CITY OF SPEARFISH

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025

KETEL THORSTENSON
CPAs · ADVISORS

CITY OF SPEARFISH

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Spearfish
Spearfish, South Dakota

Report on the Financial Statements

Unmodified Opinions
We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spearfish (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Unmodified Opinions
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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain other internal control matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedule of the City's OPEB liability, pension schedules, and notes to required supplementary information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying combining nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* are presented for purposes of additional analysis and are not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2026 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, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 8, 2026

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

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, 2025. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The City's net position from governmental and business-type activities increased by $27,502,269, primarily due to the extinguishment of debt for Tax Increment Finance District (TID) #1, which met its legal end in 2025, strong sales tax revenues and receipt of grants for projects.

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were $21,036,543 more than the $24,145,421 governmental expenditures, excluding transfers.

- In the City's business-type activities, revenue decreased by 14 percent to $17,682,562 while expenses increased by 6 percent to $11,216,836, due to decrease in federal grant funding for construction projects, a decrease in returns on investments, and an increase in operational costs in all business-type activities.

- The general fund reported a $556,615 current year decrease in fund balance primarily due to a decrease in revenues from licenses and permits as fewer large construction permits were issued in 2025, a reduction in grant revenues and increases in operating and construction costs in all departments.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services, like public safety, were financed in the short-term, as well as what remains for future spending.

- Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has seven proprietary funds – the Water Fund, the Electric Production Fund, the Sewer Fund, the Airport Fund, the Parking Fund, the Solid Waste Fund, and the Campground Fund. In addition, the City has an Internal Service Fund for health insurance.

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS

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

	Government-wide 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, such as the water and sewer systems
Required Financial Statements	Statement of Net Position and Statement of Activities	Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Net Position; Statement of Revenues, Expenses and Changes in Net Position; and Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/ Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/ Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-Wide Statements

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

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

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

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

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

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

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net Position

The City's combined net position increased by 14.61 percent between 2024 and 2025 – increasing by $27,502,269 (see Table A-1).

Statement of Net Position
Table A-1

	Governmental Activities		Business-Type Activities		Total	
	2024	2025	2024	2025	2024	2025
Current & Other Assets	$ 36,393,538	$ 35,029,872	$ 18,290,223	$ 19,959,964	$ 54,683,761	$ 54,989,836
Capital Assets	97,860,724	103,153,570	75,759,306	87,757,804	$ 173,620,030	190,911,374
Total Assets	134,254,262	138,183,442	94,049,529	107,717,768	228,303,791	245,901,210
Pension & OPEB Related Deferred Outflows of Resources	$ 1,841,298	$ 2,220,092	$ 314,925	$ 374,725	$ 2,156,223	$ 2,594,817
Long-Term Debt	$ 34,011,147	$ 17,513,352	$ 2,195,644	$ 8,186,843	$ 36,206,791	$ 25,700,195
Other Liabilities	1,333,951	1,397,355	1,308,376	2,671,629	2,642,327	4,068,984
Total Liabilities	$ 35,345,098	$ 18,910,707	$ 3,504,020	$ 10,858,472	$ 38,849,118	$ 29,769,179
Lease, Pension, OPEB, and Other Related Deferred Inflows of Resources	$ 2,813,426	$ 2,629,427	$ 537,772	$ 335,454	$ 3,351,198	2,964,881
Net Position:						
Net Investment in Capital Assets	$ 64,847,099	$ 86,734,993	$ 73,754,081	$ 79,755,488	$ 138,601,180	$ 166,490,481
Restricted	6,516,919	6,095,318	80,424	165,372	6,597,343	6,260,690
Unrestricted	26,573,018	26,033,089	16,488,157	16,977,707	43,061,175	43,010,796
Total Net Position	$ 97,937,036	$ 118,863,400	$ 90,322,662	$ 96,898,567	$ 188,259,698	$ 215,761,967
Beginning Net Position	$ 91,725,822	$ 97,937,036	$ 80,690,868	$ 90,322,662	$ 172,416,690	$ 188,259,698
Change in Net Position	6,211,214	20,926,364	9,631,794	6,575,905	15,843,008	27,502,269
Percentage of Increase in Net Position	6.77%	21.37%	11.94%	7.28%	9.19%	14.61%

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

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Changes in Net Position

The City's total revenues (excluding transfers) totaled $62,864,526 (see Table A-1). Approximately 30 cents of every dollar of the City's revenue comes from taxes, with 27 cents of every dollar raised coming from charges for services (primarily water, sewer, recreation and aquatic park and solid waste operations). In 2025, approximately 10 cents of every dollar came from capital grants and contributions (See Figure A-1).

The total cost of all programs and services increased $2,962,669 from 2024 to 2025. The City's expenses cover a range of services, including public works administration, public safety, and culture and recreation. (See Figure A-2).

Figure A-1: Revenue Sources for 2025

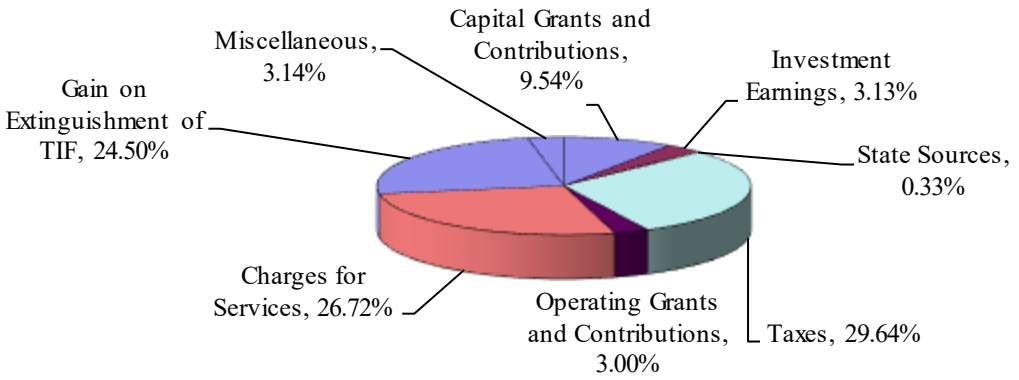
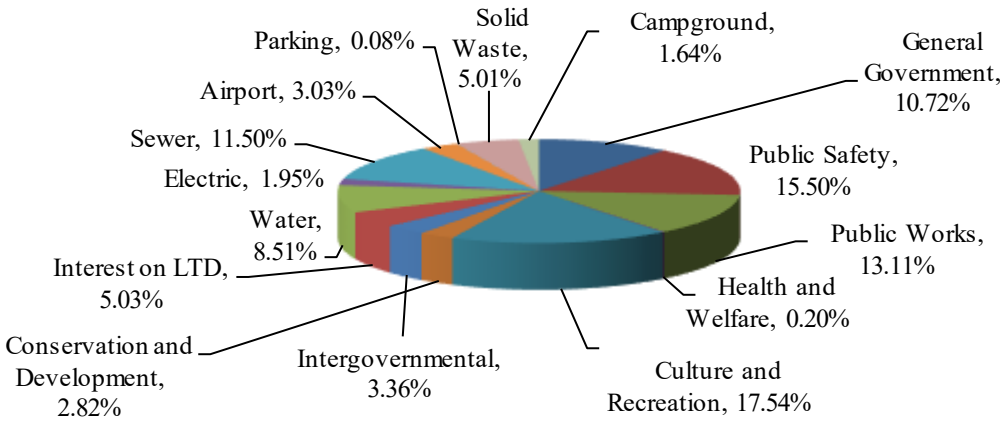


Figure A-2: Expenditures for 2025



CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Changes in Net Position

Table A-2

	Total Governmental Activities		Total Business-Type Activities		Grand Total	
	2024	2025	2024	2025	2024	2025
Revenues						
Program Revenues						
Charges for Services	$ 4,920,530	$ 5,035,782	$ 11,688,458	$ 11,763,841	$ 16,608,988	$ 16,799,623
Operating Grants and Contributions	1,711,383	1,886,164	208,147	-	1,919,530	1,886,164
Capital Grants and Contributions	784,192	907,859	7,725,009	5,083,513	8,509,201	5,991,372
General Revenues						
Taxes	17,826,876	18,632,920	-	-	17,826,876	18,632,920
Revenue State Sources	181,831	204,932	-	-	181,831	204,932
Unrestricted Investment Earnings	1,475,556	1,248,556	818,601	720,118	2,294,157	1,968,674
Gain on Extinguishment of TIF Obligation	-	15,404,859	-	-	-	15,404,859
Miscellaneous	860,477	1,860,892	41,536	115,090	902,013	1,975,982
Total Revenues	$ 27,760,845	$ 45,181,964	$ 20,481,751	$ 17,682,562	$ 48,242,596	$ 62,864,526
Expenses						
General Government	$ 3,354,254	$ 3,790,864	$ -	$ -	$ 3,354,254	$ 3,790,864
Public Safety	5,380,860	5,482,090	-	-	5,380,860	5,482,090
Public Works	4,338,659	4,637,530	-	-	4,338,659	4,637,530
Health and Welfare	81,608	72,154	-	-	81,608	72,154
Culture and Recreation	5,079,272	6,203,709	-	-	5,079,272	6,203,709
Conservation and Development	817,860	995,526	-	-	817,860	995,526
Interest on Long-Term Debt	1,786,056	1,777,093	-	-	1,786,056	1,777,093
Intergovernmental	1,013,383	1,186,455	-	-	1,013,383	1,186,455
Water Services	-	-	2,724,797	3,010,094	2,724,797	3,010,094
Electric Services	-	-	657,954	688,321	657,954	688,321
Sewer Services	-	-	4,037,226	4,065,590	4,037,226	4,065,590
Airport	-	-	915,843	1,072,311	915,843	1,072,311
Parking	-	-	28,620	28,179	28,620	28,179
Solid Waste	-	-	1,662,487	1,771,269	1,662,487	1,771,269
Campground	-	-	520,709	581,072	520,709	581,072
Total Expenses	$ 21,851,952	$ 24,145,421	$ 10,547,636	$ 11,216,836	$ 32,399,588	$ 35,362,257
Excess Revenues Before Transfers	$ 5,908,893	$ 21,036,543	$ 9,934,115	$ 6,465,726	$ 15,843,008	$ 27,502,269
Transfers	302,321	(110,179)	(302,321)	110,179	-	-
Increase in Net Position	$ 6,211,214	$ 20,926,364	$ 9,631,794	$ 6,575,905	$ 15,843,008	$ 27,502,269
Net Position - Ending	$ 97,937,036	$ 118,863,400	$ 90,322,662	$ 96,898,567	$ 188,259,698	$ 215,761,967

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Governmental Activities

Revenues of the City's governmental activities exceeded expenditures by $21,036,543 excluding transfers, due to the extinguishment of debt for Tax Increment Finance District (TID) #1, an increase in tax revenues collected and an increase in grants received in 2025.

Business-Type Activities

Revenues of the City's business-type activities exceeded expenses by $6,465,726 excluding transfers, due to the planned rate increases for water, sewer, airport, and solid waste services as well as restrictions on expense growth set by elected officials.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintains several governmental funds and seven business-type funds. Nearly all of the City's funds had an increase in fund balance or net position 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.

CAPITAL ASSET ADMINISTRATION

By the end of 2025, the City had invested $190,911,374 in a broad range of capital assets, including land, buildings, and various machinery and equipment. (See Table A-3.) This amount represents a net increase (including additions and deductions) of $17,291,344.

Table A-3
Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities	
	2024	2025	2024	2025
Land	$ 14,354,297	$ 14,286,943	$ 8,323,523	$ 8,312,635
Buildings	19,497,573	18,970,845	4,814,486	4,552,544
Improvements	57,341,104	56,542,961	50,376,012	52,246,703
Machinery and Equipment	6,251,637	7,645,179	2,181,440	2,465,969
Construction Work in Progress	416,113	5,707,642	10,063,845	20,179,953
Totals	$ 97,860,724	$ 103,153,570	$ 75,759,306	$ 87,757,804

CITY OF SPEARFISH

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
DECEMBER 31, 2025

CAPITAL ASSET ADMINISTRATION

This year's major capital asset changes included:

Governmental Fund Assets:

- Completed construction of a new skateboard park for an additional $650,068 in 2025, bringing the total cost to $685,692.
- Began construction on widening of East Colorado Boulevard between US Highway 85 and Rainbow Road for cost of $3,784,374, bringing total costs from 2022 to 2025 to $3,961,233.
- Began constructing a Fire Training Tower for cost of $520,561. Project is expected to be completed late 2026.
- Completed street, curb and gutter, and sidewalk improvements to Dakota Street and N. 5th Street for cost of $1,575,371.
- Purchased a new custom fire truck to replace an aging truck for total cost of $1,014,615.
- Purchased and installed new heating and air-conditioning units for Spearfish Recreation and Aquatic Center for total cost of $348,620.
- Installed a new traffic signal at North Avenue and Rushmore Street at a cost of $397,056 with $222,056 coming as a donation from the Monument Health organization.

Business-type Assets:

- Continued construction of a new water well, tank, and distribution lines, East Low Zone Well, to serve the eastern side of the city for cost of $6,127,710. Total construction costs through 2025 are $10,244,026. This project is funded with a federal ARPA grant and a State of South Dakota Drinking Water State Revolving Fund loan. Project to be completed in 2026.
- Continued construction to upsize the sewer trunkline along Colorado Boulevard near the Sky Ridge housing complex. Costs in 2025 totaled $1,335,660 with total costs through 2025 being $4,009,701. This project is funded with a federal ARPA grant and a State of South Dakota Clean Water State Revolving Fund loan. Repayment of the loan is through the collection of a sewer surcharge of $5.59 per month on all sewer customers.
- Continued construction of a new terminal at Black Hills Airport for costs in 2025 of $3,069,610 with total costs through 2025 of $3,271,494. Projected costs are near $8 million with Federal and State grants funding the majority of the costs.
- Completed water and sewer infrastructure improvements to Dakota Street and N. 5th Street for cost of $1,403,822.
- Completed a perimeter fence at the Wastewater Treatment facility and installed a new equalization basin for operations at the facility for total cost of $719,674. This project was funding with a federal ARPA grant and a State of South Dakota Clean Water State Revolving Fund loan.
- Continued work on a new water well, wellhouse, and water trunk line near the Sky Ridge development for cost of $577,927. Total costs through 2025 are $771,253.

