	22,086	307,819
215 Accrued Interest Payable	84,472	-	30,114
216 Accrued Wages Payable	10,354	8,067	25,052
220 Customer Deposits	113,900	-	-
223 Unearned Revenues	-	-	-
Total Current Liabilities	538,959	30,153	403,138
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	2,748,031	7,450	4,226,361
Total Liabilities	3,286,990	37,603	4,629,499
Deferred Inflows of Resources			
248 Pension Related Deferred Inflows (Note 11)	104,378	62,219	200,332
Net Position			
253.1 Net Investment in Capital Assets	13,670,275	464,730	12,080,657
264 Restricted for Pension (Note 11)	90,746	54,094	174,170
252.0 Unrestricted Net Position	2,531,330	1,577,506	2,292,797
Total Net Position	16,292,351	2,096,330	14,547,624
Total Liabilities and Net Position	\$ 19,683,719	\$ 2,196,152	\$ 19,377,455

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ -	\$ -	\$ 31,189	\$ 11,301	\$ 97,930	\$ -
165,268	-	53,818	-	863,937	-
2,941	-	-	-	117,527	-
903	268	10,729	3,600	58,973	-
-	-	-	-	113,900	-
-	-	-	-	-	52,329
169,112	268	95,736	14,901	1,252,267	52,329
618,932	235	11,674	3,620	7,616,303	-
788,044	503	107,410	18,521	8,868,570	52,329
-	127	89,311	16,874	473,241	-
684,522	106,380	422,088	572,472	28,001,124	-
-	110	77,647	14,671	411,438	-
92,223	59,649	1,180,361	536,074	8,269,940	143,752
776,745	166,139	1,680,096	1,123,217	36,682,502	143,752
\$ 1,564,789	\$ 166,769	\$ 1,876,817	\$ 1,158,612	\$ 46,024,313	\$ 196,081

CITY OF SPEARFISH

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	\$ 2,204,443	\$ 891,577	\$ 2,651,389
Operating Expenses			
410 Personal Services	265,008	173,707	510,872
420 Other Current Expenses	517,738	93,299	657,657
457 Depreciation	607,858	22,103	753,973
Total Operating Expenses	1,390,604	289,109	1,922,502
Operating Income (Loss)	813,839	602,468	728,887
Non-Operating Income (Expense)			
320 Licenses and Permits	6,955	-	6,955
331 Federal Grants - FEMA	-	-	-
361 Earnings on Deposits and Investments	57,962	12,780	36,936
363 Special Assessment	55,185	-	-
369 Other	12,268	660	10,173
470 Interest Expense and Fiscal Charges	(146,366)	-	(147,769)
Total Non-Operating Income (Expense)	(13,996)	13,440	(93,705)
Income (Loss) before Transfers	799,843	615,908	635,182
Other Financing Sources (Uses)			
391.01 Transfers In (Note 10)	11,328	-	-
391.07 Contributed Capital	197,156	-	655,427
511 Transfers Out (Note 10)	(99,346)	(6,069)	(121,185)
Total Other Financing Sources (Uses)	109,138	(6,069)	534,242
Net Income (Loss)	908,981	609,839	1,169,424
Net Position - December 31, 2014	15,303,061	1,438,619	13,224,063
Change in Accounting Principle (Note 15)	80,309	47,872	154,137
Net Position - December 31, 2014, as Restated	15,383,370	1,486,491	13,378,200
Net Position - December 31, 2015	\$ 16,292,351	\$ 2,096,330	\$ 14,547,624

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ -	\$ 23,796	\$ 1,165,840	\$ 380,115	\$ 7,317,160	\$ 599,159
903	5,047	265,155	70,655	1,291,347	-
7,922	18,152	532,562	147,942	1,975,272	598,774
-	4,378	76,303	19,330	1,483,945	-
8,825	27,577	874,020	237,927	4,750,564	598,774
(8,825)	(3,781)	291,820	142,188	2,566,596	385
-	-	-	-	13,910	-
-	-	-	19,466	19,466	-
2	916	16,604	5,966	131,166	2,301
-	-	-	-	55,185	-
-	39	1,463	334	24,937	-
(15,626)	-	-	-	(309,761)	-
(15,624)	955	18,067	25,766	(65,097)	2,301
(24,449)	(2,826)	309,887	167,954	2,501,499	2,686
801,194	-	-	-	812,522	-
-	-	-	-	852,583	-
-	(145)	(19,376)	(6,242)	(252,363)	-
801,194	(145)	(19,376)	(6,242)	1,412,742	-
776,745	(2,971)	290,511	161,712	3,914,241	2,686
-	169,013	1,320,868	948,522	32,404,146	141,066
-	97	68,717	12,983	364,115	-
-	169,110	1,389,585	961,505	32,768,261	141,066
\$ 776,745	\$ 166,139	\$ 1,680,096	\$ 1,123,217	\$ 36,682,502	\$ 143,752

CITY OF SPEARFISH

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2015

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	\$ 2,071,304	\$ 891,577	\$ 2,588,277
Cash Receipts for Interfund Services Provided	126,217	-	39,074
Payments to Suppliers	(632,046)	(93,799)	(624,863)
Payments to Employees	(401,745)	(241,979)	(765,865)
Net Cash Flows Provided by (Used in) Operating Activities	1,163,730	555,799	1,236,623
Cash Flows from Noncapital Financing Activities:			
Transfers In	11,328	-	-
Transfers Out	(99,346)	(6,069)	(121,185)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(88,018)	(6,069)	(121,185)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(3,013,751)	(32,829)	(2,374,772)
Borrowings on Long-Term Debt	556,193	-	-
Principal Paid on Capital Debt	(219,536)	-	(236,511)
Interest Paid	(68,064)	-	(149,370)
Special Assessments Receipts	15,890	-	-
Other Receipts	19,223	660	17,128
Receipts on Advance to Other Funds	77,000	-	180,964
Net Cash Flows Provided By (Used in) Capital and Related Financing Activities	(2,633,045)	(32,169)	(2,562,561)
Cash Flows Provided by Investing Activities:			
Investment Earnings	295,914	12,780	69,665
Increase (Decrease) in Cash and Investments	(1,261,419)	530,341	(1,377,458)
Cash and Investments - December 31, 2014	2,761,566	1,003,108	3,601,472
Cash and Investments - December 31, 2015	\$ 1,500,147	\$ 1,533,449	\$ 2,224,014
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	\$ 813,839	\$ 602,468	\$ 728,887
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	607,858	22,103	753,973
Change in Assets and Liabilities:			
Change in Accounts Receivable	(21,622)	-	(24,038)
Change in Prepaid Expense	-	-	-
Change in Accounts Payable	(114,308)	(500)	32,794
Change in Accrued Wages	1,662	1,273	5,700
Change in Customer Deposits	14,700	-	-
Change in OPEB and Accrued Leave	(127,962)	(63,323)	(240,660)
Pension Asset	52,136	31,078	100,065
Pension Related Deferred Outflows	(24,640)	(14,688)	(47,293)
Pension Related Deferred Inflows	(37,933)	(22,612)	(72,805)
Change in Unearned Revenue	-	-	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 1,163,730	\$ 555,799	\$ 1,236,623
Noncash Capital and Related Financing Activities			
Capital Contributions	\$ 197,156	\$ -	\$ 655,427
Purchase of Capital Assets with Long-Term Debt	-	-	-

