

CITY OF HOT SPRINGS  
HOT SPRINGS, SOUTH DAKOTA

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FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED DECEMBER 31, 2015

**CITY OF HOT SPRINGS**

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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, discretely presented component unit, and each major fund of the City of Hot Springs, South Dakota (the City), as of December 31, 2015 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, 2015, 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 Opinions on the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund**

We were unable to test inventories for December 31, 2014 and December 31, 2015, for the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund. We were unable to obtain sufficient audit evidence about the beginning and ending inventory balances in the funds noted in the prior sentence in order to ensure the statement of net position, statement of activities, statement of net position – proprietary 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, 2015.

Dependable, Innovative Solutions

**Qualified Opinions**

In our opinion, except for the effects of the matters discussed in the "Basis for Qualified Opinions" paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund of the City of Hot Springs, as of December 31, 2015, 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 Opinions**

In our opinion, based on our report and the report of other auditors, the financial statements referred to above, present fairly in all material respects, the respective financial position of the governmental activities, discretely presented component unit and each major fund other than Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund of the City, as of December 31, 2015, 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**

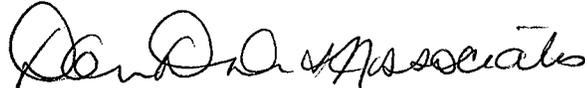
**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Schedule of the City's Proportionate Share of the Net Pension Asset and Schedule of the City's Contributions on pages 38 and 39 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The City 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 November 7, 2016, 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

**CITY OF HOT SPRINGS**

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

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>	Component Unit <u>(Note 14)</u>
<b>Assets:</b>				
Cash and Cash Equivalents (Note 2)	\$ 1,325,533	\$ 2,967,760	\$ <b>4,293,293</b>	\$ 394,570
Restricted Cash and Cash Equivalents (Note 2)	-	157,865	<b>157,865</b>	226,707
Receivables, Net (Note 5)	750,964	230,252	<b>981,216</b>	221,567
Prepaid Expenses	21,598	4,546	<b>26,144</b>	26,751
Due from Component Unit	18,445	-	<b>18,445</b>	-
Internal Balances	179,694	(179,694)	-	-
Inventories (Note 7)	-	173,503	<b>173,503</b>	21,259
Deposit (Note 10)	59,972	-	<b>59,972</b>	-
Net Pension Asset (Note 11)	252,230	90,142	<b>342,372</b>	41,146
Capital Assets (Notes 7 and 9):				
Land and Construction in Progress	409,872	559,701	<b>969,573</b>	131,796
Other Capital Assets, Net Depreciation	4,904,276	10,184,630	<b>15,088,906</b>	4,952,948
<b>TOTAL ASSETS</b>	<b>7,922,584</b>	<b>14,188,705</b>	<b>22,111,289</b>	<b>6,016,744</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension Related Deferred Outflows of Resources (Notes 3 and 11)	442,748	158,232	<b>600,980</b>	73,871
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**TOTAL ASSETS AND DEFERRED OUTFLOWS  
OF RESOURCES**

	\$ 8,365,332	\$ 14,346,937	<b>\$ 22,712,269</b>	\$ 6,090,615
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The accompanying notes are an integral part of the financial statements.

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>	Component Unit <u>(Note 14)</u>
<b>Liabilities:</b>				
Accounts Payable (Note 5)	\$ 40,946	\$ 79,721	\$ 120,667	\$ 31,801
Other Current Liabilities	45,157	214,502	259,659	95,596
Noncurrent Liabilities (Note 7):				
Due Within One Year	145,781	234,412	380,193	186,634
Due in More Than One Year	212,604	4,490,778	4,703,382	2,755,218
<b>TOTAL LIABILITIES</b>	<b>444,488</b>	<b>5,019,413</b>	<b>5,463,901</b>	<b>3,069,249</b>

**DEFERRED INFLOWS OF RESOURCES**

Pension Related Deferred Inflows of Resources (Notes 3 and 11)	372,169	133,007	505,176	60,711
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**Net Position:**