LONG-TERM DEBT

At year-end, the City had $25,700,195 in Sales Tax Refunding Bonds, Tax Increment Debt, State Revolving Fund debt, and other long-term obligations. This is a decrease from 2024 as shown on Table A-4 below as a result of the city making scheduled and contractually required payments throughout the year on its debt balances and the extinguishment of TID 1 debt and accrued interest following its 20-year statutory expiration.

Table A-4
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities	
	2024	2025	2024	2025
Compensated Absences	$ 997,522	$ 1,094,775	$ 190,419	$ 184,527
Sales Tax Refunding Bonds 2015	2,130,000	1,545,000	-	-
Premium on Refunding Bonds 2015	67,757	48,398	-	-
Sales Tax Revenue Bonds 2020	8,110,000	7,685,000	-	-
Premium on Revenue Bonds 2020	270,602	253,508	-	-
Sales Tax Revenue Bonds 2022	6,545,000	6,255,000	-	-
Premium on Revenue Bonds 2022	614,324	578,451	-	-
TID #1 Elkhorn Ridge	3,776,605	-	-	-
TID #4 Creekside	220,419	53,220	-	-
TID #1 Accrued Interest	11,278,918	-	-	-
Wastewater Revenue Bond	-	-	1,914,662	1,584,212
Clean Water Project Revenue Bond	-	-	-	922,728
Drinking Water Revenue Bond	-	-	-	5,495,376
SRF Loan - Water	-	-	90,563	-
Total	$ 34,011,147	$ 17,513,352	$ 2,195,644	$ 8,186,843

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position continues to be strong in 2025. The City experienced an increase in total property valuation of $126,245,614 or 7.5 percent from the prior year due to continued new commercial and residential constructions and the statutory end to Tax Increment Finance District #1. This increase in property valuation allows the City the ability to increase the amount of revenue generated from property taxes by approximately $243,177. Due to the significant growth in construction, the property tax mill levy decreased from $1.935 per $1,000 assessed valuation to $1.934 per $1,000 assessed valuation for 2026 collections. 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. Additionally, the City is planning for restricted growth on property tax revenues beginning in 2027 as a result of SB216 passed by the SD Legislature in 2025.

One of the primary sources of revenue to the City is based on taxable retail sales in the community (sales tax). The City experienced a 3 percent increase in taxable sales over the prior year. Despite the steady increase in sales tax revenue, the City has adopted a conservative budget with no increase in sales tax revenues for 2026 and looking at a conservative increase sales tax revenues budget in 2027.

The City's adopted general fund budget for the next fiscal year will increase $1,868,543 or 7.34 percent. This increase is due to adding four positions within the departments of human resources, public works administration, fire, and streets and the budgeting of capital projects for street repairs near Mountain View Elementary School, stormwater repairs near Yellowstone Street, and various equipment replacements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's business-type activities (water, sewer, and garbage operations) expect that the results for 2026 will show use of cash on hand. This is due to large construction projects of cost share agreement for the Hill Street Booster Station, water and sewer infrastructure replacement near Mountain View Elementary School, continued construction on the new Airport terminal to include a parking lot and water line extension, and the replacement of water lines in the Campground.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

CITY OF SPEARFISH

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Assets:			
Cash and Cash Equivalents	$ 27,926,328	$ 11,401,662	$ 39,327,990
Investments	2,376,489	5,986,913	8,363,402
Accounts and Notes Receivable, Net	3,107,919	2,460,983	5,568,902
Lease Receivable	1,406,578	106,490	1,513,068
Other Assets	189,265	-	189,265
Net Pension Asset	23,293	3,916	27,209
Capital Assets:			
Land and Construction in Progress	19,994,585	28,492,588	48,487,173
Other Capital Assets, Net of Depreciation	83,158,985	59,265,216	142,424,201
TOTAL ASSETS	138,183,442	107,717,768	245,901,210
Deferred Outflows of Resources			
Pension Related Deferred Outflow of Resources	2,196,713	369,331	2,566,044
OPEB Related Deferred Outflow of Resources	23,379	5,394	28,773
	2,220,092	374,725	2,594,817
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 140,403,534	$ 108,092,493	$ 248,496,027

CITY OF SPEARFISH

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
Liabilities:			
Accounts Payable	$ 814,256	$ 2,025,958	$ 2,840,214
Unearned Revenue	6,083	1,895	7,978
Other Current Liabilities	383,690	599,166	982,856
Other Post Employment Benefits	193,326	44,610	237,936
Long-Term Liabilities			
Due Within One Year	1,596,280	365,705	1,961,985
Due in More Than One Year	15,917,072	7,821,138	23,738,210
TOTAL LIABILITIES	18,910,707	10,858,472	29,769,179
Deferred Inflow of Resources			
Pension Related Deferred Inflow of Resources	1,236,398	207,875	1,444,273
OPEB Related Deferred Inflow of Resources	81,638	18,838	100,476
Lease Related Deferred Inflows	1,311,391	108,741	1,420,132
	2,629,427	335,454	2,964,881
Net Position:			
Net Investment in Capital Assets	86,734,993	79,755,488	166,490,481
Restricted for:			
Debt Service	740,943	-	740,943
Promoting the City	1,012,088	-	1,012,088
Library Purposes	431,263	-	431,263
Park Purposes	273,214	-	273,214
911 Purposes	508,681	-	508,681
Fire Capital Fund	255,479	-	255,479
Business Improvement District Purposes	11,720	-	11,720
Municipal Highway and Bridge	1,305,225	-	1,305,225
Special Assessments Revolving Loan Fund	2,644	-	2,644
Pension - SDRS	983,608	165,372	1,148,980
Perpetual Care Cemetery			
Expendable	520,453	-	520,453
Nonexpendable	50,000	-	50,000
Unrestricted	26,033,089	16,977,707	43,010,796
TOTAL NET POSITION	118,863,400	96,898,567	215,761,967
TOTAL LIABILITIES AND NET POSITION	$ 140,403,534	$ 108,092,493	$ 248,496,027

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

CITY OF SPEARFISH

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	$ 3,790,864	$ 3,294,564	$ -	$ -	$ (496,300)	$ -	$ (496,300)
Public Safety	5,482,090	415,497	223,645	-	(4,842,948)	-	(4,842,948)
Public Works	4,637,530	54,078	1,662,519	907,859	(2,013,074)	-	(2,013,074)
Health and Welfare	72,154	-	-	-	(72,154)	-	(72,154)
Culture and Recreation	6,203,709	1,271,643	-	-	(4,932,066)	-	(4,932,066)
Conservation and Development	995,526	-	-	-	(995,526)	-	(995,526)
Intergovernmental	1,186,455	-	-	-	(1,186,455)	-	(1,186,455)
Interest on Long-Term Debt*	1,777,093	-	-	-	(1,777,093)	-	(1,777,093)
Total Governmental Activities	24,145,421	5,035,782	1,886,164	907,859	(16,315,616)	-	(16,315,616)
Business-Type Activities:							
Water	3,010,094	3,487,871	-	189,661	-	667,438	667,438
Electric	688,321	625,244	-	-	-	(63,077)	(63,077)
Sewer	4,065,590	5,121,427	-	698,914	-	1,754,751	1,754,751
Airport	1,072,311	84,751	-	4,194,938	-	3,207,378	3,207,378
Parking	28,179	19,313	-	-	-	(8,866)	(8,866)
Solid Waste	1,771,269	1,764,119	-	-	-	(7,150)	(7,150)
Campground	581,072	661,116	-	-	-	80,044	80,044
Total Business-Type Activities	11,216,836	11,763,841	-	5,083,513	-	5,630,518	5,630,518
Total Primary Government	$ 35,362,257	$ 16,799,623	$ 1,886,164	$ 5,991,372	$ (16,315,616)	$ 5,630,518	$ (10,685,098)
General Revenues:							
Taxes:							
Property Taxes					4,566,128	-	4,566,128
Sales Taxes					13,755,211	-	13,755,211
Gross Receipts Tax					135,597	-	135,597
Amusement Tax					175,984	-	175,984
State Shared Revenue					204,932	-	204,932
Grants and Contributions Not Restricted					219,812	-	219,812
Unrestricted Investment Earnings					1,248,556	720,118	1,968,674
Gain on Extinguishment of TIF Obligation					15,404,859	-	15,404,859
Miscellaneous Revenue					1,641,080	115,090	1,756,170
Transfers					(110,179)	110,179	-
Total General Revenue and Transfers					37,241,980	945,387	38,187,367
Change in Net Position					20,926,364	6,575,905	27,502,269
Net Position, Beginning					97,937,036	90,322,662	188,259,698
Net Position, Ending					$ 118,863,400	$ 96,898,567	$ 215,761,967

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

*The City does not have interest expense related to the functions presented above.
This amount includes indirect interest expense on general long-term debt.

CITY OF SPEARFISH

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

		General Fund	Second Penny Sales Tax Fund	Workforce Housing Fund - TIF #6	Other Governmental Funds	Total Governmental Funds
Assets						
101	Cash and Cash Equivalents	$ 22,407,128	$ 35,824	$ 396,989	$ 5,023,374	$ 27,863,315
104	Investments	1,876,489	-	-	500,000	2,376,489
108	Property Taxes Receivable	53,611	-	-	-	53,611
110	Sales Taxes Receivable	370,154	-	-	23,400	393,554
115	Accounts Receivable	21,922	-	54,082	-	76,004
121	Special Assessments Receivable	3,539	-	-	8,214	11,753
128	Notes Receivable	-	-	-	1,889,157	1,889,157
130	Lease Receivable	1,406,578	-	-	-	1,406,578
132	Due from Other Governments	616,438	-	-	67,402	683,840
133	Advance To Other Funds	1,500,000	-	-	-	1,500,000
141	Inventory of Supplies	2,415	-	-	-	2,415
155	Prepaid Expenses	24,693	-	6,211	-	30,904
Total Assets		$ 28,282,967	$ 35,824	$ 457,282	$ 7,511,547	$ 36,287,620
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
202	Accounts Payable	$ 610,107	$ -	$ -	$ 204,149	$ 814,256
216	Accrued Wages Payable	295,171	-	-	21,274	316,445
220	Customer Deposits	45,000	-	-	-	45,000
223	Unearned Revenues	6,083	-	-	-	6,083
236	Advance From Other Funds	-	-	1,500,000	-	1,500,000
Total Liabilities		956,361	-	1,500,000	225,423	2,681,784
Deferred Inflows of Resources						
245	Unavailable Revenue - Property Taxes	45,107	-	-	-	45,107
247	Lease Related Deferred Inflows	1,311,391	-	-	-	1,311,391
Total Deferred Inflows of Resources		1,356,498	-	-	-	1,356,498
Fund Balances						
263	Nonspendable	1,527,108	-	6,211	50,000	1,583,319
264	Restricted	-	-	-	5,061,710	5,061,710
265	Committed	-	35,824	-	2,186,090	2,221,914
266	Assigned	3,829,020	-	-	-	3,829,020
267	Unassigned	20,613,980	-	(1,048,929)	(11,676)	19,553,375
Total Fund Balances		25,970,108	35,824	(1,042,718)	7,286,124	32,249,338
Total Liabilities, Deferred Inflows of Resources and Fund Balances		$ 28,282,967	$ 35,824	$ 457,282	$ 7,511,547	$ 36,287,620

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

CITY OF SPEARFISH

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2025

Total Fund Balances - Governmental Funds	$	32,249,338
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		103,153,570
Long-term liabilities, including bonds payable, accrued interest on TID #1, and unamortized premium on bond are not due and payable in the current period and therefore not reported in the funds.		(17,513,352)
Assets such as delinquent taxes receivable, special assessments receivable, and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.		45,107
Accrued interest expense is not due and payable in the current period and therefore is not reported in the funds.		(22,245)
Internal service funds are used by management to charge the costs of activities, such as insurance, to individual funds. The assets and liabilities of internal service funds are included in the governmental activities in the Statement of Net Position.		218,959
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		23,293
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.		(1,236,398)
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.		2,196,713
OPEB liability reported in the governmental activities is not due and payable in the current period and therefore not reported in the funds.		(193,326)
OPEB related deferred outflows are components of OPEB liability and therefore are not reported in the funds.		23,379
OPEB related deferred inflows are components of OPEB liability and therefore are not reported in the funds.		(81,638)
Total Net Position - Governmental Activities	$	118,863,400