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
\$ -	\$ 23,796	\$ 1,156,603	\$ 380,115	\$ 7,111,672	\$ 606,592
-	-	-	-	165,291	-
(7,922)	(18,152)	(532,933)	(136,641)	(2,046,356)	(651,103)
-	(6,914)	(393,853)	(113,748)	(1,924,104)	-
(7,922)	(1,270)	229,817	129,726	3,306,503	(44,511)
801,194	-	-	-	812,522	-
-	(145)	(19,376)	(6,242)	(252,363)	-
801,194	(145)	(19,376)	(6,242)	560,159	-
(603,722)	-	(151,973)	(166,587)	(6,343,634)	-
-	-	-	-	556,193	-
(80,800)	-	-	-	(536,847)	-
(12,685)	-	-	-	(230,119)	-
-	-	-	-	15,890	-
-	39	1,463	334	38,847	-
-	-	-	-	257,964	-
(697,207)	39	(150,510)	(166,253)	(6,241,706)	-
2	916	16,604	5,966	401,847	2,301
96,067	(460)	76,535	(36,803)	(1,973,197)	(42,210)
-	60,612	1,106,107	591,398	9,124,263	185,962
\$ 96,067	\$ 60,152	\$ 1,182,642	\$ 554,595	\$ 7,151,066	\$ 143,752
\$ (8,825)	\$ (3,781)	\$ 291,820	\$ 142,188	\$ 2,566,596	\$ 385
-	4,378	76,303	19,330	1,483,945	-
-	-	(9,237)	-	(54,897)	-
-	-	-	-	-	(52,329)
-	-	(371)	11,301	(71,084)	-
903	268	1,084	1,634	12,524	-
-	-	-	-	14,700	-
-	(2,122)	(120,852)	(43,039)	(597,958)	-
-	63	44,611	8,429	236,382	-
-	(30)	(21,084)	(3,984)	(111,719)	-
-	(46)	(32,457)	(6,133)	(171,986)	-
-	-	-	-	-	7,433
(7,922)	(1,270)	229,817	129,726	3,306,503	(44,511)
\$ -	\$ -	\$ -	\$ -	\$ 852,583	\$ -
865,000	-	-	-	865,000	-

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

(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, 2015

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

Governmental Funds:

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

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

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

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

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

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

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

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

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Governmental Funds (Continued):

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

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

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

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

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

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

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

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

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

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

Tax Increment District #3 McGuigan Ranch Capital Projects Fund – to account for the purchase of 10 residential lots to be sold through Dakota Land Trust for affordable housing and for the purpose of one lot for a transit site. This is not a major fund.

Tax Increment District #4 Creekside Capital Projects Fund – to account for construction of infrastructure within the tax increment district. This is not a major fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

Governmental Funds (Concluded):

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

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

Proprietary Funds:

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

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

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

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

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

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

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

Airport Fund – to account for land purchased adjacent to existing Lawrence County airport. The City intends to acquire control of the airport in 2016 dependent on FAA approval. 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, 2015

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2015, are property, sales tax, special assessments, gaming, FEMA grant receivables and E-911 surcharges.

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(1) Summary of Significant Accounting Policies (Continued)

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

e. Capital Assets

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

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

Government-wide Financial Statements:

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(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, 2015

(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, 2015

(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, 2015. 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, 2015. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2016 Appropriation Ordinance for the City's 2016 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, 2015**

(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, 2015, the City had the following governmental fund classifications:

	General Fund	Second Penny Sales Tax Fund	TID #2 Industrial Park Capital Project Fund	Other Governmental Funds	Total Governmental Funds
263 Nonspendable:					
263 Inventory	\$ 2,734	\$ -	\$ -	\$ -	\$ 2,734
263.04 Advances		353,413	-	-	353,413
263.05 Notes Receivable	-	-	-	63,818	63,818
263.49 SDPAA	98,788	-	-	-	98,788
263.51 Perpetual Care Cemetery	-	-	-	50,000	50,000
	101,522	353,413	-	113,818	568,753
264 Restricted:					
264.01 Debt Service	-	-	-	66,458	66,458
264.03 Perpetual Care Cemetery	-	-	-	407,537	407,537
264.04 Promoting the City	-	-	-	392,693	392,693
264.05 Library Purposes	-	-	-	88,025	88,025
264.06 Park Purposes	-	-	-	261,607	261,607
264.07 911 Purposes	-	-	-	365,236	365,236
264.09 BID Purposes	-	-	-	90,782	90,782
264.99 Rifle Range Improvement Grant	-	8,500	-	-	8,500
264.99 Municipal Highway and Bridge	-	-	-	995,112	995,112
264.99 Special Assessments Revolving Loan	-	-	-	739,501	739,501
	-	8,500	-	3,406,951	3,415,451
265 Committed					
265.99 Second Penny	-	4,237,836	-	-	4,237,836
265.99 Spearfish Economic Revolving Fund	-	-	-	1,734,915	1,734,915
265.99 Art in Public Places Fund	-	-	-	72,107	72,107
	-	4,237,836	-	1,807,022	6,044,858
266 Assigned					
266.01 Subsequent Year's Budget	150,104	-	-	-	150,104
266.97 Historical Procurement Project	39,599	-	-	-	39,599
	189,703	-	-	-	189,703
267 Unassigned	6,396,801	-	(1,002,101)	(353,323)	5,041,377
Total Fund Balances	\$ 6,688,026	\$ 4,599,749	\$ (1,002,101)	\$ 4,974,468	\$ 15,260,142

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications (Concluded)

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

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

As of December 31, 2015, the non-major TID #3 McGuigan Ranch Capital Projects Fund had a deficit fund balance of \$353,323.

l. Compensated Absences

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

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

m. Inventory

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

n. Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Appropriate allowances for estimated utility uncollectibles at December 31, 2015 total approximately \$8,000, \$6,000, and \$2,000 for the water, sewer, and solid waste funds, respectively. Included in utility accounts receivable at December 31, 2015 are unbilled accounts receivable totaling approximately \$61,000, \$90,000, and \$38,000 for the water, sewer, and solid waste funds, respectively.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(1) Summary of Significant Accounting Policies (Concluded)

o. Emerging Accounting Standards

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

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

p. Use of Estimates

The preparation of the financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

(2) Deposits and Investments

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

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

The actual bank balances at December 31, 2015 were as follows:

<u>Primary Government</u>	<u>Bank Balance</u>
Insured - FDIC	\$ 1,000,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	12,090,634
Total	\$ 13,090,634

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(2) Deposits and Investments (Continued)

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

As of December 31, 2015, the City had the following investments:

Investments	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	6 years	\$ 864,635 ¹
Federal National Mortgage Association Notes	AAA	4-5 years	3,934,746 ¹
Federal Home Loan Mortgage Corporation Notes	AAA	3-4 years	1,962,834 ¹
Federal Farm Credit Bank Bonds	AAA	4-5 years	2,816,080 ¹
External Investment Pools:			
SDFIT	Unrated		57,431
Total Investments			9,635,726
Other Investments:			
Money Markets			17,437
Certificates of Deposits			897,304
			\$ 10,550,467

¹ These investments may be called at anytime.

