



**CITY OF SPEARFISH**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2016



**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 the 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, 2016, 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.

#### ***Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit***

The financial statements referred to above do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The effect of this departure from accounting principles generally accepted in the United States of America, to include the amounts of assets, liabilities, net position, revenues and expenses of the aggregate discretely presented component unit have not been determined.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit” paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City as of December 31, 2016, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Unmodified 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, 2016, 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 6 through 15, and the budgetary comparison information, schedule of funding progress (OPEB), and pension schedules on pages 64 through 69, 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 on the financial statements that collectively comprise the City’s basic financial statements. The combining nonmajor fund financial statements on pages 71 through 78 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 was 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 February 5, 2018, 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

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2016**

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, 2016. 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 \$23,474,465, primarily due to the additional of capital assets at the Black Hills Airport from Lawrence County.
- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$2,670,313 more than the \$13,776,485 governmental expenditures, excluding transfers.
- In the City's business-type activities, revenue increased by 229 percent to \$27,565,069 while expenses increased by 34 percent to \$6,760,917, due to acceptance of infrastructure contributions at Black Hills Airport from Lawrence County and at various other locations from individual developers.
- The general fund reported a \$575,712 current year increase in fund balance primarily due increases in revenues and minimal increases in expenditures during 2016. Revenue increases were seen in licenses and permits, property tax receipts, and fire department revenues.

#### **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, 2016**

**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.

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

## **CITY OF SPEARFISH**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) DECEMBER 31, 2016**

#### **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 was new in 2015 with a change in sponsorship of the Black Hills Airport to the City in 2016. There were significant contributed assets from Lawrence County 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, 2016**

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

Net Position

The City’s combined net position increased by 26.61 percent between 2015 and 2016 – increasing by \$23,474,465 (see Table A-1).

Statement of Net Position Table A-1						
	Governmental Activities		Business-Type Activities		Total	
	2015	2016	2015	2016	2015	2016
Current & Other Assets	\$ 16,626,601	\$ <b>18,499,302</b>	\$ 9,192,986	\$ <b>8,703,445</b>	\$ 25,819,587	\$ <b>27,202,747</b>
Capital Assets	51,887,768	<b>52,847,672</b>	36,267,376	<b>57,229,252</b>	88,155,144	<b>110,076,924</b>
Total Assets	68,514,369	<b>71,346,974</b>	45,460,362	<b>65,932,697</b>	113,974,731	<b>137,279,671</b>
Pension Related Deferred Outflows of Resources	\$ 1,536,680	\$ <b>1,568,400</b>	\$ 563,951	\$ <b>575,744</b>	\$ 2,100,631	\$ <b>2,144,144</b>
Long-Term Debt	\$ 16,887,167	\$ <b>18,124,429</b>	\$ 8,480,240	\$ <b>7,721,949</b>	\$ 25,367,407	\$ <b>25,846,378</b>
Other Liabilities	331,062	<b>1,216,159</b>	388,330	<b>660,999</b>	719,392	<b>1,877,158</b>
Total Liabilities	\$ 17,218,229	\$ <b>19,340,588</b>	\$ 8,868,570	\$ <b>8,382,948</b>	\$ 26,086,799	\$ <b>27,723,536</b>
Pension Related Deferred Inflows of Resources	\$ 1,289,508	\$ -	\$ 473,241	\$ -	\$ 1,762,749	-
Net Position:						
Net Investment in Capital Assets	\$ 35,729,634	\$ <b>35,459,301</b>	\$ 28,001,124	\$ <b>49,670,774</b>	\$ 63,730,758	\$ <b>85,130,075</b>
Restricted	4,685,346	<b>5,126,923</b>	411,438	<b>322,285</b>	5,096,784	<b>5,449,208</b>
Unrestricted	11,128,332	<b>12,988,562</b>	8,269,940	<b>8,132,434</b>	19,398,272	<b>21,120,996</b>
Total Net Position	\$ 51,543,312	\$ <b>53,574,786</b>	\$ 36,682,502	\$ <b>58,125,493</b>	\$ 88,225,814	\$ <b>111,700,279</b>
Beginning Net Position	\$ 47,424,346	\$ <b>51,543,312</b>	\$ 32,404,146	\$ <b>36,682,502</b>	\$ 79,828,492	\$ <b>88,225,814</b>
Change in Accounting Principle	992,156	-	364,115	-	1,356,271	-
Change in Net Position	3,126,810	<b>2,031,474</b>	3,914,241	<b>21,442,991</b>	7,041,051	<b>23,474,465</b>
Percentage of Increase in Net Position	6.46%	<b>3.94%</b>	11.95%	<b>58.46%</b>	8.67%	<b>26.61%</b>

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

**CITY OF SPEARFISH**

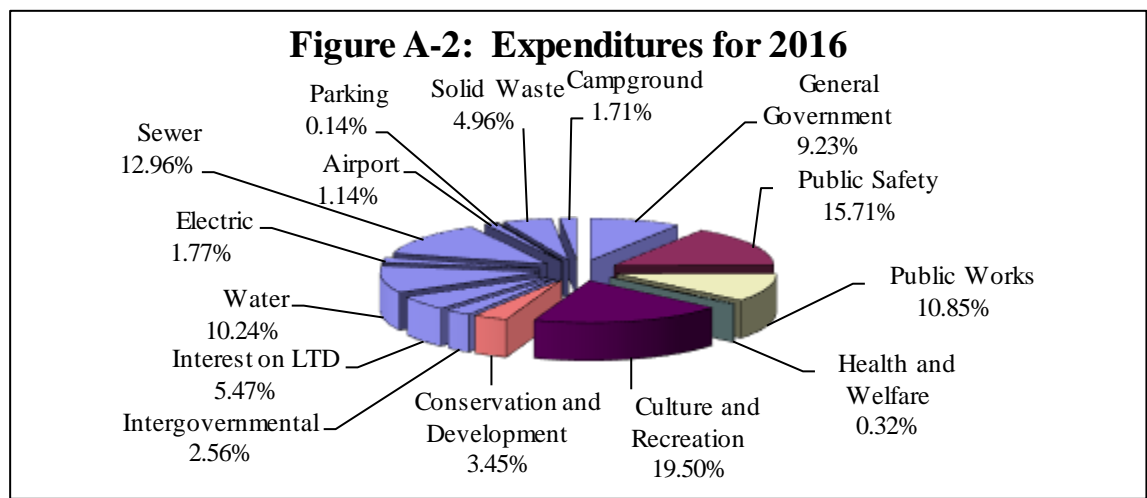
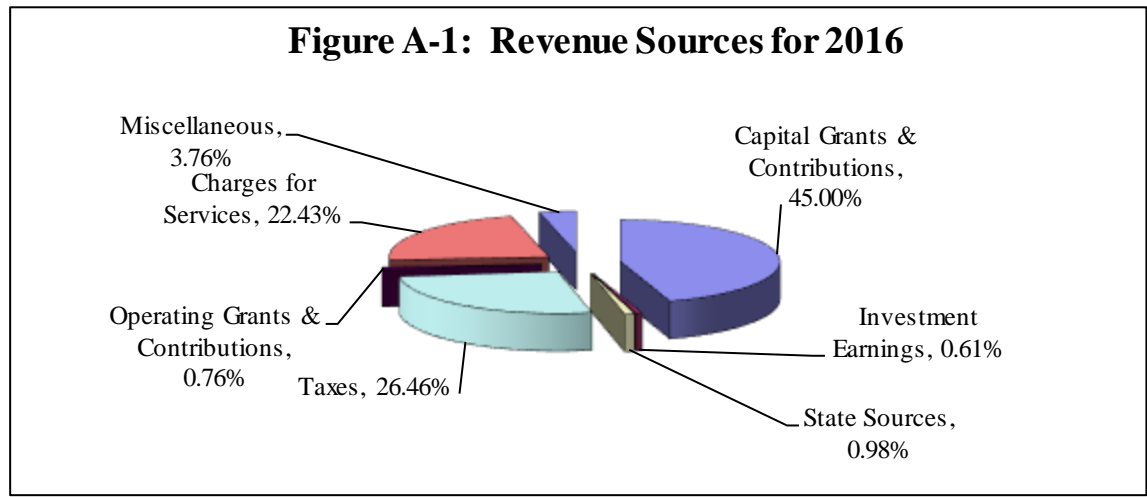
**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016**

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

Changes in Net Position

The City’s total revenues (excluding transfers) totaled \$44,011,867 (see Table A-2). Approximately one half of the City’s revenue comes from charges for services and tax, with 22 cents of every dollar raised coming from charges for services (primarily water, sewer, recreation and aquatic park and solid waste operations) and 26 cents of every dollar raised comes from some type of tax. In 2016, 45 cents of every dollar came from capital grants & contributions largely due to the assets donated to the City from Lawrence County (See Figure A-1).

The total cost of all programs and services increased \$3,924,213 from 2015 to 2016. 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, 2016**

**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	
	2015	2016	2015	2016	2015	2016
<b>Revenues</b>						
<i>Program Revenues</i>						
Charges for Services	\$ 2,005,932	\$ 2,041,964	\$ 7,317,160	\$ 7,828,305	\$ 9,323,092	\$ 9,870,269
Operating Grants and Contributions	299,414	334,541	19,466	-	318,880	334,541
Capital Grants and Contributions	513,184	282,663	819,867	19,522,783	1,333,051	19,805,446
<i>General Revenues</i>						
Taxes	11,353,435	11,647,523	-	-	11,353,435	11,647,523
Revenue State Sources	561,845	432,669	-	-	561,845	432,669
Unrestricted Investment						
Earnings (Losses)	241,533	167,719	131,166	99,829	372,699	267,548
Miscellaneous	297,206	1,539,719	94,032	114,152	391,238	1,653,871
<b>Total Revenues</b>	<b>\$ 15,272,549</b>	<b>\$ 16,446,798</b>	<b>\$ 8,381,691</b>	<b>\$ 27,565,069</b>	<b>\$ 23,654,240</b>	<b>\$ 44,011,867</b>
<b>Expenses</b>						
General Government	\$ 1,622,522	\$ 1,896,007	\$ -	\$ -	\$ 1,622,522	\$ 1,896,007
Public Safety	2,174,873	3,226,555	-	-	2,174,873	3,226,555
Public Works	1,752,789	2,227,906	-	-	1,752,789	2,227,906
Health and Welfare	46,717	65,059	-	-	46,717	65,059
Culture and Recreation	3,459,088	4,004,222	-	-	3,459,088	4,004,222
Conservation and Development	434,047	707,817	-	-	434,047	707,817
Interest on Long-Term Debt	1,636,842	1,122,723	-	-	1,636,842	1,122,723
Intergovernmental	425,986	526,196	-	-	425,986	526,196
Water Services	-	-	1,536,970	2,102,760	1,536,970	2,102,760
Electric Services	-	-	289,109	363,932	289,109	363,932
Sewer Services	-	-	2,070,271	2,662,707	2,070,271	2,662,707
Airport	-	-	24,451	234,072	24,451	234,072
Parking	-	-	27,577	28,184	27,577	28,184
Solid Waste	-	-	874,020	1,019,150	874,020	1,019,150
Campground	-	-	237,927	350,112	237,927	350,112
<b>Total Expenses</b>	<b>\$ 11,552,864</b>	<b>\$ 13,776,485</b>	<b>\$ 5,060,325</b>	<b>\$ 6,760,917</b>	<b>\$ 16,613,189</b>	<b>\$ 20,537,402</b>
<b>Excess Revenues Before Transfers, Special Item and Extraordinary Item</b>						
	\$ 3,719,685	\$ 2,670,313	\$ 3,321,366	\$ 20,804,152	\$ 7,041,051	\$ 23,474,465
Transfers	(592,875)	(638,839)	592,875	638,839	-	-
Extraordinary Item	-	-	-	-	-	-
<b>Increase in Net Position</b>	<b>\$ 3,126,810</b>	<b>\$ 2,031,474</b>	<b>\$ 3,914,241</b>	<b>\$ 21,442,991</b>	<b>\$ 7,041,051</b>	<b>\$ 23,474,465</b>
<b>Change in Accounting Principle</b>	<b>\$ 992,156</b>	<b>\$ -</b>	<b>\$ 364,115</b>	<b>\$ -</b>	<b>\$ 1,356,271</b>	<b>\$ -</b>
<b>Net Position - Ending</b>	<b>\$ 51,543,312</b>	<b>\$ 53,574,786</b>	<b>\$ 36,682,502</b>	<b>\$ 58,125,493</b>	<b>\$ 88,225,814</b>	<b>\$ 111,700,279</b>

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016**

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

**Governmental Activities**

Revenues of the City's governmental activities exceeded expenditures by \$2,670,313 excluding transfers, due to increased tax revenues and implementation of cost control measures.