Net Investment in Capital Assets	5,029,496	6,439,865	11,469,361	2,159,737
Restricted for:				
Deposit - SDPAA (Note 10)	59,972	-	59,972	-
Cemetery - Nonexpendable	50,000	-	50,000	-
SDRS Pension (Note 11)	322,809	115,367	438,176	54,306
Cemetery - Expendable	3,414	-	3,414	-
Debt Service	-	7,717	7,717	-
Capital Projects	3,681	-	3,681	-
Facilities and Promoting the City	12,159	-	12,159	-
Business Improvement District	42,609	-	42,609	-
Mortgage Escrow Deposits	-	-	-	226,707
Unrestricted	2,024,535	2,631,568	4,656,103	519,905
<b>TOTAL NET POSITION</b>	<b>7,548,675</b>	<b>9,194,517</b>	<b>16,743,192</b>	<b>2,960,655</b>

**TOTAL LIABILITIES, DEFERRED INFLOWS**

<b>OF RESOURCES, AND NET POSITION</b>	<b>\$ 8,365,332</b>	<b>\$ 14,346,937</b>	<b>\$ 22,712,269</b>	<b>\$ 6,090,615</b>
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**CITY OF HOT SPRINGS**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Function/Programs</u>	Expenses	----- Program Revenues -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government</b>				
<i>Governmental Activities:</i>				
General Government	\$ 530,103	\$ 66,858	\$ -	\$ -
Public Safety	713,584	93	-	-
Public Works	896,595	36,971	-	229,462
Health and Welfare	32,447	375	-	-
Culture and Recreation	628,756	177,206	556	-
Conservation and Development	409,151	-	-	163,251
Interest on Long Term Debt	12,248	-	-	-
<b>Total Governmental Activities</b>	<b>3,222,884</b>	<b>281,503</b>	<b>556</b>	<b>392,713</b>
<i>Business-Type Activities:</i>				
Water	696,086	839,112	-	-
Sewer	535,580	751,602	-	-
Solid Waste	171,523	177,541	-	-
Golf Course	615,552	427,078	-	-
Evans Plunge	731,152	715,916	-	-
<b>Total Business-Type Activities</b>	<b>2,749,893</b>	<b>2,911,249</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 5,972,777</b>	<b>\$ 3,192,752</b>	<b>\$ 556</b>	<b>\$ 392,713</b>
<b>Component Unit:</b>				
Housing and Development Commission	\$ 1,236,236	\$ 689,138	\$ 569,174	\$ -
<b>General Revenues:</b>				
Taxes:				
Property Taxes				
Sales Taxes				
State Shared Revenue				
Unrestricted Investment Earnings				
Miscellaneous Revenue				
Capital Contributions				
<u>Transfers (Note 6)</u>				
<b>Total General Revenues</b>				
<b>Changes in Net Position</b>				
Net Position, Beginning				
<u>Change in Accounting Principle (Note 12)</u>				
Net Position, Beginning, as Restated				
<b><u>Net Position, Ending</u></b>				

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

Net (Expense) Revenue and Changes in

-----Net Position-----

Governmental Business-Type			Component
Activities	Activities	Total	Unit (Note 14)
\$ (463,245)	\$ -	\$ (463,245)	\$ -
(713,491)	-	(713,491)	-
(630,162)	-	(630,162)	-
(32,072)	-	(32,072)	-
(450,994)	-	(450,994)	-
(245,900)	-	(245,900)	-
(12,248)	-	(12,248)	-
(2,548,112)	-	(2,548,112)	-
-	143,026	143,026	-
-	216,022	216,022	-
-	6,018	6,018	-
-	(188,474)	(188,474)	-
-	(15,236)	(15,236)	-
-	161,356	161,356	-
(2,548,112)	161,356	(2,386,756)	-
-	-	-	22,076
986,529	-	986,529	-
1,734,045	-	1,734,045	-
198,885	-	198,885	-
3,639	141	3,780	8,989
29,706	4,319	34,025	22,899
-	-	-	51,214
232,288	(232,288)	-	-
3,185,092	(227,828)	2,957,264	83,102
636,980	(66,472)	570,508	105,178
6,629,762	9,160,231	15,789,993	2,806,858
281,933	100,758	382,691	48,619
6,911,695	9,260,989	16,172,684	2,855,477
\$ 7,548,675	\$ 9,194,517	\$ 16,743,192	\$ 2,960,655