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, 2015, the City’s investment in SDFIT pool was unrated.

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

Custodial Credit Risk - Deposits:

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

Custodial Credit Risk – Investments:

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

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(2) Deposits and Investments (Concluded)

Assignment of Investment Income:

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

Concentration of Credit Risk:

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

(3) Deferred Outflows and Inflows of Resources and Unearned Revenue

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that apply to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Statement of Net Position and Governmental Funds Balance Sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as inflows of resources until the applicable future period. Deferred inflows of resources consist of property taxes, special assessments, 911 telephone surcharge, and federal grant funds in the governmental funds balance sheet and pension activity in the government-wide statement of net position. Unearned revenues are resources obtained prior to revenue recognition and consist of federal grant funds advanced to the City and account credits at the recreation center.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2015:

Loan	Collateral	Rate	Maturity	Balance
L. Ruth Engineering	Property/Corporate Guarantee	3%	May 2016	\$ 25,578
RABCO Products, Inc.	Equipment/Personal Guarantee	3%	May 2016	6,645
J1 Industries	All Assets	3%	March 2020	31,595
Total				\$ 63,818

(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, 2015

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2015 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
Capital Assets, not being Depreciated:				
Land	\$ 9,146,295	\$ 105,000	\$ -	\$ 9,251,295
Construction Work in Progress	831,379	39,814	801,375	69,818
Total Capital Assets, not being Depreciated	9,977,674	144,814	801,375	9,321,113
Capital Assets, being Depreciated:				
Buildings	15,577,732	5,893,292	-	21,471,024
Improvements Other Than Buildings	30,200,714	1,669,373	-	31,870,087
Machinery and Equipment	8,457,890	669,344	9,464	9,117,770
Total Capital Assets, being Depreciated	54,236,336	8,232,009	9,464	62,458,881
Less Accumulated Depreciation for:				
Buildings	4,108,913	345,530	-	4,454,443
Improvements Other Than Buildings	8,048,150	1,370,024	-	9,418,174
Machinery and Equipment	5,578,123	450,950	9,464	6,019,609
Total Accumulated Depreciation	17,735,186	2,166,504	9,464	19,892,226
Total Governmental Activities Capital Assets, being Depreciated, Net	36,501,150	6,065,505	-	42,566,655
Total Governmental Capital Assets, Net	\$ 46,478,824	\$ 6,210,319	\$ 801,375	\$ 51,887,768

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 756,601
Public Works	772,863
Public Safety	218,315
General Government	256,431
Intergovernmental	132,870
Economic Development	29,424
Total Depreciation Expense - Governmental	\$ 2,166,504

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015

(6) Changes in Capital Assets (Continued)

	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 642,008	\$ 1,468,722	\$ -	\$ 2,110,730
Construction Work in Progress	5,143,671	54,683	5,093,631	104,723
Total Capital Assets, not being Depreciated	5,785,679	1,523,405	5,093,631	2,215,453
Capital Assets, being Depreciated:				
Buildings	10,306,733	-	-	10,306,733
Improvements Other Than Buildings	28,593,160	10,815,570	-	39,408,730
Machinery and Equipment	6,544,756	815,873	-	7,360,629
Total Capital Assets, being Depreciated	45,444,649	11,631,443	-	57,076,092
Less Accumulated Depreciation for:				
Buildings	5,305,791	202,789	-	5,508,580
Improvements Other Than Buildings	11,177,167	998,137	-	12,175,304
Machinery and Equipment	5,057,266	283,019	-	5,340,285
Total Accumulated Depreciation	21,540,224	1,483,945	-	23,024,169
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	23,904,425	10,147,498	-	34,051,923
Total Business-Type Capital Assets, Net	\$ 29,690,104	\$ 11,670,903	\$ 5,093,631	\$ 36,267,376

Depreciation expense was charged to functions as follows:

Sewer	\$ 753,973
Water	607,858
Solid Waste	76,303
Campground	19,330
Electric Production	22,103
Parking	4,378
Total Depreciation Expense - Business-Type	\$ 1,483,945

As of December 31, 2015, the City has signed construction commitments in the amount of \$2,517,517. This commitment is for the water and sewer improvements in the Ramsdell Addition. These projects are expected to be financed through the Second Penny Sales Tax, Water, and Sewer Funds with operating revenues and equity reserves.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2015:

	Balance 12/31/2014	Borrowings	Repayments	Balance 12/31/2015	Due Within One Year
Primary Government:					
Governmental Activities:					
Series 2007 Bonds	\$ 6,375,000	\$ -	\$ 6,375,000	\$ -	\$ -
Sales Tax Refunding Bonds 2015	-	6,895,000	250,000	6,645,000	470,000
Premium on Refunding Bonds	-	251,669	9,680	241,989	19,359
TID #1 Elkhorn Ridge	3,776,605	-	-	3,776,605	-
TID #4 Creekside	-	32,716	-	32,716	32,716
Accrued Interest - TID #1	4,613,594	776,094	150,815	5,238,873	178,300
TID #2 Industrial Park Bond	151,832	-	151,832	-	-
Motor Grader	237,098	-	14,147	222,951	14,565
Compensated Absences	582,861	249,509	250,995	581,375	581,375
OPEB (Note 12)	1,679,919	-	1,532,261	147,658	-
Total Governmental Activities	17,416,909	8,204,988	8,734,730	16,887,167	1,296,315
Business-Type Activities:					
Sewer SRF Loan	4,684,099	-	236,511	4,447,588	244,292
Water SRF Loan	2,697,807	556,193	219,536	3,034,464	298,521
Carlstrom Airport Land	-	865,000	80,800	784,200	165,268
Compensated Absences	157,737	71,398	73,279	155,856	155,856
OPEB (Note 12)	654,209	-	596,077	58,132	-
Total Business-Type Activities	8,193,852	1,492,591	1,206,203	8,480,240	863,937
Total Primary Government	\$ 25,610,761	\$ 9,697,579	\$ 9,940,933	\$ 25,367,407	\$ 2,160,252

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, 2015, property tax revenues were \$152,973, \$522,215, and \$154,670 for TID #1, #2, and #3, respectively. TIF #4 was certified in 2016 for a total of \$1,423,636 of project costs and property tax revenues associated with TID #4 are expected to be collected beginning in 2016. Interest expenditures excluding corresponding accruals, related to TID obligations totaled \$156,409 for the year ended December 31, 2015.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(7) Long-Term Debt (Continued)

Debt Covenants

The City has pledged future revenue associated with the Clean Water Revenue Borrower Bonds and Drinking 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 and Water Fund for the current year.

