CITY OF SPEARFISH
SPEARFISH, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2010

CITY OF SPEARFISH

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

We have audited the accompanying financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2010, which collectively comprise the City's financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2010, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 19, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, the budgetary comparison information on pages 44 through 47, and the Schedule of Funding Progress (OPEB) presented on page 47, 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 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.

City Council
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Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements as a whole.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

March 19, 2012

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2010

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, 2010. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net assets from governmental and business-type activities increased by $3,380,762, primarily due to the acquisition of capital assets.

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were $40,044 more than the $12,443,246 governmental expenditures, excluding transfers.

- In the City's business-type activities, revenue increased by 35.3% to $8,061,875 while expenses increased by 30.9%.

- The total cost of the City's programs increased by $3,077,629, approximately 21.9%, due to accounting for internal charges for water, sewer, and garbage services.

- The general fund reported a $235,467 current year increase primarily due to an increase in sales tax collections, receipt of federal grants, and an increase in gaming 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 six proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Parking Fund, the Solid Waste Fund, and the Campground Fund. In addition, the City has an Internal Service Fund for health insurance.

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1

Major Features of City of Spearfish's Government-wide and Fund Financial Statements

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

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 assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

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

- Business-type Activities -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems, as well as the solid waste program, the hydroelectric plant, the City campground, and a small parking district are included here.

Fund Financial Statements

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

- State law requires some of the funds.

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

The City has two kinds of funds:

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

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Assets

The City's combined net assets increased by 5.34 percent between 2009 and 2010 – increasing by $3,380,762 (see Table A-1).

Table A-1

Statement of Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2009	**2010**	2009	**2010**	2009	**2010**
Current & Other Assets	$12,045,869	**$ 11,453,555**	$ 7,597,161	**$ 7,948,475**	$19,643,030	**$ 19,402,030**
Capital Assets	48,019,600	**50,628,699**	20,430,986	**23,364,438**	68,450,586	**73,993,137**
Total Assets	$60,065,469	**$ 62,082,254**	$28,028,147	**$ 31,312,913**	$88,093,616	**$ 93,395,167**
Long-Term Debt	$17,772,013	**$ 18,737,999**	$ 5,869,145	**$ 5,965,430**	$23,641,158	**$ 24,703,429**
Other Liabilities	762,528	**1,787,240**	416,105	**249,911**	1,178,633	**2,037,151**
Total Liabilities	$18,534,541	**$ 20,525,239**	$ 6,285,250	**$ 6,215,341**	$24,819,791	**$ 26,740,580**
Net Assets:						
Invested in Capital Assets, Net of Related Debt	$31,045,819	**$ 31,520,849**	$14,687,402	**$ 17,728,913**	$45,733,221	**$ 49,249,762**
Restricted	2,986,653	**3,087,555**	-	**-**	2,986,653	**3,087,555**
Unrestricted	7,498,456	**6,948,611**	7,055,495	**7,368,659**	14,553,951	**14,317,270**
Total Net Assets	$41,530,928	**$ 41,557,015**	$21,742,897	**$ 25,097,572**	$63,273,825	**$ 66,654,587**
Beginning Net Assets	$40,245,888	**$ 41,530,928**	$19,244,294	**$ 21,742,897**	$59,490,182	**$ 63,273,825**
Increase in Net Assets	1,285,040	**26,087**	2,498,603	**3,354,675**	3,783,643	**3,380,762**
Percentage of Increase Net Assets	3.19%	**0.06%**	12.98%	**15.43%**	6.36%	**5.34%**

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets

The City's total revenues (excluding transfers) totaled $20,545,165 (see Table A-2). Well over half of the City's revenue comes from charges for services and tax, with 32 cents of every dollar raised coming from charges for services (primarily water, sewer, and solid waste operation) and 44 cents of every dollar raised comes from some type of tax. (See Figure A-2). Another 20 cents of every dollar raised comes from state and federal grants for capital purposes and most of the rest comes from state-shared revenue and interest earnings.

The total cost of all programs and services increased by 21.9 percent from 2009 to 2010. The City's expenses cover a range of services, with nearly 40 percent relating to public works administration, public safety, and general government. (See Figure A-3).

Figure A-2: Revenue Sources for 2010

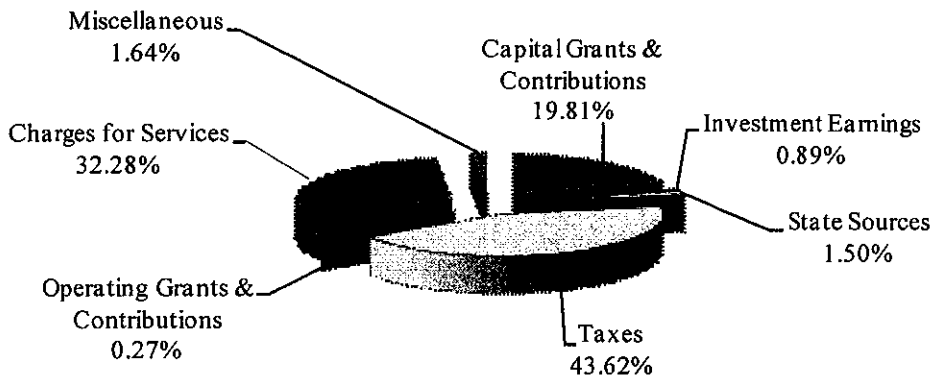
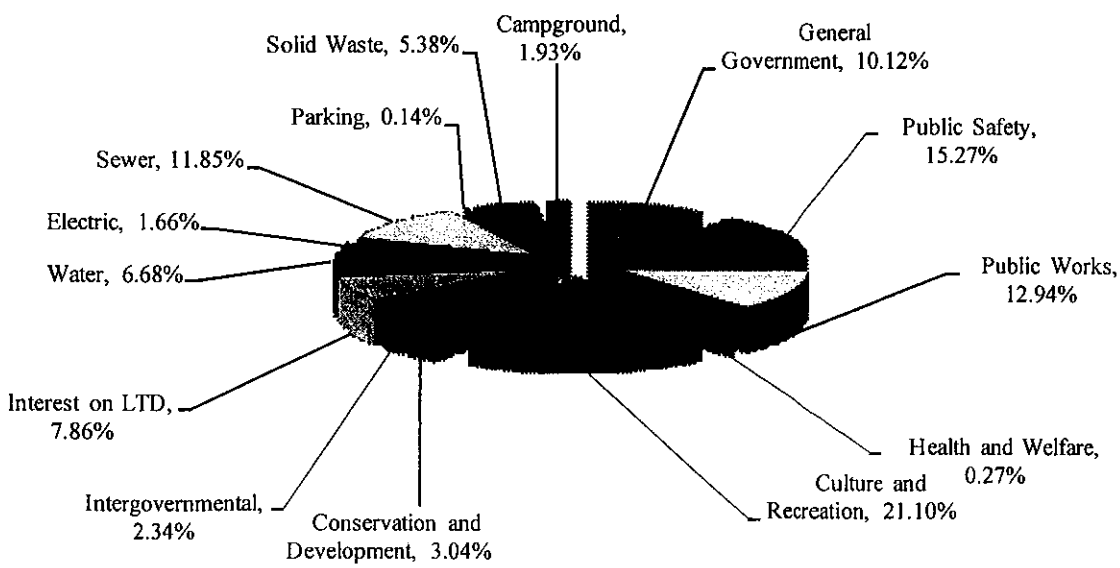


Figure A-3: Expenditures for 2010



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONTINUED)

Changes in Net Assets (Continued)

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2009	2010	2009	2010	2009	2010
Revenues						
Program Revenues						
Charges for Services	$ 1,832,060	$ 1,585,944	$ 5,203,515	$ 5,045,910	$ 7,035,575	$ 6,631,854
Operating Grants and Contributions	1,438	53,353	57,433	1,123	58,871	54,476
Capital Grants and Contributions	1,360,420	1,207,262	539,000	2,862,093	1,899,420	4,069,355
General Revenues						
Taxes	7,937,790	8,961,127	-	-	7,937,790	8,961,127
Revenue State Sources	325,271	308,324	-	-	325,271	308,324
Unrestricted Investment Earnings	267,978	120,617	108,840	62,707	376,818	183,324
Other	184,661	246,663	52,011	90,042	236,672	336,705
Total Revenues	$ 11,909,618	$ 12,483,290	$ 5,960,799	$ 8,061,875	$ 17,870,417	$ 20,545,165
Expenses						
General Government	$ 1,644,668	$ 1,736,756	$ -	$ -	$ 1,644,668	$ 1,736,756
Public Safety	2,448,028	2,621,227	-	-	2,448,028	2,621,227
Public Works	1,469,417	2,220,631	-	-	1,469,417	2,220,631
Health and Welfare	149,053	46,209	-	-	149,053	46,209
Culture and Recreation	2,971,352	3,546,407	-	-	2,971,352	3,546,407
Conservation and Development	518,715	522,104	-	-	518,715	522,104
Interest on Long-Term Debt	870,539	1,348,550	-	-	870,539	1,348,550
Intergovernmental	409,168	401,362	-	-	409,168	401,362
Water Services	-	-	972,016	1,122,743	972,016	1,122,743
Electric Services	-	-	230,775	284,449	230,775	284,449
Sewer Services	-	-	1,447,789	2,034,483	1,447,789	2,034,483
Parking	-	-	11,390	23,526	11,390	23,526
Solid Waste	-	-	751,755	924,020	751,755	924,020
Campground	-	-	192,109	331,936	192,109	331,936
Total Expenses	$ 10,480,940	$ 12,443,246	$ 3,605,834	$ 4,721,157	$ 14,086,774	$ 17,164,403
Excess Revenues Before Transfers	$ 1,428,678	$ 40,044	$ 2,354,965	$ 3,340,718	$ 3,783,643	$ 3,380,762
Transfers	(143,638)	(13,957)	143,638	13,957	-	-
Increase in Net Assets	$ 1,285,040	$ 26,087	$ 2,498,603	$ 3,354,675	$ 3,783,643	$ 3,380,762
Net Assets - Ending	$ 41,530,928	$ 41,557,015	$ 21,742,897	$ 25,097,572	$ 63,273,825	$ 66,654,587

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE (CONCLUDED)

Governmental Activities

Revenues of the City's governmental activities exceeded expenses by $40,044, excluding transfers. Factors contributing to these results included:

- The City received an increase in sales tax and gaming tax revenues.
- The City also received an increased amount of operating grants and contributions.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by $3,340,718, excluding transfers. Factors contributing to these results included:

- The City received an increase in revenues of charges for goods and services as rates were increased, new residential homes were served and metering and billing of City-owned facilities occurred.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Supplemental appropriations 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, 2010

CAPITAL ASSET ADMINISTRATION

By the end of 2010, the City had invested $73,993,137 in a broad range of capital assets, including land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of $5,542,551.