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, 2025

		General Fund	Second Penny Sales Tax Fund	Workforce Housing Fund - TIF #6	Other Governmental Funds	Total Governmental Funds
Revenue						
	Taxes:					
311	General Property Taxes	$ 3,220,196	$ -	$ 135,840	$ 1,184,589	$ 4,540,625
313	General Sales and Use Taxes	12,787,992	-	-	967,219	13,755,211
314	Gross Receipts Tax	135,597	-	-	-	135,597
315	Amusement Taxes	-	-	-	175,984	175,984
319	Penalties and Interest on Delinquent Taxes	3,733	-	30	928	4,691
320	Licenses and Permits	614,638	-	-	-	614,638
	Intergovernmental Revenue:					
331	Federal Grants	167,981	-	-	-	167,981
334	State Grants	20,436	-	-	462,611	483,047
	State Shared Revenue:					
335.03	Liquor Tax Reversion	81,432	-	-	-	81,432
335.04	Motor Vehicle Licenses (5%)	152,543	-	-	-	152,543
335.06	Fire Insurance Premium Reversion	123,500	-	-	-	123,500
335.08	Local Government Highway and Bridge Fund	-	-	-	152,469	152,469
335.09	911 Remittances	-	-	-	223,645	223,645
335.20	Other	488,731	-	-	-	488,731
339	County Payments in Lieu of Taxes	217,748	-	-	-	217,748
	Charges for Goods and Services:					
341	General Government	2,679,926	-	-	-	2,679,926
342	Public Safety	148,388	-	-	252,284	400,672
346	Culture and Recreation	1,245,922	-	-	17,948	1,263,870
348	Cemeteries	32,303	-	-	21,775	54,078
	Fines and Forfeits:					
354	Library	-	-	-	7,773	7,773
359	Other	1,560	-	-	13,265	14,825
	Miscellaneous Revenue:					
361	Earnings (Loss) on Deposits and Investments	984,274	7,497	16,988	236,971	1,245,730
362	Rentals	144,352	-	-	11,303	155,655
363	Special Assessments	325,596	-	-	-	325,596
367	Contributions and Donations - Private Sources	8,275	5,000	82,520	124,017	219,812
369	Other	-	-	-	3,942	3,942
Total Revenue		23,585,123	12,497	235,378	3,856,723	27,689,721

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	General Fund	Second Penny Sales Tax Fund	Workforce Housing Fund - TIF #6	Other Governmental Funds	Total Governmental Funds
Expenditures					
General Government:					
411 Legislative	168,130	-	-	-	168,130
412 Executive	330,400	-	-	-	330,400
414 Financial Administration	1,023,077	-	-	-	1,023,077
419 Other	2,009,322	-	-	-	2,009,322
Public Safety:					
421 Police	3,191,075	-	-	791,426	3,982,501
422 Fire	929,319	-	-	-	929,319
423 Protective Inspection	389,099	-	-	-	389,099
Public Works:					
431 Highways and Streets	2,391,390	-	-	23,136	2,414,526
437 Cemeteries	153,295	-	-	2,178	155,473
Health and Welfare:					
441 Health	77,535	-	-	-	77,535
Culture and Recreation:					
451 Recreation	2,017,818	-	-	652,387	2,670,205
452 Parks	1,449,052	-	6,440	18,319	1,473,811
455 Library	582,955	-	-	39,337	622,292
Conservation and Development:					
463 Urban Redevelopment and Housing	30,734	-	-	-	30,734
465 Economic Development and Assistance	611,685	500	1,200	217,931	831,316
470 Debt Service	-	656,963	1,103,465	1,209,532	2,969,960
480 Intergovernmental Expenditures	705,200	-	-	-	705,200
485 Capital Outlay	6,715,361	-	-	3,055,908	9,771,269
Total Expenditures	22,775,447	657,463	1,111,105	6,010,154	30,554,169
Excess (Deficit) of Revenue over Expenditures	809,676	(644,966)	(875,727)	(2,153,431)	(2,864,448)
Other Financing Sources (Uses)					
391.01 Transfers In	247,821	660,563	202,000	715,806	1,826,190
391.04 Compensation for Loss or Damage	29,111	-	-	-	29,111
391.03 Sale of Municipal Property	43,146	-	695,473	833,000	1,571,619
511 Transfers Out	(1,686,369)	-	-	(250,000)	(1,936,369)
Total Other Financing Sources (Uses)	(1,366,291)	660,563	897,473	1,298,806	1,490,551
Net Change in Fund Balances	(556,615)	15,597	21,746	(854,625)	(1,373,897)
Fund Balances - December 31, 2024	26,526,723	20,227	(1,064,464)	8,140,749	33,623,235
Fund Balances - December 31, 2025	$ 25,970,108	$ 35,824	$(1,042,718)	$ 7,286,124	$ 32,249,338

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

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, 2025

Net Change in Fund Balances - Total Governmental Funds	$ (1,373,897)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Government funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.	
Capital Asset Purchases Capitalized	9,771,269
Depreciation Expense	(4,941,439)
	4,829,830
Capital assets contributed to the City, which are included in the Statement of Activities.	582,263
In the Statement of Activities gains and losses on disposals of capital assets are reported, whereas in the governmental funds proceeds from the disposals are reflected, regardless of whether a gain or loss is realized.	(119,247)
The fund financial statement governmental fund accruals differ from the government-wide statement accruals in that the fund financial statements require the amounts to be "available." These include:	
Property Taxes	20,812
Repayment of bond principal, is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	1,467,199
Legal release of TIF obligation is not reported as a gain in governmental funds, but the government-wide statements recognize the extinguishment of the long-term obligation.	15,404,859
Premium on bond issue is a revenue in the governmental funds but is capitalized and amortized in the Statement of Net Position.	72,326
Accrued interest on TID #1 increases long-term liabilities in the Statement of Net Position but is not reported in the governmental funds.	(349,336)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These include:	
Accrued Leave	(97,253)
OPEB	(23,145)
Accrued Interest	2,678
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.	(1,236)
Changes in the pension related deferred outflows/inflows, pension asset, and related pension expenses.	510,511
Change in Net Position of Governmental Activities	$ 20,926,364

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

CITY OF SPEARFISH

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Water Fund	Electric Production Fund	Sewer Fund
Assets			
Current Assets			
101 Cash and Cash Equivalents	$ 3,435,933	$ 2,144,176	$ 2,499,445
104 Investments	4,381,567	-	1,499,110
115 Accounts Receivable, Net	261,126	-	496,379
132 Due from Other Governments	-	-	-
155 Prepaid Expenses	-	-	-
Total Current Assets	8,078,626	2,144,176	4,494,934
Noncurrent Asset			
130 Lease Receivable	-	-	-
189 Net Pension Asset	776	434	1,681
Capital Assets			
160 Land	444,743	150,000	302,354
162 Buildings	2,582,831	50,000	7,459,506
163 Accumulated Depreciation - Buildings	(1,955,265)	(43,333)	(4,947,116)
164 Improvements Other Than Buildings	30,875,509	1,257,352	40,353,624
165 Accumulated Depreciation - Improvements Other Than Buildings	(14,210,675)	(237,723)	(15,801,367)
166 Machinery and Equipment	3,034,213	312,231	4,244,337
167 Accumulated Depreciation - Machinery and Equipment	(2,015,825)	(191,277)	(3,722,993)
168 Construction Work in Progress	11,022,439	8,523	4,098,569
Total Capital Assets, Net	29,777,970	1,305,773	31,986,914
Total Assets	37,857,372	3,450,383	36,483,529
Deferred Outflows of Resources			
196 Pension Related Deferred Outflows	73,179	40,962	158,535
196 OPEB Related Deferred Outflows	1,102	565	2,112
	74,281	41,527	160,647
Total Assets and Deferred Outflows of Resources	$ 37,931,653	$ 3,491,910	$ 36,644,176

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 207,690	$ 63,415	$ 1,346,731	$ 1,704,272	$ 11,401,662	$ 63,013
-	-	-	106,236	5,986,913	-
6,218	-	176,654	-	940,377	-
1,520,606	-	-	-	1,520,606	-
-	-	-	-	-	155,946
1,734,514	63,415	1,523,385	1,810,508	19,849,558	218,959
106,490	-	-	-	106,490	-
158	-	817	50	3,916	-
7,196,318	48,000	-	171,220	8,312,635	-
2,405,651	-	-	401,228	12,899,216	-
(1,112,613)	-	-	(288,345)	(8,346,672)	-
14,028,685	-	19,258	430,297	86,964,725	-
(4,185,677)	-	(17,210)	(265,370)	(34,718,022)	-
98,688	-	2,174,481	156,916	10,020,866	-
(79,301)	-	(1,453,480)	(92,021)	(7,554,897)	-
4,999,522	-	-	50,900	20,179,953	-
23,351,273	48,000	723,049	564,825	87,757,804	-
25,192,435	111,415	2,247,251	2,375,383	107,717,768	218,959
14,865	-	77,070	4,720	369,331	-
207	-	1,277	131	5,394	-
15,072	-	78,347	4,851	374,725	-
$ 25,207,507	$ 111,415	$ 2,325,598	$ 2,380,234	$ 108,092,493	$ 218,959

CITY OF SPEARFISH

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

		Water Fund	Electric Production Fund	Sewer Fund
Liabilities and Net Position				
Current Liabilities				
202	Accounts Payable	$ 998,169	$ 5,844	$ 870,120
205	Current Portion of Long-Term Debt	11,494	3,379	348,868
215	Accrued Interest Payable	47,625	-	7,591
216	Accrued Wages Payable	10,461	7,286	20,498
209	Due to Other Government	-	-	-
220	Customer Deposits	143,600	-	-
223	Unearned Revenues	-	-	-
Total Current Liabilities		1,211,349	16,509	1,247,077
Noncurrent Liabilities				
237	Long-Term Debt, Net of Current Portion	5,530,382	20,774	2,221,293
238	Other Post Employment Benefits	9,116	4,674	17,465
		5,539,498	25,448	2,238,758
Deferred Inflows of Resources				
247	Lease Related Deferred Inflows	-	-	-
248	Pension Related Deferred Inflow	41,188	23,055	89,230
248	OPEB Related Deferred Inflows	3,850	1,974	7,375
		45,038	25,029	96,605
Total Liabilities and Deferred Inflow of Resources		6,795,885	66,986	3,582,440
Net Position				
253.1	Net Investment in Capital Assets	24,282,594	1,305,773	29,479,974
264	Restricted for Pension	32,767	18,341	70,986
252.0	Unrestricted Net Position	6,820,407	2,100,810	3,510,776
Total Net Position		31,135,768	3,424,924	33,061,736
Total Liabilities, Deferred Inflows, and Net Position		$ 37,931,653	$ 3,491,910	$ 36,644,176

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 99,302	$ 442	$ 50,162	$ 1,919	$ 2,025,958	$ -
-	-	1,964	-	365,705	-
-	-	-	-	55,216	-
2,066	-	11,687	1,865	53,863	-
239,251	-	-	-	239,251	-
1,000	-	-	106,236	250,836	-
-	-	1,895	-	1,895	-
341,619	442	65,708	110,020	2,992,724	-
17,266	-	28,556	2,867	7,821,138	-
1,713	-	10,560	1,082	44,610	-
18,979	-	39,116	3,949	7,865,748	-
108,741	-	-	-	108,741	-
8,367	-	43,378	2,657	207,875	-
723	-	4,459	457	18,838	-
117,831	-	47,837	3,114	335,454	-
478,429	442	152,661	117,083	11,193,926	-
23,351,273	48,000	723,049	564,825	79,755,488	-
6,656	-	34,509	2,113	165,372	-
1,371,149	62,973	1,415,379	1,696,213	16,977,707	218,959
24,729,078	110,973	2,172,937	2,263,151	96,898,567	218,959
$ 25,207,507	$ 111,415	$ 2,325,598	$ 2,380,234	$ 108,092,493	$ 218,959

CITY OF SPEARFISH

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		Water Fund	Electric Production Fund	Sewer Fund
Operating Revenue				
380	Charges for Goods and Services	$ 3,487,871	$ 625,244	$ 5,121,427
Operating Expenses				
410	Personal Services	1,033,885	404,048	1,742,162
420	Other Current Expenses	787,528	239,544	980,710
457	Depreciation	1,140,802	44,729	1,302,153
Total Operating Expenses		2,962,215	688,321	4,025,025
Operating Income (Loss)		525,656	(63,077)	1,096,402
Non-Operating Income (Expense)				
320	Licenses and Permits	11,361	-	11,036
331	Federal Grants	-	-	431,354
334	State Grants	-	-	-
361	Earnings (Loss) on Deposits and Investments	350,623	79,317	154,759
369	Other	5,920	982	8,040
470	Interest Expense and Fiscal Charges	(47,879)	-	(40,565)
Total Non-Operating Income (Expense)		320,025	80,299	564,624
Income (Loss) before Transfers		845,681	17,222	1,661,026
Other Financing Sources (Uses)				
391.01	Transfers In	12,500	-	-
366	Gain on Sale of Capital Assets	23,056	-	16,940
391.04	Compensation for Loss or Damage	-	5,421	-
391.07	Contributed Capital	189,661	-	267,560
511	Transfers Out	(65,998)	(13,747)	(495,344)
Total Other Financing Sources (Uses)		159,219	(8,326)	(210,844)
Net Income (Loss)		1,004,900	8,896	1,450,182
Net Position - December 31, 2024		30,130,868	3,416,028	31,611,554
Net Position - December 31, 2025		$ 31,135,768	$ 3,424,924	$ 33,061,736

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 84,751	$ 19,313	$ 1,764,119	$ 661,116	$ 11,763,841	$ 1,710,202
252,011	14,609	832,588	303,539	4,582,842	-
172,111	13,570	807,930	239,841	3,241,234	1,714,264
648,189	-	130,751	37,692	3,304,316	-
1,072,311	28,179	1,771,269	581,072	11,128,392	1,714,264
(987,560)	(8,866)	(7,150)	80,044	635,449	(4,062)
-	-	-	-	22,397	-
3,196,951	-	-	-	3,628,305	-
997,987	-	-	-	997,987	-
19,798	2,799	47,931	64,891	720,118	2,826
19,383	-	839	834	35,998	-
-	-	-	-	(88,444)	-
4,234,119	2,799	48,770	65,725	5,316,361	2,826
3,246,559	(6,067)	41,620	145,769	5,951,810	(1,236)
700,000	-	-	-	712,500	-
-	-	9,826	1,452	51,274	-
-	-	-	-	5,421	-
-	-	-	-	457,221	-
(13,871)	(85)	(8,665)	(4,611)	(602,321)	-
686,129	(85)	1,161	(3,159)	624,095	-
3,932,688	(6,152)	42,781	142,610	6,575,905	(1,236)
20,796,390	117,125	2,130,156	2,120,541	90,322,662	220,195
$ 24,729,078	$ 110,973	$ 2,172,937	$ 2,263,151	$ 96,898,567	$ 218,959