**Business-Type Activities**

Revenues of the City's business-type activities exceeded expenses by \$20,804,152 excluding transfers, due to acceptance of contributions from Lawrence County for Black Hills Airport and rate increases in business-type funds.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and seven 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, 2016**

**CAPITAL ASSET ADMINISTRATION**

By the end of 2016, the City had invested \$110,076,924 in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of \$21,921,780.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2015	2016	2015	2016
Land	\$ 9,251,295	\$ <b>9,271,295</b>	\$ 2,110,730	\$ <b>8,080,067</b>
Buildings	17,016,581	<b>16,560,253</b>	4,798,153	<b>7,258,449</b>
Improvements	22,451,913	<b>23,763,890</b>	27,233,426	<b>38,677,340</b>
Machinery and Equipment	3,098,161	<b>3,194,231</b>	2,020,344	<b>2,413,006</b>
Construction Work in Progress	69,818	<b>58,003</b>	104,723	<b>800,390</b>
<b>Totals</b>	<b>\$ 51,887,768</b>	<b>\$ 52,847,672</b>	<b>\$ 36,267,376</b>	<b>\$ 57,229,252</b>

This year’s major capital asset changes included:

Governmental Fund Assets:

- Construction of street improvements for the Ramsdell Street Project for \$1,961,213
- Caterpillar Excavator for \$159,049
- Brush chipper for \$150,000
- Caterpillar Asphalt Paver for \$124,108
- Yukon Street Improvements for \$275,690
- Developer contributed assets related to Arrowhead Street Improvements for \$281,704

Business-type Assets:

- Construction of water lines on Colorado Boulevard for \$608,915
- Water culvert construction at the Campground for \$157,579
- Construction of water and sewer lines in the Ramsdell Addition for \$823,327
- Construction of a water well building and related equipment for College Well House for \$484,291
- Acceptance of water and sewer improvements on Tumbleweed Trail for \$736,325
- SCADA control system for all water wells and sewer stations for \$105,688
- Rebuilding an existing garbage truck for \$111,925
- Water and sewer lines transferred from the governmental funds for \$717,524
- Developer contributed land and land improvements related to the Wagonbox Development for \$348,200
- Developer contributed water and sewer lines related to the Wagonbox Development for \$286,330
- Lawrence County contributed land, improvements, buildings, machinery and equipment related to the Airport for \$18,857,999

**CITY OF SPEARFISH**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016**

**LONG-TERM DEBT**

At year-end, the City had \$25,846,378 in Sales Tax Refunding Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2015 as shown on Table A-4 below. The increase from 2015 is due to TID #4 Creekside borrowings and corresponding fixed assets. The City made scheduled payments throughout the year on its debt balances.

	<b>Governmental Activities</b>		<b>Business-type Activities</b>	
	2015	2016	2015	2016
Compensated Absences	\$ 581,375	\$ 591,688	\$ 155,856	\$ 106,634
Other Post Employment Benefits (OPEB)	147,658	144,370	58,132	56,837
Sales Tax Refunding Bonds	6,645,000	6,175,000	-	-
Premium on Refunding Bonds	241,989	222,630	-	-
TID #1 Elkhorn Ridge	3,776,605	3,776,605	-	-
TID #4 Creekside	32,716	1,044,145	-	-
TID #1 Accrued Interest	5,238,873	5,956,080	-	-
SRF Loan - Sewer	-	-	4,447,588	4,203,296
Motor Grader	222,951	213,911	-	-
SRF Loan - Water	-	-	3,034,464	2,735,943
Carlstrom Land	-	-	784,200	619,239
<b>Total</b>	<b>\$ 16,887,167</b>	<b>\$ 18,124,429</b>	<b>\$ 8,480,240</b>	<b>\$ 7,721,949</b>

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

The City’s current economic position has continued to grow. The City did experience an increase in total property valuation of \$35,065,130 or 4.8 percent from the prior year. This increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately \$53,000. The growth in property valuation also allows the City to reduce the property tax mill levy from \$2.87 per \$1,000 assessed valuation to \$2.86 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 minimal increase in taxable sales of 0.4 percent over the prior year and has adopted a budget with no increase in sales tax revenue for the next year.

The City’s adopted General Fund budget for the next fiscal year will raise \$171,587 or 2.0 percent. The largest portion of this increase is due to salary increases and increased cost of employee health insurance.

The City’s business-type activities (water and sewer operations) expect that the results for 2017 will improve based on annual rate increases implemented to cover the increasing cost of repair and replacement of aging infrastructure and cost saving measures taken by departmental staff.

**CITY OF SPEARFISH**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)  
DECEMBER 31, 2016**

**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, 2016**

	GOVERNMENTAL	BUSINESS-TYPE	
	ACTIVITIES	ACTIVITIES	TOTAL
<b>Assets:</b>			
Cash	\$ 10,904,642	\$ 4,308,525	\$ 15,213,167
Investments (Note 2)	7,244,184	3,177,026	10,421,210
Accounts and Notes Receivable, Net (Notes 1 and 4)	634,057	764,108	1,398,165
Internal Balances (Note 10)	(453,786)	453,786	-
Other Assets (Note 14)	170,205	-	170,205
Capital Assets (Note 6):			
Land and Construction in Progress	9,329,298	8,880,457	18,209,755
Other Capital Assets, Net of Depreciation	43,518,374	48,348,795	91,867,169
<b>TOTAL ASSETS</b>	<b>71,346,974</b>	<b>65,932,697</b>	<b>137,279,671</b>
<b>Deferred Outflows of Resources</b>			
Pension Related Deferred Outflows of Resources (Note 11)	1,568,400	575,744	2,144,144
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 72,915,374</b>	<b>\$ 66,508,441</b>	<b>\$ 139,423,815</b>



**CITY OF SPEARFISH**

**STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2016**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>Liabilities:</b>			
Accounts Payable	\$ 181,344	\$ 145,397	\$ 326,741
Unearned Revenue (Note 3)	107,985	-	107,985
Other Current Liabilities	229,013	258,786	487,799
Net Pension Liability (Note 11)	697,817	256,816	954,633
Long-Term Liabilities (Note 7):			
Due Within One Year	1,299,991	834,540	2,134,531
Due in More Than One Year	16,824,438	6,887,409	23,711,847
<b>TOTAL LIABILITIES</b>	<b>19,340,588</b>	<b>8,382,948</b>	<b>27,723,536</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	35,459,301	49,670,774	85,130,075
Restricted for:			
Debt Service	104,958	-	104,958
SDPAA (Note 14)	98,788	-	98,788
Promoting the City	377,545	-	377,545
Library Purposes	249,211	-	249,211
Park Purposes	268,725	-	268,725
911 Purposes	420,176	-	420,176
Business Improvement District Purposes	99,402	-	99,402
Rifle Range Improvement Grant	8,500	-	8,500
Municipal Highway and Bridge	1,448,706	-	1,448,706
Special Assessments Revolving Loan Fund	754,595	-	754,595
Pension - SDRS (Note 11)	870,583	322,285	1,192,868
Perpetual Care Cemetery			
Expendable	375,734	-	375,734
Nonexpendable	50,000	-	50,000
Unrestricted	12,988,562	8,132,434	21,120,996
<b>TOTAL NET POSITION</b>	<b>53,574,786</b>	<b>58,125,493</b>	<b>111,700,279</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 72,915,374</b>	<b>\$ 66,508,441</b>	<b>\$ 139,423,815</b>

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2016

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	----- Changes in Net Position -----		
					Governmental Activities	Business-Type Activities	
<b>Governmental Activities:</b>							
General Government	\$ 1,896,007	\$ 552,915	\$ -	\$ -	\$ (1,343,092)	\$ -	\$ (1,343,092)
Public Safety	3,226,555	78,379	-	-	(3,148,176)	-	(3,148,176)
Public Works	2,227,906	603,211	334,541	282,663	(1,007,491)	-	(1,007,491)
Health and Welfare	65,059	-	-	-	(65,059)	-	(65,059)
Culture and Recreation	4,004,222	807,459	-	-	(3,196,763)	-	(3,196,763)
Conservation and Development	707,817	-	-	-	(707,817)	-	(707,817)
Intergovernmental	526,196	-	-	-	(526,196)	-	(526,196)
Interest on Long-Term Debt	1,122,723	-	-	-	(1,122,723)	-	(1,122,723)
<b>Total Governmental Activities</b>	<b>13,776,485</b>	<b>2,041,964</b>	<b>334,541</b>	<b>282,663</b>	<b>(11,117,317)</b>	<b>-</b>	<b>(11,117,317)</b>
<b>Business-Type Activities:</b>							
Water	2,102,760	2,651,344	-	272,324	-	820,908	820,908
Electric	363,932	800,236	-	-	-	436,304	436,304
Sewer	2,662,707	2,832,604	-	392,460	-	562,357	562,357
Airport	234,072	1,716	-	18,857,999	-	18,625,643	18,625,643
Parking	28,184	24,818	-	-	-	(3,366)	(3,366)
Solid Waste	1,019,150	1,164,142	-	-	-	144,992	144,992
Campground	350,112	353,445	-	-	-	3,333	3,333
<b>Total Business-Type Activities</b>	<b>6,760,917</b>	<b>7,828,305</b>	<b>-</b>	<b>19,522,783</b>	<b>-</b>	<b>20,590,171</b>	<b>20,590,171</b>
<b>Total Primary Government</b>	<b>\$ 20,537,402</b>	<b>\$ 9,870,269</b>	<b>\$ 334,541</b>	<b>\$ 19,805,446</b>	<b>(11,117,317)</b>	<b>20,590,171</b>	<b>9,472,854</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes					3,295,769	-	3,295,769
Sales Taxes					8,132,425	-	8,132,425
Other Taxes					127,624	-	127,624
Gross Receipts Tax					91,705	-	91,705
State Shared Revenue					432,669	-	432,669
Grants and Contributions Not Restricted					168,040	-	168,040
Unrestricted Investment Earnings					167,719	99,829	267,548
Miscellaneous Revenue					1,371,679	114,152	1,485,831
Transfers (Note 10)					(638,839)	638,839	-
<b>Total General Revenue and Transfers</b>					<b>13,148,791</b>	<b>852,820</b>	<b>14,001,611</b>
<b>Change in Net Position</b>					<b>2,031,474</b>	<b>21,442,991</b>	<b>23,474,465</b>
Net Position, Beginning					51,543,312	36,682,502	88,225,814
<b>Net Position, Ending</b>					<b>\$ 53,574,786</b>	<b>\$ 58,125,493</b>	<b>\$ 111,700,279</b>