Table A-3

Capital Assets (Net of Depreciation)				
	Governmental Activities		Business-type Activities	
	2009	**2010**	2009	**2010**
Land	$ 8,815,544	**$ 8,810,162**	$ 555,905	**$ 589,981**
Buildings	12,459,415	**12,363,969**	5,753,878	**6,020,003**
Improvements	20,096,969	**21,883,844**	12,427,989	**15,644,061**
Machinery & Equipment	3,516,518	**3,298,258**	1,150,635	**1,063,408**
Construction Work in Progress	3,131,154	**4,272,466**	542,579	**46,985**
Totals	$ 48,019,600	**$ 50,628,699**	$ 20,430,986	**$ 23,364,438**

This year's major capital asset additions included:

- Completed improvements including roads, curb/gutter, street lights and sidewalks to the Business and Industrial Park totaling $1,292,824.
- Completed a street improvement project on University Street, Mason Street, and the Jonas Blvd area totaling $344,386.
- Completed construction of the new South Service Road located in the TID#1 Elkhorn Ridge area totaling $408,299.
- Constructed a new restroom and storage facility at the State Street and Grant Street open area totaling $127,704.

Business-type major additions include:

- Completed the new Young Well Pump House and associated water lines totaling $1,200,531.
- Completed construction of a new water main on Colorado Blvd. totaling $395,116.
- Added new water and sewer lines totaling $850,629
- Accepted the Exit #17 Sewer Lift Station and Force Main, value of $1,420,761.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2010

LONG-TERM DEBT

At year-end, the City had $24,703,429 in Sales Tax Revenue Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is an increase from 2009 as shown on Table A-4 below.

Table A-4

Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities	
	2009	**2010**	2009	**2010**
Compensated Absences	$ 435,847	**$ 426,229**	$ 125,561	**$ 132,190**
Other Post Employment Benefits (OPEB)	362,385	**520,873**	-	**197,715**
Sales Tax Revenue Bonds	8,184,455	**7,842,551**	-	**-**
TID #1 Elkhorn Ridge	6,618,849	**8,211,540**	-	**-**
TID #2 Industrial Park Bond	1,770,477	**1,536,806**	-	**-**
SRF Loan - Sewer	-	**-**	5,658,584	**5,557,185**
Contracts Payable	400,000	**200,000**	-	**-**
Lease Payable	-	**-**	85,000	**78,340**
Total	$ 17,772,013	**$ 18,737,999**	$ 5,869,145	**$ 5,965,430**

The City made scheduled payments throughout the year on its debt balances. The City borrowed an additional $1,592,691 on TID #1 Elkhorn Ridge project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has shown continued improvement. The City experienced an increase in total property valuation to a total of $628,261,173, up 2.19 percent from the prior year. The increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately $69,782. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3 percent or an amount based on the Consumer Price Index (CPI), whichever is lower.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City has experienced an increase in taxable sales of 11.30 percent over the prior year and has adopted a conservative 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 rise to $6,869,418. The largest portion of this increase is due to wages and cost-of-living adjustments.

The City's business-type activities (water and sewer operations) expect that the results for 2010 will improve based on an annual rate increase implemented to cover the increasing cost of wages, benefits and cost of operations.

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONCLUDED)
DECEMBER 31, 2010

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SPEARFISH

STATEMENT OF NET ASSETS
DECEMBER 31, 2010

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash	$ 4,978,251	$ 1,698,034	$ 6,676,285
Investments (Note 2)	5,568,418	4,728,937	10,297,355
Accounts Receivable, Net	1,247,916	411,745	1,659,661
Internal Balances	(1,109,759)	1,109,759	-
Restricted Assets:			
Restricted Investments (Note 2)	669,941	-	669,941
Other Assets	98,788	-	98,788
Capital Assets (Note 6):			
Land, Improvements and Construction in Progress	13,082,628	636,966	13,719,594
Other Capital Assets, Net of Depreciation	37,546,071	22,727,472	60,273,543
TOTAL ASSETS	**$ 62,082,254**	**$ 31,312,913**	**$ 93,395,167**
Liabilities:			
Accounts Payable	$ 366,341	$ 80,108	$ 446,449
Deferred Revenue (Note 3)	40,000	-	40,000
Other Current Liabilities	1,380,899	169,803	1,550,702
Long-Term Liabilities (Note 7):			
Due Within One Year	1,073,029	346,993	1,420,022
Due in More Than One Year	17,664,970	5,618,437	23,283,407
TOTAL LIABILITIES	20,525,239	6,215,341	26,740,580
Net Assets:			
Invested in Capital Assets, Net of Related Debt	31,520,849	17,728,913	49,249,762
Restricted for:			
Special Assessment Projects	641,919	-	641,919
Debt Service	669,941	-	669,941
City Promotion	571,257	-	571,257
Street Maintenance	10,032	-	10,032
Parks	315,516	-	315,516
Golf Course Capital	3,756	-	3,756
911 Services	193,369	-	193,369
Business Improvement District Projects	53,914	-	53,914
Recreation Paths	43,393	-	43,393
Library	80,606	-	80,606
SDPAA	98,788	-	98,788
Permanently Restricted Purposes			
Expendable	355,064	-	355,064
Nonexpendable	50,000	-	50,000
Unrestricted	6,948,611	7,368,659	14,317,270
TOTAL NET ASSETS	41,557,015	25,097,572	66,654,587
TOTAL LIABILITIES AND NET ASSETS	**$ 62,082,254**	**$ 31,312,913**	**$ 93,395,167**

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2010

		--- Program Revenues ---			Net (Expense) Revenue and -------- Changes in Net Assets --------		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	$ 1,736,756	$ 294,475	$ 399	$ -	$ (1,441,882)	$ -	$ (1,441,882)
Public Safety	2,621,227	144,791	52,954	6,843	(2,416,639)	-	(2,416,639)
Public Works	2,220,631	494,714	-	1,080,420	(645,497)	-	(645,497)
Health and Welfare	46,209	-	-	-	(46,209)	-	(46,209)
Culture and Recreation	3,546,407	651,964	-	119,999	(2,774,444)	-	(2,774,444)
Conservation and Development	522,104	-	-	-	(522,104)	-	(522,104)
Intergovernmental	401,362	-	-	-	(401,362)	-	(401,362)
Interest on Long-Term Debt	1,348,550	-	-	-	(1,348,550)	-	(1,348,550)
Total Governmental Activities	12,443,246	1,585,944	53,353	1,207,262	(9,596,687)	-	(9,596,687)
Business-Type Activities:							
Water	1,122,743	1,563,258	-	1,052,750	-	1,493,265	1,493,265
Electric	284,449	433,523	-	7,155	-	156,229	156,229
Sewer	2,034,483	1,769,907	1,123	1,802,188	-	1,538,735	1,538,735
Parking	23,526	16,934	-	-	-	(6,592)	(6,592)
Solid Waste	924,020	944,711	-	-	-	20,691	20,691
Campground	331,936	317,577	-	-	-	(14,359)	(14,359)
Total Business-Type Activities	4,721,157	5,045,910	1,123	2,862,093	-	3,187,969	3,187,969
Total Primary Government	**$ 17,164,403**	**$ 6,631,854**	**$ 54,476**	**$ 4,069,355**	(9,596,687)	3,187,969	(6,408,718)
General Revenues:							
Taxes:							
Property Taxes					2,323,879	-	2,323,879
Sales Taxes					6,462,160	-	6,462,160
Other Taxes					106,349	-	106,349
Gross Receipts Tax					68,739	-	68,739
State Shared Revenue					308,324	-	308,324
Grants and Contributions Not Restricted					147,257	-	147,257
Unrestricted Investment Earnings					120,617	62,707	183,324
Miscellaneous Revenue					99,406	90,042	189,448
Transfers					(13,957)	13,957	-
Total General Revenue and Transfers					9,622,774	166,706	9,789,480
Change in Net Assets					**26,087**	**3,354,675**	**3,380,762**
Net Assets, Beginning					41,530,928	21,742,897	63,273,825
Net Assets, Ending					**$ 41,557,015**	**$ 25,097,572**	**$ 66,654,587**