CITY OF SPEARFISH

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water Fund	Electric Production Fund	Sewer Fund
Cash Flows from Operating Activities:			
Receipts from Customers	$ 3,469,706	$ 625,244	$ 5,096,887
Payments to Suppliers	(267,626)	(279,997)	(344,623)
Payments to Employees	(1,043,290)	(409,123)	(1,805,151)
Net Cash Flows Provided by (Used in) Operating Activities	2,158,790	(63,876)	2,947,113
Cash Flows from Noncapital Financing Activities:			
Transfers In	12,500	-	-
Transfers Out	(65,998)	(13,747)	(495,344)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(53,498)	(13,747)	(495,344)
Cash Flows from Capital and Related Financing Activities:			
Purchase of Capital Assets	(8,148,254)	(111,309)	(2,503,598)
Proceeds on Sale of Capital Assets	23,144	-	16,940
Principal Paid on Capital Debt	(90,563)	-	(330,450)
Borrowings on Capital Debt	5,495,376	-	922,728
Interest Paid	(509)	-	(42,148)
Other Receipts (Disbursements)	597,402	6,403	975,492
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(2,123,404)	(104,906)	(961,036)
Cash Flows Provided by Investing Activities:			
Investment Earnings	350,623	79,317	154,759
Increase (Decrease) in Cash and Investments	332,511	(103,212)	1,645,492
Cash and Investments - December 31, 2024	7,484,989	2,247,388	2,353,063
Cash and Investments - December 31, 2025	$ 7,817,500	$ 2,144,176	$ 3,998,555
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities			
Operating Income (Loss)	$ 525,656	$ (63,077)	$ 1,096,402
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Depreciation Expense	1,140,802	44,729	1,302,153
Change in Assets and Liabilities:			
Change in Accounts Receivable	(11,518)	-	(24,540)
Change in Lease Receivable	-	-	-
Change in Inventory of Supplies	-	-	-
Change in Prepaid Expense	-	-	-
Change in Accounts Payable	519,902	(40,453)	636,087
Change in Accrued Wages	2,060	1,108	3,847
Change in Customer Deposits	(6,647)	-	-
Change in Due to Other Governments	-	-	-
Change in OPEB	1,109	204	2,007
Change in Pension Asset	(425)	(225)	(829)
Change in Accrued Leave	4,679	2,822	(35,481)
Change in Pension and OPEB Related Deferred Outflows	(13,319)	(5,218)	(13,510)
Change in Pension and OPEB Related Deferred Inflows	(3,509)	(3,766)	(19,023)
Change in Lease Related Deferred Inflows	-	-	-
Change in Unearned Revenue	-	-	-
Net Cash Flows Provided by (Used in) Operating Activities	$ 2,158,790	$ (63,876)	$ 2,947,113
Noncash Capital and Related Financing Activities			
Capital Contributions	$ 189,661	$ -	$ 267,560

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

Airport Fund	Parking Fund	Solid Waste Fund	Campground Fund	Total Proprietary Funds	Internal Service Employee Health Insurance Fund
$ 104,812	$ 19,313	$ 1,754,084	$ 682,255	$ 11,752,301	$ 1,710,202
(10,010)	(12,414)	(798,788)	(242,235)	(1,955,693)	(1,734,379)
(248,772)	(14,609)	(835,615)	(298,609)	(4,655,169)	-
(153,970)	(7,710)	119,681	141,411	5,141,439	(24,177)
700,000	-	-	-	712,500	-
(13,871)	(85)	(8,665)	(4,611)	(602,321)	-
686,129	(85)	(8,665)	(4,611)	110,179	-
(4,054,957)	-	(56,257)	-	(14,874,375)	-
10,888	-	27,632	1,452	80,056	-
-	-	-	-	(421,013)	-
-	-	-	-	6,418,104	-
-	-	-	-	(42,657)	-
3,646,248	-	839	834	5,227,218	-
(397,821)	-	(27,786)	2,286	(3,612,667)	-
19,798	2,799	47,931	64,891	720,118	2,826
154,136	(4,996)	131,161	203,977	2,359,069	(21,351)
53,554	68,411	1,215,570	1,606,531	15,029,506	84,364
$ 207,690	$ 63,415	$ 1,346,731	$ 1,810,508	$ 17,388,575	$ 63,013
$ (987,560)	$ (8,866)	$ (7,150)	$ 80,044	$ 635,449	$ (4,062)
648,189	-	130,751	37,692	3,304,316	-
(198)	-	(11,020)	-	(47,276)	-
199,847	-	-	-	199,847	-
-	-	-	660	660	-
-	1,086	-	-	1,086	(20,115)
(77,150)	70	9,142	(3,054)	1,044,544	-
197	-	2,499	1,865	11,576	-
-	-	-	21,139	14,492	-
239,251	-	-	-	239,251	-
631	-	2,084	583	6,618	-
(142)	-	(464)	(14)	(2,099)	-
8,209	-	11,012	2,867	(5,892)	-
(12,109)	-	(16,903)	1,259	(59,800)	-
6,453	-	(1,255)	(1,630)	(22,730)	-
(179,588)	-	-	-	(179,588)	-
-	-	985	-	985	-
$ (153,970)	$ (7,710)	$ 119,681	$ 141,411	$ 5,141,439	$ (24,177)
$ -	$ -	$ -	$ -	$ 457,221	$ -

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

Government-Wide Financial Statements:

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

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

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

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

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

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Governmental Funds:

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

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

> Second Penny Sales Tax Fund – to account for naming rights and an additional one percent sales tax which may be used only for capital improvement, land acquisition, the funding of public ambulances and medical emergency response vehicles, nonprofit hospitals with fifty or fewer licensed beds and other public health care facilities or nonprofit health care facilities with fifty or fewer licensed beds, the purchasing of fire fighting vehicles and equipment, debt retirement, the minor or major rehabilitation or reconstruction of streets, economic development purposes, and distribution to other political subdivisions of the State of South Dakota for an authorized public purpose under 6-5-5, including the operational costs thereof or for capital expenditures (City Ordinance No. 961). The City repealed this Ordinance during 2020 and is continuing to spend the remaining fund balance. This is a major fund.
>
> The City also has the following nonmajor special revenue funds: Hospitality Tax Fund, Library Gift, Convention Center Business Improvement District Fund, 911 Emergency Fund, Special Assessment Revolving Fund, Spearfish Economic Revolving Fund, Special Park Gift Fund, Art in Public Places Fund, Municipal Highway and Bridge Fund, and Fire Capital Fund.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

> Tax Increment District #6 Workforce Housing Fund – to account for property tax revenue received on the tax increment district, to finance debt service and capital construction of the development, design, and construction of workforce housing within the tax increment district. This is a major fund.
>
> The City also has the following nonmajor debt service funds: Tax Increment District #1 Elkhorn Ridge Debt Fund, Tax Increment District #4 Creekside Estates Debt Fund, #7 Hill Street Debt Fund, and #8 Sawmill Debt 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 may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Proprietary Funds:

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government – even if that government is not expected to make any payments – is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

The City has the following enterprise funds:

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 on the City's campground. This is a major fund.

Airport Fund – financed primarily by user charges and grants, this fund accounts for revenues and expenditures of the municipal airport and current grant activities. This is a major fund.

Internal Service Funds:

Internal Service Funds – Internal service funds are used to account for the financing of goods or services provided by one department or custodial to other departments or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. Internal service funds are never considered to be major funds. The Employee Health and Accident Insurance Fund is the only internal service fund maintained by the City.

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
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-Wide Financial Statements:

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

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

Fund Financial Statements:

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

Basis of Accounting:

Government-Wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); 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 for the city is 60 days. The revenues which are accrued at December 31, 2025, are property taxes, sales taxes, special assessments, and amounts due from other governments.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Unavailable revenues, where asset recognition criteria have been met but for which revenue recognition criteria have not been met, are reported as a deferred inflow of resources.

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

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:

> 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 non-spendable fund balance which indicates that they do not constitute available spendable resources since they are not a component of net current assets. Current portions of interfund receivables (reported in "Due from" asset accounts) are considered available spendable resources.

Capital Assets

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

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

Government-Wide Financial Statements:

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

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Capital Assets

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 financial statements and proprietary funds are as follows:

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

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

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

Leases

Lessor:
The City is a lessor for a noncancellable lease of land, airport hangars, pasture land, facilities, and various towers. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental and proprietary fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Leases

The City uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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

Proprietary Funds Revenue and Expense Classifications

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

Cash and Cash Equivalents

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Equity Classifications

Government-Wide Financial Statements:

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

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

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

3. Unrestricted net position – all other net positions that do not meet the definition of restricted or net investment in capital assets.

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. The City has three Committed Fund Balances for the year ended December 31, 2025. The Second Penny Sales Tax Fund was established by the City Council passing Ordinance #961 for the purposes described in Note 1. The Spearfish Economic Revolving Fund was established by the City Council passing Ordinance #717 for the purposes described in Note 1. The Art in Public Places Fund was established by the City Council passing Ordinance #1015 for the purposes described in Note 1. The City Council is the highest decision-making authority and would have to pass an ordinance to remove these commitments.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer. The City has three Assigned Fund Balances for the year ended December 31, 2025. The Historical Procurement Project Fund was established by the City Council passing Resolution 2010-24. The balance for this project is assigned within the General Fund. The Wildland Fire Fund was established by the City Council. The balance for this project is assigned within the General Fund. The Subsequent Year's Budget was established by the City Council. This balance is assigned within the General Fund.

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

As of December 31, 2025, the City had the following governmental fund classifications:

		General Fund	Second Penny Sales Tax Fund	Workforce Housing Fund	Other Governmental Funds	Total Governmental Funds
263	**Nonspendable:**					
263.01	Inventory	$ 2,415	$ -	$ -	$ -	$ 2,415
263.02	Prepaid Expenses	24,693	-	6,211	-	30,904
263.04	Advance to Other Funds	1,500,000	-	-	-	1,500,000
263.51	Perpetual Care Cemetery	-	-	-	50,000	50,000
		1,527,108	-	6,211	50,000	1,583,319
264	**Restricted:**					
264	Debt Service	-	-	-	740,943	740,943
264.03	Perpetual Care Cemetery	-	-	-	520,453	520,453
264.04	Promoting the City	-	-	-	1,012,088	1,012,088
264.05	Library Purposes	-	-	-	431,263	431,263
264.06	Park Purposes	-	-	-	273,214	273,214
264.07	911 Purposes	-	-	-	508,681	508,681
264.09	BID Purposes	-	-	-	11,720	11,720
264.99	Municipal Highway and Bridge	-	-	-	1,305,225	1,305,225
264.99	Special Assessments Revolving Loan	-	-	-	2,644	2,644
264.99	Fire Capital Fund	-	-	-	255,479	255,479
		-	-	-	5,061,710	5,061,710
265	**Committed**					
265.99	Second Penny	-	35,824	-	-	35,824
265.99	Spearfish Economic Revolving Fund	-	-	-	2,038,370	2,038,370
265.99	Art in Public Places Fund	-	-	-	147,720	147,720
		-	35,824	-	2,186,090	2,221,914
266	**Assigned**					
266.01	Subsequent Year's Budget	3,297,977	-	-	-	3,297,977
266.98	Wildland Fire	378,192	-	-	-	378,192
266.97	Historical Procurement Project	152,851	-	-	-	152,851
		3,829,020	-	-	-	3,829,020
267	**Unassigned (Deficit)**	20,613,980	-	(1,048,929)	(11,676)	19,553,375
Total Fund Balances		$ 25,970,108	$ 35,824	$ (1,042,718)	$ 7,286,124	$ 32,249,338

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

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

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

Inventory

Inventory in the General Fund consist of expendable supplies held for consumption. Supply inventories are recorded at cost.

Inventory in the proprietary funds consists of concessions inventory held for resale, which is recorded as an asset when acquired. The consumption of inventories held for resale is charged to expense as it is consumed. Inventories held for resale are recorded at the lower of cost or market, using the first-in, first-out cost flow assumption.

In the fund financial statements, purchases of supply inventory items are recorded as an expenditure at the time individual inventory items are purchased. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Appropriate allowances for estimated utility uncollectibles at December 31, 2025, total approximately $6,000, $7,000, and $2,000 for the water, sewer, and solid waste funds, respectively. Included in utility accounts receivable at December 31, 2025, are unbilled accounts receivable totaling approximately $79,000, $157,000, and $56,000 for the water, sewer, and solid waste funds, respectively.

Use of Estimates

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Adopted Accounting Standard

As of January 1, 2025, the City adopted Governmental Accounting Standards Board (GASB) issued Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The implementation of this standard did not have a material impact on the City at December 31, 2025.

Emerging Accounting Standards

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements,* which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the City's year ending December 31, 2026.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, *Disclosure of Certain Capital Assets*, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. The statement is effective for the City's year ending December 31, 2026.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, *Subsequent Events*, which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the City's year ending December 31, 2027.

The City is currently evaluating the impact these statements will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through September 8, 2026, the date which the financial statements were available to be issued.