	Sewer	Water
Current Year Principal and Interest	\$ 384,280	\$ 365,902
Pledged Revenue	2,651,389	2,204,443

Additionally, the City's Drinking Water and Clean Water Revenue Bonds have a covenant requiring the City to keep net water revenue available for debt service at 110 percent of debt service expenses each year. The City is in compliance with these covenants at December 31, 2015.

Long-term debt at December 31, 2015, is comprised of the following:

Revenue Bonds

Series 2015 Sales Tax Refunding Bonds for \$6,895,000, matures in June 2028, interest at 0.60 to 4.00 percent, due in semi-annual installments from \$250,000 to \$320,000. Financed through Second Penny Sales Tax Fund. (a) \$ 6,645,000

Unamortized deferred premium on Series 2015 Sales Tax Refunding Bonds	241,989
Total Series 2015 Sales Tax Refunding Bonds	6,886,989

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. 4,447,588

Drinking Water Revenue Borrower Bonds, Series 2013 for \$3,254,000, mature in February 2025, interest at 2.25 percent, due in quarterly installments of \$91,072. Water revenues pledged and financed through the Water Fund for the Gollhofer Water Tank construction. 3,034,464

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 #4 Creekside, including interest a 5.25 percent, matures in 2025, due in semi-annual installments within 30 days of property tax collection from the county. 32,716

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**(7) Long-Term Debt (Continued)***Contract for Deed*

Contract for deed for land for \$865,000, matures May 2020, interest at 3.00 percent, due in quarterly installments of \$46,737, secured by land purchased and financed through the Airport Fund.

784,200

Note Payable

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

Financed through the Second Penny Sales Tax Fund.

222,951

Total Revenue Bonds and Other Obligations

19,185,513

Compensated Absences

General Fund	581,375
Water Fund	16,425
Electric Fund	22,086
Sewer Fund	63,527
Solid Waste Fund	53,818
Total Compensated Absences	737,231

Other Post Employment Benefits (OPEB) (Note 12)

General Fund	147,658
Water Fund	12,088
Electric Fund	7,450
Sewer Fund	23,065
Parking Fund	235
Solid Waste Fund	11,674
Campground Fund	3,620
Total OPEB	205,790

Accrued Interest (TID #1)

5,238,873

Total Long-Term Debt

\$ 25,367,407

(a) In July 2015, the City issued \$6,895,000 of Sales Tax Revenue Refunding Bonds, Series 2015, with a variable interest rate of 0.60 to 4.00 percent. These bonds were issued to refund \$6,175,000 of outstanding 2007 Sales Tax Revenue Bonds, Series 2007, which will be called on June 1, 2017. The refunded bonds had an average interest rate of 3.80 to 4.40 percent. Because the refunded bonds have been considered defeased in substance, the liability for those bonds has been removed from the City's financial statements. The City refunded the bonds to reduce its total debt service payments over the next 12 years by \$363,684, and to obtain an economic gain of \$370,293.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2015, except for compensated absences, OPEB, and TID #1 accrued interest are as follows:

	Revenue Bonds		TID Obligations *		Note Payable	
	Interest	Principal	Interest	Principal	Interest	Principal
2016	\$ 393,438	\$ 1,032,172	\$ 178,300	\$ 32,716	\$ 6,577	\$ 14,565
2017	373,869	1,046,983	178,300	-	6,147	14,995
2018	352,142	1,072,211	178,300	-	5,705	15,437
2019	328,623	1,092,870	178,300	-	5,250	15,892
2020	303,131	1,118,971	178,300	-	4,781	21,142
2021-2025	1,035,627	5,803,050	891,500	-	4,298	140,920
2026-2030	218,997	3,202,784	3,456,050	3,776,605	-	-
Total	\$ 3,005,827	\$ 14,369,041	\$ 5,239,050	\$ 3,809,321	\$ 32,758	\$ 222,951

	Contract for Deed		Total	
	Interest	Principal	Interest	Principal
2016	\$ 21,678	\$ 165,268	\$ 599,993	\$ 1,244,721
2017	16,664	170,282	574,980	1,232,260
2018	11,498	175,448	547,645	1,263,096
2019	6,175	180,771	518,348	1,289,533
2020	1,041	92,431	487,253	1,232,544
2021-2025	-	-	1,931,425	5,943,970
2026-2030	-	-	3,675,047	6,979,389
Total	\$ 57,056	\$ 784,200	\$ 8,334,691	\$ 19,185,513

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

(8) Conduit Debt

In the past, the City has issued revenue bonds to provide financial assistance to certain private-sector entities for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. The City, the State of South Dakota, and any other political subdivision of the state are not obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2015, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$708,603.

(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, 2015**

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2015, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 241,035	\$ 307,081
Water Fund	11,328	99,346
Electric Production Fund	-	6,069
Sewer Fund	-	121,185
Airport Fund	801,194	-
Solid Waste Fund	-	19,376
Campground Fund	-	6,242
Parking Fund	-	145
911 Emergency Fund	307,081	-
TID #2 Industrial Park Debt Fund	-	591,324
TID #2 Industrial Park Capital Projects Fund	591,324	-
TID #3 McGuigan Ranch Debt Fund	-	205,865
TID #3 McGuigan Ranch Capital Projects Fund	205,865	-
Second Penny Sales Tax Fund	-	801,194
Total Transfers	\$ 2,157,827	\$ 2,157,827

Subsidies totaling \$241,035 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 \$307,081 to the 911 Emergency Fund for operations. The TID #3 McGuigan Ranch Debt Fund transferred \$205,865 to the TID #3 McGuigan Ranch Capital Projects Fund for interfund debt payments. TID #2 Industrial Park Debt Fund transferred \$591,324 to the TID #2 Industrial Park Capital Projects Fund for debt payments. The 2nd Penny Sales Tax Fund transferred \$801,194 to the Airport Fund for the purchase of land in the Airport Fund. Sewer and Solid Waste Fund transferred \$11,328 to the Water Fund to reimburse for one-third cost of a new heater and fan.