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

CITY OF SPEARFISH

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2010

	General Fund	Second Penny Sales Tax Fund	TID #1 Elkhorn Ridge Capital Project Fund
Assets			
101 Cash and Cash Equivalents	$ 1,722,553	$ 1,376,294	$ 216
104 Investments	2,140,153	1,173,768	-
107 Restricted Investments	-	669,941	-
108 Property Taxes Receivable	29,050	-	-
110 Sales Taxes Receivable	148,482	148,482	-
115 Accounts Receivable	8,856	-	-
121 Special Assessments Receivable	846	-	-
128 Notes Receivable (Note 4)	-	-	-
128 Contract Receivable	-	40,000	-
132 Due from Other Governments	284,498	-	-
133 Advances to Other Funds (Note 10)	-	601,111	-
154 Deposits (Note 14)	98,788	-	-
Total Assets	**$ 4,433,226**	**$ 4,009,596**	**$ 216**
Liabilities and Fund Balances			
Liabilities			
202 Accounts Payable	$ 67,275	$ 94,335	$ 192,547
216 Accrued Wages Payable	60,366	-	-
220 Customer Deposits	-	-	-
224 Deferred Revenue (Note 3)	15,222	40,000	-
236 Advance from Other Funds (Note 10)	-	-	-
Total Liabilities	142,863	134,335	192,547
Fund Balances			
261 *Reserved Fund Balances*			
261.04 Reserved for Debt Service	-	669,941	-
261.03 Reserved for Advances	-	601,111	-
261.16 Reserved for Long-Term Notes Receivable	-	-	-
261.00 SDPAA Reserve	98,788	-	-
262 *Unreserved Fund Balances*			
262.01 Designated for Next Year's Appropriations	615,495	154,826	-
262.09 Undesignated	3,576,080	2,449,383	(192,331)
262.09 Undesignated, Reported in Nonmajor:			
Special Revenue Funds	-	-	-
Debt Service Funds	-	-	-
Capital Projects Funds	-	-	-
Permanent Funds	-	-	-
Total Fund Balances	4,290,363	3,875,261	(192,331)
Total Liabilities and Fund Balances	**$ 4,433,226**	**$ 4,009,596**	**$ 216**

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

TID #2 Industrial Park Capital Project Fund	TID #3 McGuigan Ranch Capital Project Fund	Other Governmental Funds	Total Governmental Funds
$ 226,936	$ 60	$ 1,588,934	$ 4,914,993
9,441	-	2,166,956	5,490,318
-	-	-	669,941
-	-	-	29,050
-	-	17,348	314,312
-	-	34,447	43,303
-	-	74,656	75,502
-	-	442,982	442,982
-	-	-	40,000
-	-	18,269	302,767
-	-	-	601,111
-	-	-	98,788
$ 236,377	**$ 60**	**$ 4,343,592**	**$ 13,023,067**
$ 12,184	$ -	$ -	$ 366,341
-	-	-	60,366
-	-	3,580	3,580
-	-	101,113	156,335
1,109,759	601,111	-	1,710,870
1,121,943	601,111	104,693	2,297,492
-	-	-	669,941
-	-	-	601,111
-	-	442,982	442,982
-	-	-	98,788
-	-	201,125	971,446
(885,566)	(601,051)	-	4,346,515
-	-	2,770,803	2,770,803
-	-	285,141	285,141
-	-	133,784	133,784
-	-	405,064	405,064
(885,566)	(601,051)	4,238,899	10,725,575
$ 236,377	**$ 60**	**$ 4,343,592**	**$ 13,023,067**

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS DECEMBER 31, 2010

Total Fund Balances - Governmental Funds	$ 10,725,575
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	50,628,699
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore not reported in the funds.	(18,737,999)
Assets such as delinquent taxes receivable and special assessments receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	116,335
Accrued interest expense is not due and payable in the current period and therefore is not reported in the funds (See Note 7).	(1,316,953)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Assets.	141,358
Total Net Assets - Governmental Funds	**$ 41,557,015**

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, 2010

		General Fund	Second Penny Sales Tax Fund	TID #1 Elkhorn Ridge Capital Project Fund
Revenue				
	Taxes:			
311	General Property Taxes	$ 1,677,710	$ -	$ -
313	General Sales and Use Taxes	2,989,522	2,989,522	-
314	Gross Receipts Tax	68,739	-	-
315	Amusement Taxes	1,092	-	-
319	Penalties and Interest on Delinquent Taxes	2,824	-	-
316	911 Telephone Surcharge	-	-	-
320	Licenses and Permits	268,905	-	-
	Intergovernmental Revenue:			
331	Federal Grants	52,954	-	-
334	State Grants	2,922	4,934	-
	State Shared Revenue:			
335.01	Bank Franchise Tax	3,588	-	-
335.03	Liquor Tax Reversion	52,403	-	-
335.04	Motor Vehicle Licenses (5%)	51,309	-	-
335.08	Local Government Highway and Bridge Fund	-	-	-
335.20	Other	521,713	-	-
	County Shared Revenue:			-
339	County Payments in Lieu of Taxes	230,421	-	-
338.02	County HBR Tax	16,898	-	-
	Charges for Goods and Services:			
341	General Government	9,277	-	-
342	Public Safety	135,494	-	-
343	Highways and Streets	817	-	-
346	Culture and Recreation	645,173	-	-
348	Cemeteries	5,824	-	-
349	Other	65	-	-
	Fines and Forfeits:			
351	Court Fines and Costs	1,079	-	-
354	Library	-	-	-
359	Other	7,401	-	-
	Miscellaneous Revenue:			
361	Earnings on Deposits and Investments	46,535	29,406	-
362	Rentals	34,246	-	-
363	Special Assessments	96,462	-	-
367	Contributions and Donations - Private Sources	7,907	20,000	-
369	Other	2,658	-	-
Total Revenue		6,933,938	3,043,862	-

TID #2 Industrial Park Capital Project Fund	TID #3 McGuigan Ranch Capital Project Fund	Other Governmental Funds	Total Governmental Funds
$ -	$ -	$ 435,831	$ 2,113,541
-	-	483,116	6,462,160
-	-	-	68,739
-	-	168,689	169,781
-	-	4,111	6,935
-	-	106,349	106,349
-	-	-	268,905
-	-	196,000	248,954
-	-	93,868	101,724
-	-	-	3,588
-	-	-	52,403
-	-	-	51,309
-	-	91,713	91,713
-	-	-	521,713
-	-		
-	-	-	230,421
-	-	-	16,898
-	-	-	9,277
-	-	-	135,494
-	-	-	817
-	-	6,791	651,964
-	-	10,810	16,634
-	-	-	65
-	-	-	1,079
-	-	16,293	16,293
-	-	-	7,401
4,280	-	39,727	119,948
-	-	30,282	64,528
-	-	43,295	139,757
-	-	119,350	147,257
-	-	15,322	17,980
4,280	-	1,861,547	11,843,627

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	General Fund	Second Penny Sales Tax Fund	TID #1 Elkhorn Ridge Capital Project Fund
Expenditures			
General Government:			
411 Legislative	158,594	-	-
412 Executive	81,064	-	-
413 Elections	-	-	-
414 Financial Administration	249,219	-	-
419 Other	705,182	6,968	-
Public Safety:			
421 Police	1,890,432	10,819	-
422 Fire	165,180	-	-
423 Protective Inspection	146,562	-	-
Public Works:			
431 Highways and Streets	744,785	-	-
432 Sanitation	-	-	-
433 Water	-	-	-
437 Cemeteries	111,651	-	-
Health and Welfare:			
441 Health	44,119	-	-
Culture and Recreation:			
451 Recreation	1,478,127	50,000	-
452 Parks	328,573	-	-
455 Library	313,541	-	-
456 Auditorium	-	-	-
Conservation and Development:			
463 Urban Redevelopment and Housing	119,686	-	-
465 Economic Development and Assisstance	-	-	-
470 Debt Service	-	885,191	-
480 Intergovernmental Expenditures	331,966	-	-
485 Capital Outlay	30,000	990,274	1,785,238
Total Expenditures	6,898,681	1,943,252	1,785,238
Excess (Deficiency) of Revenue Over Expenditures	35,257	1,100,610	(1,785,238)
Other Financing Sources (Uses)			
391.01 Transfers In	191,945	-	-
391.03 Sale of Municipal Property	8,265	-	-
391.20 Sale of Bonds	-	-	1,592,691
511 Transfers Out	-	(540,000)	-
Total Other Financing Sources (Uses)	200,210	(540,000)	1,592,691
Net Change in Fund Balances	235,467	560,610	(192,547)
Fund Balances - December 31, 2009	4,054,896	3,314,651	216
Fund Balances - December 31, 2010	$ 4,290,363	$ 3,875,261	$ (192,331)

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

TID #2 Industrial Park Capital Project Fund	TID #3 McGuigan Ranch Capital Project Fund	Other Governmental Funds	Total Governmental Funds
-	-	-	158,594
-	-	-	81,064
-	-	-	-
-	-	-	249,219
-	-	7,000	719,150
-	-	12,587	1,913,838
-	-	-	165,180
-	-	-	146,562
-	-	13,853	758,638
102,128	-	-	102,128
810,484	-	-	810,484
-	-	-	111,651
-	-	-	44,119
-	-	72,321	1,600,448
-	-	5,861	334,434
-	-	19,903	333,444
-	-	147,500	147,500
-	-	-	119,686
-	-	396,812	396,812
-	-	411,931	1,297,122
-	-	-	331,966
657,570	-	660,176	4,123,258
1,570,182	-	1,747,944	13,945,297
(1,565,902)	-	113,603	(2,101,670)
-	-	599,548	791,493
-	-	-	8,265
-	-	-	1,592,691
-	-	(159,548)	(699,548)
-	-	440,000	1,692,901
(1,565,902)	-	553,603	(408,769)
680,336	(601,051)	3,685,296	11,134,344
$ (885,566)	**$ (601,051)**	**$ 4,238,899**	**$ 10,725,575**

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, 2010

Net Change in Fund Balances - Total Government Funds	$ (408,769)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital Asset Purchases Capitalized	4,123,258
Depreciation Expense	(2,063,360)
	2,059,898
Capital assets contributed to the City, which are included in the Statement of Activities.	1,006,328
Capital assets transferred to the water and sewer proprietary funds from purchases made in prior years.	(105,902)
The governmental funds reflect proceeds from capital asset sales, if any, while the Statement of Activities reports a loss on sale or disposal of capital assets.	(351,225)
The fund financial statement governmental fund property tax accruals differ from the government wide statement property tax accruals in that the fund financial statements require the amounts to be "available."	(825)
Governmental funds report special assessments as revenue when "available," but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	(35,185)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds (i.e. grant, hospitality, and gaming tax receivables).	(331,324)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	775,575
Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement of Net Assets.	(1,592,691)
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	9,618
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 interest expense and the change in net OPEB obligation.	(985,491)
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.	(13,920)
Change in Net Assets of Governmental Activities	**$ 26,087**