(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:

(2) Deposits and Investments

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 authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested only 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 may be deposited in a safekeeping account with any bank or trust company designated by the City as its fiscal agent.

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

As of December 31, 2025, the City had the following investments:

Investments	Credit Rating	Maturity	Fair Value
U.S. Government Securities			
US Treasury Notes	AAA	1-2 years	$ 7,087,435
External Investment Pools:			
SDFIT	Unrated	N/A	1,209,454
Total Investments			8,296,889
Other Investments:			
Money Markets			66,513
			$ 8,363,402

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. SDFIT, as well as the U.S. Government Securities, and money markets are measured as level 2 recurring fair value measurements according to the fair value hierarchy.

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, 2025, the City's investment in SDFIT pool was unrated.

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(2) Deposits and Investments

As of December 31, 2025, the City's deposits in financial institutions were exposed to custodial credit risk as follows:

	Bank Balance
Insured - FDIC	$ 761,887
Uninsured, collateralized in accordance with SDCL 4-6A-3	39,100,825
Total	$ 39,862,712

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. The City does not have a formal investment policy to limit custodial credit risk.

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.

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 interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the City's cemetery, as required by SDCL 9-32-18.

Concentration of Credit Risk:
The City places no limit on the amount that may be invested in any one issuer.

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

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

In addition to liabilities, the governmental funds balance sheet and the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisition of net position that apply to a future period or periods. These items will not be recognized as inflows of resources until the applicable future period. Deferred inflows of resources consist of property taxes, leases, and pension and OPEB activity. Unearned revenues are resources obtained prior to revenue recognition and consist of account credits at the recreation center and employee health insurance premiums collected in advance of the policy period by the internal service fund.

(4) Notes Receivable

The following is a summary of the notes receivable at December 31, 2025:

Loan	Collateral	Rate	Maturity	Balance
Atlas	Real Estate	2.00%	August 2052	$ 1,889,157

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Property Taxes

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

(6) Changes in Capital Assets

A summary of changes in capital assets for year ending December 31, 2025 is as follows:

Governmental Activities:	Balance 12/31/2024	Additions	Transfers/ Deletions	Balance 12/31/2025
Capital Assets, not being Depreciated:				
Land	$ 14,354,297	$ 15,000	$ 82,354	$ 14,286,943
Construction Work in Progress	416,113	5,977,221	685,692	5,707,642
Total Capital Assets, not being	14,770,410	5,992,221	768,046	19,994,585
Capital Assets, being Depreciated:				
Buildings	28,112,693	37,071	-	28,149,764
Improvements Other Than Buildings	83,418,106	2,546,025	-	85,964,131
Machinery and Equipment	15,911,903	2,463,907	224,314	18,151,496
Total Capital Assets, being Depreciated	127,442,702	5,047,003	224,314	132,265,391
Less Accumulated Depreciation for:				
Buildings	8,615,120	563,799	-	9,178,919
Improvements Other Than Buildings	26,077,002	3,344,168	-	29,421,170
Machinery and Equipment	9,660,266	1,033,472	187,421	10,506,317
Total Accumulated Depreciation	44,352,388	4,941,439	187,421	49,106,406
Total Governmental Activities Capital Assets, being Depreciated, Net	83,090,314	105,564	36,893	83,158,985
Total Governmental Capital Assets, Net	$ 97,860,724	$ 6,097,785	$ 804,939	$ 103,153,570

Depreciation expense was charged to functions for the year ended December 31, 2025 as follows:

Culture and Recreation	$ 1,496,011
Public Works	2,178,605
Public Safety	385,591
General Government	255,814
Intergovernmental	475,012
Economic Development	150,406
Total Depreciation Expense - Governmental	$ 4,941,439

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(6) Changes in Capital Assets

	Balance 12/31/2024	Additions	Transfers/ Deletions	Balance 12/31/2025
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	$ 8,323,523	$ -	$ 10,888	$ 8,312,635
Construction Work in Progress	10,063,845	12,990,398	2,874,290	20,179,953
Total Capital Assets, not being	18,387,368	12,990,398	2,885,178	28,492,588
Capital Assets, being Depreciated:				
Buildings	12,899,216	-	-	12,899,216
Improvements Other Than Buildings	82,441,286	4,523,439	-	86,964,725
Machinery and Equipment	9,969,385	691,960	640,479	10,020,866
Total Capital Assets, being Depreciated	105,309,887	5,215,399	640,479	109,884,807
Less Accumulated Depreciation for:				
Buildings	8,084,730	261,942	-	8,346,672
Improvements Other Than Buildings	32,065,274	2,652,748	-	34,718,022
Machinery and Equipment	7,787,945	389,626	622,674	7,554,897
Total Accumulated Depreciation	47,937,949	3,304,316	622,674	50,619,591
Total Business-Type Activities Capital Assets, being Depreciated, Net	57,371,938	1,911,083	17,805	59,265,216
Total Business-Type Capital Assets, Net	$ 75,759,306	$ 14,901,481	$ 2,902,983	$ 87,757,804

Depreciation expense was charged to functions for the year ended December 31, 2025 as follows:	
Sewer	$ 1,302,153
Water	1,140,802
Airport	648,189
Solid Waste	130,751
Campground	37,692
Electric Production	44,729
Total Depreciation Expense - Business-Type	$ 3,304,316

As of December 31, 2025, the City has the following significant commitments. The Colorado Boulevard project has remaining commitments of approximately $904,000 and is funded through the Municipal Highway and Bridge Fund and General Fund. The Rainbow Road Culvert project has commitments of approximately $454,000 and is funded through the General Fund. The Sky Ridge Irrigation Well House and Water Line Project has commitments of approximately $942,000 to be paid from the Water Fund. The Exit 17 Water Well and Tank project has remaining commitments of approximately $377,000 and is funded through the Water Fund. The Colorado Boulevard sewer trunkline upsize project has remaining commitments of approximately $3 million and is funded through the Sewer Fund. The project is covered by a Clean Water State Revolving Fund loan and a South Dakota Department of Agriculture and Natural Resources (DANR) State American Rescue Plan Act (ARPA) grant. The Airport Terminal project has commitments of approximately $261,000 and Airport Taxilane project has commitments of approximately $90,000 and are funded through the Airport Fund.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2025:

	Balance 12/31/2024	Borrowings	Repayments	Balance 12/31/2025	Due Within One Year
Primary Government:					
Governmental Activities:					
Sales Tax Refunding Bonds 2015	$ 2,130,000	$ -	$ 585,000	$ 1,545,000	$ 600,000
Premium on Refunding Bonds 2015	67,757	-	19,359	48,398	19,359
Sales Tax Revenue Bonds 2020	8,110,000	-	425,000	7,685,000	435,000
Premium on Revenue Bonds 2020	270,602	-	17,094	253,508	17,094
Sales Tax Revenue Bonds 2022	6,545,000	-	290,000	6,255,000	300,000
Premium on Revenue Bonds 2022	614,324	-	35,873	578,451	35,873
TIF #1 Elkhorn Ridge	3,776,605	-	3,776,605	-	-
TIF #4 Creekside	220,419	-	167,199	53,220	53,220
Accrued Interest - TIF #1	11,278,918	349,336	11,628,254	-	-
Compensated Absences*	997,522	97,253	-	1,094,775	135,734
Total Governmental Activities	34,011,147	446,589	16,944,384	17,513,352	1,596,280
Business-Type Activities:					
Water SRF Loan 2013	90,563	-	90,563	-	-
Wastewater Revenue Bond 2020	1,914,662	-	330,450	1,584,212	338,094
Clean Water Revenue Bond 2024	-	922,728	-	922,728	-
Drinking Water Revenue Bond 2024	-	5,495,376	-	5,495,376	-
Compensated Absences*	190,419	(5,892)	-	184,527	27,611
Total Business-Type Activities	2,195,644	6,412,212	421,013	8,186,843	365,705
Total Primary Government	$ 36,206,791	$ 6,858,801	$ 17,365,397	$ 25,700,195	$ 1,961,985

* The amounts included in the Borrowings column for compensated absences represent net change.

Tax Increment Districts (TID) Obligations

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

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

During the year ended December 31, 2025, property tax revenues were $1,009,823, $173,265, $1,501 and $0 for TIDs #1, #4, #7 and #8, respectively. Interest expenditures, excluding corresponding accruals, related to TID obligations totaled $1,041,582 for the year ended December 31, 2025.

During the year ended December 31, 2025, TID #1 reached its 20-year statutory expiration and was dissolved in accordance with SDCL 11-9-25. As a result of the dissolution, the remaining TID obligation was extinguished. The Statement of Activities reports a $15,404,859 gain on extinguishment of TIF obligation.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Long-Term Debt

Debt Covenants

The City has pledged future revenue associated with the 2015 Sales Tax Refunding Bonds, 2020 Sales Tax Revenue Bonds, 2022 Sales Tax Revenue Bonds, Wastewater Revenue Bonds and Drinking Water Revenue Borrower Bonds. The debt is secured by pledged revenues, 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 current year.

	Water	Sewer	Sales Tax Bonds
Current Year Principal and Interest	$ 138,442	$ 371,015	$ 1,760,428
Pledged Revenue	3,487,871	5,121,427	13,755,211

Additionally, the City's Drinking Water 2024 and Clean Water Revenue Bonds 2020 and 2024 have covenants requiring the City to keep net water revenue available for debt service at 110 percent of debt service expenses each year. The City's 2020 Sales Tax Revenue Bond has a covenant requiring the prior fiscal year's revenue exceed 125 percent of debt service expenditures each year. The City met these covenants for the year ending December 31, 2025.

Long-term debt at December 31, 2025, is comprised of the following:

Revenue Bonds		
Series 2015 Sales Tax Refunding Bonds for $6,895,000, matures in June 2028, interest at 0.60 to 4.00 percent, due in semi-annual installments from $250,000 to $320,000. Financed through Second Penny Sales Tax Fund.	$	1,545,000
Unamortized deferred premium on Series 2015 Sales Tax Refunding Bonds		48,398
Total Series 2015 Sales Tax Refunding Bonds		1,593,398
Series 2020 Sales Tax Revenue Bonds for $9,655,000, matures in December 2040, interest at 2.00 to 3.00 percent, due in semi-annual installments from $345,000 to $590,000. Financed through Workforce Housing Fund.		7,685,000
Unamortized deferred premium on Series 2020 Sales Tax Revenue Bonds		253,508
Total Series 2020 Sales Tax Revenue Bonds		7,938,508
Series 2022 Sales Tax Revenue Bonds for $7,385,000, matures in December 2041, interest at 3.00 to 4.00 percent, due in semi-annual installments from $265,000 to $485,000. Financed through the Workforce Housing Fund.		6,255,000
Unamortized deferred premium on Series 2022 Sales Tax Revenue Bonds		578,451
Total Series 2022 Sales Tax Revenue Bonds		6,833,451

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Long-Term Debt

Wastewater Revenue Bonds, Series 2020 for $3,260,421, matures in April 2030, interest at 2.30 percent, due in quarterly installments of $186,299. Sewer revenues pledged and financed through the Sewer Fund for the Wastewater Treatment Plant.	1,584,212
Drinking Water Revenue Borrower Bonds, Series 2024 for up to $6,882,327, matures in April 2056, interest at 1.625 percent, due in quarterly installments of $72,578 once fully advanced. Water revenues pledged and financed through the Water Fund.	5,495,376
Clean Water Revenue Borrower Bonds, Series 2024 for up to $5,964,700, matures in August 2056, interest at 2.125 percent, due in quarterly installments of $67,349 once fully advanced. Sewer revenue pledged and financed through the Sewer Fund.	922,728
Tax Increment Financing Obligations	
TID #4 Creekside, including interest at 5.25 percent, matures in 2026, due in semi-annual installments within 30 days of property tax collection from the county. Financed through the TID #4 Creekside Estates Debt Service Fund.	53,220
Total Revenue Bonds and Other Obligations	24,420,893
Compensated Absences	
General Fund	1,094,775
Water Fund	46,500
Electric Fund	24,153
Sewer Fund	63,221
Airport Fund	17,266
Solid Waste Fund	30,520
Campground Fund	2,867
Total Compensated Absences	1,279,302
Total Long-Term Debt	$ 25,700,195

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Long-Term Debt

The annual requirements to amortize long-term debt outstanding as of December 31, 2025, except for compensated absences are as follows:

	Revenue Bonds		TID Obligations *		**Total**	
	Interest	Principal	Interest	Principal	**Interest**	**Principal**
2026	$ 452,544	1,745,420	$ 1,456	$ 53,220	$ 454,000	$ 1,798,640
2027	397,348	1,803,242	-	-	397,348	1,803,242
2028	338,246	1,526,565	-	-	338,246	1,526,565
2029	301,359	1,230,071	-	-	301,359	1,230,071
2030	269,883	1,067,148	-	-	269,883	1,067,148
2031-2035	1,026,425	4,734,836	-	-	1,026,425	4,734,836
2036-2040	454,150	5,316,930	-	-	454,150	5,316,930
2041-2045	14,550	525,357	-	-	14,550	525,357
Revenue Bonds**	-	6,418,104	-	-	-	6,418,104
Total	$ 3,254,505	$24,367,673	$ 1,456	$ 53,220	$ 3,255,961	$ 24,420,893

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

**2024 Drinking Water and Clean Water Revenue Bonds' maturities will be determined once fully advanced.

(8) Leases

Lessor:
The City's leasing operations consist of leasing land, airport hangars, and water and cell phone towers. A summary of leases by asset class are as follows:

Lease Asset	Lease Receivable December 31, 2025	Lease Revenue	Lease Interest Revenue
Airport Hangars	$ 106,490	$ 9,746	$ 8,938
Land	57,568	14,163	837
Towers	1,349,010	29,312	26,921
	$ 1,513,068	$ 53,221	$ 36,696

Future principal and interest lease payments due to the City under non-cancelable long-term lease agreements are as follows for the years ending December 31:

	Principal	Interest
2026	55,095	29,374
2027	57,063	28,268
2028	59,159	27,094
2029	54,894	26,192
2030	42,362	25,047
2031-2035	246,115	110,544
2036-2040	267,548	83,326
2041-2045	244,512	59,521
2046-2050	205,769	37,844
2051-2055	201,392	16,335
2056-2060	79,159	2,376
Total	$ 1,513,068	$ 445,921

(9) Interfund Transfers and Advances

Interfund transfers during the year ended December 31, 2025, were as follows:

	Transfers In	Transfers Out
General Fund	$ 247,821	$ 1,686,369
Second Penny Sales Tax Fund	660,563	-
Workforce Housing Project Fund	202,000	-
Water Fund	12,500	65,998
TID #8		12,500
Electric Production Fund	-	13,747
Sewer Fund	-	495,344
Airport Fund	700,000	13,871
Solid Waste Fund	-	8,665
Campground Fund	-	4,611
Parking Fund	-	85
Hospitality Tax Fund	-	222,500
911 Emergency Fund	500,806	-
Fire Capital Fund	200,000	-
Special Park Gift Fund	-	15,000
Art in Public Places	15,000	-
Total Transfers	$ 2,538,690	$ 2,538,690

Interfund transfers are generally made to cover operations of the City, equipment purchases or TID taxes.