**CITY OF HOT SPRINGS**

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

	<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents (Note 2)	\$ 579,815	\$ 11,106	\$ 636,824
108 Property Taxes Receivable	53,024	-	-
115 Accounts Receivable (Note 5)	82,096	-	-
121 Special Assessments Receivable - Current	-	-	55,131
122 Special Assessments Receivable - Delinquent	-	-	36,853
123 Special Assessments Receivable - Deferred	-	-	405,247
129 Due from Component Unit	18,445	-	-
131 Due from Evans Plunge Fund	47,783	-	-
132 Due from Other Governments - State	64,749	5,261	43,211
133 Advance to Golf Course Fund	131,911	-	-
154 Deposit - SDPAA (Note 10)	59,972	-	-
155 Prepaid Expenses	21,598	-	-
<b>Total Assets</b>	<b>\$ 1,059,393</b>	<b>\$ 16,367</b>	<b>\$ 1,177,266</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable (Note 5)	\$ 18,729	\$ 4,208	\$ 14,533
216 Accrued Wages Payable	37,476	-	-
217 Accrued Taxes and Benefits Payable	7,681	-	-
<b>Total Liabilities</b>	<b>63,886</b>	<b>4,208</b>	<b>14,533</b>
<i>Deferred Inflows of Resources (Notes 3 and 4)</i>			
245 Unavailable Revenue - Property Taxes	45,282	-	-
246 Unavailable Revenue - Special Assessments	-	-	497,231
<b>Total Deferred Inflows of Resources</b>	<b>45,282</b>	<b>-</b>	<b>497,231</b>
<i>Fund Balances</i>			
<i>Nonspendable Fund Balances</i>			
263.02 SDPAA Deposit (Note 10)	59,972	-	-
263.51 Perpetual Care Cemetery	-	-	-
263.82 Prepaid Expenses	21,598	-	-
<i>Restricted Fund Balances</i>			
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	12,159	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balance</i>			
265.02 Capital Replacements	-	-	665,502
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	868,655	-	-
<b>Total Fund Balances</b>	<b>950,225</b>	<b>12,159</b>	<b>665,502</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,059,393</b>	<b>\$ 16,367</b>	<b>\$ 1,177,266</b>

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

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ 40,693	\$ 3,681	\$ 53,414	\$ 1,325,533
-	-	-	53,024
5,392	-	-	87,488
-	-	-	55,131
-	-	-	36,853
-	-	-	405,247
-	-	-	18,445
-	-	-	47,783
-	-	-	113,221
-	-	-	131,911
-	-	-	59,972
-	-	-	21,598
<b>\$ 46,085</b>	<b>\$ 3,681</b>	<b>\$ 53,414</b>	<b>\$ 2,356,206</b>

\$ 3,476	\$ -	\$ -	\$ 40,946
-	-	-	37,476
-	-	-	7,681
3,476	-	-	86,103

-	-	-	45,282
-	-	-	497,231
-	-	-	542,513

-	-	-	59,972
-	-	50,000	50,000
-	-	-	21,598
-	3,681	-	3,681
-	-	3,414	3,414
-	-	-	12,159
42,609	-	-	42,609
-	-	-	665,502
-	-	-	868,655
42,609	3,681	53,414	1,727,590
<b>\$ 46,085</b>	<b>\$ 3,681</b>	<b>\$ 53,414</b>	<b>\$ 2,356,206</b>

**CITY OF HOT SPRINGS**

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

Total Funds Balance - Government Funds	\$ 1,727,590
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.	5,314,148
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.	(358,385)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	252,230
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	442,748
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(372,169)
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.	542,513
<b>Total Net Position - Governmental Funds</b>	<b>\$ 7,548,675</b>

