

CITY OF HOT SPRINGS
HOT SPRINGS, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council
City of Hot Springs, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, aggregately discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Hot Springs, South Dakota (the City), as of December 31, 2013 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes determining the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit The Housing and Redevelopment Commission of the City of Hot Springs, as of and for the year ended December 31, 2013, which represents one hundred percent of the balance and activities of the component unit column. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission of the City of Hot Springs is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on the Governmental Activities, the Business Type Activities, Each Major Fund and the Aggregate Remaining Funds

The audit report on the financial statements for the year ended December 31, 2012, was qualified in relation to cash for all funds, utility receivables for Water, Sewer and Solid Waste Funds, and customer deposits for the Water Fund. In addition, we were unable to obtain and test complete inventory listings for the year ended December 31, 2013, for the General Fund, Water Fund and Sewer Fund. We were unable to obtain sufficient audit evidence about the beginning cash, receivable and customer deposit balances and the ending inventory balances in the funds noted in the prior sentence in order to ensure the statement of activities, statement of revenues, expenditures and changes in fund balances – governmental funds and the statement of revenues, expenses and changes in fund net position – proprietary funds are fairly presented in all material respects for the year ended December 31, 2013.

Qualified Opinion

In our opinion, except for the effects of the matters discussed in the “Basis for Qualified Opinion” paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the City of Hot Springs, as of December 31, 2013, and the results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinion

In our opinion, based on the report of other auditors, the financial statements of The Housing and Redevelopment Commission of the City of Hot Springs, present fairly in all material respects, the respective financial position of the aggregate discretely presented component unit of the City, as of December 31, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Municipality has omitted the Management’s Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 20, 2015, on our consideration of the City of Hot Springs, South Dakota’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.


Donna Denker & Associates
Certified Public Accountants

July 20, 2015

CITY OF HOT SPRINGS

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

	Governmental Activities	Business-Type Activities	Total	Component Unit (Note 14)
Assets:				
Cash and Cash Equivalents (Note 2)	\$ 1,127,773	\$ 4,819,981	\$ 5,947,754	\$ 550,192
Restricted Cash and Cash Equivalents (Note 2)	7,084	4,222	11,306	202,362
Receivables (Note 5)	188,249	231,485	419,734	6,457
Prepaid Expenses	-	-	-	25,629
Inventories	11,670	129,843	141,513	24,047
Deposit (Note 10)	59,972	-	59,972	-
Capital Assets (Note 8):				
Land & Construction in Progress	466,581	267,978	734,559	131,796
Other Capital Assets, Net Depreciation	6,258,516	7,789,729	14,048,245	3,686,530
Idle Capital Assets, Net Depreciation	-	-	-	1,217,831
TOTAL ASSETS	\$ 8,119,845	\$ 13,243,238	\$ 21,363,083	\$ 5,844,844
Liabilities:				
Accounts Payable	\$ 174,267	\$ 40,229	\$ 214,496	\$ 30,607
Other Current Liabilities	52,439	219,633	272,072	104,286
Noncurrent Liabilities (Note 6):				
Due Within One Year	331,164	200,838	532,002	159,245
Due in More Than One Year	393,088	4,888,685	5,281,773	2,886,783
TOTAL LIABILITIES	950,958	5,349,385	6,300,343	3,180,921
Net Position (Note 13):				
Net Investment in Capital Assets	6,134,252	3,544,184	9,678,436	2,020,442
Restricted for:				
Deposit - SDPAA (Note 10)	59,972	-	59,972	-
Cemetery - Nonexpendable	49,050	-	49,050	-
Debt Service	69,016	155,325	224,341	-
Capital Project Purposes	4,301	327,946	332,247	-
Facilities and Promoting the City	9,862	-	9,862	-
Library	7,084	-	7,084	-
Business Improvement District	60,439	-	60,439	-
Mortgage Escrow Deposits	-	-	-	202,362
Unrestricted	774,911	3,866,398	4,641,309	441,119
TOTAL NET POSITION	7,168,887	7,893,853	15,062,740	2,663,923
TOTAL LIABILITIES AND NET POSITION	\$ 8,119,845	\$ 13,243,238	\$ 21,363,083	\$ 5,844,844

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

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013

Function/Programs	----- Program Revenues -----				Net (Expense) Revenue and Changes in ----- Net Position -----			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit (Note 14)
Primary Government								
<i>Governmental Activities:</i>								
General Government	\$ 493,310	\$ 114,233	\$ -	\$ -	\$ (379,077)	\$ -	\$ (379,077)	\$ -
Public Safety	856,021	274	-	7,638	(848,109)	-	(848,109)	-
Public Works	800,298	115,471	-	37,526	(647,301)	-	(647,301)	-
Health and Welfare	35,350	-	-	-	(35,350)	-	(35,350)	-
Culture and Recreation	1,198,389	555,065	18,029	35,581	(589,714)	-	(589,714)	-
Conservation and Development	242,767	-	-	-	(242,767)	-	(242,767)	-
Interest on Long Term Debt	12,075	-	-	-	(12,075)	-	(12,075)	-
Total Governmental Activities	3,638,210	785,043	18,029	80,745	(2,754,393)	-	(2,754,393)	-
<i>Business-Type Activities:</i>								
Water	609,691	1,073,186	-	-	-	463,495	463,495	-
Sewer	561,274	744,040	-	-	-	182,766	182,766	-
Solid Waste	169,633	189,911	-	-	-	20,278	20,278	-
Evans Plunge	431,638	375,072	-	-	-	(56,566)	(56,566)	-
Total Business-Type Activities	1,772,236	2,382,209	-	-	-	609,973	609,973	-
Total Primary Government	\$ 5,410,446	\$ 3,167,252	\$ 18,029	\$ 80,745	(2,754,393)	609,973	(2,144,420)	-
Component Unit:								
<i>Housing and Development</i>								
Commission	\$ 1,399,054	\$ 783,484	\$ 563,441	\$ -	-	-	-	(52,129)
<i>General Revenues:</i>								
<i>Taxes:</i>								
Property Taxes					1,017,501	-	1,017,501	-
Sales Taxes					1,388,926	-	1,388,926	-
State Shared Revenue					59,858	-	59,858	-
Unrestricted Investment Earnings					2,427	121	2,548	8,084
Miscellaneous Revenue					12,161	18,595	30,756	14,451
Loss on Disposal of Capital Assets					-	(2,702)	(2,702)	(1,527)
Capital Contributions					-	-	-	8,114
Transfers					229,750	(229,750)	-	-
Total General Revenues					2,710,623	(213,736)	2,496,887	29,122
Changes in Net Position					(43,770)	396,237	352,467	(23,007)
Net Position, Beginning					6,603,864	8,093,882	14,697,746	2,690,060
Prior Period Adjustment (Note 13)					608,793	(596,266)	12,527	(3,130)
Net Position, Beginning - Restated					7,212,657	7,497,616	14,710,273	2,686,930
Net Position, Ending					\$ 7,168,887	\$ 7,893,853	\$ 15,062,740	\$ 2,663,923