Interfund advances to and from balances at December 31, 2025, were as follows:

	Interfund Advance From	Interfund Advance To
General Fund	$ 1,500,000	$ -
Workforce Housing Fund - TIF #6	-	1,500,000
Total Interfund Advances	$ 1,500,000	$ 1,500,000

In 2020, the General Fund advanced $1,500,000 to the Workforce Housing Fund – TID #6 for the purchase of land to be used for the TID #6 housing development. The advance includes interest at 3.50 percent per year until paid in full. Principal and interest is due on or before December 31, 2041.

(10) Pension Plan

Plan Information:
All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://sdrs.sd.gov/publications.aspx or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

Benefits Provided:
SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the COLA.

Contributions:
Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were $602,011, $539,863, and $511,483, respectively, equal to the required contributions each year.

(10) Pension Plan

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

At June 30, 2025, SDRS is 100.1 percent funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2025, and reported by the City as of December 31, 2025 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	$ 41,823,380	$ 7,031,732	$ 48,855,112
Less: Proportionate Share of Total Pension Liability	(41,800,087)	(7,027,816)	(48,827,903)
Proportionate Share of Net Pension Asset	$ 23,293	$ 3,916	$ 27,209

At December 31, 2025, the City reported an asset of $27,209 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2025 and the total pension liability used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City's proportion was 0.319910 percent, which is a decrease of .010986 percent from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the City recognized pension expense of $7,043. At December 31, 2025, the City reported deferred outflows (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	$ 931,553	$ -
Changes in Assumption	-	1,444,273
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,325,695	-
City Contributions Subsequent to the Measurement Date	308,796	-
Total	$ 2,566,044	$ 1,444,273

Deferred outflow of resources includes $308,796 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2026	$ 628,625
2027	68,199
2028	43,489
2029	72,662
	$ 812,975

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

Actuarial Assumptions:
The total pension asset in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	1.56 percent

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2021.

Active and Terminated Vested Members:	Teachers, Certified Regents, and Judicial: PubT-2010; Other Class A Members: PubG-2010; Public Safety Members: PubS-2010
Retired Members:	Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65; Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above; Public Safety Retirees: PubS-2010, 102% of rates at all ages
Beneficiaries:	PubG-2010 contingent survivor mortality table
Disabled Members:	Public Safety: PubS-2010 disabled member mortality table Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

Actuarial Assumptions:

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

Discount Rate:
The discount rate used to measure the total pension asset was 6.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of Asset to Changes in the Discount Rate:
The following presents the City's proportionate share of net pension liability/(asset) calculated using the discount rate of 6.50 percent, as well as what the City's proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (5.50 percent) or 1-percentage point higher (7.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension (Asset)/ Liability	$ 6,668,305	$ (27,209)	$ (5,512,435)

Pension Plan Fiduciary Net Position:
Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

(11) 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, prescription drug, dental and vision insurance benefits to eligible retirees and their spouses as permitted by South Dakota Codified Law 6-1-16. Benefit provisions were established and may be amended by the City Council. The health plan does not issue separately stated standalone financial statements.

Benefits Provided:

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

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

CITY OF SPEARFISH

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(11) Other Post-Employment Benefits – Healthcare Plan

Benefits Provided:

Unreduced Benefits – Class A
Earlier of:
- Age 65 with three years of service
- Any age as early as age 55 when age plus years of service equal or exceed 85

Reduced Benefits – Class A
- Age 55 and three years of service

Unreduced Benefits – Class B
Earlier of:
- Age 55 with three years of service
- Any age as early as age 45 when age plus years of service equal or exceed 75

Reduced Benefits – Class B
- Age 45 and three years of service

Plan Membership:

Membership of the plan consisted of the following at December 31, 2024, the date of the last actuarial valuation:

Inactive members currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	114
Total	115

The City's total OPEB liability of $237,936 was measured as of December 31, 2025 and was determined by an actuarial valuation as of December 31, 2024.

Actuarial Assumptions:
The Entry Age Normal Level Percentage of Pay Actuarial Cost Method was used to determine the total OPEB liability.

The total OPEB liability in the December 31, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent per year
Salary Increases	3.00 percent per year
Healthcare Cost Trend Rates	5.00 percent

Mortality rates were based on the RP-2014 Mortality Table, adjusted to 2006, projected generationally with Scale MP-2021.

The actuarial assumptions used in the December 31, 2025 valuation were based on the results of an actuarial experience study for the period January 1, 2024 to December 31, 2024.

Asset Valuation Method:
The City's obligation is unfunded at December 31, 2025. There are no assets accumulated in a trust that meets the criteria in GASB Statement No. 75, paragraph 4.

(11) Other Post-Employment Benefits – Healthcare Plan

Discount Rate:
The discount rate used to measure the total OPEB liability was 4.08 percent. As an unfunded plan, the discount rate reflects the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher as of the measurement date.

Sensitivity of Liability to Changes in the Discount Rate:
The following represents the City's liability calculated using the discount rate of 4.08 percent, as well as what the City's liability would be if it were calculated using a discount rate that is one percentage point lower (3.08 percent) or one percentage point higher (5.08 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Total OPEB Liability	$ 266,257	$ 237,936	$ 213,194

Sensitivity of Liability to Changes in the Healthcare Cost Trend Rate
The following represents the City's liability calculated using the healthcare cost trend rate of 5.00 percent, as well as what the City's liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower (4.00 percent) or one percentage point higher (6.00 percent) than the current rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total OPEB Liability	$ 205,920	$ 237,936	$ 276,201

Annual OPEB Cost and Changes in OPEB Liability:

The following table shows the financial components of the plan:

Service Cost	$ 23,803
Interest	9,387
Difference between Expected and Actual	-
Changes of Assumptions	-
Benefit Payments	(3,032)
Change in Net OPEB Obligation (Expense)	30,158
OPEB Liability - Beginning of Year	207,778
OPEB Liability - End of Year	$ 237,936

Deferred Outflows and Inflows of Resources Related to OPEB:

For the year ended December 31, 2025, the City recognized OPEB expense of $6,937. At December 31, 2025, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	$ 7,364	$ 72,792
Changes in Assumption	21,409	27,684
Net Difference between Projected and Actual Earnings	-	-
City Contributions Subsequent to the Measurement Date	-	-
Total	$ 28,773	$ 100,476

(11) Other Post-Employment Benefits – Healthcare Plan

Deferred Outflows and Inflows of Resources Related to OPEB:

Deferred outflows of resources includes losses amortized over future years, due to economic and demographic changes in the OPEB liability due to changes in assumptions. These are recognized over a closed period equal to the average expected remaining service lives of all covered active and inactive members, determined as of the beginning of the measurement period. The amortization period is calculated as the weighted average of expected remaining service lives assuming zero years for all inactive members. The amortization period for the January 1, 2025 to December 31, 2025 measurement period was determined as follows:

2026	$	(77)
2027		(6,606)
2028		(10,960)
2029		(13,347)
2030		(14,941)
Thereafter		(25,772)
	$	(71,703)

(12) 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, 2025, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:
The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-made policy and premiums are accrued 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, vehicle coverage, wrongful acts, and errors and omissions of public officials.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from the risks have not exceeded the liability coverage during the past three years.

(12) Risk Management

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 fund balance for the payment of future unemployment benefits.

During the year ended December 31, 2025, no claims for unemployment benefits were paid. At December 31, 2025, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Worker's Compensation:

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

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage in the past three years.

(13) Convention Center

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 an agreement (at a cost of $1) with the owners of the hotel adjoining the convention center, whereby the hotel is to manage the convention center in return for the convention center's profits. The term of the lease is 20 years, with the option to renew for another 10 years. The City receives additional sales tax revenue and assessments from business districts.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2025

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue					
	Taxes:				
311	General Property Taxes	$ 3,112,760	$ 3,112,760	$ 3,220,196	$ 107,436
313	General Sales and Use Taxes	12,715,000	12,715,000	12,787,992	72,992
314	Gross Receipts Tax	130,000	130,000	135,597	5,597
319	Penalties and Interest on Delinquent Taxes	3,800	3,800	3,733	(67)
320	Licenses and Permits	762,100	762,100	614,638	(147,462)
	Intergovernmental Revenue:				
331	Federal Grants	235,000	235,000	167,981	(67,019)
334	State Grants	75,000	75,000	20,436	(54,564)
	State Shared Revenue:				
335.01	Bank Franchise Tax	30,000	30,000	-	(30,000)
335.03	Liquor Tax Reversion	85,000	85,000	81,432	(3,568)
335.04	Motor Vehicle Licenses (5%)	145,000	145,000	152,543	7,543
335.06	Fire Insurance Premium Reversion	85,000	85,000	123,500	38,500
335.20	Other	230,000	230,000	488,731	258,731
	County Shared Revenue:				
339	County Payments in Lieu of Taxes	217,748	217,748	217,748	-
	Charges for Goods and Services:				
341	General Government	2,589,539	2,589,539	2,679,926	90,387
342	Public Safety	273,586	364,556	148,388	(216,168)
343	Highways and Streets	5,000	5,000	-	(5,000)
346	Culture and Recreation	1,156,700	1,166,700	1,245,922	79,222
348	Cemetery	35,500	35,500	32,303	(3,197)
349	Other	17,500	17,500		
	Fines and Forfeits:				
352	Animal Control Fines	3,500	3,500		
359	Other	-	-	1,560	1,560
	Miscellaneous Revenue:				
361	Earnings (Loss) on Deposits and Investments	810,000	810,000	984,274	174,274
362	Rentals	157,000	157,000	144,352	(12,648)
363	Special Assessments	315,150	315,150	325,596	10,446
367	Contributions and Donations - Private Sources	30,000	59,600	8,275	(51,325)
369	Other	17,000	37,000	-	(37,000)
Total Revenue		23,236,883	23,387,453	23,585,123	218,670

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - BUDGETARY BASIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2025

		Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Expenditures					
	General Government:				
411	Legislative	208,549	208,549	168,130	40,419
411.5	Contingency	300,000	300,000	-	300,000
	Amount Transferred	-	(106,000)	-	(106,000)
412	Executive	413,014	418,052	330,400	87,652
414	Financial Administration	1,013,705	1,068,151	1,023,077	45,074
419	Other	2,028,464	2,195,362	2,009,322	186,040
	Public Safety:				
421	Police	3,488,692	3,522,823	3,241,917	280,906
422	Fire	1,051,383	1,454,204	1,287,097	167,107
423	Protective Inspection	384,905	436,016	389,099	46,917
	Public Works:				
431	Highways and Streets	7,995,808	8,215,808	7,226,059	989,749
437	Cemeteries	146,460	156,945	153,295	3,650
	Health and Welfare:				
441	Health	88,794	93,048	77,535	15,513
	Culture and Recreation:				
451	Recreation	2,142,615	2,474,759	2,390,874	83,885
452	Parks	2,389,320	2,409,954	2,128,742	281,212
455	Library	585,881	599,133	582,955	16,178
	Conservation and Development:				
463	Urban Redevelopment and Housing	22,000	33,200	30,734	2,466
465	Economic Development and Assistance	549,552	617,046	611,685	5,361
480	Intergovernmental Expenditures	1,142,009	1,255,705	1,124,526	131,179
Total Expenditures		23,951,151	25,352,755	22,775,447	2,577,308
Excess (Deficiency) of Revenue over (under) Expenditures		(714,268)	(1,965,302)	809,676	2,774,978
Other Financing Sources (Uses):					
391.01	Transfers In	222,821	222,821	247,821	25,000
391.04	Compensation for Loss or Damaged Capital Assets	-	-	29,111	29,111
391.03	Sale of Municipal Property	-	-	43,146	43,146
511	Transfers Out	(1,661,369)	(1,686,369)	(1,686,369)	-
Total Other Financing Sources (Uses)		(1,438,548)	(1,463,548)	(1,366,291)	97,257
Net Change in Fund Balance		(2,152,816)	(3,428,850)	(556,615)	2,872,235
Fund Balance - December 31, 2024		26,526,723	26,526,723	26,526,723	-
Fund Balance - December 31, 2025		$ 24,373,907	$ 23,097,873	$ 25,970,108	$ 2,872,235