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

CITY OF SPEARFISH

BALANCE SHEET
PROPRIETARY FUNDS
DECEMBER 31, 2010

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	$ 282,682	$ 263,249	$ 805,731
104 Investments	2,086,762	360,740	1,149,526
115 Accounts Receivable, Net	129,276	1,760	168,321
135 Interest Receivable	22,263	-	-
Total Current Assets	**2,520,983**	**625,749**	**2,123,578**
Noncurrent Asset			
133 Advance to Other Funds (Note 10)	1,067,046	-	42,713
Capital Assets			
160 Land	177,776	150,000	64,205
162 Buildings	2,395,999	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,177,573)	(13,333)	(2,895,863)
164 Improvements Other Than Buildings	11,413,012	14,311	12,141,544
165 Accumulated Depreciation - Improvements Other Than Buildings	(4,407,109)	(32)	(3,564,844)
166 Machinery and Equipment	827,483	88,025	2,946,432
167 Accumulated Depreciation - Machinery and Equipment	(664,775)	(24,524)	(2,537,108)
168 Construction Work in Progress	2,994	-	43,991
Total Capital Assets, Net	**8,567,807**	**264,447**	**13,657,863**
Total Assets	**$ 12,155,836**	**$ 890,196**	**$ 15,824,154**
Liabilities and Net Assets			
Current Liabilities			
202 Accounts Payable	$ 10,550	$ 2,695	$ 39,180
205 Current Portion of Long-Term Debt	24,413	10,869	259,090
215 Accrued Interest Payable	-	-	37,627
216 Accrued Wages	4,568	2,321	8,905
220 Customer Deposits	110,000	-	-
Total Current Liabilities	**149,531**	**15,885**	**344,802**
Long-Term Liabilities			
237 Long-Term Debt, Net of Current Portion	41,705	20,798	5,425,147
Total Liabilities	**191,236**	**36,683**	**5,769,949**
Net Assets			
253 Invested in Capital Assets, Net of Related Debt	8,567,807	264,447	8,100,678
252.0 Unrestricted Net Assets	3,396,793	589,066	1,953,527
Total Net Assets	**11,964,600**	**853,513**	**10,054,205**
Total Liabilities and Net Assets	**$ 12,155,836**	**$ 890,196**	**$ 15,824,154**

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 43,793	$ 201,557	$ 101,022	$ 1,698,034	$ 63,258
63,381	708,671	359,857	4,728,937	78,100
-	90,125	-	389,482	-
-	-	-	22,263	-
107,174	**1,000,353**	**460,879**	**6,838,716**	**141,358**
-	-	-	1,109,759	-
48,000	-	150,000	589,981	-
-	-	351,453	10,256,958	-
-	-	(150,186)	(4,236,955)	-
-	11,375	95,643	23,675,885	-
-	(2,503)	(57,336)	(8,031,824)	-
87,570	1,101,820	153,956	5,205,286	-
(7,298)	(772,454)	(135,719)	(4,141,878)	-
-	-	-	46,985	-
128,272	**338,238**	**407,811**	**23,364,438**	**-**
$ 235,446	**$ 1,338,591**	**$ 868,690**	**$ 31,312,913**	**$ 141,358**
$ -	$ 27,683	$ -	$ 80,108	$ -
7,015	45,606	-	346,993	-
1,733	-	-	39,360	-
102	4,245	302	20,443	-
-	-	-	110,000	-
8,850	**77,534**	**302**	**596,904**	**-**
72,742	44,231	13,814	5,618,437	-
81,592	**121,765**	**14,116**	**6,215,341**	**-**
49,932	338,238	407,811	17,728,913	-
103,922	878,588	446,763	7,368,659	141,358
153,854	**1,216,826**	**854,574**	**25,097,572**	**141,358**
$ 235,446	**$ 1,338,591**	**$ 868,690**	**$ 31,312,913**	**$ 141,358**

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue			
380 Charges for Goods and Services	$ 1,563,258	$ 433,523	$ 1,769,907
369 Miscellaneous	-	-	-
Total Operating Revenue	1,563,258	433,523	1,769,907
Operating Expenses			
410 Personal Services	398,249	190,712	714,404
420 Other Current Expenses	395,739	84,182	556,519
457 Depreciation	328,755	9,555	634,392
Total Operating Expenses	1,122,743	284,449	1,905,315
Operating Income (Loss)	440,515	149,074	(135,408)
Non-Operating Income (Expense)			
334 State Grant	-	-	1,123
361 Earnings on Deposits and Investments	46,987	-	10,849
366 Gain on Disposition of Assets	-	-	55,350
369 Other	70	34,622	-
470 Interest Expense and Fiscal Charges	-	-	(129,168)
Total Non-Operating Income (Expense)	47,057	34,622	(61,846)
Income (Loss) Before Contributions and Transfers	487,572	183,696	(197,254)
391.07 Contributed Capital	1,106,425	7,155	1,854,415
511 Transfers Out	(68,437)	-	(17,823)
Total Contributions and Transfers	1,037,988	7,155	1,836,592
Net Income (Loss)	1,525,560	190,851	1,639,338
Net Assets - December 31, 2009	10,439,040	662,662	8,414,867
Net Assets - December 31, 2010	**$ 11,964,600**	**$ 853,513**	**$ 10,054,205**

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 16,934	$ 944,711	$ 317,577	$ 5,045,910	$ -
-	-	-	-	528,759
16,934	944,711	317,577	5,045,910	528,759
12,462	414,644	123,392	1,853,863	-
438	416,847	194,369	1,648,094	543,348
4,379	92,529	14,175	1,083,785	-
17,279	924,020	331,936	4,585,742	543,348
(345)	20,691	(14,359)	460,168	(14,589)
-	-	-	1,123	-
627	3,985	259	62,707	669
-	-	-	55,350	-
-	-	-	34,692	-
(6,247)	-	-	(135,415)	-
(5,620)	3,985	259	18,457	669
(5,965)	24,676	(14,100)	478,625	(13,920)
-	-	-	2,967,995	-
-	(5,685)	-	(91,945)	-
-	(5,685)	-	2,876,050	-
(5,965)	18,991	(14,100)	3,354,675	(13,920)
159,819	1,197,835	868,674	21,742,897	155,278
$ 153,854	**$ 1,216,826**	**$ 854,574**	**$ 25,097,572**	**$ 141,358**

CITY OF SPEARFISH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	$ 1,546,083	$ 435,063	$ 1,725,725
Payments to Suppliers	(417,683)	(81,487)	(714,515)
Payments to Employees	(380,152)	(169,133)	(633,305)
Other Receipts for Interfund Services Provided	41,950	-	38,774
Net Cash Flows Provided by (Used in) Operating Activities	790,198	184,443	416,679
Cash Flows from Noncapital Financing Activities:			
Internal Activity - Advances to Other Funds	(746,824)	-	(42,713)
Transfers Out	(68,437)	-	(17,823)
Operating Subsidies	-	-	20,928
Net Cash Flows Used in Noncapital Financing Activities	(815,261)	-	(39,608)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(559,815)	(23,933)	(401,926)
Proceeds from Sale of Capital Assets	-	-	55,350
Principal Paid on Capital Debt	-	-	(101,399)
Interest Expense	-	-	(129,168)
Other Receipts	70	34,622	-
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(559,745)	10,689	(577,143)
Cash Flows Provided by Investing Activities:			
Interest Earned	24,724	-	10,849
Increase (Decrease) in Cash and Investments	(560,084)	195,132	(189,223)
Cash and Investments - December 31, 2009	2,929,528	428,857	2,144,480
Cash and Investments - December 31, 2010	**$ 2,369,444**	**$ 623,989**	**$ 1,955,257**
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	$ 440,515	$ 149,074	$ (135,408)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation Expense	328,755	9,555	634,392
Change in Assets and Liabilities:			
Change in Accounts Receivable	22,625	1,540	(5,408)
Change in Accounts Payable	(21,944)	2,695	(157,996)
Change in Accrued Wages	1,182	519	3,387
Change in Customer Deposits	2,150	-	-
Change in OPEB Long-term Debt	16,915	21,060	77,712
Net Cash Flows Provided by (Used in) Operating Activities	**$ 790,198**	**$ 184,443**	**$ 416,679**
Noncash Capital and Related Financing Activities			
Capital Assets Contributed	**$ 1,106,425**	**$ 7,155**	**$ 1,854,415**

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

Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 16,934	$ 936,715	$ 317,577	$ 4,978,097	$ -
1,295	(416,412)	(194,369)	(1,823,171)	(543,348)
(10,943)	(339,916)	(109,337)	(1,642,786)	-
-	4,404	-	85,128	528,759
7,286	184,791	13,871	1,597,268	(14,589)
-	-	-	(789,537)	-
-	(5,685)	-	(91,945)	-
-	-	-	20,928	-
-	(5,685)	-	(860,554)	-
-	(28,988)	(34,580)	(1,049,242)	-
-	-	-	55,350	-
(6,660)	-	-	(108,059)	-
(6,247)	-	-	(135,415)	-
-	-	-	34,692	-
(12,907)	(28,988)	(34,580)	(1,202,674)	-
627	3,985	259	40,444	669
(4,994)	154,103	(20,450)	(425,516)	(13,920)
112,168	756,125	481,329	6,852,487	155,278
$ 107,174	**$ 910,228**	**$ 460,879**	**$ 6,426,971**	**$ 141,358**
$ (345)	$ 20,691	$ (14,359)	$ 460,168	$ (14,589)
4,379	92,529	14,175	1,083,785	-
-	(3,592)	-	15,165	-
1,733	435	-	(175,077)	-
102	1,302	241	6,733	-
-	-	-	2,150	-
1,417	73,426	13,814	204,344	-
$ 7,286	**$ 184,791**	**$ 13,871**	**$ 1,597,268**	**$ (14,589)**
$ -	$ -	$ -	**$ 2,967,995**	$ -

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies

a. Reporting Entity

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

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

b. Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and

2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or

3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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

Governmental Funds:

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

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

Second Penny Sales Tax Fund – to account for naming rights (Note 15) and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the transfer to the special 911 fund, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). This is a major fund.