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

CITY OF HOT SPRINGS

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2013

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 414,672	\$ 12,069	\$ 590,916
107 Restricted Cash and Cash Equivalents (Note 2)	7,084	-	-
108 Property Taxes Receivable	64,719	-	-
115 Accounts Receivable (Note 5)	22,876	-	-
121 Special Assessments Receivable - Current	-	-	6,438
122 Special Assessments Receivable - Delinquent	-	-	25,795
123 Special Assessments Receivable - Deferred	-	-	13,800
132 Due from Other Governments - State	39,654	3,534	7,759
142 Inventory of Stores Purchased for Resale	11,670	-	-
154 Deposit - SDPAA (Note 10)	59,972	-	-
Total Assets	\$ 620,647	\$ 15,603	\$ 644,708
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 85,121	\$ 5,741	\$ 83,405
216 Accrued Wages Payable	32,699	-	-
217 Accrued Taxes Payable	19,740	-	-
Total Liabilities	137,560	5,741	83,405
<i>Deferred Inflows of Resources (Note 3)</i>			
245 Unavailable Revenue - Property Taxes	42,680	-	-
246 Unavailable Revenue - Special Assessments	-	-	46,033
Total Deferred Inflows of Resources	42,680	-	46,033
<i>Fund Balances</i>			
<i>Nonspendable Fund Balances</i>			
263.01 Inventory	11,670	-	-
263.02 SDPAA Deposit (Note 10)	59,972	-	-
263.51 Perpetual Care Cemetary	-	-	-
<i>Restricted Fund Balances</i>			
264.01 Debt Service	-	-	69,016
264.02 Capital Projects	-	-	-
264.04 Facilities and Promoting the City	-	9,862	-
264.05 Library	7,084	-	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balance</i>			
265.02 Capital Replacements	-	-	446,254
<i>Assigned Fund Balance</i>			
266.01 Subsequent Year's Budget	250,000	-	-
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	111,681	-	-
Total Fund Balances	440,407	9,862	515,270
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 620,647	\$ 15,603	\$ 644,708

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ 56,765	\$ 4,301	\$ 49,050	\$ 1,127,773
-	-	-	7,084
-	-	-	64,719
3,674	-	-	26,550
-	-	-	6,438
-	-	-	25,795
-	-	-	13,800
-	-	-	50,947
-	-	-	11,670
-	-	-	59,972
\$ 60,439	\$ 4,301	\$ 49,050	\$ 1,394,748

\$ -	\$ -	\$ -	\$ 174,267
-	-	-	32,699
-	-	-	19,740
-	-	-	226,706

-	-	-	42,680
-	-	-	46,033
-	-	-	88,713

-	-	-	11,670
-	-	-	59,972
-	-	49,050	49,050
-	-	-	69,016
-	4,301	-	4,301
-	-	-	9,862
-	-	-	7,084
60,439	-	-	60,439
-	-	-	446,254
-	-	-	250,000
-	-	-	111,681
60,439	4,301	49,050	1,079,329
\$ 60,439	\$ 4,301	\$ 49,050	\$ 1,394,748

CITY OF HOT SPRINGS

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

Total Funds Balance - Government Funds \$ 1,079,329

Amount to be 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. 6,725,097

Long-term liabilities, including bonds payable and compensated absences, are not
due and payable in the current period and therefore are not reported in the funds. (724,252)

Assets, such as delinquent taxes receivable, special assessments receivable and due
from governments, are not available to pay for current period expenditures and
therefore are deferred in the funds. 88,713

Total Net Position - Governmental Funds \$ 7,168,887

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

CITY OF HOT SPRINGS

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

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Revenues				
<i>Taxes:</i>				
311	\$ 1,006,133	\$ -	\$ -	\$ -
313	836,187	136,990	415,749	-
315	720	-	-	-
319	5,430	-	-	-
320	32,841	-	-	-
<i>Intergovernmental Revenue:</i>				
331	-	-	35,581	-
334	7,638	-	-	-
<i>State Shared Revenue:</i>				
335.01	2,678	-	-	-
335.02	6,391	-	-	-
335.03	28,885	-	-	-
335.04	28,468	-	-	-
335.08	71,316	-	-	-
335.20	28,295	-	-	-
<i>County Shared Revenue:</i>				
338.02	1,532	-	-	-
<i>Charges for Goods and Services:</i>				
341	50,176	-	-	572
342	100	-	-	-
343	1,847	-	-	-
344	1,442	-	-	-
346	4,573	-	-	-
348	2,850	-	-	-
349	-	-	-	96,848
	Other - Golf Course & Pro Shop	386,350	-	-
	Other - Liquor	66,584	-	-
	Other - Airport	710	-	-
<i>Fines and Forfeits:</i>				
351	174	-	-	-
<i>Miscellaneous Revenue:</i>				
361	2,105	-	-	-
362	30,644	-	-	-
363	-	-	9,573	-
367	13,728	-	-	-
369	12,161	-	-	-
TOTAL REVENUES	2,629,958	136,990	460,903	97,420

HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 1,006,133
-	-	-	1,388,926
-	-	-	720
-	-	-	5,430
-	-	-	32,841
-	-	-	35,581
-	-	-	7,638
-	-	-	2,678
-	-	-	6,391
-	-	-	28,885
-	-	-	28,468
-	-	-	71,316
-	-	-	28,295
-	-	-	1,532
-	-	-	50,748
-	-	-	100
-	-	-	1,847
-	-	-	1,442
-	-	-	4,573
-	1,625	-	4,475
-	-	-	96,848
-	-	-	386,350
-	-	-	66,584
-	-	-	710
-	-	-	174
-	320	2	2,427
-	-	-	30,644
-	-	-	9,573
4,301	-	-	18,029
-	-	-	12,161
4,301	1,945	2	3,331,519

CITY OF HOT SPRINGS

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

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Expenditures				
<i>General Governments:</i>				
411	Legislative	\$ 48,265	\$ -	\$ -
414	Financial Administration	283,106	-	-
419	Other	175,588	-	-
<i>Public Safety:</i>				
421	Police	577,457	-	-
422	Fire	85,335	-	-
423	Protective Inspection	66,715	-	-
429	Other	-	106,541	-
<i>Public Works:</i>				
431	Highway and Streets	474,235	-	-
432	Sanitation - Street Cleaning	35,024	-	-
435	Airport	59,859	-	-
437	Cemeteries	51,100	-	-
<i>Health and Welfare:</i>				
441	Health	35,350	-	-
<i>Culture and Recreation:</i>				
451	Recreation - Golf Course & ProShop	585,569	-	-
452	Parks	111,097	-	-
455	Library	228,955	-	-
456	Auditorium	91,898	-	-
<i>Conservation and Development:</i>				
465	Economic Development Assistance	-	145,054	-
466	Economic Opportunity	-	-	97,713
470	Debt Service	-	185,015	-
485	Capital Outlay	193,063	78,712	-
Total Expenditures		3,102,616	145,054	370,268
Other Financing Sources (Uses)				
391.01	Transfers In (Note 7)	200,000	-	-
391.20	Long-term Debt Issued	-	500,000	-
511	Transfers Out (Note 7)	(1,171)	-	-
Total Other Financing Sources (Uses)		198,829	-	500,000
Net Change in Fund Balances		(273,829)	(8,064)	590,635
Fund Balances - December 31, 2012		714,236	17,926	(75,365)
Fund Balances - December 31, 2013		\$ 440,407	\$ 9,862	\$ 515,270
			\$ 60,439	