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

**CITY OF SPEARFISH**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>TID #2 Industrial Park Capital Project Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 4,492,455	\$ 2,532,327	\$ 13
104 Investments (Note 2)	2,560,109	2,420,930	-
106 Cash with Fiscal Agent	-	679	-
108 Property Taxes Receivable (Note 5)	26,682	-	-
110 Sales Taxes Receivable	108,272	108,271	-
115 Accounts Receivable	56,790	-	-
121 Special Assessments Receivable	1,300	-	-
128 Notes Receivable (Note 4)	-	-	-
132 Due from Other Governments	239,724	-	-
133 Advances to Other Funds (Note 10)	-	164,728	-
141 Inventory of Supplies	1,417	-	-
154 Deposits (Note 14)	98,788	-	-
155 Prepaid Expense	-	-	-
<b>Total Assets</b>	<b>\$ 7,585,537</b>	<b>\$ 5,226,935</b>	<b>\$ 13</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 99,682	\$ 40,290	\$ -
216 Accrued Wages Payable	175,636	-	-
223 Unearned Revenue - FEMA Grant Revenue	39,809	-	-
223 Unearned Revenue - Gift Cards	3,963	-	-
236 Advance from Other Funds (Note 10)	-	-	453,786
<b>Total Liabilities</b>	<b>319,090</b>	<b>40,290</b>	<b>453,786</b>
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	2,509	-	-
246 Unavailable Revenue - Special Assessments	200	-	-
246 Unavailable Revenue - 911 Telephone Surcharge	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>2,709</b>	<b>-</b>	<b>-</b>
<i>Fund Balances (Note 1)</i>			
263 Nonspendable	100,205	164,728	-
264 Restricted	-	8,500	-
265 Committed	-	5,013,417	-
266 Assigned	456,663	-	-
267 Unassigned	6,706,870	-	(453,773)
<b>Total Fund Balances</b>	<b>7,263,738</b>	<b>5,186,645</b>	<b>(453,773)</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 7,585,537</b>	<b>\$ 5,226,935</b>	<b>\$ 13</b>

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

	<b>Other Governmental Funds</b>		<b>Total Governmental Funds</b>
\$	3,782,415	\$	10,807,210
	2,156,226		7,137,265
	-		679
	-		26,682
	15,120		231,663
	-		56,790
	10,638		11,938
	46,837		46,837
	20,423		260,147
	-		164,728
	-		1,417
	-		98,788
	70,000		70,000
<b>\$</b>	<b>6,101,659</b>	<b>\$</b>	<b>18,914,144</b>

\$	41,372	\$	181,344
	12,368		188,004
	-		39,809
	-		3,963
	164,728		618,514
	218,468		1,031,634

	-		2,509
	3,510		3,710
	10,000		10,000
	13,510		16,219

	120,000		384,933
	4,099,052		4,107,552
	1,815,266		6,828,683
	-		456,663
	(164,637)		6,088,460
	5,869,681		17,866,291
<b>\$</b>	<b>6,101,659</b>	<b>\$</b>	<b>18,914,144</b>

**CITY OF SPEARFISH**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2016**

Total Fund Balances - Governmental Funds \$ 17,866,291

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. 52,847,672

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. (18,124,429)

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. 16,219

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). (41,009)

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. 139,459

Net pension liability is not due and payable in the current period and  
therefore is not reported in the funds. (697,817)

Pension related deferred outflows are components of pension liability  
and therefore are not reported in the funds. 1,568,400

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**Total Net Position - Governmental Activities \$ 53,574,786**

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

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>TID #2 Industrial Park Capital Project Fund</b>
<b>Revenue</b>			
<i>Taxes:</i>			
311 General Property Taxes	\$ 2,069,402	\$ -	\$ -
313 General Sales and Use Taxes	3,753,022	3,753,022	-
314 Gross Receipts Tax	91,705	-	-
315 Amusement Taxes	672	-	-
319 Penalties and Interest on Delinquent Taxes	2,403	-	-
320 Licenses and Permits	533,492	-	-
<i>Intergovernmental Revenue:</i>			
331 Federal Grants	-	25,000	-
334 State Grants	5,918	-	-
State Shared Revenue:			
335.01 Bank Franchise Tax	6,298	-	-
335.03 Liquor Tax Reversion	68,464	-	-
335.04 Motor Vehicle Licenses (5%)	99,716	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
335.09 911 Remittances	-	-	-
335.20 Other	274,651	15,692	-
County Shared Revenue:			
338.99 Other	67,564	-	-
339 County Payments in Lieu of Taxes	230,421	-	-
<i>Charges for Goods and Services:</i>			
341 General Government	19,423	-	-
342 Public Safety	72,317	-	-
343 Highways and Streets	3,756	-	-
346 Culture and Recreation	780,867	-	-
348 Cemeteries	7,360	-	-
<i>Fines and Forfeits:</i>			
351 Court Fines and Costs	1,382	-	-
354 Library	-	-	-
359 Other	4,680	-	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	61,796	66,005	2
362 Rentals	93,826	-	-
363 Special Assessments	110,291	-	-
367 Contributions and Donations - Private Sources	4,688	-	-
369 Other	56,997	-	-
<b>Total Revenue</b>	<b>8,421,111</b>	<b>3,859,719</b>	<b>2</b>

	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$	1,032,324	\$ 3,101,726
	626,381	8,132,425
	-	91,705
	188,637	189,309
	1,462	3,865
	-	533,492
	650	25,650
	339,177	345,095
	-	6,298
	-	68,464
	-	99,716
	139,954	139,954
	127,624	127,624
	-	290,343
	-	67,564
	-	230,421
	-	19,423
	-	72,317
	-	3,756
	12,199	793,066
	11,710	19,070
	-	1,382
	14,393	14,393
	-	4,680
	38,068	165,871
	900	94,726
	5,352	115,643
	163,352	168,040
	64,494	121,491
	<u>2,766,677</u>	<u>15,047,509</u>

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>General Fund</b>	<b>Second Penny Sales Tax Fund</b>	<b>TID #2 Industrial Park Capital Project Fund</b>
<b>Expenditures</b>			
<i>General Government:</i>			
411 Legislative	99,555	-	-
412 Executive	131,791	-	-
414 Financial Administration	393,484	-	-
419 Other	785,824	158,492	-
<i>Public Safety:</i>			
421 Police	1,833,175	27,771	-
422 Fire	355,119	42,949	-
423 Protective Inspection	203,429	-	-
<i>Public Works:</i>			
431 Highways and Streets	986,361	165,207	-
437 Cemeteries	111,450	-	-
<i>Health and Welfare:</i>			
441 Health	62,415	-	-
<i>Culture and Recreation:</i>			
451 Recreation	1,494,367	359,853	-
452 Parks	373,049	28,605	-
455 Library	368,920	-	-
<i>Conservation and Development:</i>			
463 Urban Redevelopment and Housing	7,098	36,531	-
465 Economic Development and Assistance	206,122	-	-
470 Debt Service	-	677,222	44,078
480 Intergovernmental Expenditures	356,536	3,659	-
485 Capital Outlay	-	2,740,999	-
<b>Total Expenditures</b>	<b>7,768,695</b>	<b>4,241,288</b>	<b>44,078</b>
<b>Excess (Deficiency) of Revenue over (Under) Expenditures</b>	<b>652,416</b>	<b>(381,569)</b>	<b>(44,076)</b>
<b>Other Financing Sources (Uses)</b>			
391.01 Transfers In (Note 10)	290,682	60,101	592,404
391.04 Compensation for Loss or Damage	-	1,155,462	-
391.20 Long-Term Debt Issued	-	-	-
511 Transfers Out (Note 10)	(367,386)	(247,098)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(76,704)</b>	<b>968,465</b>	<b>592,404</b>
<b>Net Change in Fund Balances</b>	<b>575,712</b>	<b>586,896</b>	<b>548,328</b>
Fund Balances - December 31, 2015	6,688,026	4,599,749	(1,002,101)
<b>Fund Balances - December 31, 2016</b>	<b>\$ 7,263,738</b>	<b>\$ 5,186,645</b>	<b>\$ (453,773)</b>

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



<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
-	99,555
-	131,791
-	393,484
-	944,316
417,785	2,278,731
-	398,068
-	203,429
-	1,151,568
-	111,450
-	62,415
572,169	2,426,389
10,343	411,997
23,894	392,814
-	43,629
309,261	515,383
214,735	936,035
-	360,195
1,118,624	3,859,623
<u>2,666,811</u>	<u>14,720,872</u>
<u>99,866</u>	<u>326,637</u>
546,846	1,490,033
-	1,155,462
1,045,365	1,045,365
(796,864)	(1,411,348)
<u>795,347</u>	<u>2,279,512</u>
<u>895,213</u>	<u>2,606,149</u>
4,974,468	15,260,142
<u><b>\$ 5,869,681</b></u>	<u><b>\$ 17,866,291</b></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, 2016**

Net Change in Fund Balances - Total Government Funds \$ 2,606,149

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	3,859,623
Depreciation Expense	(2,464,858)
	1,394,765
Capital assets contributed to the City, which are included in the Statement of Activities.	282,663
Capital assets transferred to the water and sewer proprietary funds.	(717,524)
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	869
Special Assessments	(4,606)
911 Revenue	(743)
Miscellaneous Receivables	(36,204)
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.	629,701
Premium on bond issue is a revenue in the governmental funds but is capitalized and amortized in the Statement of Net Position.	19,359
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Position.	(1,879,297)
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	(10,313)
OPEB	3,288
Accrued Interest (excluding TID #1)	(1,816)
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.	(4,293)
Changes in the pension related deferred outflows/inflows, pension liability, and related pension expenses.	(250,524)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 2,031,474</b>

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

**CITY OF SPEARFISH**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2016**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Assets</b>			
<i>Current Assets</i>			
101 Cash and Cash Equivalents	\$ 1,531,592	\$ 1,388,722	\$ 737,404
104 Investments (Note 2)	311,122	573,031	1,241,860
115 Accounts Receivable, Net (Note 1)	192,615	-	275,309
121 Special Assessment Receivable	28,185	-	-
132 Due from Other Governments	70,121	81,660	-
<b>Total Current Assets</b>	<b>2,133,635</b>	<b>2,043,413</b>	<b>2,254,573</b>
<i>Noncurrent Asset</i>			
133 Advance to Other Funds (Note 10)	453,786	-	-
<i>Capital Assets (Note 6)</i>			
160 Land	208,583	150,000	295,058
162 Buildings	2,582,831	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,453,926)	(25,334)	(3,922,358)
164 Improvements Other Than Buildings	21,213,910	202,558	19,725,268
165 Accumulated Depreciation - Improvements Other Than Buildings	(6,881,021)	(34,939)	(6,480,187)
166 Machinery and Equipment	2,154,696	139,140	3,680,725
167 Accumulated Depreciation - Machinery and Equipment	(1,112,469)	(82,787)	(3,035,712)
168 Construction Work in Progress	683,015	93,850	23,525
<b>Total Capital Assets, Net</b>	<b>17,395,619</b>	<b>492,488</b>	<b>17,745,825</b>
<b>Total Assets</b>	<b>19,983,040</b>	<b>2,535,901</b>	<b>20,000,398</b>
<b>Deferred Outflows of Resources</b>			
196 Pension Related Deferred Outflows (Note 11)	126,139	75,675	243,358
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 20,109,179</b>	<b>\$ 2,611,576</b>	<b>\$ 20,243,756</b>

<b>Airport Fund</b>	<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 39,379	\$ 25,323	\$ 386,942	\$ 199,163	\$ 4,308,525	\$ 96,753
-	42,752	773,143	235,118	3,177,026	106,919
5,069	-	111,149	-	584,142	-
-	-	-	-	28,185	-
-	-	-	-	151,781	-
<b>44,448</b>	<b>68,075</b>	<b>1,271,234</b>	<b>434,281</b>	<b>8,249,659</b>	<b>203,672</b>
-	-	-	-	453,786	-
7,207,206	48,000	-	171,220	8,080,067	-
2,405,651	-	-	401,228	12,899,216	-
(30,071)	-	-	(209,078)	(5,640,767)	-
10,683,864	-	19,258	430,297	52,275,155	-
(102,834)	-	(7,992)	(90,842)	(13,597,815)	-
51,400	87,570	1,806,238	149,848	8,069,617	-
(1,500)	(33,569)	(1,255,369)	(135,205)	(5,656,611)	-
-	-	-	-	800,390	-
<b>20,213,716</b>	<b>102,001</b>	<b>562,135</b>	<b>717,468</b>	<b>57,229,252</b>	<b>-</b>
<b>20,258,164</b>	<b>170,076</b>	<b>1,833,369</b>	<b>1,151,749</b>	<b>65,932,697</b>	<b>203,672</b>
856	222	108,371	21,123	575,744	-
<b>\$ 20,259,020</b>	<b>\$ 170,298</b>	<b>\$ 1,941,740</b>	<b>\$ 1,172,872</b>	<b>\$ 66,508,441</b>	<b>\$ 203,672</b>