Interfund advances to and advances from balances at December 31, 2015, were as follows:

	Interfund Advance To	Interfund Advance From
Second Penny Sales Tax Fund	\$ 353,413	\$ -
TID #3 McGuigan Ranch Capital Project Fund	-	353,413
TID #2 Industrial Park Capital Project Fund	-	\$ 1,002,230
Water Fund	1,002,230	-
Total Interfund Advances	\$ 1,355,643	\$ 1,355,643

In prior years, the Second Penny Sales Tax Fund advanced \$601,111 to TID #3 McGuigan Ranch Capital Project Fund for 10 housing lots to be purchased. In 2014, the TID #3 McGuigan Ranch Capital Project Fund repaid the Second Penny Sales Tax Fund all interest due plus a portion of the outstanding principal. Additionally, the Water and Sewer Funds advanced a total of \$1,260,194 in prior years to the TID #2 Industrial Park Capital Project Fund for expansions to the industrial park. In 2015, the TID #2 Industrial Park Capital Projects Fund repaid the Sewer Fund all accrued interest and outstanding principal, and repaid the Water Fund all accrued interest and a portion of the outstanding principal.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(11) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications/> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
 - 80.0% to 90.0% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. 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, 2015, 2014, and 2013 were **\$312,615**, \$308,835, and \$292,203, respectively, equal to the required contributions each year.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(11) Pension Plan (Continued)

Pension Assets, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2015, SDRS is 104.1 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2015 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$22,205,513	\$8,149,266	\$30,354,779
Less: Proportionate Share of Total Pension Liability	(21,331,578)	(7,828,538)	(29,160,116)
Proportionate Share of Net Pension Asset	\$873,935	\$320,728	\$1,194,663

At December 31, 2015, the City reported an asset of \$1,194,663 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City's proportion was 0.28167480 percent, which is an increase of .003 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$136,341. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 244,613	\$ -
Changes in Assumption	947,293	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	729,800	1,762,749
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	20,551	-
City Contributions Subsequent to the Measurement Date	158,374	-
Total	\$2,100,631	\$1,762,749

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(11) Pension Plan (Continued)

Deferred outflow of resources includes \$158,374 resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2016	\$	77,160
2017		56,608
2018		(152,292)
2019		198,032
	\$	<u>179,508</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.5%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
	<u>100.0%</u>	

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

(11) Pension Plan (Concluded)

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate:

The following presents the City’s proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the District’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50 percent) or 1-percentage point higher (8.25/8.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Asset	\$ (3,006,954)	\$ 1,194,663	\$ 4,620,721

Pension Plan Fiduciary Net Position:

Detailed information about the plan’s fiduciary net position is available in the separately issued SDRS financial report.

(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.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

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

Annual OPEB Cost and Net OPEB Obligation:

The City’s annual other post-employment benefit (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	\$ 16,490
Interest on Net OPEB Obligation	93,365
Adjustment to Annual Required Contribution	(90,057)
Annual OPEB Costs	19,798
Contributions Made	(1,152)
Change in Actuarial Assumptions	(2,146,984)
Change in Net OPEB Obligation	(2,128,338)
Net OPEB Obligation - Beginning of Year	2,334,128
Net OPEB Obligation - End of Year	\$ 205,790

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2015	\$ 19,798	6%	\$ 205,790
2014	416,973	6%	2,334,128
2013	406,866	0%	1,941,630

Funded Status and Funding Progress:

As of December 31, 2015, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$206,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$206,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.5 million, and the ratio of the UAAL to the covered payroll was 4.54 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. During the year, an actuarial study was performed by a third party and assumptions changed from those used in previous years. The actuarial methods and assumptions used included techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2015**

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

In the actuarial valuation, the entry age method was used. The actuarial assumptions included a 4 percent rate of return and an annual healthcare cost trend rate of 8 percent for healthcare, reduced by decrements to an ultimate rate of 5 percent for healthcare after 7 years. Healthcare rates include a 3 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll for 30 years.

(13) Joint Venture

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

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

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

The joint venture's governing board is composed of 10 representatives, who are the sheriffs from each county and the police chief for each municipality. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the relative participation described above.

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

(14) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2015, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2015

(14) Risk Management (Continued)

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

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

As of December 31, 2015, 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, 2015, no significant claims were filed for unemployment benefits.

Worker's Compensation:

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

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

(15) Change in Accounting Principle

In 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset totaling \$2,075,147, deferred outflows of resources totaling \$1,684,494, and deferred inflows of resources totaling (\$2,403,370) at December 31, 2014. The result was an increase of net position of \$1,356,271 at December 31, 2014. See Note 11.

CITY OF SPEARFISH

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2015**

(16) City Officers

The following were City officers for the year ended December 31, 2015:

Mayor:

Dana Boke

Council:

Dan Hodgs

Marty Clark

Larry Klarenbeek

Doug Schmit

John Lee

Pam Jacobs

Finance Officer:

Dave Dutton

Attorney:

Eric Davis

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
311	\$ 2,015,459	\$ 2,015,459	\$ 2,010,153	\$ (5,306)
313	3,510,000	3,510,000	3,738,219	228,219
314	94,000	94,000	93,526	(474)
315	1,000	1,000	612	(388)
319	4,650	4,650	2,009	(2,641)
320	397,850	397,850	457,788	59,938
<i>Intergovernmental Revenue:</i>				
331	-	4,000	4,000	-
334	-	-	3,913	3,913
<i>State Shared Revenue:</i>				
335.01	5,000	5,000	5,965	965
335.03	56,500	56,500	65,255	8,755
335.04	75,000	75,000	93,310	18,310
335.20	225,000	225,000	400,868	175,868
<i>County Shared Revenue:</i>				
338.02	16,500	16,500	2	(16,498)
338.99	-	-	17,172	17,172
339	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341	23,240	23,240	15,894	(7,346)
342	55,762	55,762	57,720	1,958
343	1,060	5,749	6,540	791
346	756,440	756,440	829,060	72,620
348	2,880	2,880	8,150	5,270
<i>Fines and Forfeits:</i>				
351	2,300	2,300	828	(1,472)
359	6,000	6,000	4,905	(1,095)
<i>Miscellaneous Revenue:</i>				
361	70,000	70,000	70,492	492
362	73,700	73,700	82,864	9,164
363	105,250	105,250	110,269	5,019
367	7,000	7,000	7,344	344
369	4,500	4,500	17,210	12,710
Total Revenue	7,739,512	7,748,201	8,334,489	586,288

CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures				
<i>General Government:</i>				
411 Legislative	147,693	97,693	91,385	6,308
411.5 Contingency	184,289	184,289	-	184,289
Amount Transferred	-	(184,289)	-	(184,289)
412 Executive	132,095	132,095	126,571	5,524
414 Financial Administration	320,627	470,038	443,095	26,943
419 Other	808,829	818,257	768,308	49,949
<i>Public Safety:</i>				
421 Police	1,844,602	1,844,602	1,692,560	152,042
422 Fire	169,400	169,400	148,821	20,579
423 Protective Inspection	196,207	201,207	194,818	6,389
<i>Public Works:</i>				
431 Highways and Streets	899,871	999,560	922,173	77,387
437 Cemeteries	104,129	104,129	99,853	4,276
<i>Health and Welfare:</i>				
441 Health	64,865	64,865	62,972	1,893
<i>Culture and Recreation:</i>				
451 Recreation	1,609,371	1,619,371	1,549,537	69,834
452 Parks	364,500	396,125	387,403	8,722
455 Library	381,265	381,265	373,692	7,573
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	6,000	6,000	3,591	2,409
465 Economic Development and Assistance	200,852	200,852	190,400	10,452
480 Intergovernmental Expenditures	334,286	394,286	357,356	36,930
Total Expenditures	7,768,881	7,899,745	7,412,535	487,210
Excess (Deficiency) of Revenue over (under)				
Expenditures	(29,369)	(151,544)	921,954	1,073,498
Other Financing Sources (Uses):				
391.01 Transfers In	241,035	241,035	241,035	-
391.03 Sale of Municipal Property	-	-	1,750	1,750
391.04 Compensation for Loss or Damage	-	7,175	7,175	-
511 Transfers Out	(307,081)	(307,081)	(307,081)	-
Total Other Financing Sources (Uses)	(66,046)	(58,871)	(57,121)	1,750
Net Change in Fund Balance	(95,415)	(210,415)	864,833	1,075,248
Fund Balance - December 31, 2014 as Restated	5,823,193	5,823,193	5,823,193	-
Fund Balance - December 31, 2015	\$ 5,727,778	\$ 5,612,778	\$ 6,688,026	\$ 1,075,248