The accompanying notes are an integral part of the financial statements

HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 48,265
-	-	-	283,106
-	-	-	175,588
-	-	-	577,457
-	-	-	85,335
-	-	-	66,715
-	-	-	106,541
-	-	-	474,235
-	-	-	35,024
-	-	-	59,859
-	-	-	51,100
-	-	-	35,350
-	-	-	585,569
-	-	-	111,097
-	-	-	228,955
-	-	-	91,898
-	-	-	145,054
-	-	-	97,713
-	-	-	185,015
-	-	-	271,775
-	-	-	3,715,651
-	-	1,186	201,186
-	-	-	500,000
-	-	(15)	(1,186)
-	-	1,171	700,000
4,301	1,945	1,173	315,868
-	47,105	(1,173)	763,461
\$ 4,301	\$ 49,050	\$ -	\$ 1,079,329

CITY OF HOT SPRINGS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2013**

Net change in fund balance - total governmental funds \$ 315,868

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

This amount represents capital asset purchases which are reported as
expenditures on the fund financial statements, but increase assets on the
Statement of Net Position. 271,775

This amount represents capital assets transferred from proprietary funds
which are not reported on the fund statements. 29,750

This amount represents the current year depreciation expense reported in the
Statement of Activities, which is not reported on the fund financial
statements because it does not require the use of current financial resources. (383,537)

The fund financial statement governmental fund property tax accruals differ
from the government wide statement property tax accruals in that the fund
financial statements require the amount to be "available". 5,218

Governmental funds report special assessments as revenue when available,
but the Statement of Activities includes the full amount of special
assessments as revenue upon completion of the project at the point when an
enforceable legal claim arises. 27,953

The issuance of long-term debt is an other financing source in the governmental
funds, but an increase in long-term liabilities on the Statement of Net Position. (500,000)

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net
Position. 172,940

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. 16,263

Changes in Net Position of Governmental Activities \$ (43,770)

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

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2013

	Water Fund	Sewer Fund	Solid Waste Fund	Evans Plunge Fund	Total Proprietary Funds
Assets					
Current Assets					
101 Cash and Cash Equivalents (Note 2)	\$ 2,547,678	\$ 1,509,629	\$ 268,246	\$ 494,428	\$ 4,819,981
107 Restricted Cash and Cash Equivalents (Note 2)	-	4,222	-	-	4,222
115 Accounts Receivable (Note 5)	60,059	75,358	16,243	-	151,660
117 Unbilled Accounts Receivable	25,556	27,241	7,575	-	60,372
Special Assessments Receivable:					
121 Current	3,017	3,235	-	-	6,252
122 Delinquent	302	780	-	-	1,082
123 Deferred	2,414	9,705	-	-	12,119
141 Inventory of Supplies	48,097	25,256	-	-	73,353
142 Inventory of Stores - Resale	-	-	-	56,490	56,490
Total Current Assets	2,687,123	1,655,426	292,064	550,918	5,185,531
Noncurrent Assets					
Capital Assets:					
160 Land	57,320	-	-	190,060	247,380
162 Buildings	1,245,606	2,143,054	-	1,146,934	4,535,594
163 Accumulated Depreciation (A/D) - Buildings	(642,551)	(1,675,318)	-	(11,469)	(2,329,338)
164 Improvements Other Than Buildings	3,914,028	3,783,503	45,500	-	7,743,031
165 A/D - Improvements Other Than Buildings	(1,554,881)	(967,159)	(38,673)	-	(2,560,713)
166 Machinery and Equipment	328,094	565,262	248,891	-	1,142,247
167 A/D - Machinery and Equipment	(190,536)	(333,475)	(217,081)	-	(741,092)
168 Construction in Progress	-	-	-	20,598	20,598
Total Noncurrent Assets	3,157,080	3,515,867	38,637	1,346,123	8,057,707
Total Assets	\$ 5,844,203	\$ 5,171,293	\$ 330,701	\$ 1,897,041	\$ 13,243,238
Liabilities and Net Position					
Current Liabilities					
202 Accounts Payable	\$ 7,974	\$ 5,531	\$ 11,738	\$ 14,986	\$ 40,229
205 Current Portion of Long-Term Debt (Note 6)	62,051	51,664	-	65,000	178,715
215 Accrued Interest Payable	10,131	8,269	-	26,618	45,018
216 Accrued Wages Payable	5,218	3,760	-	6,799	15,777
217 Accrued Taxes Payable	2,409	1,591	827	4,575	9,402
220 Customer Deposits	149,436	-	-	-	149,436
233 Accrued Leave Payable (Note 6)	14,163	7,331	-	629	22,123
Total Current Liabilities	251,382	78,146	12,565	118,607	460,700
Long Term Liabilities					
237 Long-Term Debt, Net of Current Portion (Note 6)	1,528,614	1,525,071	-	1,835,000	4,888,685
Total Liabilities	1,779,996	1,603,217	12,565	1,953,607	5,349,385
Net Position					
253.1 Net Investment in Capital Assets	1,566,415	1,939,132	38,637	-	3,544,184
253.2 Restricted for Debt Service	-	4,222	-	151,103	155,325
253.29 Restricted for Capital Improvements	-	-	-	327,946	327,946
252 Unrestricted Net Position (Deficit)	2,497,792	1,624,722	279,499	(535,615)	3,866,398
Total Net Position (Deficit)	4,064,207	3,568,076	318,136	(56,566)	7,893,853
Total Liabilities and Net Position	\$ 5,844,203	\$ 5,171,293	\$ 330,701	\$ 1,897,041	\$ 13,243,238

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

CITY OF HOT SPRINGS

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

	Water Fund	Sewer Fund	Solid Waste Fund	Evans Plunge Fund	Total Proprietary Funds
Operating Revenues					
380 Charges for Goods and Services (Note 6)	\$ 1,073,186	\$ 744,040	\$ 189,911	\$ 375,072	\$ 2,382,209
Total Operating Revenues	1,073,186	744,040	189,911	375,072	2,382,209
Operating Expenses					
410 Personal Services	199,380	154,869	-	173,412	527,661
420 Other Current Expense	238,808	136,908	152,081	156,780	684,577
457 Depreciation	124,900	198,323	17,511	11,469	352,203
Total Operating Expenses	563,088	490,100	169,592	341,661	1,564,441
Operating Income	510,098	253,940	20,319	33,411	817,768
Non-Operating Income (Expense)					
361 Earnings on Deposits and Investments	42	79	-	-	121
363 Special Assessments Revenue	3,660	14,935	-	-	18,595
459 Loss on Disposition & Impairment of Capital Assets	-	-	(2,702)	-	(2,702)
470 Interest Expense and Fiscal Charges	(46,603)	(71,174)	(41)	(89,977)	(207,795)
Total Non-Operating Income (Expense)	(42,901)	(56,160)	(2,743)	(89,977)	(191,781)
Income (Loss) before Transfers	467,197	197,780	17,576	(56,566)	625,987
Transfers Out (Note 7)	(100,000)	(100,000)	(29,750)	-	(229,750)
Change in Net Position	367,197	97,780	(12,174)	(56,566)	396,237
Net Position - December 31, 2012	3,697,010	3,470,296	926,576	-	8,093,882
Prior Period Adjustment (Note 13)	-	-	(596,266)	-	(596,266)
Net Position - December 31, 2012 Restated	3,697,010	3,470,296	330,310	-	7,497,616
Net Position - December 31, 2013	\$ 4,064,207	\$ 3,568,076	\$ 318,136	\$ (56,566)	\$ 7,893,853