**CITY OF SPEARFISH**

**STATEMENT OF NET POSITION (CONTINUED)  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2016**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Liabilities and Net Position</b>			
<i>Current Liabilities</i>			
202 Accounts Payable	\$ 44,028	\$ 511	\$ 67,257
205 Current Portion of Long-Term Debt (Note 7)	327,314	22,795	299,866
215 Accrued Interest Payable	7,695	-	28,460
216 Accrued Wages Payable	13,738	9,903	28,136
220 Customer Deposits	139,550	-	-
223 Unearned Revenues	-	-	-
<b>Total Current Liabilities</b>	<b>532,325</b>	<b>33,209</b>	<b>423,719</b>
<b>Long-Term Liabilities</b>			
237 Long-Term Debt, Net of Current Portion (Note 7)	2,442,467	7,284	3,973,518
239 Net Pension Liability	52,641	33,667	106,986
<b>Total Liabilities</b>	<b>3,027,433</b>	<b>74,160</b>	<b>4,504,223</b>
<b>Net Position</b>			
253.1 Net Investment in Capital Assets	14,659,676	492,488	13,542,529
264 Restricted for Pension (Note 11)	73,498	42,008	136,372
252.0 Unrestricted Net Position	2,348,572	2,002,920	2,060,632
<b>Total Net Position</b>	<b>17,081,746</b>	<b>2,537,416</b>	<b>15,739,533</b>
<b>Total Liabilities and Net Position</b>	<b>\$ 20,109,179</b>	<b>\$ 2,611,576</b>	<b>\$ 20,243,756</b>

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

<b>Airport Fund</b>	<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 3,130	\$ -	\$ 30,471	\$ -	\$ 145,397	\$ -
170,282	-	14,283	-	834,540	-
2,321	-	-	-	38,476	-
2,210	282	13,581	9,410	77,260	-
3,500	-	-	-	143,050	-
-	-	-	-	-	64,213
<b>181,443</b>	<b>282</b>	<b>58,335</b>	<b>9,410</b>	<b>1,238,723</b>	<b>64,213</b>
448,957	229	11,415	3,539	6,887,409	-
4,046	389	47,121	11,966	256,816	-
<b>634,446</b>	<b>900</b>	<b>116,871</b>	<b>24,915</b>	<b>8,382,948</b>	<b>64,213</b>
19,594,477	102,001	562,135	717,468	49,670,774	-
-	-	61,250	9,157	322,285	-
30,097	67,397	1,201,484	421,332	8,132,434	139,459
<b>19,624,574</b>	<b>169,398</b>	<b>1,824,869</b>	<b>1,147,957</b>	<b>58,125,493</b>	<b>139,459</b>
<b>\$ 20,259,020</b>	<b>\$ 170,298</b>	<b>\$ 1,941,740</b>	<b>\$ 1,172,872</b>	<b>\$ 66,508,441</b>	<b>\$ 203,672</b>

**CITY OF SPEARFISH**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Water Fund</b>	<b>Electric Production Fund</b>	<b>Sewer Fund</b>
<b>Operating Revenue</b>			
380 Charges for Goods and Services	\$ 2,651,344	\$ 800,236	\$ 2,832,604
<b>Operating Expenses</b>			
410 Personal Services	443,605	276,886	859,236
420 Other Current Expenses	720,466	67,023	771,483
457 Depreciation	873,760	20,023	892,052
<b>Total Operating Expenses</b>	<b>2,037,831</b>	<b>363,932</b>	<b>2,522,771</b>
<b>Operating Income (Loss)</b>	<b>613,513</b>	<b>436,304</b>	<b>309,833</b>
<b>Non-Operating Income (Expense)</b>			
320 Licenses and Permits	7,724	-	7,724
361 Earnings on Deposits and Investments	48,067	10,406	22,981
362 Rental Revenue	-	-	-
363 Special Assessment	2,299	-	-
369 Other	86,335	536	8,384
470 Interest Expense and Fiscal Charges	(64,929)	-	(139,936)
492 Loss on Disposition of Capital Assets	(41,594)	-	-
<b>Total Non-Operating Income (Expense)</b>	<b>37,902</b>	<b>10,942</b>	<b>(100,847)</b>
<b>Income (Loss) before Transfers</b>	<b>651,415</b>	<b>447,246</b>	<b>208,986</b>
<b>Other Financing Sources (Uses)</b>			
391.01 Transfers In (Note 10)	-	-	-
391.07 Contributed Capital	272,324	-	1,109,984
511 Transfers Out (Note 10)	(134,344)	(6,160)	(127,061)
<b>Total Other Financing Sources (Uses)</b>	<b>137,980</b>	<b>(6,160)</b>	<b>982,923</b>
<b>Net Income (Loss)</b>	<b>789,395</b>	<b>441,086</b>	<b>1,191,909</b>
Net Position - December 31, 2015	16,292,351	2,096,330	14,547,624
<b>Net Position - December 31, 2016</b>	<b>\$ 17,081,746</b>	<b>\$ 2,537,416</b>	<b>\$ 15,739,533</b>

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

<b>Airport Fund</b>	<b>Parking Fund</b>	<b>Solid Waste Fund</b>	<b>Campground Fund</b>	<b>Total Proprietary Funds</b>	<b>Internal Service Employee Health Insurance Fund</b>
\$ 1,716	\$ 24,818	\$ 1,164,142	\$ 353,445	\$ 7,828,305	\$ 726,266
40,007	10,232	382,322	160,238	2,172,526	-
38,295	13,573	561,962	157,722	2,330,524	732,407
134,405	4,379	74,866	32,152	2,031,637	-
212,707	28,184	1,019,150	350,112	6,534,687	732,407
(210,991)	(3,366)	144,992	3,333	1,293,618	(6,141)
-	-	-	-	15,448	-
4	738	13,350	4,283	99,829	1,848
33,445	-	-	-	33,445	-
-	-	-	-	2,299	-
1,740	6,030	993	536	104,554	-
(21,365)	-	-	-	(226,230)	-
-	-	-	-	(41,594)	-
13,824	6,768	14,343	4,819	(12,249)	1,848
(197,167)	3,402	159,335	8,152	1,281,369	(4,293)
186,997	-	-	22,481	209,478	-
18,857,999	-	-	-	20,240,307	-
-	(143)	(14,562)	(5,893)	(288,163)	-
19,044,996	(143)	(14,562)	16,588	20,161,622	-
18,847,829	3,259	144,773	24,740	21,442,991	(4,293)
776,745	166,139	1,680,096	1,123,217	36,682,502	143,752
<b>\$ 19,624,574</b>	<b>\$ 169,398</b>	<b>\$ 1,824,869</b>	<b>\$ 1,147,957</b>	<b>\$ 58,125,493</b>	<b>\$ 139,459</b>



CITY OF SPEARFISH

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2016

	Water Fund	Electric Production Fund	Sewer Fund
<b>Cash Flows from Operating Activities:</b>			
Receipts from Customers	\$ 2,487,791	\$ 800,236	\$ 2,762,756
Cash Receipts for Interfund Services Provided	168,651	-	45,233
Payments to Suppliers	(718,837)	(66,512)	(759,075)
Payments to Employees	(417,648)	(262,421)	(834,858)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>1,519,957</b>	<b>471,303</b>	<b>1,214,056</b>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers In	-	-	-
Transfers Out	(134,344)	(6,160)	(127,061)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(134,344)</b>	<b>(6,160)</b>	<b>(127,061)</b>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Purchase of Capital Assets	(1,306,798)	(47,781)	(984,952)
Principal Paid on Capital Debt	(298,521)	-	(244,292)
Interest Paid	(141,706)	-	(141,590)
Special Assessments Receipts	13,409	-	-
Other Receipts	94,059	536	16,108
Receipts on Advance to Other Funds	548,444	-	-
<b>Net Cash Flows Provided By (Used in) Capital and Related Financing Activities</b>	<b>(1,091,113)</b>	<b>(47,245)</b>	<b>(1,354,726)</b>
<b>Cash Flows Provided by Investing Activities:</b>			
Investment Earnings	48,067	10,406	22,981
<b>Increase (Decrease) in Cash and Investments</b>	<b>342,567</b>	<b>428,304</b>	<b>(244,750)</b>
Cash and Investments - December 31, 2015	1,500,147	1,533,449	2,224,014
<b>Cash and Investments - December 31, 2016</b>	<b>\$ 1,842,714</b>	<b>\$ 1,961,753</b>	<b>\$ 1,979,264</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</b>			
Operating Income (Loss)	\$ 613,513	\$ 436,304	\$ 309,833
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:</i>			
Depreciation Expense	873,760	20,023	892,052
<b>Change in Assets and Liabilities:</b>			
Change in Accounts Receivable	(20,552)	-	(24,615)
Change in Prepaid Expense	-	-	-
Change in Accounts Payable	1,629	511	12,408
Change in Accrued Wages	3,384	1,836	3,084
Change in Customer Deposits	25,650	-	-
Change in OPEB and Accrued Leave	5,325	543	(16,504)
Pension Asset	70,740	42,168	135,770
Pension Liability	52,641	33,667	106,986
Pension Related Deferred Outflows	(1,755)	(1,530)	(4,626)
Pension Related Deferred Inflows	(104,378)	(62,219)	(200,332)
Change in Unearned Revenue	-	-	-
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>\$ 1,519,957</b>	<b>\$ 471,303</b>	<b>\$ 1,214,056</b>
<b>Noncash Capital and Related Financing Activities</b>			
Capital Contributions	\$ 272,324	\$ -	\$ 1,109,984
Purchase of Capital Assets through Accounts Payable	27,112	-	14,696
Loss on Sale of Capital Assets	(41,594)	-	-

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
\$ (3,353)	\$ 24,818	\$ 1,139,185	\$ 353,445	\$ 7,564,878	\$ 738,150
-	-	18,937	-	232,821	-
(35,165)	(13,573)	(562,680)	(169,023)	(2,324,865)	(680,078)
(32,010)	(9,947)	(402,867)	(148,995)	(2,108,746)	-
(70,528)	1,298	192,575	35,427	3,364,088	58,072
186,997	-	-	22,481	209,478	-
-	(143)	(14,562)	(5,893)	(288,163)	-
186,997	(143)	(14,562)	16,588	(78,685)	-
(21,400)	-	(214,913)	(177,148)	(2,752,992)	-
(164,961)	-	-	-	(707,774)	-
(21,985)	-	-	-	(305,281)	-
-	-	-	-	13,409	-
35,185	6,030	993	536	153,447	-
-	-	-	-	548,444	-
(173,161)	6,030	(213,920)	(176,612)	(3,050,747)	-
4	738	13,350	4,283	99,829	1,848
(56,688)	7,923	(22,557)	(120,314)	334,485	59,920
96,067	60,152	1,182,642	554,595	7,151,066	143,752
<b>\$ 39,379</b>	<b>\$ 68,075</b>	<b>\$ 1,160,085</b>	<b>\$ 434,281</b>	<b>\$ 7,485,551</b>	<b>\$ 203,672</b>
\$ (210,991)	\$ (3,366)	\$ 144,992	\$ 3,333	\$ 1,293,618	\$ (6,141)
134,405	4,379	74,866	32,152	2,031,637	-
(5,069)	-	(6,020)	-	(56,256)	-
-	-	-	-	-	52,329
3,130	-	(718)	(11,301)	5,659	-
1,307	14	2,852	5,810	18,287	-
3,500	-	-	-	29,150	-
-	(6)	(39,794)	(81)	(50,517)	-
-	86	60,528	11,436	320,728	-
4,046	389	47,121	11,966	256,816	-
(856)	(71)	(1,941)	(1,014)	(11,793)	-
-	(127)	(89,311)	(16,874)	(473,241)	-
-	-	-	-	-	11,884
<b>\$ (70,528)</b>	<b>\$ 1,298</b>	<b>\$ 192,575</b>	<b>\$ 35,427</b>	<b>\$ 3,364,088</b>	<b>\$ 58,072</b>
\$ 18,857,999	\$ -	\$ -	\$ -	\$ 20,240,307	\$ -
-	-	-	-	41,808	-
-	-	-	-	(41,594)	-

## **CITY OF SPEARFISH**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016**

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

##### ***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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financial accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the City (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

The Spearfish Volunteer Firefighter's Association (the Association) is a component unit that should be discretely presented. However, due to lack of timely financial statements for the Association, the City has elected not to include the component unit in these financial statements.