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

CITY OF SPEARFISH

BUDGETARY COMPARISON SCHEDULE
SECOND PENNY SALES TAX FUND - BUDGETARY BASIS (UNAUDITED)
FOR THE YEAR ENDED DECEMBER 31, 2025

	Original Budget	Final Budget	Actual - Budgetary Basis	Variance
Revenue				
Miscellaneous Revenue:				
361 Earnings on Deposits and Investments	$ -	$ -	$ 7,497	$ 7,497
367 Contributions and Donations - Private Sources	-	-	5,000	5,000
Total Revenue	-	-	12,497	12,497
Expenditures				
Conservation and Development:				
465 Economic Development and Assistance	-	-	500	(500)
470 Debt Service	660,563	660,563	656,963	3,600
Total Expenditures	660,563	660,563	657,463	3,100
Excess (Deficiency) of Revenue over (under) Expenditures	(660,563)	(660,563)	(644,966)	15,597
Other Financing Sources (Uses):				
391.01 Transfers In	660,563	660,563	660,563	-
Total Other Financing Sources (Uses)	660,563	660,563	660,563	-
Net Change in Fund Balance	-	-	15,597	15,597
Fund Balance - December 31, 2024	20,227	20,227	20,227	-
Fund Balance - December 31, 2025	$ 20,227	$ 20,227	$ 35,824	$ 15,597

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

CITY OF SPEARFISH

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION (ASSET) LIABILITY (UNAUDITED)
DECEMBER 31, 2025

	2025	2024	2023	2022
City's Proportion of the Net Pension (Asset) Liability	0.31991000%	0.30892400%	0.32211800%	0.29686100%
City's Proportionate Share of Net Pension (Asset) Liability	$ (27,209)	$ (12,505)	$ (31,440)	$ (28,054)
City's Covered Payroll (Plan's Fiscal Year)	$ 8,373,795	$ 9,182,563	$ 8,373,795	$ 7,711,860
City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Payroll	0.32%	0.14%	0.38%	0.36%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability	100.10%	100.00%	100.10%	100.10%

	2021	2020	2019	2018
City's Proportion of the Net Pension (Asset) Liability	0.28082500%	0.28594510%	0.28270080%	0.28066060%
City's Proportionate Share of Net Pension (Asset) Liability	$ (2,150,640)	$ (12,419)	$ (29,959)	$ (6,545)
City's Covered Payroll (Plan's Fiscal Year)	$ 6,389,405	$ 5,733,558	$ 5,510,009	$ 5,355,633
City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Payroll	33.66%	0.22%	0.54%	0.12%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability	105.52%	100.04%	100.09%	100.02%

	2017	2016
City's Proportion of the Net Pension (Asset) Liability	0.27449710%	0.28261130%
City's Proportionate Share of Net Pension (Asset) Liability	$ (24,911)	$ 954,633
City's Covered Payroll (Plan's Fiscal Year)	$ 5,126,516	$ 4,973,127
City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Payroll	0.49%	19.20%
Plan Fiduciary Net Position as a Percentage of the Total Pension (Asset) Liability	100.10%	96.89%

CITY OF SPEARFISH

SCHEDULE OF THE CITY CONTRIBUTIONS (UNAUDITED)
DECEMBER 31, 2025

	2025	2024	2023	2022
Contractually Required Contribution	$ 602,011	$ 539,863	$ 511,483	$ 443,643
Contributions in Relation to the Contractually Required Contributions	602,011	539,863	511,483	417,875
Contributions Deficiency (Excess)	$ -	$ -	$ -	$ 25,768
City's Covered Payroll	$ 8,965,783	$ 9,520,248	$ 8,965,783	$ 7,800,829
Contribution as a Percentage of Covered Payroll	6.71%	5.67%	5.70%	5.69%

	2021	2020	2019	2018
Contractually Required Contribution	$ 417,875	$ 386,468	$ 362,661	$ 358,320
Contributions in Relation to the Contractually Required Contributions	417,875	386,468	362,661	358,320
Contributions Deficiency (Excess)	$ -	$ -	$ -	$ -
City's Covered Payroll	$ 7,163,090	$ 5,892,743	$ 5,531,139	$ 5,479,568
Contribution as a Percentage of Covered Payroll	5.83%	6.56%	6.56%	6.54%

	2017	2016
Contractually Required Contribution	$ 338,397	$ 331,356
Contributions in Relation to the Contractually Required Contributions	338,397	331,356
Contributions Deficiency (Excess)	$ -	$ -
City's Covered Payroll	$ 5,168,469	$ 5,091,419
Contribution as a Percentage of Covered Payroll	6.55%	6.51%

CITY OF SPEARFISH

SCHEDULE OF THE CITY OPEB LIABILITY (UNAUDITED)
DECEMBER 31, 2025

	2025	2024	2023	2022
OPEB Liability	$ 237,936	$ 207,778	$ 254,098	$ 239,892
City's Covered Payroll	$ 8,468,347	$ 8,221,696	$ 6,761,466	$ 6,564,530
OPEB Liability as a Percentage of Covered Payroll	2.81%	2.53%	3.76%	3.65%
Service Cost	$ 23,803	$ 22,591	$ 21,933	$ 24,927
Interest	9,387	9,886	9,420	7,105
Adjustment to Beginning Balance	-	-	-	-
Difference between Expected and Actual	-	(55,278)	-	(47,728)
Changes of Assumptions	-	(1,668)	-	(44,508)
Benefit Payments	(3,032)	(21,851)	(17,147)	(20,224)
Change in Net OPEB Obligation	30,158	(46,320)	14,206	(80,428)
OPEB Liability - Beginning of Year	207,778	254,098	239,892	320,320
OPEB Liability - End of Year	$ 237,936	$ 207,778	$ 254,098	$ 239,892

	2021	2020	2019	2018
OPEB Liability	$ 320,320	$ 312,625	$ 276,977	$ 262,931
City's Covered Payroll	$ 5,718,151	$ 5,551,603	$ 5,531,139	$ 5,315,232
OPEB Liability as a Percentage of Covered Payroll	5.60%	5.63%	5.01%	4.95%
Service Cost	$ 24,201	$ 12,466	$ 12,103	$ 7,360
Interest	6,889	11,342	11,307	6,814
Adjustment to Beginning Balance	-	-	-	(11,740)
Difference between Expected and Actual	-	845	5,044	42,367
Changes of Assumptions	-	36,619	5,842	49,051
Benefit Payments	(23,395)	(25,624)	(20,250)	(11,394)
Change in Net OPEB Obligation	7,695	35,648	14,046	82,458
OPEB Liability - Beginning of Year	312,625	276,977	262,931	180,473
OPEB Liability - End of Year	$ 320,320	$ 312,625	$ 276,977	$ 262,931

CITY OF SPEARFISH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING PROGRESS (OPEB)
DECEMBER 31, 2025

Notes to Required Supplementary Information

(1) Budgets and Budgetary Accounting

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

1. At the first regular board meeting in September of each year, or within 10 days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

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

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

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

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

6. The City did not encumber any amounts at December 31, 2025.

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

(2) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions

Changes from Prior Valuation: The June 30, 2025, Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2024, Actuarial Valuation.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes: During the 2025 Legislative Session no significant SDRS benefit changes were made.

Actuarial Method Changes: No changes in actuarial methods were made since the prior valuation.

CITY OF SPEARFISH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING PROGRESS (OPEB)
DECEMBER 31, 2025

Notes to Required Supplementary Information

(2) Schedule of the Proportionate Share of the Net Pension Liability (Asset) and Schedule of Pension Contributions

Actuarial Assumption Changes: The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2024, the FVFR, assuming future COLAs equal the baseline COLA assumption of 2.25%, is again less than 100%, and the July 2025 SDRS COLA is limited to a restricted maximum of 1.71%. The July 2025 SDRS COLA will equal inflation, between 0% and 1.71%. For this June 30, 2024 Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.71%.

As of June 30, 2025, the FVFR, assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, no less than 0% and no greater than 1.56%. For this June 30, 2025, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027 Actuarial Valuation, and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027 Actuarial Valuation.

CITY OF SPEARFISH

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AND SCHEDULE OF FUNDING PROGRESS (OPEB)
DECEMBER 31, 2025

Notes to Required Supplementary Information

(3) Schedule of the City OPEB Liability

This schedule will present 10 years as information becomes available.

Valuation Date: Actuarially determined contribution rates are calculated as of December 31, 2024.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method: Entry age

Amortization method: Normal Level Percentage of Pay

Remaining Amortization Period: 10.3 years

Asset Valuation Method: Unfunded

Inflation: 3.00 percent

Healthcare cost trend rates: Year 1+ – 5.00 percent

Salary Increases: 3.0 percent per year

Investment rate of return: Plan is unfunded. Inflation rate is 3.0 percent

Retirement Age: In the 2024 actuarial valuation there were no changes to expected retirement ages.

Mortality: RP2014 annuitant distinct mortality table adjusted to 2006 with MP 2021 generational projection of future mortality improvement.

OTHER SUPPLEMENTARY INFORMATION

CITY OF SPEARFISH

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

		Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Assets				
101	Cash and Cash Equivalents	$ 999,794	$ 431,263	$ 3,506
104	Investments	-	-	-
110	Sales Taxes Receivable	23,400	-	-
121	Special Assessments Receivable	-	-	8,214
128	Notes Receivable	-	-	-
132	Due from Other Governments	-	-	-
Total Assets		$ 1,023,194	$ 431,263	$ 11,720
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
202	Accounts Payable	$ 11,106	$ -	$ -
216	Accrued Wages Payable	-	-	-
Total Liabilities		11,106	-	-
Fund Balances				
263	*Nonspendable:*			
263.51	Perpetual Care Cemetery	-	-	-
264	*Restricted:*			
264.01	Debt Service	-	-	-
264.03	Perpetual Care Cemetery	-	-	-
264.04	Promoting the City	1,012,088	-	-
264.05	Library Purposes	-	431,263	-
264.06	Park Purposes	-	-	-
264.07	911 Purposes	-	-	-
264.08	Fire Capital Fund	-	-	-
264.09	Business Improvement District Purposes	-	-	11,720
264.10	Municipal Highway and Bridge	-	-	-
264.99	Special Assessments Revolving Loan Fund	-	-	-
265	*Committed:*			
265.99	Spearfish Economic Revolving Fund	-	-	-
265.99	Art in Public Places Fund	-	-	-
267	Unassigned	-	-	-
Total Fund Balances		1,012,088	431,263	11,720
Total Liabilities, Deferred Inflows of Resources and Fund Balances		$ 1,023,194	$ 431,263	$ 11,720

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
$ 502,379	$ 2,644	$ 149,213	$ 276,839	$ 147,720
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	1,889,157	-	-
37,576	-	-	-	-
$ 539,955	$ 2,644	$ 2,038,370	$ 276,839	$ 147,720
$ 10,000	$ -	$ -	$ 3,625	$ -
21,274	-	-	-	-
31,274	-	-	3,625	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	273,214	-
508,681	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	2,644	-	-	-
-	-	2,038,370	-	-
-	-	-	-	147,720
-	-	-	-	-
508,681	2,644	2,038,370	273,214	147,720
$ 539,955	$ 2,644	$ 2,038,370	$ 276,839	$ 147,720

CITY OF SPEARFISH

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2025

		Municipal Highway and Bridge Fund	Fire Capital Fund	TID #1 Elkhorn Ridge Debt Fund
Assets				
101	Cash and Cash Equivalents	$ 1,439,187	$ 255,479	$ 1,129
104	Investments	-	-	-
110	Sales Taxes Receivable	-	-	-
121	Special Assessments Receivable	-	-	-
128	Notes Receivable	-	-	-
132	Due from Other Governments	29,826	-	-
Total Assets		$ 1,469,013	$ 255,479	$ 1,129
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
202	Accounts Payable	$ 163,788	$ -	$ 12,805
216	Accrued Wages Payable	-	-	-
Total Liabilities		163,788	-	12,805
Fund Balances				
263	*Nonspendable:*			
263.51	Perpetual Care Cemetery	-	-	-
264	*Restricted:*			
264.01	Debt Service	-	-	-
264.03	Perpetual Care Cemetery	-	-	-
264.04	Promoting the City	-	-	-
264.05	Library Purposes	-	-	-
264.06	Park Purposes	-	-	-
264.07	911 Purposes	-	-	-
264.08	Fire Capital Fund	-	255,479	-
264.09	Business Improvement District Purposes	-	-	-
264.10	Municipal Highway and Bridge	1,305,225	-	-
264.99	Special Assessments Revolving Loan Fund	-	-	-
265	*Committed:*			
265.99	Spearfish Economic Revolving Fund	-	-	-
265.99	Art in Public Places Fund	-	-	-
267	Unassigned	-	-	(11,676)
Total Fund Balances		1,305,225	255,479	(11,676)
Total Liabilities, Deferred Inflows of Resources and Fund Balances		$ 1,469,013	$ 255,479	$ 1,129

TID #4 Creekside Estates Debt Fund	TID #7 Hill Street Debt Fund	TID #8 Sawmill Debt Fund	Cemetery Perpetual Care Fund	Total
$ 61	$ 755	$ 742,952	$ 70,453	$ 5,023,374
-	-	-	500,000	500,000
-	-	-	-	23,400
-	-	-	-	8,214
-	-	-	-	1,889,157
-	-	-	-	67,402
$ 61	$ 755	$ 742,952	$ 570,453	$ 7,511,547
$ -	$ -	$ 2,825	$ -	$ 204,149
-	-	-	-	21,274
-	-	2,825	-	225,423
-	-	-	50,000	50,000
61	755	740,127	-	740,943
-	-	-	520,453	520,453
-	-	-	-	1,012,088
-	-	-	-	431,263
-	-	-	-	273,214
-	-	-	-	508,681
-	-	-	-	255,479
-	-	-	-	11,720
-	-	-	-	1,305,225
-	-	-	-	2,644
-	-	-	-	2,038,370
-	-	-	-	147,720
-	-	-	-	(11,676)
61	755	740,127	570,453	7,286,124
$ 61	$ 755	$ 742,952	$ 570,453	$ 7,511,547