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

CITY OF HOT SPRINGS

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

	Water Fund	Sewer Fund	Solid Waste Fund	Evans Plunge Fund	Total Proprietary Funds
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 1,071,583	\$ 727,758	\$ 201,559	\$ 375,072	\$ 2,375,972
Payments to Suppliers	(222,925)	(131,377)	(139,516)	(198,284)	(692,102)
Payments to Employees	(200,028)	(146,273)	-	(161,409)	(507,710)
Net Cash Flows Provided by Operating Activities	648,630	450,108	62,043	15,379	1,176,160
Cash Flows Used in Noncapital Financing Activities					
Transfers Out	(100,000)	(100,000)	(29,750)	-	(229,750)
Cash Flows from Capital and Related Financing Activities					
Purchase of Capital Assets	-	(12,204)	-	(1,357,592)	(1,369,796)
Proceeds from Debt Borrowings	-	-	-	1,900,000	1,900,000
Principal Paid on Capital Debt	(45,336)	(27,982)	(188,618)	-	(261,936)
Interest and Debt Issuance Costs Paid	(73,726)	(64,417)	(41)	(63,359)	(201,543)
Other Receipts	1,548	6,650	-	-	8,198
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(117,514)	(97,953)	(188,659)	479,049	74,923
Cash Flows from Investing Activities:					
Earnings on Deposit and Investments	42	79	-	-	121
Increase (Decrease) in Cash and Cash Equivalents	431,158	252,234	(156,366)	494,428	1,021,454
Cash and Cash Equivalents - December 31, 2012	2,116,520	1,261,617	424,612	-	3,802,749
Cash and Cash Equivalents - December 31, 2013	\$ 2,547,678	\$ 1,513,851	\$ 268,246	\$ 494,428	\$ 4,824,203
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities					
Operating Income	\$ 510,098	\$ 253,940	\$ 20,319	\$ 33,411	\$ 817,768
<i>Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities</i>					
Depreciation Expense	124,900	198,323	17,511	11,469	352,203
Change in Assets and Liabilities:					
Accounts Receivable	(9,601)	(16,282)	11,648	-	(14,235)
Inventories	7,939	-	-	(56,490)	(48,551)
Accounts Payable	7,944	5,531	11,738	14,986	40,199
Accrued Wages Payable	5,218	3,760	-	6,799	15,777
Accrued Taxes Payable	2,409	1,591	827	4,575	9,402
Customer Deposits	7,998	-	-	-	7,998
Accrued Leave Payable	(8,275)	3,245	-	629	(4,401)
Net Cash Flows Provided by Operating Activities	\$ 648,630	\$ 450,108	\$ 62,043	\$ 15,379	\$ 1,176,160
Noncash Investing, Capital and Financing Activities:					
Loss on Disposal of Capital Assets	\$ -	\$ -	\$ 2,702	\$ -	\$ 2,702

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2013

(1) Summary of Significant Accounting Policies

a. Financial Reporting Entity

The reporting entity of the City of Hot Springs (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); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The Housing and Redevelopment Commission of the City of Hot Springs, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: 201 South River Street, Hot Springs, SD 57747.

b. Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. 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. Discretely presented component units are legally separate organizations that meet certain criteria, as described in Note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

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

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows and outflows, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. 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, deferred inflows and outflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

General Fund ó 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 ó 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.

Liquor, Lodging and Dining Gross Receipts Tax Fund - to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the city (SDCL 10-52A-2). This is a major fund.

Additional Sales Tax Fund ó to account for one-third of the sales, services and use tax that is collected by the City and restricted by the City ordinance to use for debt service, street improvements, street maintenance equipment, building construction, and building up-keep and repair and any other expenditures deemed necessary and approved by the Common Council of the City. This is a major fund.

Business Improvement District #1 Fund ó to account for an occupation tax as established in SDCL 9-55-2 at the rate of \$2.00 per unit per night collected from transient guests for the financing of a portion or all of the future proposed public activities, facilities and improvements, along with the cost of acquisition, construction, maintenance, operating and repair of such improvements, facilities and activities, with a primary focus on promotion, marketing and betterment of the City as allowed in SDCL 9-55-3. This is a major fund.

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Continued)

Fund Financial Statements (Continued):

Governmental Funds (Continued):

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

Hot Springs Capital Improvements Fund ó to account for financial resources to be used for special projects throughout the community, such as Splash Park and A.G. Wilson Memorial per City Ordinance #1138. This fund is a major fund.

Permanent Funds ó 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 ó that is for the benefit of the City and its citizenry.

Cemetery Perpetual Care Fund ó to account for the payments received for perpetual care of cemeteries which is permanently set aside and of 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 a major fund.

During the year ended December 31, 2013, the City elected to close the Historic Restoration and Preservation Fund, Capital Projects Fund, and Freedom Trail Fund due to inactivity and lack of need at this time. The closeout resulted in the transfer of funds from the General Fund to offset the net deficit in these funds. This activity is presented in the Other Governmental Funds as these funds are not major funds.

Proprietary Funds:

Enterprise Funds ó 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.

- 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 or component unit ó even if that government is not expected to make any payments ó 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).

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

b. Basis of Presentation (Concluded)

Proprietary Funds (Continued):

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

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

Solid Waste Fund ó financed primarily by user charges. This fund accounts for the collection and removal of solid waste from the City (SDCL 9-32-11 and 34A-6). This is a major fund.

Evans Plunge ó financed primarily by user charges. This fund accounts for the operation and capital improvements of the Evans Plunge Waterpark, which was purchased on July 1, 2013. This is a major fund.

c. Measurement Focus and Basis of Accounting

Measurement Focus:

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

Fund Financial Statements:

In the fund financial statements, the õcurrent financial resourcesö measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the õeconomic resourcesö measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting:

Government-wide Financial Statements:

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

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

c. Measurement Focus and Basis of Accounting (Continued)

Basis of Accounting (Continued):

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City of Hot Springs, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2013, are property tax, sales tax, special assessments receivable and other state shared revenues.

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. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

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

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

d. Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

Investments classified in the financial statements consist primarily of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investments authorized by South Dakota Codified Laws (SDCL) 4-5-6.

e. Capital Assets

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that are normally 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.

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

e. Capital Assets (Continued)

Government-wide Financial Statements:

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

The total December 31, 2013 balance of the governmental activities capital assets includes approximately two percent for which the costs were determined by estimates of the original costs. The total December 31, 2013, balance of the business-type capital assets includes approximately one percent for which the costs were determined by estimates of the original costs. These estimations were established by reviewing applicable historical costs of similar items and basing estimations thereon.