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

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

Library Gift Fund – to account for donations restricted for library expenditures. This is not a major fund.

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

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

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Continued):

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.

Golf Course Capital Fund – This fund was established pursuant to the Elkhorn Ridge Golf Course Management Agreement. The agreement states: "Management shall pay (5%) of gross revenue into an account maintained by City to be reserved for capital improvement at the Golf Course. All capital improvements are subject to approval by the City and shall be considered as fixed assets of the City. When this agreement terminates, all funds in this account shall be an asset of the City. Any capital improvement, which may include building construction, new cart path construction, Golf Course improvements and development of new holes, shall be performed in accordance with the City's requirements."

Historical Procurement and Project Fund – This fund accounts for the acquisition, preservation, maintenance, and annual administration of special, significant, unique, or historic documents, artifacts, memorabilia, materials, or treasures, including but not limited to those items of the Fassbender Photographic Collection that are being purchased by the City of Spearfish and to further accommodate and increase public accessibility to such historic items.

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

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

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

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

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

Water Park Fund – to account for the construction of an outdoor water park. This was closed as of year-end. This is not a major fund.

Recreation Paths Fund – to account for the ongoing construction of a recreation path throughout the community. This is not a major fund.

Tax Increment District #1 Elkhorn Ridge Capital Projects Fund – to account for construction of a municipal golf course and related infrastructure within the tax increment district. This is 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.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Governmental Funds (Concluded):

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

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

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

Proprietary Funds:

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

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

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

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

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

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

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

The enterprise funds and business type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

Internal Service Funds:

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Fiduciary Funds:

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

The City has no fiduciary funds.

c. Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Spearfish, the length of that cycle is 60 days. The revenues which are accrued at December 31, 2010, are property, sales tax, contracts, special assessments, and hospitality tax receivables.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued):

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

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

d. Interfund Eliminations and Reclassifications

Government-wide Financial Statements:

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

1. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

2. In order to minimize the doubling-up effect on the internal services fund activity, certain "centralized expenses," including an administrative overhead component, are charged as direct expenses to the funds or programs in order to show all expenses that are associated with a service, program, department, or fund. When expenses are charged in this manner, expense reduction occurs in the Internal Service Fund, so that expenses are only reported in the function to which they relate.

Fund Financial Statements:

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

e. Capital Assets

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

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

Government-wide Financial Statements:

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements (Continued):

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

f. Long-Term Liabilities

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

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Continued)

g. Program Revenues

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

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.

3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

h. Proprietary Funds Revenue and Expense Classifications

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

i. Cash and Cash Equivalents

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

j. Deposits and Investments

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

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

k. Application of Net Assets

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(1) Summary of Significant Accounting Policies (Concluded)

l. Equity Classifications

Government-wide Financial Statements:

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

1. Invested in capital assets, net of related debt – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

2. Restricted net assets – consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) laws through constitutional provisions or enabling legislation.

3. Unrestricted net assets – all other net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance, and may distinguish between Reserved and Unreserved components. Proprietary fund equity is classified the same as in the government-wide financial statements.

m. Compensated Absences

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

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

n. Inventory

The City maintains no significant amounts of inventory at December 31, 2010.

(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:

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(2) Deposits and Investments (Continued)

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

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

As of December 31, 2010, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
Federal Home Loan Bank Bonds	AAA	1-6 years	$ 5,257,099
Federal National Mortgage Association Notes	AAA	4-6 years	1,570,622
Federal Home Loan Mortgage Corporation Notes	AAA	3-5 years	1,173,098
Federal Farm Credit Bank Bonds	AAA	2-6 years	1,753,254
External Investment Pools:			
SDFIT	Unrated		456,935
Total Investments			10,211,008
Other Investments:			
Money Markets			83,012
Certificates of Deposits			673,276
			$ 10,967,296

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, 2010, the City's investment in SDFIT pool was unrated.

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

Custodial Credit Risk - Deposits:
The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2010, none of the City's deposits were exposed to custodial credit risk.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(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. As of December 31, 2010, none of the City's investments were exposed to custodial credit risk.

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. The City's investments are invested as follows: Federal Home Loan Bank Bonds (51 percent), Federal National Mortgage Association Notes (15 percent), Federal Home Loan Mortgage Corporation Notes (11 percent), and Federal Farm Credit Bank Bonds (17 percent).

(3) Deferred Revenue

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

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2010:

Loan	Collateral	Rate	Maturity	Balance
Lehman Trike	Property	3%	July 2019	$ 225,853
Ruth Engineering	Property	3%	July 2015	32,003
Façade Common Grounds	Property	0%	April 2015	8,667
Precision Blending	Equipment	3%	August 2011	8,955
Precision Blending, of Idaho, LLC	Equipment	3%	July 2013	68,827
Kazco, Inc.	Property	0%	December 2012	4,562
Façade Versatile Carpet	Property	0%	April 2015	8,667
Flanagan	Property	0%	May 2012	2,833
Dykstra Properties	Property	0%	August 2011	1,166
Lehman Trike II	Property	3%	July 2019	81,449
Total				$ 442,982

(5) Property Taxes

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2010 is as follows:

Governmental Activities:	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Capital Assets, not being Depreciated:				
Land	$ 8,815,544	$ 334,831	$ 340,213	**$ 8,810,162**
Construction Work in Progress	3,131,154	2,948,337	1,807,025	**4,272,466**
Total Capital Assets, not being Depreciated	11,946,698	3,283,168	2,147,238	**13,082,628**
Capital Assets, being Depreciated:				
Buildings	15,040,136	210,691	-	**15,250,827**
Improvements Other Than Buildings	22,517,331	3,022,447	-	**25,539,778**
Machinery and Equipment	6,635,243	314,403	74,898	**6,874,748**
Total Capital Assets, being Depreciated	44,192,710	3,547,541	74,898	**47,665,353**
Less Accumulated Depreciation for:				
Buildings	2,580,721	306,137	-	**2,886,858**
Improvements Other Than Buildings	2,420,362	1,235,572	-	**3,655,934**
Machinery and Equipment	3,118,725	521,651	63,886	**3,576,490**
Total Accumulated Depreciation	8,119,808	2,063,360	63,886	**10,119,282**
Total Governmental Activities Capital Assets, being Depreciated, Net	36,072,902	1,484,181	11,012	**37,546,071**
Total Governmental Capital Assets, Net	$ 48,019,600	$ 4,767,349	$ 2,158,250	**$ 50,628,699**

Depreciation expense was charged to functions as follows:

Culture and Recreation	$ 1,059,517
Public Works	492,341
Public Safety	293,495
General Government	162,300
Intergovernmental	55,707
Total Depreciation Expense - Governmental	**$ 2,063,360**

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(6) Changes in Capital Assets (Continued)

	Balance 12/31/2009	Additions	Deletions	Balance 12/31/2010
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	$ 555,905	$ 34,076	$ -	**$ 589,981**
Construction Work in Progress	542,579	46,985	542,579	**46,985**
Total Capital Assets, not being Depreciated	1,098,484	81,061	542,579	**636,966**
Capital Assets, being Depreciated:				
Buildings	9,734,813	522,145	-	**10,256,958**
Improvements Other Than Buildings	19,871,820	3,804,065	-	**23,675,885**
Machinery and Equipment	5,249,209	152,545	196,468	**5,205,286**
Total Capital Assets, being Depreciated	34,855,842	4,478,755	196,468	**39,138,129**
Less Accumulated Depreciation for:				
Buildings	3,980,935	256,020	-	**4,236,955**
Improvements Other Than Buildings	7,443,831	587,993	-	**8,031,824**
Machinery and Equipment	4,098,574	239,772	196,468	**4,141,878**
Total Accumulated Depreciation	15,523,340	1,083,785	196,468	**16,410,657**
Total Business-Type Activities Capital Assets, being Depreciated, Net	19,332,502	3,394,970	-	**22,727,472**
Total Business-Type Capital Assets, Net	$ 20,430,986	$ 3,476,031	$ 542,579	**$ 23,364,438**

Depreciation expense was charged to functions as follows:

Sewer	$ 634,392
Water	328,755
Solid Waste	92,529
Campground	14,175
Electric Production	9,555
Parking	4,379
Total Depreciation Expense - Business-Type	**$ 1,083,785**

As of December 31, 2010, the City has signed construction commitments in the amount of $716,331. These items are expected to be financed through developer-funded TIFs, fund balance, and sales tax revenue.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2010:

	Balance 12/31/2009	Borrowings	Repayments	**Balance 12/31/2010**	Due Within One Year
Primary Government:					
Governmental Activities:					
Meier-Della Vecchia Land	$ 400,000	$ -	$ 200,000	**$ 200,000**	$ 200,000
Series 2007 Bonds	8,160,000	-	330,000	**7,830,000**	345,000
Humane Society	24,455	-	11,904	**12,551**	12,551
TID #1 Elkhorn Ridge	6,618,849	1,592,691	-	**8,211,540**	-
TID #2 Industrial Park Bond	1,770,477	-	233,671	**1,536,806**	89,249
Compensated Absences	435,847	208,253	217,871	**426,229**	426,229
OPEB (Note 12)	362,385	279,794	121,306	**520,873**	-
Total Governmental Activities	17,772,013	2,080,738	1,114,752	**18,737,999**	1,073,029
Business-Type Activities:					
Sewer-Water Revolving Loan	5,658,584	-	101,399	**5,557,185**	207,788
Portable Stage	85,000	-	6,660	**78,340**	7,015
Compensated Absences	125,561	85,307	78,678	**132,190**	132,190
OPEB (Note 12)	-	205,913	8,198	**197,715**	-
Total Business-Type Activities	5,869,145	291,220	194,935	**5,965,430**	346,993
Total Primary Government	$ 23,641,158	$ 2,371,958	$ 1,309,687	**$ 24,703,429**	$ 1,420,022

Interest incurred for the year ended December 31, 2010 was $700,300. Accrued interest was $1,316,953 at December 31, 2010.