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		Hospitality Tax Fund	Library Gift Fund	Convention Center Fund
Revenue:				
	Taxes:			
311	General Property Taxes	$ -	$ -	$ -
313	General Sales and Use Taxes	967,219	-	-
315	Amusement Taxes	-	-	175,984
319	Penalties and Interest on Delinquent Taxes	-	-	-
	Intergovernmental Revenue:			
331	Federal Grants	-	-	-
334	State Grants	-	-	-
335.08	Local Government Highway and Bridge Fund	-	-	-
335.09	911 Remittances	-	-	-
	Charges for Goods and Services:			
342	Public Safety	-	-	-
346	Culture and Recreation	-	-	-
348	Cemeteries	-	-	-
	Fines and Forfeits:			
354	Library	-	7,773	-
	Miscellaneous Revenue:			
361	Earnings (Loss) on Deposits and Investments	31,865	15,416	154
367	Contributions and Donations - Private Sources	-	26,750	22,104
362	Rentals	-	-	-
369	Other	-	942	-
Total Revenue		999,084	50,881	198,242
Expenditures:				
	Public Safety:			
421	Police	-	-	-
422	Fire	-	-	-
	Public Works:			
431	Highways and Streets	-	-	-
437	Cemeteries	-	-	-
	Culture and Recreation:			
451	Recreation	638,700	-	-
452	Parks	-	-	-
455	Library	-	39,337	-
	Conservation and Development:			
465	Economic Development and Assistance	1,162	-	216,664
470	Debt Service	-	-	-
485	Capital Outlay	-	-	-
Total Expenditures		639,862	39,337	216,664
Excess (Deficiency) of Revenue Over (Under) Expenditures		359,222	11,544	(18,422)
Other Financing Sources (Uses):				
391.01	Transfers In	-	-	-
391.03	Sale of Municipal Property	-	-	-
511	Transfers Out	(222,500)	-	-
Total Other Financing Sources (Uses)		(222,500)	-	-
Net Change in Fund Balances		136,722	11,544	(18,422)
Fund Balances, December 31, 2024		875,366	419,719	30,142
Fund Balances, December 31, 2025		$ 1,012,088	$ 431,263	$ 11,720

911 Emergency Fund	Special Assessments Revolving Fund	Spearfish Economic Revolving Fund	Special Park Gift Fund	Art in Public Places Fund
$ -	$ -	$ -	$ -	$ -
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
223,645	-	-	-	-
-	-	-	-	-
-	-	-	-	17,948
-	-	-	-	-
-	-	-	-	-
23,790	102	41,855	10,601	5,149
-	-	-	75,163	-
-	-	11,303	-	-
-	-	-	-	-
247,435	102	53,158	85,764	23,097
791,426	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	13,669	-
-	-	-	16,227	2,092
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	60,000	-
791,426	-	-	89,896	2,092
(543,991)	102	53,158	(4,132)	21,005
500,806	-	-	-	15,000
-	-	-	-	-
-	-	-	(15,000)	-
500,806	-	-	(15,000)	15,000
(43,185)	102	53,158	(19,132)	36,005
551,866	2,542	1,985,212	292,346	111,715
$ 508,681	$ 2,644	$ 2,038,370	$ 273,214	$ 147,720

CITY OF SPEARFISH

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		Municipal Highway and Bridge Fund	Fire Capital Fund	TID #1 Elkhorn Ridge Debt Fund
Revenue:				
	Taxes:			
311	General Property Taxes	$ -	$ -	$ 1,009,823
313	General Sales and Use Taxes	-	-	-
315	Amusement Taxes	-	-	-
319	Penalties and Interest on Delinquent Taxes	-	-	928
	Intergovernmental Revenue:			
331	Federal Grants	-	-	-
334	State Grants	462,611	-	-
335.08	Local Government Highway and Bridge Fund	152,469	-	-
335.09	911 Remittances	-	-	-
	Charges for Goods and Services:			
342	Public Safety	-	252,284	-
346	Culture and Recreation	-	-	-
348	Cemeteries	-	-	-
	Fines and Forfeits:			
354	Library	-	-	-
359	Other	-	-	-
	Miscellaneous Revenue:	-		
361	Earnings (Loss) on Deposits and Investments	73,110	30,537	3,742
367	Contributions and Donations - Private Sources	-	-	-
362	Rentals		-	-
369	Other	-	3,000	-
Total Revenue		688,190	285,821	1,014,493
Expenditures:				
	Public Safety:			
421	Police	-	-	-
422	Fire	-	-	-
	Public Works:			
431	Highways and Streets	8,136	-	-
437	Cemeteries	-	-	-
	Culture and Recreation:			
451	Recreation	-	-	18
452	Parks	-	-	-
455	Library	-	-	-
	Conservation and Development:			
465	Economic Development and Assistance	-	-	-
470	Debt Service	-	-	1,033,510
485	Capital Outlay	1,490,140	1,424,235	-
Total Expenditures		1,498,276	1,424,235	1,033,528
Excess (Deficiency) of Revenue Over (Under) Expenditures		(810,086)	(1,138,414)	(19,035)
Other Financing Sources (Uses):				
391.01	Transfers In	-	200,000	-
391.03	Sale of Municipal Property	-	-	-
511	Transfers Out	-	-	-
Total Other Financing Sources (Uses)		-	200,000	-
Net Change in Fund Balances		(810,086)	(938,414)	(19,035)
Fund Balances, December 31, 2024		2,115,311	1,193,893	7,359
Fund Balances, December 31, 2025		$ 1,305,225	$ 255,479	$ (11,676)

TID #4 Creekside Estates Debt Fund	TID #7 Hill Street Debt Fund	TID #8 Sawmill Debt Fund	Cemetery Perpetual Care Fund	Total
$ 173,265	$ 1,501	$ -	$ -	$ 1,184,589
-	-	-	-	967,219
-	-	-	-	175,984
-	-	-	-	928
-	-	-	-	-
-	-	-	-	462,611
-	-	-	-	152,469
-	-	-	-	223,645
-	-	-	-	252,284
-	-	-	-	17,948
-	-	-	21,775	21,775
-	-	-	-	7,773
-	-	13,265	-	13,265
645	5	-	-	236,971
-	-	-	-	124,017
-	-	-	-	11,303
-	-	-	-	3,942
173,910	1,506	13,265	21,775	3,856,723
-	-	-	-	791,426
-	-	-	-	-
-	-	15,000	-	23,136
-	-	-	2,178	2,178
				-
-	-	-	-	652,387
-	-	-	-	18,319
-	-	-	-	39,337
-	-	105	-	217,931
175,271	751	-	-	1,209,532
-	-	78,533	3,000	3,055,908
175,271	751	93,638	5,178	6,010,154
(1,361)	755	(80,373)	16,597	(2,153,431)
-	-	-	-	715,806
-	-	833,000	-	833,000
-	-	(12,500)	-	(250,000)
-	-	820,500	-	1,298,806
(1,361)	755	740,127	16,597	(854,625)
1,422	-	-	553,856	8,140,749
$ 61	$ 755	$ 740,127	$ 570,453	$ 7,286,124

SINGLE AUDIT SECTION

CITY OF SPEARFISH

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Identifying Number	Assistance Listing Number	Amount
U.S. Department of Transportation:			
Pass-Through the S.D. Department of Transportation:			
Airport Improvement Program	3-46-0065-035-2023	20.106	$ 41,332
Airport Improvement Program	3-46-0065-036-2024	20.106	817,437
Airport Improvement Program	3-46-0065-037-2024	20.106	1,950,000
Airport Improvement Program	3-46-0065-038-2025	20.106	388,181
Total Airport Improvement Program			3,196,950
Pass-Through the Federal Highway Administration Office of Safety:			
Safe Streets and Roads For All Grant Program	693JJ32540373	20.939	151,234
Total U.S. Department of Transportation			3,348,184
U.S. Department of Treasury:			
Pass-Through the S.D. Department of Transportation:			
Coronavirus State and Local Fiscal Recovery Funds (COVID-19)	2022G-ARP-444	21.027	431,354
Total U.S. Department of Treasury			431,354
U.S. Department of Justice:			
Public Safety Partnership And Community Policing Grant	N/A	16.710	16,747
Total U.S. Department of Justice			16,747
Total			$ 3,796,285

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2: Indirect Cost Rate

The City has not elected to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

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

City Council
City of Spearfish
Spearfish, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spearfish (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 8, 2026.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings as 2025-001 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 deficiency described in the accompanying Schedule of Findings as 2025-002 to be a significant deficiency.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings
Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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

September 8, 2026

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CPAs · ADVISORS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Spearfish
Spearfish, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Spearfish's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as 2025-003 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



KETEL THORSTENSON, LLP
Certified Public Accountants

September 8, 2026

CITY OF SPEARFISH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2025

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of the City of Spearfish (the City).

2. A material weakness and a significant deficiency were disclosed during the audit of the financial statements and are reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.

4. A material weakness was disclosed during the audit of the major federal award program and reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award program for the City expresses an unmodified opinion.

6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.

7. The program tested as a major program for 2025 was the Airport Improvement Program (Assistance Listing #20.106).

8. The threshold for distinguishing types A and B programs was $1,000,000.

9. The City was not determined to be a low risk auditee.

CITY OF SPEARFISH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2025

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weakness

2025-001 FINDING: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that were approved and recorded. Additionally, we posted several reclassification entries with no effect on the change in net position/fund balance. Other entries were proposed as part of the audit but were not recorded due to the overall insignificance on the financial statements.

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.

Repeat Finding from Prior Year: Yes, prior year finding 2024-001.

Recommendation: We recommend that management consider the following:

a. Track and review amounts received and due from the federal government to properly reflect intergovernmental revenue.
b. Approve all lease entries.
c. Capital assets should be reviewed to make sure all existing capital assets as well as additions and disposals are properly reflected, including contributed assets.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

CITY OF SPEARFISH

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2025

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiency

2025-002 FINDING: Building Permit Fee Calculation and Documentation

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: The City was unable to provide documentation to support the valuation of a reconstruction building permit sold. Additionally, it does not appear the City has an approved documented rate schedule for building permits other than new construction.

Criteria and Effect: Lack of adequate controls could result in inaccurate charges on permits.

Repeat Finding from Prior Year: Yes, prior year finding 2024-002.

Recommendation: Implement fields into the building permit software that will provide documentation of all inputs required in the calculation of building permit fees. Additionally, we recommend the City implement a rate schedule for all permits other than new construction and a review process for all permits to verify calculations.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

Material Weakness

2025-003 FINDING: Schedule of Expenditures of Federal Awards (SEFA) Adjustments

Federal Program Affected: Airport Improvement Program #20.106

Compliance Requirement: Reporting

Questioned Costs: None

Condition/Cause: Material adjustments were made to the SEFA.

Criteria/Effect: The 2025 SEFA was adjusted by approximately $240,000 to report pre-award grant expenditures.

Repeat Finding from Prior Year: No

Recommendation: The City should ensure that pre-award expenditures are included on the SEFA when spent outside the current fiscal year.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE

CITY OF SPEARFISH

STATUS OF PRIOR YEAR FINDINGS
DECEMBER 31, 2025

The City respectfully submits the following summary schedule of prior audit findings from December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

2024-001 FINDING: Audit Adjustments

Status: Management is implementing a consistent process of recording all entries needed to accurately record activities for the City and to properly close the accounting records for the year prior to audit field work.

Initial Year Report: 2020

Reasons for Recurrence and Corrective Action Plan: Management will continue to review and record activities for the City prior to audit field work.

2024-002 FINDING: Building Permit Fee Calculation and Documentation

Status: Management has added fields into the new building permit software that will provide documentation of fees as well as a review process for all permits to verify the calculations.

Initial Year Report: 2024

Reasons for Recurrence and Corrective Action Plan: Management will continue to review and record activities for the City prior to audit field work.

CITY OF SPEARFISH

CORRECTIVE ACTION PLAN
DECEMBER 31, 2025

The City respectfully submits the following correction action plan regarding findings from the December 31, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2025-001 FINDING: Audit Adjustments

Responsible Officials: Michelle DeNeui, Finance Officer

Corrective Action Plan: Management will continue to implement a consistent process of recording all entries needed to accurately record activities for the City and to properly close the accounting records for the year prior to audit fieldwork.

Anticipated Completion Date: Ongoing.

2025-002 FINDING: Building Permit Fee Calculation and Documentation

Responsible Officials: Michelle DeNeui, Finance Officer

Corrective Action Plan: Management will add fields into the new building permit software that will provide documentation of fees as well as a fee schedule and review process for all permits to verify the calculations.

Anticipated Completion Date: July 1, 2026

2025-003 FINDING: Schedule of Expenditures of Federal Awards (SEFA) Adjustments

Responsible Officials: Michelle DeNeui, Finance Officer

Corrective Action Plan: Management will implement a year-end SEFA preparation and review process using the accrual basis of accounting. The process will include reviewing grant expenditures by the period incurred; reconciling SEFA amounts to the general ledger, grant reimbursement requests, and subsequent-year reimbursements; identifying and excluding prior-year expenditures unless allowed by grant terms; including current-year expenditures reimbursed after year-end; and documenting review and approval before audit fieldwork.

Anticipated Completion Date: Ongoing