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."

Construction-period interest for capital assets used in governmental activities is not capitalized in accordance with USGAAP; however, construction-period interest for capital assets used in business-type activities/proprietary fund operations, is capitalized in accordance with USGAAP.

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.

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

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$0	-- N/A --	-- N/A --
Improvements Other than Buildings	\$5,000	Straight-line	10-30 years
Buildings	\$5,000	Straight-line	30-50 years
Machinery and Equipment	\$5,000	Straight-line	3-25 years

Land is an inexhaustible capital asset and is not depreciated.

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

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

f. Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of sales tax, water, and sewer revenue bonds; secured note payable from a local bank; and compensated absences.

In the fund financial statements, debt proceeds of governmental funds 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, the same in the fund statements as in the government-wide financial statements.

g. Program Revenues

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

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

h. Deferred Inflows of Resources

The statement of financial position reports a separate section of deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

i. Proprietary Funds Revenue and Expense Classifications

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

j. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of the cash 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 HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Continued)

k. Equity Classifications

Government-wide Financial Statements:

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

1. Net investment in capital assets ó 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 ó 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 ó all other net positions that do not meet the definition of restricted or net investment in capital assets.

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 positions are available.

Governmental Funds:

The City classifies governmental fund balances as follows:

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

Restricted ó 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 ó 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.

Assigned ó includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by action of the Mayor and the City Council.

Unassigned ó includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

The City uses restricted amounts first when both restricted and unrestricted fund balance is 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.

The City does not have a formal minimum fund balance policy.

Proprietary Funds:

Proprietary fund equity is classified the same as in the government-wide financial statements.

CITY OF HOT SPRINGS

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

(1) Summary of Significant Accounting Policies (Concluded)

I. Inventory

The City maintains inventory including golf course pro-shop and Evans Plunge gift shop saleable items, including food items. Additionally, the City maintains inventory in the water and sewer funds including small infrastructure repair/replacement items. Inventory is recorded at the lower of cost or market on first-in, first-out cost flow assumption.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute available spendable resources even though they are a component of net current assets.

m. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from these estimates.

(2) Deposits and Investments

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

Deposits ó 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 "AAA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments ó 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 political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

CITY OF HOT SPRINGS

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

(2) Deposits and Investments (Continued)

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.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2013, none of the City's deposits were exposed to custodial credit risk.

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. No more than five percent of the City's investments are in one investment.

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 per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for 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.

Restricted Cash and Investments:

Debt covenants require the following cash reserves as of December 31, 2013:

Additional Sales Tax Fund ó 2009 Sales Tax Revenue Bonds	\$69,016
Sewer Fund ó 2010 Sewer Revenue Bonds	4,222
Evans Plunge Fund ó 2013 Sales Tax Bonds	151,103
Evans Plunge Fund ó Unspent Debt Proceeds ó Capital Project	327,946

As of December 31, 2013, the City only met the debt covenants of segregated cash reserves for the \$4,222 in the sewer fund and, therefore, restricted cash is not shown for either the Additional Sales Tax Fund or Evans Plunge Fund.

(3) Deferred Inflows

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

CITY OF HOT SPRINGS

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

(4) 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 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.

(5) 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 uncollectible balances have been established by review of past due accounts. Allowances of \$4,500, \$8,500 and \$500 have been recorded in the water fund, sewer fund and solid waste fund, respectively.

(6) Long-Term Debt

	Balance 12/31/2012	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2013	Due Within One Year
Primary Government:					
<i>Governmental Activities:</i>					
Sales Tax Revenue Bonds	\$ 263,785	\$ -	\$ (129,511)	\$ 134,274	\$ 134,274
Special Assessment Note Payable	-	500,000	(43,429)	456,571	63,483
Compensated Absences	149,670	40,213	(56,476)	133,407	133,407
Total Governmental Activities	413,455	540,213	(229,416)	724,252	331,164
<i>Business - Type Activities:</i>					
Revenue Bonds	3,429,336	1,900,000	(261,936)	5,067,400	178,715
Compensated Absences	26,524	13,142	(17,543)	22,123	22,123
Total Business - Type Activities	3,455,860	1,913,142	(279,479)	5,089,523	200,838
Total Primary Government	\$ 3,869,315	\$ 2,453,355	\$ (508,895)	\$ 5,813,775	\$ 532,002

Total interest expense included in the Statement of Activities for the year ended December 31, 2013 was \$156,540.

CITY OF HOT SPRINGS

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

(6) Long-Term Debt (Continued)

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

Revenue Bonds:

Sales Tax Revenue Bonds Series 2013 for acquisition, maintenance and improvement of Evans Plunge. Issued August 27, 2013 for \$1,900,000, due in variable semi-annual installments including interest at .75 to 5 percent through December 2032. Financed through the Evans Plunge Fund, in addition to 1/3 of the City's sales tax revenue. \$ 1,900,000

Drinking Water Revenue State Revolving Fund Loan (SRF) for drinking water facilities improvements. Issued May 18, 2011 for \$1,636,000, due in quarterly installments of \$27,269 including interest at 3 percent through July 2033. Financed through the Water Fund. 1,590,664

Clean Water Revenue State Revolving Fund Loan (SRF) for sewer facilities improvements. Issued May 18, 2011 for \$1,227,332, due in quarterly installments of \$20,457 including interest at 3 percent through April 2033. Financed through the Sewer Fund. 1,204,743

Sewer Revenue Bonds Series 2010 for sewer improvements. Issued August 4, 2010 for \$385,000, due in monthly installments of \$1,456, including interest at 3.25 percent through May 2050. Financed through the Sewer Fund. 371,993

Sales Tax Revenue Bonds Series 2009 for the golf course project. Issued October 2, 2009 for \$625,000, due in semi-annual installments of \$69,016 including interest at 3.69 percent through October 2014. Financed through the Sales Tax Fund. 134,274

Special Assessment:

Special Assessments Note Payable for back 9 street improvement. Issued July 18, 2013 for \$500,000, due in semi-annual installments of \$40,228 including interest at 3.85 percent through May 2020. Financed through the Sales Tax Fund and collateralized with golf course inventory and equipment. 456,571

5,658,245

Compensated Absences:

General Fund 133,407
Water Fund 14,163
Sewer Fund 7,331
Evans Plunge Fund 629

Total Compensated Absences 155,530

Total Long-Term Debt \$ 5,813,775

CITY OF HOT SPRINGS

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

(6) Long-Term Debt (Concluded)

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

	Revenue Bonds		Special Assessments		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2014	\$ 180,877	\$ 312,989	\$ 16,973	\$ 63,483	\$ 197,850	\$ 376,472
2015	158,022	197,179	14,505	65,951	172,527	263,130
2016	153,852	200,749	11,942	68,514	165,794	269,263
2017	149,054	209,427	9,278	71,177	158,332	280,604
2018	144,073	213,218	6,512	73,944	150,585	287,162
2019-2023	627,821	1,147,126	4,339	113,502	632,160	1,260,628
2024-2028	428,667	1,345,812	-	-	428,667	1,345,812
2029-2033	157,909	1,354,423	-	-	157,909	1,354,423
2034-2038	31,554	55,806	-	-	31,554	55,806
2039-2043	21,721	65,639	-	-	21,721	65,639
2044-2048	10,156	77,205	-	-	10,156	77,205
2049-2050	467	22,101	-	-	467	22,101
Total	\$ 2,064,173	\$ 5,201,674	\$ 63,549	\$ 456,571	\$ 2,127,722	\$ 5,658,245

Business-type Activities

The City has pledged future revenues of the Water Fund and Sewer Fund for the retirement of debt issuances associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year.