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.

##### ***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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

*Basis of Presentation (Continued)*

*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.

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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

***Basis of Presentation (Continued)***

*Fund Financial Statements (Continued):*

Governmental Funds (Continued):

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

Special Park Gift Fund – to account for any gift, grant, devise or bequest made by any person, private agency, agency of state government, the federal government, or any of its agencies for park purposes (SDCL 9-38-112). 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.

Tax Increment District #4 Creekside Estates 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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

*Basis of Presentation (Continued)*

*Fund Financial Statements (Continued):*

Governmental Funds (Concluded):

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 Estates Capital Projects Fund – to account for construction of infrastructure within the tax increment district. This is not a major fund.

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

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

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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

***Basis of Presentation (Concluded)***

*Fund Financial Statements (Concluded):*

Proprietary Funds (Continued):

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 acquired control of the airport in 2016 from Lawrence County. 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 government 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.

***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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016

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

##### *Measurement Focus and Basis of Accounting (Continued)*

###### *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, 2016, are property, special assessments, 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.

##### *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.



**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

*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.

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	\$ -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.

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016

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

##### *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 governmental 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.

##### *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.

##### *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.

##### *Cash and Cash Equivalents*

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.

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.

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, 2016

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

##### *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, 2016. The Second Penny Sales Tax Fund was established by the City Council passing Ordinance #961 for the purposes described in Note 1. The Spearfish Economic Revolving Fund was established by the City Council passing Ordinance #717 for the purposes described in Note 1. The Art in Public Places Fund was established by the City Council passing Ordinance #1015 for the purposes described in Note 1. 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 three Assigned Fund Balances for the year ended December 31, 2016. The Subsequent Year's Budget Fund was established by the City Council when it passed the 2017 Appropriation Ordinance for the City's 2017 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. The Wildland Fire Fund was established by the City Council. The balance for this project is assigned within the General Fund.

## CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016

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

*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, 2016, 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 <b>Nonspendable:</b>					
263 Inventory	\$ 1,417	\$ -	\$ -	\$ -	\$ 1,417
263 Prepaids	-	-	-	70,000	70,000
263.04 Advances	-	164,728	-	-	164,728
263.05 Notes Receivable	-	-	-	-	-
263.49 SDPAA	98,788	-	-	-	98,788
263.51 Perpetual Care Cemetery	-	-	-	50,000	50,000
	100,205	164,728	-	120,000	384,933
264 <b>Restricted:</b>					
264.01 Debt Service	-	-	-	104,958	104,958
264.03 Perpetual Care Cemetery	-	-	-	375,734	375,734
264.04 Promoting the City	-	-	-	377,545	377,545
264.05 Library Purposes	-	-	-	249,211	249,211
264.06 Park Purposes	-	-	-	268,725	268,725
264.07 911 Purposes	-	-	-	420,176	420,176
264.09 BID Purposes	-	-	-	99,402	99,402
264.99 Rifle Range Improvement Grant	-	8,500	-	-	8,500
264.99 Municipal Highway and Bridge	-	-	-	1,448,706	1,448,706
264.99 Special Assessments Revolving Loan	-	-	-	754,595	754,595
	-	8,500	-	4,099,052	4,107,552
265 <b>Committed</b>					
265.99 Second Penny	-	5,013,417	-	-	5,013,417
265.99 Spearfish Economic Revolving Fund	-	-	-	1,730,118	1,730,118
265.99 Art in Public Places Fund	-	-	-	85,148	85,148
	-	5,013,417	-	1,815,266	6,828,683
266 <b>Assigned</b>					
266.01 Subsequent Year's Budget	365,514	-	-	-	365,514
266.10 Wildland Fire	46,546	-	-	-	46,546
266.97 Historical Procurement Project	44,603	-	-	-	44,603
	456,663	-	-	-	456,663
267 <b>Unassigned</b>	6,706,870	-	(453,773)	(164,637)	6,088,460
<b>Total Fund Balances</b>	<b>\$ 7,263,738</b>	<b>\$ 5,186,645</b>	<b>\$ (453,773)</b>	<b>\$ 5,869,681</b>	<b>\$ 17,866,291</b>

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

***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, 2016, the non-major TID #3 McGuigan Ranch Capital Projects Fund had a deficit fund balance of \$164,637.

***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.

***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, 2016 total approximately \$6,000, \$8,000, and \$2,000 for the water, sewer, and solid waste funds, respectively. Included in utility accounts receivable at December 31, 2016 are unbilled accounts receivable totaling approximately \$72,000, \$107,000, and \$40,000 for the water, sewer, and solid waste funds, respectively.

***Emerging Accounting Standards***

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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

*Emerging Accounting Standards (Continued)*

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City has not yet determined the specific impact of this statement on the financial statements. The statement is effective for the City’s year ending December 31, 2020.

*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, 2016 were as follows:

<u>Primary Government</u>	<u>Bank Balance</u>
Insured - FDIC	\$ 1,250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	14,181,740
<b>Total</b>	<b>\$ 15,431,740</b>

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

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2016, the City had the following investments:

Investments	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Farm Credit Bank Internotes	AAA	4 years	\$ 491,176 <sup>1</sup>
Federal Farm Credit Bank Bonds	AAA	4-5 years	1,801,116 <sup>1</sup>
External Investment Pools:			
SDFIT	Unrated		57,441
Total Investments			2,349,733
Other Investments:			
Money Markets			1,079
Certificates of Deposit (a)			8,070,398
			<b>\$ 10,421,210</b>

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

(a) The City is invested in negotiable participating certificates of deposit. The certificates of deposit of the City are in violation of state law as noted above.

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. SDFIT, as well as the U.S. Government Securities, money markets and certificates of deposit are measured as level 2 recurring fair value measurements according to the fair value hierarchy.

*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, 2016, the City's investment in SDFIT pool was unrated.

*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.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

**(2) Deposits and Investments (Concluded)**

*Custodial Credit Risk – Investments:*

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

*Assignment of Investment Income:*

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

*Concentration of Credit Risk:*

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

**(3) Deferred 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. 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, 2016:

Loan	Collateral	Rate	Maturity	Balance
Alpine Industries	Mortgage	0%	June 2021	\$ 15,237
J1 Industries	All Assets	3%	March 2020	26,932
Versatile Carpets	Mortgage	0%	January 2021	4,668
<b>Total</b>				<b>\$ 46,837</b>

**(5) Property Taxes**

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and are 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, 2016**

**(6) Changes in Capital Assets**

A summary of changes in capital assets for year ending December 31, 2016 is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
Capital Assets, not being Depreciated:				
Land	\$ 9,251,295	\$ 20,000	\$ -	\$ 9,271,295
Construction Work in Progress	69,818	58,002	69,817	58,003
<b>Total Capital Assets, not being Depreciated</b>	<b>9,321,113</b>	<b>78,002</b>	<b>69,817</b>	<b>9,329,298</b>
Capital Assets, being Depreciated:				
Buildings	21,471,024	-	-	21,471,024
Improvements Other Than Buildings	31,870,087	3,472,621	717,524	34,625,184
Machinery and Equipment	9,117,770	661,480	64,859	9,714,391
<b>Total Capital Assets, being Depreciated</b>	<b>62,458,881</b>	<b>4,134,101</b>	<b>782,383</b>	<b>65,810,599</b>
Less Accumulated Depreciation for:				
Buildings	4,454,443	456,328	-	4,910,771
Improvements Other Than Buildings	9,418,174	1,443,120	-	10,861,294
Machinery and Equipment	6,019,609	565,410	64,859	6,520,160
<b>Total Accumulated Depreciation</b>	<b>19,892,226</b>	<b>2,464,858</b>	<b>64,859</b>	<b>22,292,225</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>42,566,655</b>	<b>1,669,243</b>	<b>717,524</b>	<b>43,518,374</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 51,887,768</b>	<b>\$ 1,747,245</b>	<b>\$ 787,341</b>	<b>\$ 52,847,672</b>

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 761,941
Public Works	954,975
Public Safety	179,474
General Government	266,821
Intergovernmental	162,435
Economic Development	139,212
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 2,464,858</b>

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016**

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

	Balance 12/31/2015	Additions	Deletions	Balance 12/31/2016
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 2,110,730	\$ 5,969,337	\$ -	\$ 8,080,067
Construction Work in Progress	104,723	712,740	17,073	800,390
<b>Total Capital Assets, not being Depreciated</b>	<b>2,215,453</b>	<b>6,682,077</b>	<b>17,073</b>	<b>8,880,457</b>
Capital Assets, being Depreciated:				
Buildings	10,306,733	2,732,747	140,264	12,899,216
Improvements Other Than Buildings	39,408,730	12,866,425	-	52,275,155
Machinery and Equipment	7,360,629	770,931	61,943	8,069,617
<b>Total Capital Assets, being Depreciated</b>	<b>57,076,092</b>	<b>16,370,103</b>	<b>202,207</b>	<b>73,243,988</b>
Less Accumulated Depreciation for:				
Buildings	5,508,580	230,857	98,670	5,640,767
Improvements Other Than Buildings	12,175,304	1,422,511	-	13,597,815
Machinery and Equipment	5,340,285	378,269	61,943	5,656,611
<b>Total Accumulated Depreciation</b>	<b>23,024,169</b>	<b>2,031,637</b>	<b>160,613</b>	<b>24,895,193</b>
Total Business-Type Activities Capital Assets, being Depreciated, Net				
	34,051,923	14,338,466	41,594	48,348,795
<b>Total Business-Type Capital Assets, Net</b>	<b>\$ 36,267,376</b>	<b>\$ 21,020,543</b>	<b>\$ 58,667</b>	<b>\$ 57,229,252</b>

Depreciation expense was charged to functions as follows:

Sewer	\$ 892,052
Water	873,760
Airport	134,405
Solid Waste	74,866
Campground	32,152
Electric Production	20,023
Parking	4,379
<b>Total Depreciation Expense - Business-Type</b>	<b>\$ 2,031,637</b>

As of December 31, 2016, the City has signed construction commitments in the amount of \$94,983. This commitment is for the water improvements for the Colorado Boulevard Water Project. This project is expected to be financed through the Water Fund with operating revenues and equity reserves.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

**(7) Long-Term Debt**

The following is a summary of the long-term debt activity for the year ending December 31, 2016:

	Balance 12/31/2015	Borrowings	Repayments	Balance 12/31/2016	Due Within One Year
<b>Primary Government:</b>					
<b>Governmental Activities:</b>					
Sales Tax Refunding Bonds 2015	\$ 6,645,000	\$ -	\$ 470,000	\$ 6,175,000	\$ 470,000
Premium on Refunding Bonds	241,989	-	19,359	222,630	19,359
TID #1 Elkhorn Ridge	3,776,605	-	-	3,776,605	-
TID #4 Creekside	32,716	1,045,365	33,936	1,044,145	50,579
Accrued Interest - TID #1	5,238,873	833,932	116,725	5,956,080	152,973
Motor Grader	222,951	-	9,040	213,911	15,392
Compensated Absences	581,375	246,136	235,823	591,688	591,688
OPEB (Note 12)	147,658	-	3,288	144,370	-
<b>Total Governmental Activities</b>	<b>16,887,167</b>	<b>2,125,433</b>	<b>888,171</b>	<b>18,124,429</b>	<b>1,299,991</b>
<b>Business-Type Activities:</b>					
Sewer SRF Loan	4,447,588	-	244,292	4,203,296	252,329
Water SRF Loan	3,034,464	-	298,521	2,735,943	305,295
Carlstrom Airport Land	784,200	-	164,961	619,239	170,282
Compensated Absences	155,856	-	49,222	106,634	106,634
OPEB (Note 12)	58,132	-	1,295	56,837	-
<b>Total Business-Type Activities</b>	<b>8,480,240</b>	<b>-</b>	<b>758,291</b>	<b>7,721,949</b>	<b>834,540</b>
<b>Total Primary Government</b>	<b>\$ 25,367,407</b>	<b>\$ 2,125,433</b>	<b>\$ 1,646,462</b>	<b>\$ 25,846,378</b>	<b>\$ 2,134,531</b>

Tax Increment Districts (TID) Obligations

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

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

During the year ended December 31, 2016, property tax revenues were \$178,300, \$564,301, \$207,487 and \$82,236 for TID #1, #2, #3 and #4, respectively. Interest expenditures excluding corresponding accruals, related to TID obligations totaled \$116,725 for the year ended December 31, 2016.