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, 2015**

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 3,510,000	\$ 3,510,000	\$ 3,738,219	\$ 228,219
<i>Intergovernmental Revenue:</i>				
331 Federal Grant	-	45,000	66,667	21,667
334 State Grant	-	-	45,000	45,000
335.20 Other - State	-	-	41,461	41,461
338.99 Other - County	-	-	31,124	31,124
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	77,500	77,500	107,036	29,536
367 Contributions and Donations - Private Sources	5,000	5,000	-	(5,000)
369 Other Revenue	-	32,981	-	(32,981)
Total Revenue	3,592,500	3,670,481	4,029,507	359,026
Expenditures				
<i>General Government:</i>				
411 Legislative	-	14,004	-	14,004
414 Financial Administration	-	29,375	-	29,375
419 Other	335,500	447,980	395,923	52,057
<i>Public Safety:</i>				
421 Police	193,493	189,408	164,220	25,188
422 Fire	36,000	36,000	-	36,000
<i>Public Works:</i>				
431 Highways and Streets	905,500	881,252	820,896	60,356
<i>Health and Welfare:</i>				
441.1 Regulation and Inspection	25,000	25,000	-	25,000
<i>Culture and Recreation:</i>				
451 Recreation	792,911	223,311	208,464	14,847
452 Parks	219,000	91,859	69,611	22,248
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	86,000	5,905,303	5,606,511	298,792
470 Debt Service	688,381	1,462,381	1,574,202	(111,821)
480 Intergovernmental Expenditure	335,000	335,000	382,743	(47,743)
Total Expenditures	3,616,785	9,640,873	9,222,570	418,303
Excess (Deficiency) of Revenue over (under) Expenditures	(24,285)	(5,970,392)	(5,193,063)	777,329
Other Financing Sources (Uses):				
391.20 Long-Term Debt Issued	-	224,569	-	(224,569)
391.25 Refunding Bonds Issued	-	-	6,895,000	6,895,000
392.26 Premium on Bonds Issued	-	-	251,669	251,669
511 Transfers Out	-	(801,194)	(801,194)	-
513 Payment to Refunded Debt Escrow Agent	-	-	(5,826,830)	(5,826,830)
Total Other Financing Sources (Uses)	-	(576,625)	518,645	1,095,270
Net Change in Fund Balance	(24,285)	(6,547,017)	(4,674,418)	1,872,599
Fund Balance - December 31, 2014	9,274,167	9,274,167	9,274,167	-
Fund Balance - December 31, 2015	\$ 9,249,882	\$ 2,727,150	\$ 4,599,749	\$ 1,872,599

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

CITY OF SPEARFISH

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION ASSET
DECEMBER 31, 2015**

	<u>2015</u>
City's Proportion of the Net Pension Asset	0.28167480%
City's Proportionate Share of Net Pension	\$ 1,194,663
City's Covered-Employee Payroll	\$ 4,754,528
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	25.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104.10%

CITY OF SPEARFISH

**SCHEDULE OF THE CITY CONTRIBUTIONS
DECEMBER 31, 2015**

	<u>2015</u>
Contractually Required Contribution	\$ 312,615
Contributions in Relation to the Contractually Required Contributions	312,615
Contributions Deficiency (Excess)	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 4,823,341
Contribution as a Percentage of Covered- Employee Payroll	6.48%

CITY OF SPEARFISH

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING
PROGRESS (OPEB)
DECEMBER 31, 2015**

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year, or within 10 days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.
6. The City did not encumber any amounts at December 31, 2015.
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.

(2) GAAB Budgetary Accounting Basis Differences

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

Schedule of Funding Progress (OPEB)

As of December 31, 2015 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)
12/31/2013	-	2,377,325	2,377,325	0.00%	4,917,413	48.35%
12/31/2014	-	2,377,323	2,377,323	0.00%	5,217,997	45.56%
12/31/2015	-	205,790	205,790	0.00%	4,536,233	4.54%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets			
101 Cash and Cash Equivalents	\$ 274,902	\$ 33,343	\$ 82,148
104 Investments	108,982	54,682	-
110 Sales Taxes Receivable	20,289	-	-
121 Special Assessments Receivable	-	-	8,634
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
Total Assets	\$ 404,173	\$ 88,025	\$ 90,782
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 11,480	\$ -	\$ -
216 Accrued Wages Payable	-	-	-
236 Advance from Other Funds	-	-	-
Total Liabilities	11,480	-	-
<i>Deferred Inflows of Resources</i>			
246 Unavailable Revenue - Special Assessments	-	-	-
246 Unavailable Revenue - State 911 Telephone	-	-	-
Total Deferred Inflows of Resources	-	-	-
<i>Fund Balances</i>			
<i>263 Nonspendable:</i>			
263.04 Notes Receivable	-	-	-
263.51 Perpetual Care Cemetery	-	-	-
<i>264 Restricted:</i>			
264.01 Debt Service	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Promoting the City	392,693	-	-
264.05 Library Purposes	-	88,025	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	90,782
264.10 Municipal Highway and Bridge	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-
<i>265 Committed:</i>			
265.99 Spearfish Economic Revolving Fund	-	-	-
265.99 Art in Public Places Fund	-	-	-
<i>267 Unassigned</i>			
	-	-	-
Total Fund Balances	392,693	88,025	90,782
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 404,173	\$ 88,025	\$ 90,782

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ 215,001	\$ 198,123	\$ 1,069,172	\$ 150,058	\$ 24,170
148,984	541,378	665,743	114,261	47,937
-	-	-	-	-
-	8,316	-	-	-
-	-	63,818	-	-
21,357	-	-	-	-
\$ 385,342	\$ 747,817	\$ 1,798,733	\$ 264,319	\$ 72,107

\$ -	\$ -	\$ -	\$ 2,712	\$ -
9,363	-	-	-	-
-	-	-	-	-
9,363	-	-	2,712	-

-	8,316	-	-	-
10,743	-	-	-	-
10,743	8,316	-	-	-

-	-	63,818	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	261,607	-
365,236	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	739,501	-	-	-
-	-	1,734,915	-	-
-	-	-	-	72,107
-	-	-	-	-
365,236	739,501	1,798,733	261,607	72,107