Funds	Water Fund	Sewer Fund
Current Year Principal and Interest	\$ 91,939	\$ 100,362
Pledged Revenue	1,073,186	744,040

The City has not properly restricted cash in accordance with their debt covenants. See Note 2.

(7) Interfund Transfers

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

Fund	Transfers	
	In	Out
Governmental Activities	\$ 29,750	\$ -
General Fund	200,000	1,171
<i>Other Governmental Funds:</i>		
Historic Restoration and Preservation Fund	-	15
Freedom's Trail Fund	1,186	-
Water Fund	-	100,000
Sewer Fund	-	100,000
Solid Waste Fund	-	29,750
Total Transfers	\$ 230,936	\$ 230,936

CITY OF HOT SPRINGS

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

(7) Interfund Transfers (Continued)

Transfers are used to provide operating resources from the proprietary funds to the general fund. Transfers were also used to close the Historic Restoration and Preservation Fund, Capital Projects Fund, and Freedom Trail Fund due to inactivity and lack of need at this time. A side dump was purchased for \$29,750 by the Solid Waste fund and transferred to the General Fund for use.

(8) Changes in Capital Assets

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

	Restated Balance 12/31/2012 (Note 13)	Additions/ Transfers	Transfers/ Deletions	Balance 12/31/2013
<i>Governmental Activities:</i>				
Capital Assets, not Being Depreciated				
Land	\$ 364,571	\$ -	\$ -	\$ 364,571
Construction in Progress	-	102,010	-	102,010
Total Capital Assets, not Being Depreciated	364,571	102,010	-	466,581
Capital Assets, Being Depreciated:				
Buildings	5,751,549	102,073	27,131	5,826,491
Improvements Other Than Buildings	4,097,522	-	22,081	4,075,441
Machinery and Equipment	2,537,173	97,442	537,295	2,097,320
Total Capital Assets, Being Depreciated	12,386,244	199,515	586,507	11,999,252
Less Accumulated Depreciation for:				
Buildings	1,886,638	115,275	27,131	1,974,782
Improvements Other Than Buildings	1,947,581	134,351	22,081	2,059,851
Machinery and Equipment	2,109,487	133,911	537,295	1,706,103
Total Accumulated Depreciation	5,943,706	383,537	586,507	5,740,736
Total Governmental Activities Capital Assets, Being Depreciated, Net	6,442,538	(184,022)	-	6,258,516
Total Governmental Capital Assets, Net	\$ 6,807,109	\$ (82,012)	\$ -	\$ 6,725,097

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 180,870
Public Works	180,080
Public Safety	19,973
General Government	2,614
Total Depreciation Expense - Governmental	\$ 383,537

CITY OF HOT SPRINGS

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

(8) Changes in Capital Assets (Continued)

	Restated Balance 12/31/2012 (Note 13)	Additions	Transfers/ Deletions	Balance 12/31/2013
<i>Business -Type Activities:</i>				
Capital Assets, not Being Depreciated				
Land	\$ 57,320	\$ 190,060	\$ -	\$ 247,380
Construction in Progress	-	20,598	-	20,598
Total Capital Assets, not Being Depreciated	57,320	210,658	-	267,978
Capital Assets, Being Depreciated:				
Buildings	3,388,660	1,146,934	-	4,535,594
Improvements Other Than Buildings	7,747,933	-	4,902	7,743,031
Machinery and Equipment	1,232,355	12,204	102,312	1,142,247
Total Capital Assets, Being Depreciated	12,368,948	1,159,138	107,214	13,420,872
Less Accumulated Depreciation for:				
Buildings	2,228,320	101,019	-	2,329,339
Improvements Other Than Buildings	2,382,103	183,512	4,902	2,560,713
Machinery and Equipment	773,029	67,672	99,610	741,091
Total Accumulated Depreciation	5,383,452	352,203	104,512	5,631,143
Total Business-type Activities Capital Assets, Being Depreciated, Net	6,985,496	806,935	2,702	7,789,729
Total Business-type Capital Assets, Net	\$ 7,042,816	\$ 1,017,593	\$ 2,702	\$ 8,057,707

Depreciation expense was charged to funds as follows:

Water	\$ 124,900
Sewer	198,323
Solid Waste	17,511
Evans Plunge	11,469
Total Depreciation Expense - Business-type	\$ 352,203

The City has construction commitments related to construction in progress totaling \$260,143, which will be paid with current fund balance of the Additional Sales Tax Fund. After year end, the City signed a construction agreement for approximately \$116,490 for the construction of a glider hanger at the airport to be funded by general fund balance.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(9) Retirement Plan -- South Dakota Retirement System

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

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute 8 and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were **\$84,189**, \$79,796, and \$87,360, respectively, equal to the required contributions each year.

(10) Risk Management

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

Employee Health Insurance:

The City carries health insurance coverage from a commercial provider. There is no limit on lifetime maximum payment per person. The City pays a monthly premium to provide health insurance coverage for its employees.

Liability Insurance:

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

The agreement with the SDPAA provides that the above coverage will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2013, the City has a vested balance in the cumulative reserve fund of **\$59,972**.

The City carries a \$2,000 deductible for law enforcement operations and \$500 deductible for the vehicle coverage.

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2013

(10) Risk Management (Continued)

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the 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 cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium to provide worker's compensation coverage for its employees under a self-funded program, 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 during the past three years.

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

(11) Emerging Accounting Standards

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

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

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

(12) Legal Contingency

The City is involved in several lawsuits at December 31, 2013. No determination can be made at this time regarding potential outcome of these lawsuits, and accordingly no accrual is included on the accompanying financial statements. Any potential loss may be covered by the City's insurance coverage.

CITY OF HOT SPRINGS

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

(13) Prior Period Adjustments

The beginning net position of the Governmental Activities in the government-wide Statement of Net Position has been restated to record a prior period adjustment for \$35,000 of Construction in Progress not included as such as of December 31, 2012.

Additionally, the beginning net position of the Governmental Activities in the government-wide Statement of Net Position and the net position of the Solid Waste Fund in the fund financial statements Statement of Net Position have been restated to record a prior period adjustment for \$1,387,389 of cost with accumulated depreciation of \$813,596 for capital assets no longer used by the Solid Waste Fund transferred to the General Fund ó Highways and Streets. The City started outsourcing their solid waste processing at the beginning of 2011, and since this time the building and certain pieces of equipment have been used by the highways and streets department. Annual depreciation of \$44,776 had been recognized by the Solid Waste Fund since this change in use.