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 were 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, 2010, property tax revenues were $87,961 and $347,871 for TID #1 and #2, respectively. Interest expenditures related to TID obligations totaled $1,235,768.

Pledged Revenues

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

Current Year Principal and Interest	$ 230,568
Pledged Revenue	1,769,907

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2010, is comprised of the following:

Contracts Payable	
Spearfish School District purchase of Meier-Della Vecchia Land for $575,000, matures July 2011, interest at 2.25 percent, due in annual installments of $206,775. Financed through Second Penny Sales Tax Fund.	$ 200,000
Lease Payable	
Wells Fargo Lease/Purchase of Portable Stage for $85,000, matures in July 2019, interest at 5.31 percent, due in annual installments of $11,174. Financed through Parking Fund.	78,340
Revenue Bonds	
Series 2007 Bonds for $8,940,000, mature in June 2027, interest at 3.50 to 4.40 percent, due in semi-annual installments from $170,000 to $325,000. Financed through Second Penny Sales Tax Fund for the Water Park.	7,830,000
Humane Society Sales Tax Bonds for $100,000, mature in December 2011, interest at 5.38 percent, due in semi-annual installments of $6,530. Financed through Second Penny Sales Tax Fund.	12,551
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.	5,557,185
Tax Increment Financing Obligations	
TID #1 Elkhorn Ridge, including interest at varying rates per annum, 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.	8,211,540
TIF #2 Industrial Park Bond, Series 2009, for $2,000,000, matures in June 2021, interest at 5.00 percent, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #2 Industrial Park Debt Service Fund.	1,536,806
Total Contracts Payable, Bonds, and Other Obligations	23,426,422

Compensated Absences	
General Fund	426,229
Water Fund	24,413
Electric Fund	10,869
Sewer Fund	51,302
Solid Waste Fund	45,606
Total Compensated Absences	558,419

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(7) Long-Term Debt (Concluded)

Other Post Employment Benefits (OPEB) (Note 12)	
General Fund	520,873
Water Fund	41,705
Electric Fund	20,798
Sewer Fund	75,750
Parking Fund	1,417
Solid Waste Fund	44,231
Campground Fund	13,814
Total OPEB	718,588
Total Long-Term Debt	**$ 24,703,429**

The annual requirements to amortize long-term debt outstanding as of December 31, 2010, except for compensated absences and OPEB, are as follows:

	Contracts Payable		Lease Payable		Revenue Bonds		TID Obligations		**Total**	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	**Interest**	**Principal**
2011	$ 6,775	$ 200,000	$ 4,160	$ 7,015	$ 501,378	$ 565,339	$ 747,146	$ 89,249	**$ 1,259,459**	**$ 861,603**
2012	-	-	3,787	7,387	481,176	569,625	1,236,933	93,564	**1,721,896**	**670,576**
2013	-	-	3,395	7,779	460,659	591,685	1,231,994	98,504	**1,696,048**	**697,968**
2014	-	-	2,982	8,192	439,257	613,978	968,387	362,111	**1,410,626**	**984,281**
2015	-	-	2,547	8,627	416,609	636,511	781,882	548,615	**1,201,038**	**1,193,753**
2016-2020	-	-	5,357	39,340	1,703,888	3,554,515	3,116,518	3,535,969	**4,825,763**	**7,129,824**
2021-2025	-	-	-	-	949,941	4,303,687	1,292,434	5,020,334	**2,242,375**	**9,324,021**
2026-2030					169,423	2,564,396	-	-	**169,423**	**2,564,396**
Total	$ 6,775	$ 200,000	$ 22,228	$ 78,340	$ 5,122,331	$ 13,399,736	$ 9,375,294	$ 9,748,346	**$ 14,526,628**	**$ 23,426,422**

(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, 2010, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of **$1,808,793.**

(9) Lease

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(10) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2010, were as follows:

	Transfers In	Transfers Out
Major Funds		
General Fund	$ 191,945	$ -
Second Penny Sales Tax Fund	-	540,000
Water Fund	-	68,437
Sewer Fund	-	17,823
Solid Waste Fund	-	5,685
Nonmajor Funds		
Hospitality Tax	-	100,000
Municipal Highway and Bridge Fund	500,000	-
Historical Procurement Project	59,548	-
Water Park	-	59,548
Recreation Paths	40,000	-
Total Transfers	**$ 791,493**	**$ 791,493**

The Second Penny Sales Tax Fund transferred $500,000 to the Municipal Highway and Bridge Fund for street projects and $40,000 to the Recreation Park Fund for Creekside Trail design project. The Water Park Fund transferred $59,548 to the Historical Procurement Project Fund for future Historical purchases. The Hospitality Tax Fund transferred $100,000 to the General Fund for advertising costs. Subsidies totaling $91,945 were transferred from the Water, Sewer, and Solid Waste Funds to the General Fund to cover utility operation costs of the City.

Interfund advances to and advances from balances at December 31, 2010, were as follows:

	Interfund Advance To	Interfund Advance From
Major Funds		
Second Penny Sales Tax Fund	$ 601,111	$ -
TID #3 McGuigan Ranch Capital Project Fund	-	601,111
TID #2 Industrical Park Capital Project Fund	-	1,109,759
Water Fund	1,067,046	-
Sewer Fund	42,713	-
Total Transfers	**$ 1,710,870**	**$ 1,710,870**

In the prior year, the Second Penny Sales Tax Fund advanced $601,111 to TID #3 McGuigan Ranch Capital Project Fund for 10 housing lots to be purchased and the Water Fund advanced $320,222 to TID #2 Industrial Park Capital Project Fund for a water well as a part of the expansion of the Industrial Park. During the current year the Water Fund advanced an additional $746,824 and the Sewer Fund advanced $42,713 to TID #2 Industrial Park Capital Project Fund for the expansion of the Industrial Park.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

(11) Retirement Plan -- South Dakota Retirement System

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

General employees are required by state statute to contribute 6.0 percent of their salary to the plan, while public safety and judicial employees contribute 8.0 and 9.0 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2010, 2009, and 2008 were **$268,071**, $268,245, and $222,472, respectively, equal to the required contributions each year.

(12) Other Post-Employment Benefits – Healthcare Plan

Plan Description:

The Retiree Benefit Plan is a single-employer defined benefit healthcare plan administered by the City. The Retiree Benefit Plan provides medical, dental and vision insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and many 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 many be amended by the City Council. An employee who retires from the City that is eligible for SDRS Retirement and, at least 10 years of consecutive service with the City, may be eligible for retiree health, dental and vision coverage.

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

Annual OPEB Cost and Net OPEB Obligation:

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

The following table shows the financial components of the plan:

Annual Required Contribution (ARC)	$	378,752
Interest on Net OPEB Obligation		7,248
Adjustment to Annual Required Contribution		(12,080)
Annual OPEB Costs		373,920
Contributions Made		(17,717)
Change in Net OPEB Obligation		356,203
Net OPEB Obligation - Beginning of Year		362,385
Net OPEB Obligation - End of Year	$	718,588

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2010

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

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual	Net OPEB Obligation
2010	$ 373,920	5%	$ 718,588
2009	371,325	2%	362,385

Funded Status and Funding Progress:

As of December 31, 2010, the plan was -0- percent funded. The actuarial accrued liability for benefits was $1.6 million, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability (UAAL) of $1.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $4.7 million, and the ration of the UAAL to the covered payroll was 34.45 percent.

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

Actuarial Methods and Assumptions:

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

In the alternative measurement method actuarial valuation, the entry age method was used. The actuarial assumptions included a -0- percent rate of return and an annual healthcare cost trend rate of 8 percent for health, 3.5 percent for dental and 3 percent for vision, initially, reduced by decrements to an ultimate rate of 4.7 percent for health, 3 percent for dental, and 3 percent for vision, respectively, after 10 years. Both rates include a 2 percent inflation assumption. The UAAL is being amortized as a level percentage of projected payroll for 30 years.

For the year ended December 31, 2010, a portion of the OPEB liability was allocated to the enterprise funds based on percentage of payroll in each fund.

(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

(13) Joint Venture (Continued)

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

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

(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, 2010, 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 purchases joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control, and risk reduction information, and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays an annual premium, to provide liability coverage detailed below, under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, errors and omissions, property, auto (liability and physical damage), police professional liability, boiler, and machine.

The agreement with the South Dakota Public Assurance Alliance provides that the above coverages will be provided up to a $1,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of $250,000 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, 2010, 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, 2010, four claims were filed for unemployment benefits. These claims resulted in the payment of benefit amounts of $2,439. At December 31, 2010, two claims were outstanding. It is estimated, based on historical trends that these claims will result in the future payment of unemployment benefits in the amount of approximately $2,048.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2010

(14) Risk Management (Continued)

Worker's Compensation:

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

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

(15) Contracts Receivable

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

(16) City Officers

The following were City officers for the year ended December 31, 2010:

Mayor:
Jerry Krambeck
Council:
Mary Morgan
Travis Geppert
Paul Young
Doug Schmit
Dan Aaker
David Baker
Acting Finance Officer:
Dave Dutton
Attorney:
Richard Plumier
Brady Plumier, P.C.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	Taxes:				
311	General Property Taxes	$ 1,658,420	$ 1,658,420	$1,677,710	$ 19,290
313	General Sales and Use Taxes	3,000,000	3,000,000	2,989,522	(10,478)
314	Gross Receipts Tax	48,500	48,500	68,739	20,239
315	Amusement Taxes	1,000	1,000	1,092	92
319	Penalties and Interest on Delinquent Taxes	2,500	2,500	2,824	324
320	Licenses and Permits	266,950	266,950	268,905	1,955
	Intergovernmental Revenue:				
331	Federal Grants	51,576	51,576	52,954	1,378
334	State Grants	-	-	2,922	2,922
	State Shared Revenue:				
335	Bank Franchise Tax	4,200	4,200	3,588	(612)
335	Liquor Tax Reversion	53,000	53,000	52,403	(597)
335	Motor Vehicle Licenses (5%)	49,500	49,500	51,309	1,809
335.20	Other	260,000	260,000	521,713	261,713
	County Shared Revenue:				
339	County Payments in Lieu of Taxes	230,421	230,421	230,421	-
338	County HBR Tax	19,000	19,000	16,898	(2,102)
	Charges for Goods and Services:				
341	General Government	7,300	7,300	9,277	1,977
342	Public Safety	129,052	129,052	135,494	6,442
343	Highways and Streets	50	50	817	767
346	Culture and Recreation	818,320	818,320	645,173	(173,147)
348	Cemetery	6,350	6,350	5,824	(526)
349	Other	40	40	65	25
	Fines and Forfeits:				
351	Court Fines and Costs	1,000	1,000	1,079	79
359	Other	6,900	6,900	7,401	501
	Miscellaneous Revenue:				
361	Earnings on Deposits and Investments	140,000	140,000	46,535	(93,465)
362	Rentals	33,700	33,700	34,246	546
363	Special Assessments	94,800	94,800	96,462	
367	Contributions and Donations - Private Sources	-	-	7,907	7,907
369	Other	2,650	2,650	2,658	8
Total Revenue		6,885,229	6,885,229	6,933,938	47,047

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE (CONTINUED)
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED DECEMBER 31, 2010

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures					
	General Government:				
411	Legislative	168,372	168,372	158,594	9,778
411.5	Contingency	434,100	184,640	-	
	Amount Transferred	-	-	-	184,640
412	Executive	170,599	170,599	81,064	89,535
414	Financial Administration	365,032	370,192	249,219	120,973
419	Other	1,014,162	1,014,162	705,182	308,980
	Public Safety:				
421	Police	1,932,150	1,952,870	1,890,432	62,438
422	Fire	176,215	176,215	165,180	11,035
423	Protective Inspection	153,787	153,787	146,562	7,225
	Public Works:				
431	Highways and Streets	867,382	897,382	774,785	122,597
437	Cemeteries	116,823	116,823	111,651	5,172
	Health and Welfare:				
441	Health	46,808	46,808	44,119	2,689
	Culture and Recreation:				
451	Recreation	1,297,999	1,491,579	1,478,127	13,452
452	Parks	354,664	354,664	328,573	26,091
455	Library	319,883	319,883	313,541	6,342
	Conservation and Development:				
463	Urban Redevelopment and Housing	122,234	122,234	119,686	2,548
480	Intergovernmental Expenditures	-	349,118	331,966	17,152
Total Expenditures		7,540,210	7,889,328	6,898,681	990,647
Excess of Revenue Over (Under) Expenditures		(654,981)	(1,004,099)	35,257	1,037,694
Other Financing Sources (Uses):					
391.1	Transfers In	547,737	547,737	191,945	(355,792)
391.03	Sale of Municipal Property	-	-	8,265	8,265
511	Transfers Out	(49,363)	(49,363)	-	49,363
Total Other Financing Sources		498,374	498,374	200,210	(298,164)
Net Change in Fund Balance		(156,607)	(505,725)	235,467	739,530
Fund Balance - December 31, 2009		4,054,896	4,054,896	4,054,896	-
Fund Balance - December 31, 2010		**$ 3,898,289**	**$ 3,549,171**	**$ 4,290,363**	**$ 739,530**

The acompanying 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, 2010

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	Taxes:				
313	General Sales and Use Taxes	$ 3,000,000	$ 3,000,000	$ 2,989,522	$ (10,478)
	Intergovernmental Revenue:				
334	State Grants	157,500	157,500	4,934	(152,566)
	Miscellaneous Revenue:				
361	Earnings on Deposits and Investments	52,000	52,000	29,406	(22,594)
367	Contributions and Donations - Private Sources	-	-	20,000	20,000
Total Revenue		3,209,500	3,209,500	3,043,862	(165,638)
Expenditures					
	General Government:				
419	Other	560,000	560,000	540,252	19,748
	Public Safety:				
421	Police	301,978	301,978	173,514	128,464
	Public Works:				
431	Highways and Streets	332,000	332,000	47,814	284,186
	Health and Welfare:				
441	Health	20,000	20,000	-	20,000
	Culture and Recreation:				
451	Recreation	515,750	515,750	250,940	264,810
470	Debt Service	678,785	885,560	885,191	369
480	Intergovernmental Expenditures	105,000	105,000	45,541	59,459
Total Expenditures		2,513,513	2,720,288	1,943,252	777,036
Excess of Revenue Over (Under) Expenditures		695,987	489,212	1,100,610	611,398
Other Financing Sources (Uses):					
391.20	Sale of Bonds	-	885,000	-	(885,000)
511	Transfers Out	(775,000)	(775,000)	(540,000)	(235,000)
Total Other Financing Sources (Uses)		(775,000)	110,000	(540,000)	(1,120,000)
Net Change in Fund Balance		(79,013)	599,212	560,610	(508,602)
Fund Balance - December 31, 2009		3,314,651	3,314,651	3,314,651	-
Fund Balance (Deficit) - December 31, 2010		**$ 3,235,638**	**$ 3,913,863**	**$ 3,875,261**	**$ (508,602)**

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

CITY OF SPEARFISH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING PROGRESS (OPEB)
DECEMBER 31, 2010

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

2. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in item number four.

3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed five percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the governing board.

6. The City did not encumber any amounts at December 31, 2010.

7. Formal budgetary integration is employed as a management control device during the year for the general fund, special revenue funds, capital projects funds, and debt service funds.

8. Budgets for the general fund, special revenue funds, capital projects funds, and debt service funds are adopted on a basis consistent with the modified-cash basis of accounting, except for the following:

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

Schedule of Funding Progress (OPEB)

As of December 31, 2010 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)
12/31/2009	$ -	$ 1,620,496	$ 1,620,496	0.00%	$ 4,415,472	36.70%
12/31/2010	-	1,620,496	1,620,496	0.00%	4,704,297	34.45%

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2010

		Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets				
101	Cash and Cash Equivalents	$ 232,160	$ 29,606	$ 11,477
104	Investments	321,749	51,000	-
110	Sales Taxes Receivable	17,348	-	-
115	Accounts Receivable	-	-	34,447
121	Special Assessments Receivable	-	-	7,990
128	Notes Receivable	-	-	-
132	Due from Other Governments	-	-	-
Total Assets		**$ 571,257**	**$ 80,606**	**$ 53,914**
Liabilities and Fund Balances				
Liabilities				
220	Customer Deposits	$ -	$ -	$ -
224	Deferred Revenue	-	-	34,447
Total Liabilities		-	-	34,447
Fund Balances				
261	*Reserved Fund Balances*			
261.16	Reserved for Long-Term Notes Receivable	-	-	-
262	*Unreserved Fund Balances*			
262.01	Designated for Next Year's Appropriations	151,043	-	19,467
262.09	Undesignated	420,214	80,606	-
Total Fund Balances		571,257	80,606	19,467
Total Liabilities and Fund Balances		**$ 571,257**	**$ 80,606**	**$ 53,914**

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund	Municipal Highway and Bridge Fund
$ 79,479	$ 172,272	$ 498,967	$ 190,095	$ 3,338	$ 10,787
95,621	504,923	495,981	125,421	39,620	-
-	-	-	-	-	-
-	-	-	-	-	-
-	66,312	-	-	-	354
-	-	442,982	-	-	-
18,269	-	-	-	-	-
$ 193,369	**$ 743,507**	**$ 1,437,930**	**$ 315,516**	**$ 42,958**	**$ 11,141**
$ -	$ -	$ 3,580	$ -	$ -	$ -
-	66,312	-	-	-	354
-	66,312	3,580	-	-	354
-	-	442,982	-	-	-
7,815	-	-	16,800	-	-
185,554	677,195	991,368	298,716	42,958	10,787
193,369	677,195	1,434,350	315,516	42,958	10,787
$ 193,369	**$ 743,507**	**$ 1,437,930**	**$ 315,516**	**$ 42,958**	**$ 11,141**

CITY OF SPEARFISH

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
DECEMBER 31, 2010

		Golf Course Capital	Historical Procurement Project	TID #1 Elkhorn Ridge Debt Fund
Assets				
101	Cash and Cash Equivalents	$ 3,756	$ 59,649	$ 13,508
104	Investments	-	-	-
110	Sales Taxes Receivable	-	-	-
115	Accounts Receivable	-	-	-
121	Special Assessments Receivable	-	-	-
128	Notes Receivable	-	-	-
132	Due from Other Governments	-	-	-
Total Assets		**$ 3,756**	**$ 59,649**	**$ 13,508**
Liabilities and Fund Balances				
Liabilities				
220	Customer Deposits	$ -	$ -	$ -
224	Deferred Revenue	-	-	-
Total Liabilities		-	-	-
Fund Balances				
261	*Reserved Fund Balances*			
261.16	Reserved for Long-Term Notes Receivable	-	-	-
262	*Unreserved Fund Balances*			
262.01	Designated for Next Year's Appropriations	-	-	-
262.09	Undesignated	3,756	59,649	13,508
Total Fund Balances		3,756	59,649	13,508
Total Liabilities and Fund Balances		**$ 3,756**	**$ 59,649**	**$ 13,508**

TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	Recreation Path Fund	Total
$ 246,701	$ -	$ 2,800	$ 34,339	$ 1,588,934
-	24,932	402,264	105,445	2,166,956
-	-	-	-	17,348
-	-	-	-	34,447
-	-	-	-	74,656
-	-	-	-	442,982
-	-	-	-	18,269
$ 246,701	**$ 24,932**	**$ 405,064**	**$ 139,784**	**$ 4,343,592**
$ -	$ -	$ -	$ -	$ 3,580
-	-	-	-	101,113
-	-	-	-	104,693
-	-	-	-	442,982
-	-	-	6,000	201,125
246,701	24,932	405,064	133,784	3,594,792
246,701	24,932	405,064	139,784	4,238,899
$ 246,701	**$ 24,932**	**$ 405,064**	**$ 139,784**	**$ 4,343,592**