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

Debt Covenants

The City has pledged future revenue associated with the 2015 Sales Tax Refunding Bonds, 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 Second Penny Sales Tax Fund, Sewer Fund and Water Fund for the current year.

	Sewer	Water	Second Penny Sales Tax
Current Year Principal and Interest	\$ 384,228	\$ 363,450	\$ 656,080
Pledged Revenue	2,832,604	2,651,344	4,066,213

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, 2016.

Long-term debt at December 31, 2016, 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. \$ 6,175,000

Unamortized deferred premium on Series 2015 Sales Tax Refunding Bonds	222,630
Total Series 2015 Sales Tax Refunding Bonds	6,397,630

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. 4,203,296

Drinking Water Revenue Borrower Bonds, Series 2013 for \$3,254,000, mature in February 2025, interest at 2.25 percent, due in quarterly installments of \$91,072. Water revenues pledged and financed through the Water Fund for the Gollither Water Tank construction. 2,735,943

*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. Financed through the TID #4 Creekside Estates Debt Fund. 1,044,145

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016**

**(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.

619,239

*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.

213,911

Total Revenue Bonds and Other Obligations

18,990,769

*Compensated Absences*

General Fund

591,688

Water Fund

22,019

Electric Fund

22,795

Sewer Fund

47,537

Solid Waste Fund

14,283

Total Compensated Absences

698,322

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

General Fund

144,370

Water Fund

11,819

Electric Fund

7,284

Sewer Fund

22,551

Parking Fund

229

Solid Waste Fund

11,415

Campground Fund

3,539

Total OPEB

201,207

Accrued Interest (TID #1)

5,956,080

**Total Long-Term Debt**

**\$ 25,846,378**

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

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

The annual requirements to amortize long-term debt outstanding as of December 31, 2016, 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
2017	\$ 373,869	\$ 1,046,983	\$ 152,973	\$ 50,579	\$ 5,750	\$ 15,392
2018	352,142	1,072,211	152,973	53,269	5,296	15,846
2019	328,623	1,092,870	152,973	56,102	4,828	16,313
2020	303,131	1,118,972	152,973	59,086	4,347	16,795
2021	275,874	1,145,529	152,973	62,229	435	149,565
2022-2026	861,896	5,614,544	764,865	364,457	-	-
2027-2031	116,855	2,245,760	4,426,350	4,175,028	-	-
<b>Total</b>	<b>\$ 2,612,390</b>	<b>\$ 13,336,869</b>	<b>\$ 5,956,080</b>	<b>\$ 4,820,750</b>	<b>\$ 20,656</b>	<b>\$ 213,911</b>

	Contract for Deed		Total	
	Interest	Principal	Interest	Principal
2017	\$ 16,664	\$ 170,282	\$ 549,256	\$ 1,283,236
2018	11,498	175,448	521,909	1,316,774
2019	6,175	180,771	492,599	1,346,056
2020	1,041	92,738	461,492	1,287,591
2021	-	-	429,282	1,357,323
2022-2026	-	-	1,626,761	5,979,001
2027-2031	-	-	4,543,205	6,420,788
<b>Total</b>	<b>\$ 35,378</b>	<b>\$ 619,239</b>	<b>\$ 8,624,504</b>	<b>\$ 18,990,769</b>

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, 2016, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$453,817.

**(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, 2016**

**(10) Interfund Transfers and Advances**

Interfund transfers during the year ended December 31, 2016, were as follows:

	Transfers In	Transfers Out
General Fund	\$ 290,682	\$ 367,386
Water Fund	-	134,344
Electric Production Fund	-	6,160
Sewer Fund	-	127,061
Airport Fund	186,997	-
Solid Waste Fund	-	14,562
Campground Fund	22,481	5,893
Parking Fund	-	143
911 Emergency Fund	342,386	-
TID #2 Industrial Park Debt Fund	-	592,404
TID #2 Industrial Park Capital Projects Fund	592,404	-
TID #3 McGuigan Ranch Debt Fund	-	204,460
TID #3 McGuigan Ranch Capital Projects Fund	204,460	-
Second Penny Sales Tax Fund	60,101	247,098
<b>Total Transfers</b>	<b>\$ 1,699,511</b>	<b>\$ 1,699,511</b>

Subsidies totaling \$265,682 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 \$342,386 to the 911 Emergency Fund for operations. The Recreation Path Fund transferred \$60,101 to the Second Penny Sales Tax Fund upon closing the Recreation Path Fund. The TID #3 McGuigan Ranch Debt Fund transferred \$204,460 to the TID #3 McGuigan Ranch Capital Projects Fund for interfund debt payments. TID #2 Industrial Park Debt Fund transferred \$592,404 to the TID #2 Industrial Park Capital Projects Fund for debt payments. The Second Penny Sales Tax Fund transferred \$186,997 to the Airport Fund for operations. The Water Fund transferred \$22,481 to the Campground Fund to reimburse a portion of the culvert project.

Interfund advances to and advances from balances at December 31, 2016, were as follows:

	Interfund Advance To	Interfund Advance From
Second Penny Sales Tax Fund	\$ 164,728	\$ -
TID #3 McGuigan Ranch Capital Project Fund	-	164,728
TID #2 Industrial Park Capital Project Fund	-	\$ 453,786
Water Fund	453,786	-
<b>Total Interfund Advances</b>	<b>\$ 618,514</b>	<b>\$ 618,514</b>

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

## CITY OF SPEARFISH

### NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2016

#### (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 89.9% 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, 2016, 2015, and 2014 were **\$331,356**, \$312,315, and \$308,835, respectively, equal to the required contributions each year.



**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016**

**(11) Pension Plan (Continued)**

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

At June 30, 2016, SDRS is 96.89 percent funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the City as of June 30, 2016 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$21,686,969	\$8,025,263	<b>\$29,712,232</b>
Less: Proportionate Share of Total Pension Liability	(22,384,786)	(8,282,079)	<b>(30,666,865)</b>
<b>Proportionate Share of Net Pension Liability</b>	<b>(\$697,817)</b>	<b>(\$256,816)</b>	<b>(\$954,633)</b>

At December 31, 2016, the City reported a liability of \$954,633 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability 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, 2016, the City's proportion was 0.28261130 percent, which is an increase of .0009 percent from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the City recognized pension expense of \$691,226. At December 31, 2016, 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	\$ 343,412	\$ -
Changes in Assumption	571,780	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,061,875	-
City Contributions Subsequent to the Measurement Date	167,077	-
<b>Total</b>	<b>\$2,144,144</b>	<b>\$ -</b>

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

**(11) Pension Plan (Continued)**

Deferred outflow of resources includes \$167,077 resulting from City contributions subsequent to the measurement date that 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:

2017	\$	530,486
2018		320,891
2019		672,380
2020		453,310
	\$	<u>1,977,067</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2016 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 2017 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, 2016 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, 2016 (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	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<u>100.0%</u>	

**CITY OF SPEARFISH**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016**

**(11) Pension Plan (Concluded)**

Discount Rate:

The discount rate used to measure the total pension liability was 7.25 percent through 2017 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)/liability calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the District’s proportionate share of the net pension liability 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)/ Liability	\$ 5,342,115	\$ 954,633	\$ (2,623,829)

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, 2016**

**(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		8,232
Adjustment to Annual Required Contribution		(7,940)
<b>Annual OPEB Costs</b>		<b>16,782</b>
Contributions Made		-
Change in Actuarial Assumptions		(21,365)
<b>Change in Net OPEB Obligation</b>		<b>(4,583)</b>
Net OPEB Obligation - Beginning of Year		205,790
<b>Net OPEB Obligation - End of Year</b>	<b>\$</b>	<b>201,207</b>

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
2016	\$ 16,782	0%	\$ 201,207
2015	19,798	6%	205,790
2014	416,973	6%	2,334,128

Funded Status and Funding Progress:

As of December 31, 2016, the plan was -0- percent funded. The actuarial accrued liability for benefits was approximately \$201,000, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$201,000. The covered payroll as of the valuation date at June 30, 2015 (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 4.44 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, 2016**

**(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, 2016, 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, 2016

#### (14) Risk Management (Continued)

The agreement with the SDPAA provides that the above coverages will be provided up to a \$2,000,000 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, 2016, 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, 2016, 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.

#### Litigation

The City has been named as defendant in several lawsuits that have been referred to the City attorney and insurance carriers, as necessary. The City and its attorneys believe that any liability to the City is not estimable and the outcome of the lawsuits are not able to be determined at this time.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
311	\$ 2,064,000	\$ 2,064,000	\$ 2,069,402	\$ 5,402
313	3,615,300	3,615,300	3,753,022	137,722
314	94,000	94,000	91,705	(2,295)
315	250	250	672	422
319	2,400	2,400	2,403	3
320	402,900	402,900	533,492	130,592
<i>Intergovernmental Revenue:</i>				
334	-	-	5,918	5,918
<i>State Shared Revenue:</i>				
335.01	5,000	5,000	6,298	1,298
335.03	60,000	60,000	68,464	8,464
335.04	80,000	80,000	99,716	19,716
335.20	225,000	225,000	274,651	49,651
<i>County Shared Revenue:</i>				
338.99	-	-	67,564	67,564
339	230,421	230,421	230,421	-
<i>Charges for Goods and Services:</i>				
341	16,226	16,226	19,423	3,197
342	57,012	57,012	72,317	15,305
343	5,060	5,060	3,756	(1,304)
346	758,865	758,865	780,867	22,002
348	7,380	7,380	7,360	(20)
<i>Fines and Forfeits:</i>				
351	1,000	1,000	1,382	382
359	6,000	6,000	4,680	(1,320)
<i>Miscellaneous Revenue:</i>				
361	50,100	50,100	61,796	11,696
362	74,200	74,200	93,826	19,626
363	110,200	110,200	110,291	91
367	7,000	7,000	4,688	(2,312)
369	8,000	8,000	56,997	48,997
<b>Total Revenue</b>	<b>7,880,314</b>	<b>7,880,314</b>	<b>8,421,111</b>	<b>540,797</b>



**CITY OF SPEARFISH**

**BUDGETARY COMPARISON SCHEDULE (CONTINUED)  
GENERAL FUND - BUDGETARY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	94,346	102,821	99,555	3,266
411.5 Contingency	177,427	177,427	-	177,427
Amount Transferred	-	(78,825)	-	(78,825)
412 Executive	127,631	139,631	131,791	7,840
414 Financial Administration	391,842	408,942	393,484	15,458
419 Other	808,686	810,336	785,824	24,512
<i>Public Safety:</i>				
421 Police	1,916,150	1,881,150	1,833,175	47,975
422 Fire	329,400	452,765	355,119	97,646
423 Protective Inspection	206,862	206,862	203,429	3,433
<i>Public Works:</i>				
431 Highways and Streets	956,272	1,024,272	986,361	37,911
437 Cemeteries	116,662	116,662	111,450	5,212
<i>Health and Welfare:</i>				
441 Health	70,095	70,095	62,415	7,680
<i>Culture and Recreation:</i>				
451 Recreation	1,604,826	1,604,826	1,494,367	110,459
452 Parks	381,318	406,318	373,049	33,269
455 Library	386,473	386,473	368,920	17,553
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	6,000	7,100	7,098	2
465 Economic Development and Assistance	207,639	207,639	206,122	1,517
480 Intergovernmental Expenditures	326,985	372,485	356,536	15,949
<b>Total Expenditures</b>	<b>8,108,614</b>	<b>8,296,979</b>	<b>7,768,695</b>	<b>528,284</b>
<b>Excess (Deficiency) of Revenue over (under)</b>				
<b>Expenditures</b>	<b>(228,300)</b>	<b>(416,665)</b>	<b>652,416</b>	<b>1,069,081</b>
<b>Other Financing Sources (Uses):</b>				
391.01 Transfers In	265,682	265,682	290,682	25,000
511 Transfers Out	(342,386)	(342,386)	(367,386)	(25,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(76,704)</b>	<b>(76,704)</b>	<b>(76,704)</b>	<b>-</b>
<b>Net Change in Fund Balance</b>	<b>(305,004)</b>	<b>(493,369)</b>	<b>575,712</b>	<b>1,069,081</b>
Fund Balance - December 31, 2015	6,688,026	6,688,026	6,688,026	-
<b>Fund Balance - December 31, 2016</b>	<b>\$ 6,383,022</b>	<b>\$ 6,194,657</b>	<b>\$ 7,263,738</b>	<b>\$ 1,069,081</b>