Lastly, the beginning net position of the Solid Waste Fund in the fund financial statements Statement of Net Position has been restated to record a prior period adjustment for \$22,473 to record impairment of processing equipment no longer used by the Solid Waste Fund since the outsourcing of solid waste processing, as discussed above, and the City was unable to sell or repurpose this equipment. Impairment should have been recognized during the year ended December 31, 2011. Annual depreciation of \$11,843 had been recognized by the Solid Waste Fund since this impairment.

(14) Discretely Presented Component Unit

Housing Redevelopment Commission of the City of Hot Springs, South Dakota

The carrying amount of deposits for the Housing and Redevelopment Commission, a discretely presented component unit, was \$752,554. Of this balance \$450,242 was attributable to the primary government of which \$202,362 is restricted for mortgage escrow deposits. The remaining \$302,512 was attributable to the Commission's component unit, the Fall River Housing and Redevelopment Commission. All of the deposits were fully insured or collateralized.

The component unit's capitalization policy is \$1,000. Capital asset activity for the Housing and Redevelopment Commission for the year ended December 31, 2013, is as follows:

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
<i>Hot Springs Housing and Redevelopment Commission:</i>				
Capital Assets not Being Depreciated:				
Land	\$ 108,775	\$ -	\$ -	\$ 108,775
Construction in Progress	58,085	-	58,085	-
Total Capital Assets not Being Depreciated	166,860	-	58,085	108,775
Capital Assets Being Depreciated:				
Buildings and Improvements	5,783,765	80,414	-	5,864,179
Furniture and Equipment	157,688	19,196	12,086	164,798
Idle Capital Assets	1,293,588	-	-	1,293,588
Total Capital Assets Being Depreciated	7,235,041	99,610	12,086	7,322,565
Less Accumulated Depreciation for:				
Buildings and Improvements	2,363,451	183,127	-	2,546,578
Furniture and Equipment	97,718	17,081	10,559	104,240
Idle Capital Assets	75,757	-	-	75,757
Total Accumulated Depreciation	2,536,926	200,208	10,559	2,726,575

CITY OF HOT SPRINGS

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

(14) Discretely Presented Component Unit (Continued)

	Balance 12/31/2012	Additions	Deletions	Balance 12/31/2013
Total Capital Assets Being Depreciated	4,698,115	(100,598)	1,527	4,595,990
Hot Springs Housing and Redevelopment Commission Capital Assets, Net	\$ 4,864,975	\$ (100,598)	\$ 59,612	\$ 4,704,765
<i>Fall River Housing and Redevelopment Commission:</i>				
Capital Assets not Being Depreciated:				
Land	\$ 23,021	\$ -	\$ -	\$ 23,021
Total Capital Assets not Being Depreciated	23,021	-	-	23,021
Capital Assets Being Depreciated:				
Buildings and Improvements	793,801	22,920	-	816,721
Furniture and Equipment	36,045	-	-	36,045
Total Capital Assets Being Depreciated	829,846	22,920	-	852,766
Less Accumulated Depreciation for:				
Buildings and Improvements	479,023	33,507	-	512,530
Furniture and Equipment	31,055	810	-	31,865
Total Accumulated Depreciation	510,078	34,317	-	544,395
Total Capital Assets Being Depreciated	319,768	(11,397)	-	308,371
Fall River Housing and Redevelopment Commission Capital Assets, Net	\$ 342,789	\$ (11,397)	\$ -	\$ 331,392

Changes in long-term liabilities of the Housing and Redevelopment Commission for the year ended December 31, 2013, are as follows:

	Balance 12/31/2012	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2013	Due Within One Year
Notes Payable	\$ 3,153,092	\$ -	\$ (137,377)	\$ 3,015,715	\$ 146,988
Compensated Absences	10,532	27,593	(7,812)	30,313	12,257
Total	\$ 3,163,624	\$ 27,593	\$ (145,189)	\$ 3,046,028	\$ 159,245

CITY OF HOT SPRINGS

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

(14) Discretely Presented Component Unit (Continued)

Notes payable at December 31, 2013 is comprised of the following:

Mortgage payable - South Dakota Housing Development Authority, monthly installments of \$18,738 including interest at 6.78 % interest, due September 2020; secured by land, building and equipment	\$ 1,215,715
Mortgage payable (2nd mortgage) - South Dakota Housing Development Authority, monthly installments of \$17,747 deferred until January 2021 including interest at 2.50%, due December 2025; secured by land, building and equipment	1,000,000
Mortgage payable (3rd mortgage) - South Dakota Housing Development Authority, irregular installments deferred until September 2021 including interest at 0%, due September 2029; secured by land, building and equipment	800,000
Total	\$ 3,015,715

In connection with obtaining the financing from South Dakota Housing Development Authority, the Project has entered into a Regulatory Agreement which provides, in part, for the following:

- a. Rents may not exceed those established by South Dakota Housing Development Authority.
- b. The Project is required to keep certain funds on deposit in designated “reserve” accounts for restricted use in paying designated costs and expenses. These accounts, whether in the form of a cash deposit or reinvestment in obligations of or fully guaranteed as to principal by the United States of America, shall at all times be under the control of South Dakota Housing Development Authority (SDHDA). The development cost escrow reserve fund was established with loan funds at loan closing. This fund is available in the event of any required design modifications of the project or to cover any delinquent mortgage payments. The residual receipts reserve is funded annually by the project. The annual required deposit varies and generally represents the excess of cash and certain receivables over current obligations of the project at year end. The funds are accumulated for the financial benefit of the Project and may be utilized only at the sole discretion of the SDHDA. Other required reserves are for replacements, decorating, taxes and insurance. These reserves require monthly deposits and are designated for the purposes described by their titles.
- c. The Project may not make any capital expenditures not approved by the SDHDA.
- d. The term of the Regulatory Agreement is the maturity or termination of the insured mortgage.

The annual requirements to amortize debt outstanding as of December 31, 2013, excluding compensated absences are as follows:

Year Ending	Principal	Interest	Total
June 30,			
2014	\$ 146,988	\$ 77,871	\$ 224,859
2015	157,270	67,590	224,860
2016	168,270	56,590	224,860
2017	180,040	44,820	224,860
2018	192,634	32,226	224,860
2019-2023	991,470	76,826	1,068,296
2024-2028	1,105,043	10,895	1,115,938
2029	74,000	-	74,000
Total	\$ 3,015,715	\$ 366,818	\$ 3,382,533

CITY OF HOT SPRINGS

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

(14) Discretely Presented Component Unit (Concluded)

During the year, the Housing Commission implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASBS No. 65), which amends or supersedes the accounting and financial reporting guidance for certain items previously required to be reported as assets or liabilities. Under GASBS No. 65, bond issuance costs will now be expenses when incurred, instead of being amortized over the term of the bond.

As such, the implementation of GASBS No. 65 resulted in a reduction of beginning net position of \$3,130.