\$ 385,342	\$ 747,817	\$ 1,798,733	\$ 264,319	\$ 72,107
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CITY OF SPEARFISH

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2015**

	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund
Assets				
101 Cash and Cash Equivalents	\$ 995,112	\$ 13,580	\$ 51,675	\$ 1,203
104 Investments	-	-	-	-
110 Sales Taxes Receivable	-	-	-	-
121 Special Assessments Receivable	-	-	-	-
128 Notes Receivable	-	-	-	-
132 Due from Other Governments	-	-	-	-
Total Assets	\$ 995,112	\$ 13,580	\$ 51,675	\$ 1,203
Liabilities, Deferred Inflows of Resources and Fund Balances				
<i>Liabilities</i>				
202 Accounts Payable	\$ -	\$ -	\$ -	\$ -
216 Accrued Wages Payable	-	-	-	-
236 Advance from Other Funds	-	-	-	-
Total Liabilities	-	-	-	-
<i>Deferred Inflows of Resources</i>				
246 Unavailable Revenue - Special Assessments	-	-	-	-
246 Unavailable Revenue - State 911 Telephone	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
<i>Fund Balances</i>				
<i>263 Nonspendable:</i>				
263.04 Notes Receivable	-	-	-	-
263.51 Perpetual Care Cemetery	-	-	-	-
<i>264 Restricted:</i>				
264.01 Debt Service	-	13,580	51,675	1,203
264.03 Perpetual Care Cemetery	-	-	-	-
264.04 Promoting the City	-	-	-	-
264.05 Library Purposes	-	-	-	-
264.06 Park Purposes	-	-	-	-
264.07 911 Purposes	-	-	-	-
264.09 Business Improvement District Purposes	-	-	-	-
264.10 Municipal Highway and Bridge	995,112	-	-	-
264.99 Special Assessments Revolving Loan Fund	-	-	-	-
<i>265 Committed:</i>				
265.99 Spearfish Economic Revolving Fund	-	-	-	-
265.99 Art in Public Places Fund	-	-	-	-
<i>267 Unassigned</i>				
	-	-	-	-
Total Fund Balances	995,112	13,580	51,675	1,203
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 995,112	\$ 13,580	\$ 51,675	\$ 1,203

Cemetery Perpetual Care Fund	TID #3 McGuigan Ranch Capital Projects Fund	TID #4 Creekside Capital Projects Fund	Total
\$ 12,423	\$ 90	\$ -	\$ 3,121,000
445,114	-	-	2,127,081
-	-	-	20,289
-	-	-	16,950
-	-	-	63,818
-	-	-	21,357
\$ 457,537	\$ 90	\$ -	\$ 5,370,495

\$ -	\$ -	\$ -	\$ 14,192
-	-	-	9,363
-	353,413	-	353,413
-	353,413	-	376,968

-	-	-	8,316
-	-	-	10,743
-	-	-	19,059

-	-	-	63,818
50,000	-	-	50,000
-	-	-	66,458
407,537	-	-	407,537
-	-	-	392,693
-	-	-	88,025
-	-	-	261,607
-	-	-	365,236
-	-	-	90,782
-	-	-	995,112
-	-	-	739,501
-	-	-	1,734,915
-	-	-	72,107
-	(353,323)	-	(353,323)
457,537	(353,323)	-	4,974,468

\$ 457,537	\$ 90	\$ -	\$ 5,370,495
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CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	641,016	-	-
315 Amusement Taxes	-	-	181,189
319 Penalties and Interest on Delinquent Taxes	-	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	-	650	-
334 State Grants	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
335.09 911 Remittances	-	-	-
<i>Charges for Goods and Services:</i>			
346 Culture and Recreation	-	-	-
348 Cemeteries	-	-	-
<i>Fines and Forfeits:</i>			
354 Library	-	14,822	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	2,799	1,212	55
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	-	4,904	19,992
369 Other	-	-	-
Total Revenue	643,815	21,588	201,236
Expenditures:			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Public Works:</i>			
437 Cemeteries	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	568,722	-	-
452 Parks	-	-	-
455 Library	-	24,342	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	33,013	-	192,501
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
Total Expenditures	601,735	24,342	192,501
Excess (Deficiency) of Revenue over (Under) Expenditures	42,080	(2,754)	8,735
Other Financing Sources (Uses)			
391.01 Transfers In	-	-	-
391.20 Long-Term Debt Issued	-	-	-
511 Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balances	42,080	(2,754)	8,735
Fund Balances (Deficit), December 31, 2014	350,613	90,779	82,047
Fund Balances (Deficit), December 31, 2015	\$ 392,693	\$ 88,025	\$ 90,782

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
116,407	-	-	-	-
-	-	-	-	11,190
-	-	-	-	-
-	-	-	-	-
3,424	12,069	36,507	4,191	1,046
-	-	900	-	-
-	5,109	-	-	-
-	-	-	-	-
-	-	146,239	8,626	-
119,831	17,178	183,646	12,817	12,236
488,082	-	-	-	-
-	-	-	-	-
-	-	-	11,387	-
-	-	-	-	-
-	-	818	-	-
-	-	-	-	-
-	-	-	87,880	-
488,082	-	818	99,267	-
(368,251)	17,178	182,828	(86,450)	12,236
307,081	-	-	-	-
-	-	-	-	-
-	-	-	-	-
307,081	-	-	-	-
(61,170)	17,178	182,828	(86,450)	12,236
426,406	722,323	1,615,905	348,057	59,871
\$ 365,236	\$ 739,501	\$ 1,798,733	\$ 261,607	\$ 72,107

CITY OF SPEARFISH

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

	Municipal Highway and Bridge Fund	TID #1 Elkhorn Ridge Debt Fund	TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund
Revenue:				
<i>Taxes:</i>				
311 General Property Taxes	\$ -	\$ 152,973	\$ 522,215	\$ 154,670
313 General Sales and Use Taxes	-	-	-	-
315 Amusement Taxes	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	1,833	101
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	-	-
334 State Grants	382,885	-	-	-
335.08 Local Government Highway and Bridge Fund	141,163	-	-	-
335.09 911 Remittances	-	-	-	-
<i>Charges for Goods and Services:</i>				
346 Culture and Recreation	-	-	-	-
348 Cemeteries	-	-	-	-
<i>Fines and Forfeits:</i>				
354 Library	-	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	169	5	62	157
362 Rentals	-	-	-	-
363 Special Assessments	-	-	-	-
367 Contributions and Donations - Private Sources	-	-	-	-
369 Other	-	-	-	-
Total Revenue	524,217	152,978	524,110	154,928
Expenditures:				
<i>Public Safety:</i>				
421 Police	-	-	-	-
<i>Public Works:</i>				
437 Cemeteries	-	-	-	-
<i>Culture and Recreation:</i>				
451 Recreation	-	-	-	-
452 Parks	-	-	-	-
455 Library	-	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	-	-
470 Debt Service	-	152,973	154,511	-
485 Capital Outlay	-	-	-	-
Total Expenditures	-	152,973	154,511	-
Excess (Deficiency) of Revenue over (Under) Expenditures	524,217	5	369,599	154,928
Other Financing Sources (Uses)				
391.01 Transfers In	-	-	-	-
391.20 Long-Term Debt Issued	-	-	-	-
511 Transfers Out	-	-	(591,324)	(205,865)
Total Other Financing Sources (Uses)	-	-	(591,324)	(205,865)
Net Change in Fund Balances	524,217	5	(221,725)	(50,937)
Fund Balances (Deficit), December 31, 2014	470,895	13,575	273,400	52,140
Fund Balances (Deficit), December 31, 2015	\$ 995,112	\$ 13,580	\$ 51,675	\$ 1,203