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2010

	Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:			
Taxes:			
311 General Property Taxes	$ -	$ -	$ -
313 General Sales and Use Taxes	483,116	-	-
315 Amusement Taxes	-	-	168,689
319 Penalties & Interest on Delinquent Taxes	-	-	-
316 911 Telephone Surcharge	-	-	-
Intergovernmental Revenue:			
331 Federal Grants	-	-	-
334 State Grants	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
349 Other	-	-	-
Fines & Forfeits:			
354 Library	-	16,293	-
Miscellaneous Revenue:			
361 Earnings on Deposits and Investments	4,944	571	221
362 Rentals	-	-	-
363 Special Assessments	-	-	-
367 Contributions and Donations - Private Sources	-	14,113	17,052
369 Other	-	-	-
Total Revenue	488,060	30,977	185,962
Expenditures:			
General Government:			
419 Other	7,000	-	-
Public Safety:			
421 Police	-	-	-
Public Works:			
431 Highway and Streets	-	-	-
Culture and Recreation:			
451 Recreation	5,240	-	-
452 Parks	-	-	-
455 Library	-	19,903	-
456 Auditorium	147,500	-	-
Conservation and Development:			
465 Economic Development and Assistance	194,000	-	202,500
470 Debt Service	-	-	-
485 Capital Outlay	-	-	-
Total Expenditures	353,740	19,903	202,500
Excess of Revenue Over (Under) Expenditures	134,320	11,074	(16,538)
Other Financing Sources (Uses):			
391.1 Transfers In	-	-	-
511 Transfers Out	(100,000)	-	-
Total Other Financing Sources (Uses)	(100,000)	-	-
Net Change in Fund Balances	34,320	11,074	(16,538)
Fund Balances, December 31, 2009	536,937	69,532	36,005
Fund Balances, December 31, 2010	$ 571,257	$ 80,606	$ 19,467

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2010

	Golf Course Capital	Historical Procurement Project	TID #1 Elkhorn Ridge Debt Fund
Revenue:			
Taxes:			
311 General Property Taxes	$ -	$ -	$ 87,961
313 General Sales and Use Taxes	-	-	-
315 Amusement Taxes	-	-	-
319 Penalties & Interest on Delinquent Taxes	-	-	-
316 911 Telephone Surcharge	-	-	-
Intergovernmental Revenue:			
331 Federal Grants	-	-	-
334 State Grants	-	-	-
335.08 Local Government Highway and Bridge Fund	-	-	-
346 Culture & Recreation	-	-	-
348 Cemeteries	-	-	-
349 Other	-	-	-
Fines & Forfeits:			
354 Library	-	-	-
Miscellaneous Revenue:			
361 Earnings on Deposits and Investments	29	101	205
362 Rentals	-	-	-
363 Special Assessments	250	-	-
367 Contributions and Donations - Private Sources	6,904	-	-
369 Other	-	-	-
Total Revenue	7,183	101	88,166
Expenditures:			
General Government:			
419 Other	-	-	-
Public Safety:			
421 Police	-	-	-
Public Works:			
431 Highway and Streets	-	-	-
Culture and Recreation:			
451 Recreation	3,427	-	-
452 Parks	-	-	-
455 Library	-	-	-
456 Auditorium	-	-	-
Conservation and Development:			
465 Economic Development and Assistance	-	-	-
470 Debt Service	-	-	87,961
485 Capital Outlay	-	-	-
Total Expenditures	3,427	-	87,961
Excess of Revenue Over (Under) Expenditures	3,756	101	205
Other Financing Sources (Uses):			
391.1 Transfers In	-	59,548	-
511 Transfers Out	-	-	-
Total Other Financing Sources	-	59,548	-
Net Change in Fund Balances	3,756	59,649	205
Fund Balances, December 31, 2009	-	-	13,303
Fund Balances, December 31, 2010	$ 3,756	$ 59,649	$ 13,508

TID #2 Industrial Park Debt Fund	TID #3 McGuigan Ranch Debt Fund	Cemetery Perpetual Care Fund	Water Park Fund	Recreation Path Fund	Total
$ 347,870	$ -	$ -	$ -	$ -	$ 435,831
-	-	-	-	-	483,116
-	-	-	-	-	168,689
4,111	-	-	-	-	4,111
-	-	-	-	-	106,349
196,000	-	-	-	-	196,000
-	-	-	-	93,868	93,868
-	-	-	-	-	91,713
-	-	-	-	-	6,791
-	-	10,810	-	-	10,810
-	-	-	-	-	-
-	-	-	-	-	16,293
3,177	-	-	1,548	-	39,727
-	-	-	-	-	30,282
-	-	-	-	-	43,295
-	-	-	-	-	119,350
-	14,922	-	-	-	15,322
551,158	14,922	10,810	1,548	93,868	1,861,547
-	-	-	-	-	7,000
-	-	-	-	-	12,587
-	-	-	-	-	13,853
-	-	-	63,654	-	72,321
-	-	-	-	-	5,861
-	-	-	-	-	19,903
-	-	-	-	-	147,500
-	-	-	-	-	396,812
323,970	-	-	-	-	411,931
-	-	-	8,325	17,600	660,176
323,970	-	-	71,979	17,600	1,747,944
227,188	14,922	10,810	(70,431)	76,268	113,603
-	-	-	-	40,000	599,548
-	-	-	(59,548)	-	(159,548)
-	-	-	(59,548)	40,000	440,000
227,188	14,922	10,810	(129,979)	116,268	553,603
19,513	10,010	394,254	129,979	23,516	3,685,296
$ 246,701	**$ 24,932**	**$ 405,064**	**$ -**	**$ 139,784**	**$ 4,238,899**

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 the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **CITY OF SPEARFISH** (the City) as of and for the year ended December 31, 2010, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 19, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Auditor's Comments and Closing Conference we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Auditor's Comments and Closing Conference as Finding #09-1 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Auditor's Comments and Closing Conference as Findings #09-2, #09-3, and #09-4 to be significant deficiencies.

Compliance and Other Matters

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

The City's responses to the findings identified in our audit are described in the accompanying Auditor's Comments and Closing Conference. We did not audit the City's responses and, accordingly, we express no opinion on them.

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

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

March 19, 2012

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE
DECEMBER 31, 2010

A. Status of Prior Audit Findings and Recommendations

Findings 09-1, 09-2, 09-3, and 09-4 have all been repeated.

Finding 08-1 was not repeated in the current year, as there were no budgetary overdrafts.

B. Current Year Audit Findings and Recommendations

Material Weakness

09-1 Finding: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments. Adjustments included reclassification of expenditures between governmental fund and proprietary funds, as well as adjusting deferred revenue, accounts payable, capital assets, property tax receivable, bid fees receivable, accrued leave, accrued interest, interest receivable, transfers, long-term debt, and the OPEB obligation.

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

Recommendation: We recommend that Management consider the following:

- Community grant expenditures to corresponding expenditure accounts, rather than transfers out
- Adjusting deferred revenue to actual for annual gaming taxes received
- Recording construction in progress at year-end that is included in accounts payable
- Adjusting property tax receivables to remittances received from the County
- Adjusting accrued leave to actual at year-end
- Recording accrued interest and corresponding expense relating to debt
- Recording interest receivable on interfund loans
- Recording administrative payroll expenses within business-type funds
- Recording the OPEB obligation within the business-type funds

Response: The proposed recommendations were accepted by the City and changes have been implemented to follow the recommendations in future years.

Significant Deficiencies

09-2 Finding: Segregation of Duties

Condition and Cause: Accountant I downloads the payroll information from the timecards into the payroll system and completes the payroll transfer via the internet. A listing including employee name and net pay is reviewed by Human Resources prior to direct deposit, but such listing does not include pay rates, hours worked, etc. Additionally, although the Human Resources employee is the only individual authorized to change pay rates, Accountant I does have access to do so in the payroll module.

Criteria and Effect: The City is susceptible to the payment of unapproved wages.

Recommendation: An employee in Human Resources should review a listing of employees and salary prior to and after payment, including hours worked, pay rates, employee name, and account coding.

Response: The software the city uses will not allow the necessary restriction for this specified segregation of duties. To have this feature added to the program, we would have to request a special modification which we have determined would be cost prohibitive as stewards for the taxpayer. Therefore, a report of all changes made to the payroll system by Accountant I is printed and approved by the Human Resource Director or City Administrator prior to the payroll payment file being transmitted. The Human Resource Director or City Administrator will verify that no wage changes, or other non-appropriate changes, have been made by Accountant I.

CITY OF SPEARFISH

AUDITOR'S COMMENTS AND CLOSING CONFERENCE (CONTINUED)
DECEMBER 31, 2010

B. Current Year Audit Findings and Recommendations (Continued)

Significant Deficiencies (Continued)

09-3 Finding: Signature Stamp

Condition and Cause: The Utility Billing Coordinator has control of the Mayor's signature stamp and contacts the Mayor prior to its use. There is a control in place in which the Mayor initials all manual checks that use his signature stamp.

Criteria and Effect: An internal control process is not in place to verify the completeness of the checks he initials.

Recommendation: The Acting Finance Officer or Accountant I should create a listing of manual checks issued and supply such listing to the Mayor, in order for him to verify the completeness of manual checks issued that utilized his signature stamp.

Response: The Acting Finance Officer, Accountant I, and Accountant 2 have signatory authority on all City accounts and dual signatures are required. Therefore, it will be very rare to ever need the Mayor's signature on a manual check. The recommended list has been implemented and is kept by the Utility Billing Coordinator for when the Mayor's signature stamp is used.

09-4 Finding: Financial Statement Preparation

Condition and Cause: We were requested to assist with the drafting of the 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 of presentation of those statements. This is not unusual for cities of your size.

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

Recommendation: We have instructed management to review a draft of the revised 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 complete financial statements. It is the City Council's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

Response: The City accepts the degree of risk with the drafting of the financial statements by the audit firm. All information presented has been reviewed and approved by the City prior to dissemination.