OTHER REPORTS

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

To the Mayor and City Council
City of Hot Springs, 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, discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Hot Springs, South Dakota (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 20, 2015 which was qualified because of insufficient audit evidence related to inventory in the General Fund, Water Fund and Sewer Fund and prior audit qualifications on cash for all funds; receivables for the Water, Sewer and Solid Waste Funds and customer deposits for the Water Fund which affects the current year statement of activities, statement of revenues, expenses and changes in fund balances – governmental funds and the statement of revenues, expenses and changes in fund net position – proprietary funds.

Other auditors audited the financial statements of The Housing and Redevelopment Commission of the City of Hot Springs, South Dakota, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2013-001, 2013-002 and 2013-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2013-004 and 2013-005 to be significant deficiencies.

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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 and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion, the result of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as items 2013-002 and 2013-005.

We noted certain other matters that we reported to the management of the City in a separate letter dated DATE.

Hot Springs, South Dakota's Response to Findings

The City did not wish to respond to the findings identified in our audit as described in the accompanying schedule of auditor's findings and recommendations.

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 Municipality'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 entity'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.


Donna Denker & Associates
Certified Public Accountants

July 20, 2015

CITY OF HOT SPRINGS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2013**

Finding 2012-1: Financial Statement Preparation

This finding has been resolved.

Finding 2012-2: Internal Control over Recordkeeping

This finding was partially repeated as finding 2013-001.

Finding 2011-3: Utility Fund Revenue

This finding has been resolved.

Finding 2011-4: Cemetery Fund Revenue

This finding is being corrected and was moved to the letter to management.

CITY OF HOT SPRINGS

SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS DECEMBER 31, 2013

Material Weaknesses

2013-001: Internal Control over Recordkeeping

Criteria: Timely reconciliation of all bank accounts is essential for ensuring financial reports are accurate. In addition, timely reconciliation may help identify potential misappropriations of funds. Finally, outstanding bank reconciliation items over six months old should be investigated and addressed.

Condition: Bank reconciliations for the year were not completed until 2015 and significant revenue and expense adjustments were required to the general ledger during that process. Also, the city is not monitoring bank reconciliations for stale dated checks to ensure cash is accurately stated. We noted several stale dated checks dating back to 1995 with a total of \$6,213.

Cause: The City does not have a policy for oversight of the bank reconciliation function to ensure timely and accurate completion.

Effect: Timely and accurate financial reports were not available during the 2013 year due to the corrections identified during the delayed reconciliation process. Stale dated checks have not been addressed.

Recommendation: The City should ensure accurate and timely reconciliation of all bank accounts. Outstanding bank reconciliation items over six months old should be addressed and investigated. In addition, the City should develop written accounting policies to ensure the review and oversight of all phases of the accounting functions.

2013-002: Compliance with Debt Covenants

Criteria: The City has loans with debt covenants which require cash reserves.

Condition: The City did not maintain the required debt reserve for the year ended December 31, 2013, resulting in a violation of debt covenants. The City identified the violations in 2015 and made necessary changes to be in compliance with current debt covenants.

Cause: The City did not have a policy for monitoring debt covenants to ensure they were in compliance with the requirements.

Effect: The City was not in compliance with debt covenants which can jeopardize current and future funding.

Recommendation: We recommend the City develop a written process to monitor compliance with all covenants included in the bonds.

2013-003: Inventory and Fixed Assets Records

Criteria: Complete and accurate inventory records should be maintained not only to ensure proper reporting on the financial statements but also to deter theft and misappropriation. Fixed assets listings should be routinely reviewed to ensure accurate reporting. Construction in process should include all assets in process at year end as well as retainage amounts on the contracts.

Condition: The City did not conduct physical inventories of all departments at December 31, 2013. In addition, costs have not been updated on all inventory count sheets to ensure proper pricing of inventory. Several assets that were no longer used by the City were being maintained on the fixed asset schedule. In addition, assets from solid waste had been transferred to other departments in prior years but were still being reported in the solid waste fund. Prior year construction in process was not properly reported. Finally, current year retainage amounts were not recorded in the construction in process or corresponding accounts payable.

CITY OF HOT SPRINGS

SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS (CONTINUED) DECEMBER 31, 2013

Material Weaknesses (Continued)

2013-003: Inventory and Fixed Assets Records (Continued)

Cause: The lack of complete and accurate inventories was an oversight due to changes in personnel throughout the City. The City does not have a written process for review of inventories and was not routinely updating fixed assets schedules.

Effect: We were not able to obtain sufficient audit evidence to provide an unqualified opinion on inventory. Material prior period adjustments were made to fixed assets to correct the errors found.

Recommendation: The City should develop a written process to complete inventory counts and accurately record the current costs of the inventory at year end. Fixed asset schedules should be routinely updated to ensure proper financial reporting and to help deter theft.

Significant Deficiencies

2013-004: Documentation

Criteria: Documentation should be maintained for all transactions and City policies should be followed for retention of all documentation. To ensure proper financial reporting and improve controls, documentation should be maintained for all journal entries made in the computer software. A review and approval process should be in place for all entries. City policy requires purchase orders to be signed by the department head. In addition, the account number should be included on purchase orders.

Condition: We noted several items relating to documentation:

- The City does not have a policy to maintain documentation of journal entries made. In addition, there is no independent review and approval of journal entries prior to posting.
- During testing we noted several purchase orders were not signed by the department head or did not include the account number.
- The City was unable to find all documentation for several months of golf course receipts.

Cause: The City was not following established procedures for purchase orders. A policy has not been developed for journal entries. The golf course documentation was misplaced for part of the year.

Effect: Without proper documentation and review the City is at risk for misstatements to the financial statements. Lack of oversight could lead to misappropriations of assets. We were unable to test the golf course receipts to the underlying Z tapes for the day which provides evidence all revenue received was deposited and the deposits were coded to the correct accounts.

Recommendation: Department heads should authorize purchases made within the budget and approve coding on the purchase order. All journal entry documentation should be maintained and should include the initials of the preparer and the reviewer. The City should maintain adequate records for all revenue so that entries for each type of sale can be tied to the general ledger and to deposits on the bank statements.

CITY OF HOT SPRINGS

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS (CONCLUDED)
DECEMBER 31, 2013**

Significant Deficiencies (Continued)

2013-005: Compliance with Budget Laws

Criteria: South Dakota Codified Law 9-21-9 prohibits spending in excess of appropriated amounts at the department level.

Condition: The City had overdrafts of expenditures compared to appropriations as of December 31, 2013 in General Fund - Public Works \$11,548, General Fund - Capital Outlay \$193,063, General Fund -Transfers Out \$1,171, Liquor and Lodging and Dining Fund \$45.

Cause: Although a supplemental appropriation was made for 2013, the expenditures exceeded the appropriation for the year.

Effect: The City is not in compliance with State statutes.

Recommendation: The City should monitor expenditures to budget and approve supplemental appropriations as necessary.

2013-006: Compliance with Debt Issuance Laws

Criteria: South Dakota Codified Law 9-25-12 limits the term of promissory notes to a period not to exceed five years.

Condition: During 2013, the City issued a promissory note for a seven year period.

Cause: The City did not monitor compliance with the law when issuing the debt.

Effect: The debt was not issued in compliance with State statutes.

Recommendation: The City should have all debt reviewed by the City attorney to ensure all statutes are followed.