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

## CITY OF SPEARFISH

**BUDGETARY COMPARISON SCHEDULE  
 SECOND PENNY SALES TAX FUND - BUDGETARY BASIS  
 FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual - Budgetary Basis</b>	<b>Variance</b>
<b>Revenue</b>				
<i>Taxes:</i>				
313 General Sales and Use Taxes	\$ 3,615,300	\$ 3,615,300	\$ 3,753,022	\$ 137,722
<i>Intergovernmental Revenue:</i>				
331 Federal Grant	-	-	25,000	25,000
335.20 Other - State	-	-	15,692	15,692
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	62,900	63,898	66,005	2,107
367 Contributions and Donations - Private Sources	5,000	5,000	-	(5,000)
<b>Total Revenue</b>	<b>3,683,200</b>	<b>3,684,198</b>	<b>3,859,719</b>	<b>175,521</b>
<b>Expenditures</b>				
<i>General Government:</i>				
411 Legislative	-	9,336	-	9,336
419 Other	832,000	819,150	189,020	630,130
<i>Public Safety:</i>				
421 Police	18,500	48,500	44,324	4,176
422 Fire	36,000	86,000	42,949	43,051
<i>Public Works:</i>				
431 Highways and Streets	2,770,500	2,770,500	2,106,788	663,712
<i>Health and Welfare:</i>				
441.1 Regulation and Inspection	75,000	85,000	-	85,000
<i>Culture and Recreation:</i>				
451 Recreation	634,000	564,133	530,969	33,164
452 Parks	260,000	260,000	81,105	178,895
<i>Conservation and Development:</i>				
463 Urban Redevelopment and Housing	36,000	36,531	36,531	-
470 Debt Service	677,222	677,222	677,222	-
480 Intergovernmental Expenditure	559,500	559,500	532,380	27,120
<b>Total Expenditures</b>	<b>5,898,722</b>	<b>5,915,872</b>	<b>4,241,288</b>	<b>1,674,584</b>
<b>Excess (Deficiency) of Revenue over (under) Expenditures</b>	<b>(2,215,522)</b>	<b>(2,231,674)</b>	<b>(381,569)</b>	<b>1,850,105</b>
<b>Other Financing Sources (Uses):</b>				
391.01 Transfers In	-	-	60,101	60,101
391.04 Compensation for Loss or Damaged Capital Assets	-	-	1,155,462	1,155,462
511 Transfers Out	(186,997)	(186,997)	(247,098)	(60,101)
<b>Total Other Financing Sources (Uses)</b>	<b>(186,997)</b>	<b>(186,997)</b>	<b>968,465</b>	<b>1,155,462</b>
<b>Net Change in Fund Balance</b>	<b>(2,402,519)</b>	<b>(2,418,671)</b>	<b>586,896</b>	<b>3,005,567</b>
Fund Balance - December 31, 2015	4,599,749	4,599,749	4,599,749	-
<b>Fund Balance - December 31, 2016</b>	<b>\$ 2,197,230</b>	<b>\$ 2,181,078</b>	<b>\$ 5,186,645</b>	<b>\$ 3,005,567</b>

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 LIABILITY  
DECEMBER 31, 2016**

	2016	2015
City's Proportion of the Net Pension Liability	0.28261130%	0.28167480%
City's Proportionate Share of Net Pension (Liability)/Asset	\$ (954,633)	\$ 1,194,663
City's Covered Payroll	\$ 4,973,127	\$ 4,754,528
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	-19.20%	25.13%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	96.89%	104.10%

**CITY OF SPEARFISH**

**SCHEDULE OF THE CITY CONTRIBUTIONS  
DECEMBER 31, 2016**

	<b>2016</b>	<b>2015</b>
Contractually Required Contribution	\$ 331,356	\$ 312,615
Contributions in Relation to the Contractually Required Contributions	331,356	312,615
Contributions Deficiency (Excess)	\$ -	\$ -
City's Covered Payroll	\$ 5,091,419	\$ 4,823,341
Contribution as a Percentage of Covered Payroll	6.51%	6.48%

**CITY OF SPEARFISH**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING  
PROGRESS (OPEB)  
DECEMBER 31, 2016**

**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, 2016.
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, 2016 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)
12/31/2014	-	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%
12/31/2016	-	201,207	201,207	0.00%	4,536,233	4.44%

OTHER SUPPLEMENTARY INFORMATION

**CITY OF SPEARFISH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
DECEMBER 31, 2016**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 263,161	\$ 193,572	\$ 92,274
104 Investments	110,890	55,639	-
110 Sales Taxes Receivable	15,120	-	-
121 Special Assessments Receivable	-	-	7,128
128 Notes Receivable	-	-	-
132 Due from Other Governments	-	-	-
155 Prepaid Expenses	70,000	-	-
<b>Total Assets</b>	<b>\$ 459,171</b>	<b>\$ 249,211</b>	<b>\$ 99,402</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 11,626	\$ -	\$ -
216 Accrued Wages Payable	-	-	-
236 Advance from Other Funds	-	-	-
<b>Total Liabilities</b>	<b>11,626</b>	<b>-</b>	<b>-</b>
<i>Deferred Inflows of Resources</i>			
246 Unavailable Revenue - Special Assessments	-	-	-
246 Unavailable Revenue - State 911 Telephone	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Fund Balances</i>			
<i>263 Nonspendable:</i>			
263.02 Prepaid Expenses	70,000	-	-
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	377,545	-	-
264.05 Library Purposes	-	249,211	-
264.06 Park Purposes	-	-	-
264.07 911 Purposes	-	-	-
264.09 Business Improvement District Purposes	-	-	99,402
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>			
	-	-	-
<b>Total Fund Balances</b>	<b>447,545</b>	<b>249,211</b>	<b>99,402</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 459,171</b>	<b>\$ 249,211</b>	<b>\$ 99,402</b>

<b>911 Emergency Fund</b>	<b>Special Assessments Revolving Fund</b>	<b>Spearfish Economic Revolving Fund</b>	<b>Special Park Gift Fund</b>	<b>Art in Public Places Fund</b>
\$ 270,529	\$ 203,736	\$ 951,186	\$ 152,464	\$ 36,372
151,592	550,859	732,095	116,261	48,776
-	-	-	-	-
-	3,510	-	-	-
-	-	46,837	-	-
20,423	-	-	-	-
-	-	-	-	-
<b>\$ 442,544</b>	<b>\$ 758,105</b>	<b>\$ 1,730,118</b>	<b>\$ 268,725</b>	<b>\$ 85,148</b>

\$ -	\$ -	\$ -	\$ -	\$ -
12,368	-	-	-	-
-	-	-	-	-
12,368	-	-	-	-
-	3,510	-	-	-
10,000	-	-	-	-
10,000	3,510	-	-	-

-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	268,725	-
420,176	-	-	-	-
-	-	-	-	-
-	754,595	-	-	-
-	-	1,730,118	-	-
-	-	-	-	85,148
-	-	-	-	-
420,176	754,595	1,730,118	268,725	85,148
<b>\$ 442,544</b>	<b>\$ 758,105</b>	<b>\$ 1,730,118</b>	<b>\$ 268,725</b>	<b>\$ 85,148</b>



**CITY OF SPEARFISH**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
DECEMBER 31, 2016**

	<b>Municipal Highway and Bridge Fund</b>	<b>TID #1 Elkhorn Ridge Debt Fund</b>	<b>TID #2 Industrial Park Debt Fund</b>	<b>TID #3 McGuigan Ranch Debt Fund</b>
<b>Assets</b>				
101 Cash and Cash Equivalents	\$ 1,478,452	\$ 75,673	\$ 24,904	\$ 4,380
104 Investments	-	-	-	-
110 Sales Taxes Receivable	-	-	-	-
121 Special Assessments Receivable	-	-	-	-
128 Notes Receivable	-	-	-	-
132 Due from Other Governments	-	-	-	-
155 Prepaid Expenses	-	-	-	-
<b>Total Assets</b>	<b>\$ 1,478,452</b>	<b>\$ 75,673</b>	<b>\$ 24,904</b>	<b>\$ 4,380</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>				
<i>Liabilities</i>				
202 Accounts Payable	\$ 29,746	\$ -	\$ -	\$ -
216 Accrued Wages Payable	-	-	-	-
236 Advance from Other Funds	-	-	-	-
<b>Total Liabilities</b>	<b>29,746</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Deferred Inflows of Resources</i>				
246 Unavailable Revenue - Special Assessments	-	-	-	-
246 Unavailable Revenue - State 911 Telephone	-	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<i>Fund Balances</i>				
<i>263 Nonspendable:</i>				
263.02 Prepaid Expenses	-	-	-	-
263.04 Notes Receivable	-	-	-	-
263.51 Perpetual Care Cemetery	-	-	-	-
<i>264 Restricted:</i>				
264.01 Debt Service	-	75,673	24,904	4,380
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	1,448,706	-	-	-
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>				
	-	-	-	-
<b>Total Fund Balances</b>	<b>1,448,706</b>	<b>75,673</b>	<b>24,904</b>	<b>4,380</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,478,452</b>	<b>\$ 75,673</b>	<b>\$ 24,904</b>	<b>\$ 4,380</b>

<b>TID #4</b>		<b>TID #3</b>		
<b>Creekside</b>	<b>Cemetery</b>	<b>McGuigan</b>		
<b>Estates</b>	<b>Perpetual</b>	<b>Ranch</b>		
<b>Debt</b>	<b>Care</b>	<b>Capital Projects</b>		
<b>Fund</b>	<b>Fund</b>	<b>Fund</b>		<b>Total</b>
\$ 1	\$ 35,620	\$ 91		\$ 3,782,415
-	390,114	-		2,156,226
-	-	-		15,120
-	-	-		10,638
-	-	-		46,837
-	-	-		20,423
-	-	-		70,000
<b>\$ 1</b>	<b>\$ 425,734</b>	<b>\$ 91</b>		<b>\$ 6,101,659</b>

\$ -	\$ -	\$ -		\$ 41,372
-	-	-		12,368
-	-	164,728		164,728
-	-	164,728		218,468

-	-	-		3,510
-	-	-		10,000
-	-	-		13,510

-	-	-		70,000
-	-	-		-
-	50,000	-		50,000
1	-	-		104,958
-	375,734	-		375,734
-	-	-		377,545
-	-	-		249,211
-	-	-		268,725
-	-	-		420,176
-	-	-		99,402
-	-	-		1,448,706
-	-	-		754,595
-	-	-		1,730,118
-	-	-		85,148
-	-	(164,637)		(164,637)
1	425,734	(164,637)		5,869,681

<b>\$ 1</b>	<b>\$ 425,734</b>	<b>\$ 91</b>		<b>\$ 6,101,659</b>
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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, 2016**