Cemetery Perpetual Care Fund	TID #3 McGuigan Ranch Capital Projects Fund	TID #4 Creekside Capital Projects Fund	Total
\$ -	\$ -	\$ -	\$ 829,858
-	-	-	641,016
-	-	-	181,189
-	-	-	1,934
-	-	-	650
-	-	-	382,885
-	-	-	141,163
-	-	-	116,407
-	-	-	11,190
12,500	-	-	12,500
-	-	-	14,822
-	-	-	61,696
-	-	-	900
-	-	-	5,109
-	-	-	24,896
200	-	-	155,065
12,700	-	-	2,581,280
-	-	-	488,082
7,217	-	-	7,217
-	-	-	568,722
-	-	-	11,387
-	-	-	24,342
-	-	-	226,332
-	26,404	-	333,888
-	-	32,716	120,596
7,217	26,404	32,716	1,780,566
5,483	(26,404)	(32,716)	800,714
-	205,865	-	512,946
-	-	32,716	32,716
-	-	-	(797,189)
-	205,865	32,716	(251,527)
5,483	179,461	-	549,187
452,054	(532,784)	-	4,425,281
\$ 457,537	\$ (353,323)	\$ -	\$ 4,974,468

OTHER REPORTS



Ketel Thorstenson, LLP

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

City Council
City of Spearfish
Spearfish, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 26, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as Findings #2015-001, #2015-002, #2015-003, and #2015-004 that we consider 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 matters reported in the Schedule of Findings as #2015-004 that is required to be reported under *Government Auditing Standards*.

City Council

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings. 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

September 26, 2016

CITY OF SPEARFISH

SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2015

A. Status of Prior Year Findings and Recommendations

The City does not consider the additional costs of preparing its financial statements to be necessary. The finding, originally issued years ago, will be repeated as Finding #2015-001 for the year ended December 31, 2015.

The City continues to improve on recording year-end adjustments. The finding was originally issued years ago, and varies each year based on the audit adjustments made. The finding is repeated as Finding #2015-002 for the year ended December 31, 2015. The Finance Officer and the Assistant Finance Officer will diligently review all transactions occurring during the year and prepare the appropriate closing accounting entry to prevent the entry from being missed at year end.

B. Current Year Audit Findings and Recommendations

SIGNIFICANT DEFICIENCIES

2015-001 FINDING: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and 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 municipalities of your size.

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

Recommendation: As in prior years, we have instructed management to review a draft of the auditor-prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with 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.

Response and Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2015-002 FINDING: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed audit adjustments. Adjustments posted in the accompanying financial statements included correcting transfers and debt proceeds on TID #4 to a capital contribution from TID #4 Capital Projects Fund to Sewer Fund for sewer lift station, adjusting unearned revenues for health insurance premiums withheld from employees to be remitted in the subsequent month, recording the premium and related amortization on the 2015 Sales Tax Refunding bonds, and reduction of the OPEB liability. Additionally, we proposed 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 misstatement of the City's financial statements.

CITY OF SPEARFISH

**SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2015**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

SIGNIFICANT DEFICIENCIES (CONTINUED)

2015-002 FINDING: Audit Adjustments (Continued)

Recommendation: We recommend that management record all TID activity and purchases of capital assets in the correct funds. Unearned revenues for health insurance premiums withheld from employee pay should be adjusted on an annual basis. Bond premiums and corresponding amortization should be recorded, as applicable, when debt refundings occur.

Response and Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2015-003 FINDING: Payroll Totals

Condition and Cause: Through our payroll testing process, we noted two Recreation/Aquatic center employees with discrepancies, whereby one was overpaid by 10 hours and one was underpaid by .75 hours. We noted that the Recreation/Aquatic center payroll is manually entered from the time tracking software into the payroll processing software which caused the error. We noted the manual entry of payroll hours is not reviewed after it is completed.

Criteria and Effect: The City’s existing internal controls did not identify this error which caused misstatements in the payroll process at the Recreation/Aquatic Center.

Recommendation: The City has approved the purchase of software that will automatically integrate Recreation/Aquatic Center employees’ time into the payroll module of the accounting software. This software upgrade will remove any manual entry process in the timekeeping process and will eliminate the potential for this error to occur in the future. We have no further recommendations.

Response and Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

2015-004 FINDING: Budgetary Overdraft

Condition and Cause: The City has a budgetary overdraft in violation of South Dakota Codified Law 9-21-9, in the following departments:

Fund	Department	Overdraft
Second Penny Sales Tax	Debt Service	\$ (111,821)
Second Penny Sales Tax	Intergovernmental	(47,743)
Total		\$ (159,564)

Criteria and Effect: The City did not follow state law, which could result in additional inquiries from state officials regarding such violations.

Recommendation: In the future, the City should complete supplemental appropriations for unbudgeted expenditures.

Response and Corrective Action Plan: Management is in agreement with the finding. See attached Corrective Action Plan.

CITY OF SPEARFISH

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015**

2015-001 FINDING: Financial Statement Preparation

The City has accepted the risk associated with requesting the auditors prepare the financial statements. All information presented has been reviewed and approved by The Finance Officer and Assistant Finance Officer prior to dissemination.

2015-002 FINDING: Audit Adjustments

The City operates on a cash basis during the fiscal year and prepares adjusting entries to make the accounting adjustments at year-end to appropriately record revenues, expenses, assets and liabilities. This process is cumbersome with the multiple funds the City accounts for. To mitigate issues with proper reporting of these transactions the Assistant Finance Officer will prepare all year-end closing entries for unique transactions at the time of occurrence to assist in having all of the closing entries necessary and accurate at year end. The Assistant Finance Officer will consult with expert resources prior to year-end if additional clarification of accounting entries is needed. This correction will be made by fiscal year-end 2016.

2015-003 FINDING: Payroll Totals

The City has budgeted for purchase in 2017 a time tracking software to eliminate the manual entry of payroll totals. Until the purchase and implementation of the new software, the Assistant Finance Officer will verify the manually entered time records with each payroll process.

2015-004 FINDING: Budgetary Overdraft

In prior years the departments were given opportunities to reduce future expenditures if a budgeted item or project exceeded budget authority. Effective with 2017 processes all supplemental appropriations will be requested at the time of project bid approval by the Finance Officer or the Assistant Finance Officer.