	<b>Hospitality Tax Fund</b>	<b>Library Gift Fund</b>	<b>Convention Center Fund</b>
<b>Revenue:</b>			
<i>Taxes:</i>			
311 General Property Taxes	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	626,381	-	-
315 Amusement Taxes	-	-	188,637
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	-	13,878	-
<i>Miscellaneous Revenue:</i>			
361 Earnings on Deposits and Investments	2,364	1,080	59
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	-	143,327	19,024
369 Other	-	26,145	900
<b>Total Revenue</b>	<b>628,745</b>	<b>185,080</b>	<b>208,620</b>
<b>Expenditures:</b>			
<i>Public Safety:</i>			
421 Police	-	-	-
<i>Culture and Recreation:</i>			
451 Recreation	572,169	-	-
452 Parks	-	-	-
455 Library	-	23,894	-
<i>Conservation and Development:</i>			
465 Economic Development and Assistance	1,724	-	200,000
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
<b>Total Expenditures</b>	<b>573,893</b>	<b>23,894</b>	<b>200,000</b>
<b>Excess (Deficiency) of Revenue over (Under) Expenditures</b>	<b>54,852</b>	<b>161,186</b>	<b>8,620</b>
<b>Other Financing Sources (Uses)</b>			
391.01 Transfers In	-	-	-
391.20 Long-Term Debt Issued	-	-	-
511 Transfers Out	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>54,852</b>	<b>161,186</b>	<b>8,620</b>
Fund Balances (Deficit), December 31, 2015	392,693	88,025	90,782
<b>Fund Balances (Deficit), December 31, 2016</b>	<b>\$ 447,545</b>	<b>\$ 249,211</b>	<b>\$ 99,402</b>

<b>911 Emergency Fund</b>	<b>Special Assessments Revolving Fund</b>	<b>Spearfish Economic Revolving Fund</b>	<b>Special Park Gift Fund</b>	<b>Art in Public Places Fund</b>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
127,624	-	-	-	-
-	-	-	-	12,199
-	-	-	-	-
-	-	-	-	-
2,715	9,742	14,783	2,250	842
-	-	900	-	-
-	5,352	-	-	-
-	-	-	1,001	-
-	-	23,239	14,210	-
<b>130,339</b>	<b>15,094</b>	<b>38,922</b>	<b>17,461</b>	<b>13,041</b>
417,785	-	-	-	-
-	-	-	-	-
-	-	-	10,343	-
-	-	-	-	-
-	-	107,537	-	-
-	-	-	-	-
-	-	-	-	-
<b>417,785</b>	<b>-</b>	<b>107,537</b>	<b>10,343</b>	<b>-</b>
<b>(287,446)</b>	<b>15,094</b>	<b>(68,615)</b>	<b>7,118</b>	<b>13,041</b>
342,386	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<b>342,386</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
54,940	15,094	(68,615)	7,118	13,041
365,236	739,501	1,798,733	261,607	72,107
<b>\$ 420,176</b>	<b>\$ 754,595</b>	<b>\$ 1,730,118</b>	<b>\$ 268,725</b>	<b>\$ 85,148</b>

**CITY OF SPEARFISH**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Municipal Highway and Bridge Fund</b>	<b>TID #1 Elkhorn Ridge Debt Fund</b>	<b>TID #2 Industrial Park Debt Fund</b>	<b>TID #3 McGuigan Ranch Debt Fund</b>
<b>Revenue:</b>				
<i>Taxes:</i>				
311 General Property Taxes	\$ -	\$ 178,300	\$ 564,301	\$ 207,487
313 General Sales and Use Taxes	-	-	-	-
315 Amusement Taxes	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	-	-	1,316	146
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	-	-	-	-
334 State Grants	339,177	-	-	-
335.08 Local Government Highway and Bridge Fund	139,954	-	-	-
335.09 911 Remittances	-	-	-	-
<i>Charges for Goods and Services:</i>				
346 Culture and Recreation	-	-	-	-
348 Cemeteries	-	-	-	-
<i>Fines and Forfeits:</i>				
354 Library	-	515	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	4,209	3	16	4
362 Rentals	-	-	-	-
363 Special Assessments	-	-	-	-
367 Contributions and Donations - Private Sources	-	-	-	-
369 Other	-	-	-	-
<b>Total Revenue</b>	<b>483,340</b>	<b>178,818</b>	<b>565,633</b>	<b>207,637</b>
<b>Expenditures:</b>				
<i>Public Safety:</i>				
421 Police	-	-	-	-
<i>Culture and Recreation:</i>				
451 Recreation	-	-	-	-
452 Parks	-	-	-	-
455 Library	-	-	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	-	-	-	-
470 Debt Service	-	116,725	-	-
485 Capital Outlay	29,746	-	-	-
<b>Total Expenditures</b>	<b>29,746</b>	<b>116,725</b>	<b>-</b>	<b>-</b>
<b>Excess (Deficiency) of Revenue over (Under) Expenditures</b>	<b>453,594</b>	<b>62,093</b>	<b>565,633</b>	<b>207,637</b>
<b>Other Financing Sources (Uses)</b>				
391.01 Transfers In	-	-	-	-
391.20 Long-Term Debt Issued	-	-	-	-
511 Transfers Out	-	-	(592,404)	(204,460)
<b>Total Other Financing Sources (Uses)</b>	<b>-</b>	<b>-</b>	<b>(592,404)</b>	<b>(204,460)</b>
<b>Net Change in Fund Balances</b>	<b>453,594</b>	<b>62,093</b>	<b>(26,771)</b>	<b>3,177</b>
Fund Balances (Deficit), December 31, 2015	995,112	13,580	51,675	1,203
<b>Fund Balances (Deficit), December 31, 2016</b>	<b>\$ 1,448,706</b>	<b>\$ 75,673</b>	<b>\$ 24,904</b>	<b>\$ 4,380</b>

<b>TID #4 Creekside Estates Debt Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>TID #3 McGuigan Ranch Capital Projects Fund</b>	<b>TID #4 Creekside Capital Projects Fund</b>	<b>Total</b>
\$ 82,236	\$ -	\$ -	\$ -	\$ 1,032,324
-	-	-	-	626,381
-	-	-	-	188,637
-	-	-	-	1,462
-	-	-	-	650
-	-	-	-	339,177
-	-	-	-	139,954
-	-	-	-	127,624
-	-	-	-	12,199
-	11,710	-	-	11,710
-	-	-	-	14,393
1	-	-	-	38,068
-	-	-	-	900
-	-	-	-	5,352
-	-	-	-	163,352
-	-	-	-	64,494
<b>82,237</b>	<b>11,710</b>	<b>-</b>	<b>-</b>	<b>2,766,677</b>
-	-	-	-	417,785
-	-	-	-	572,169
-	-	-	-	10,343
-	-	-	-	23,894
-	-	-	-	309,261
82,236	-	15,774	-	214,735
-	43,513	-	1,045,365	1,118,624
<b>82,236</b>	<b>43,513</b>	<b>15,774</b>	<b>1,045,365</b>	<b>2,666,811</b>
1	(31,803)	(15,774)	(1,045,365)	99,866
-	-	204,460	-	546,846
-	-	-	1,045,365	1,045,365
-	-	-	-	(796,864)
-	-	204,460	1,045,365	795,347
1	(31,803)	188,686	-	895,213
-	457,537	(353,323)	-	4,974,468
<b>\$ 1</b>	<b>\$ 425,734</b>	<b>\$ (164,637)</b>	<b>\$ -</b>	<b>\$ 5,869,681</b>

## 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, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 5, 2018.

### **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 #2016-001, #2016-002 and #2016-003 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 #2016-003 that is required to be reported under *Government Auditing Standards*.



**City's Response to Findings**

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. 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

February 5, 2018

**CITY OF SPEARFISH**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2016**

**SIGNIFICANT DEFICIENCIES**

2016-001 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.

*Views of Responsible Officials:* See City's Corrective Action Plan.

2016-002 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 capital assets and debt proceeds related to TID #4 Creekside Estates capital contributions and borrowings, reclassifying a payment to Visit Spearfish as a prepaid expense, adjusting property tax receivables, reduction of the OPEB liability, correcting the bond premium related to the 2015 Sales Tax Refunding bonds, adjusting pension expense and the related net position. 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.

*Recommendation:* We recommend that management record all TID activity and purchases of capital assets in the correct funds. Expenditures that are paid but not due in the current period should be classified as prepaid expenses. Property tax receivable should be adjusted on an annual basis. Bond premiums should be appropriately recorded in the fund financial statements.

*Views of Responsible Officials:* See City's Corrective Action Plan.

**CITY OF SPEARFISH**

**SCHEDULE OF FINDINGS (CONTINUED)  
DECEMBER 31, 2016**

**SIGNIFICANT DEFICIENCIES (CONTINUED)**

2016-003 FINDING: Certificates of Deposit

*Condition and Cause:* The City is invested in participating and negotiable certificates of deposit.

*Criteria and Effect:* South Dakota Codified Law 4-5-6 indicates the types of investments that the City may invest public funds. Based on 4-5-6, the City is in violation of State law.

*Recommendation:* We recommend that the City re-evaluate their investment policy and invest these funds in investments allowed by SDCL 4-5-6.

*Views of Responsible Officials:* See City's Correction Action Plan.

## MANAGEMENT RESPONSE



## STATUS OF PRIOR YEAR FINDINGS DECEMBER 31, 2016

The City respectfully submits the following summary schedule of prior audit findings from December 31, 2015 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2015 Schedule of Findings.

### 2015-001 FINDING: Financial Statement Preparation

*Status:* It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* As the City has accepted the risk associated with the auditor's preparing of the financial statements; it will be repeated in 2016, see Corrective Action Plan.

### 2015-002 FINDING: Audit Adjustments

*Status:* The City made efforts to record all year-end entries, but several audit adjustments were made.

*Initial Year Report:* Originally issued years ago.

*Reasons for Recurrence and Corrective Action Plan:* The finding is altered based on specific audit adjustments each year, and is repeated in the Schedule of Findings. See Corrective Action Plan.

### 2015-003 FINDING: Payroll Totals

*Status:* In 2016, the City implemented new payroll software which is integrated into the rest of the Invision accounting software, reducing the change of human error in the data entry process while entering payroll information.

*Initial Year Report:* Originally issued one year ago.

### 2015-004 FINDING: Budgetary Overdraft

*Status:* The City made efforts to ensure there were adequate appropriations and supplements made throughout the year, however there was a budgetary over draft in the Second Penny Sales Tax Fund.

*Initial Year Report:* Originally issued one year ago.





## **CORRECTIVE ACTION PLAN DECEMBER 31, 2016**

The City respectfully submits the following correction action plan from December 31, 2016 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

### 2016-001 FINDING: Financial Statement Preparation

*Responsible Official:* Michelle DeNeui, Assistant Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2016-001 regarding the preparation of the financial statements because it is not cost effective at this time to have an internal control system designed to provide for the preparation of the financial statements and accompanying notes. We will continue to have the independent auditor prepare the annual financial statements and the accompanying notes to the financial statements as part of their annual audit.

*Anticipated Completion Date:* Ongoing

### 2016-002 FINDING: Audit Adjustments

*Responsible Official:* Michelle DeNeui, Assistant Finance Officer

*Corrective Action Plan:* Management will implement a consistent process of recording all entries needed to accurately record activities for the City and to properly close the accounting records for the year. Entries will include those that account for capital assets and debt proceeds within the TID Financing Districts, evaluation and recording of pre-paid expenditures, recording and verifying property tax receivable with Lawrence County, and posting adjustments to the 2015 Sales Tax Refunding Bond Premium on an annual basis. While some audit adjustments are expected to continue in future audits, the significant amount of adjustments should be reduced by implementing the process to ensure proper presentation of the financial statements.

*Anticipated Completion Date:* December 31, 2017

### 2015-003 FINDING: Certificates of Deposit

*Responsible Official:* Michelle DeNeui, Assistant Finance Officer

*Corrective Action Plan:* Management will transition the certificates of deposit that were identified to investments that follow all the statutory requirements of SDCL's 9-22-6 and 4-5-6.1. These certificates of deposit are fully insured by FDIC coverage.

*Anticipated Completion Date:* Ongoing