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, 2015

		General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
<b>Revenues</b>				
<i>Taxes:</i>				
311	General Property Taxes	\$ 1,002,074	\$ -	\$ -
313	General Sales and Use Taxes	982,779	157,289	488,288
315	Amusement Taxes	720	-	-
319	Penalties and Interest	3,542	-	-
320	Licenses and Permits	28,937	-	-
<i>Intergovernmental Revenue:</i>				
331	Federal Grants	170,694	-	187,176
334	State Grants	-	-	13,085
<i>State Shared Revenue:</i>				
335.01	Bank Franchise Taxes	3,430	-	-
335.02	Motor Vehicle Commercial Prorate	6,753	-	-
335.03	Liquor Tax Reversion	23,147	-	-
335.04	Motor Vehicle Licenses	30,945	-	-
335.08	Local Government Highway & Bridges	80,052	-	-
335.20	Other	54,558	-	-
<i>County Shared Revenue:</i>				
338.01	County Road Tax	1,532	-	-
<i>Charges for Goods and Services:</i>				
341	General Government	37,087	-	-
342	Public Safety	93	-	-
343	Highways & Streets	831	-	-
344	Sanitation	1,241	-	-
346	Culture & Recreation	7,003	-	-
348	Cemetery	1,550	-	-
349	Other	-	-	-
	Other - Library	3,994	-	-
<i>Fines and Forfeits:</i>				
352	Animal Control Fines	375	-	-
354	Library Fines	3,287	-	-
<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits & Investments	3,632	-	-
362	Rentals	47,285	-	-
363	Special Assessments	-	-	69,352
367	Contributions and Donations	556	-	-
368	Liquor Operating Agreement Income	145,479	-	-
369	Other	21,302	-	-
<b>TOTAL REVENUES</b>		<b>2,662,878</b>	<b>157,289</b>	<b>757,901</b>

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,002,074
105,689	-	-	1,734,045
-	-	-	720
-	-	-	3,542
-	-	-	28,937
-	-	-	357,870
-	-	-	13,085
-	-	-	3,430
-	-	-	6,753
-	-	-	23,147
-	-	-	30,945
-	-	-	80,052
-	-	-	54,558
-	-	-	1,532
834	-	-	37,921
-	-	-	93
-	-	-	831
-	-	-	1,241
-	-	-	7,003
-	-	1,975	3,525
-	-	-	-
-	-	-	3,994
-	-	-	375
-	-	-	3,287
-	-	7	3,639
-	-	-	47,285
-	-	-	69,352
-	-	-	556
-	-	-	145,479
-	-	-	21,302
106,523	-	1,982	3,686,573

**CITY OF HOT SPRINGS**

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

	<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Expenditures</b>			
<i>General Governments:</i>			
411 Legislative	\$ 46,487	\$ -	\$ -
414 Financial Administration	271,392	-	-
419 Other	224,215	-	26,801
<i>Public Safety:</i>			
421 Police	559,467	-	-
422 Fire	100,000	-	-
423 Protective Inspection	56,505	-	-
<i>Public Works:</i>			
431 Highway and Streets	448,446	-	-
432 Sanitation - Street Cleaning	26,754	-	-
435 Airport	64,972	-	129,514
437 Cemeteries	53,247	-	-
<i>Health and Welfare:</i>			
441 Health	32,447	-	-
<i>Culture and Recreation:</i>			
451 Recreation	42,959	-	-
452 Parks	160,377	-	-
455 Library	227,967	-	-
456 Auditorium	97,040	-	-
<i>Conservation and Development:</i>			
465 Economic Development Assistance	163,251	155,916	-
470 Debt Service	-	-	80,456
485 Capital Outlay	42,162	-	59,375
<b>Total Expenditures</b>	<b>2,617,688</b>	<b>155,916</b>	<b>296,146</b>
<b>Other Financing Sources</b>			
391.01 Transfers In (Note 6)	232,288	-	-
391.03 Sale of Municipal Property	8,404	-	-
<b>Total Other Financing Sources</b>	<b>240,692</b>	<b>-</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>285,882</b>	<b>1,373</b>	<b>461,755</b>
Fund Balances - December 31, 2014	664,343	10,786	203,747
<b>Fund Balances - December 31, 2015</b>	<b>\$ 950,225</b>	<b>\$ 12,159</b>	<b>\$ 665,502</b>

The accompanying notes are an integral part of the financial statements

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 46,487
-	-	-	271,392
-	-	-	251,016
-	-	-	559,467
-	-	-	100,000
-	-	-	56,505
-	-	-	448,446
-	-	-	26,754
-	-	-	194,486
-	-	-	53,247
-	-	-	32,447
-	-	-	42,959
-	-	-	160,377
-	-	-	227,967
-	-	-	97,040
88,464	1,520	-	409,151
-	-	-	80,456
-	-	-	101,537
<b>88,464</b>	<b>1,520</b>	<b>-</b>	<b>3,159,734</b>
-	-	-	232,288
-	-	-	8,404
-	-	-	240,692
18,059	(1,520)	1,982	767,531
24,550	5,201	51,432	960,059
<b>\$ 42,609</b>	<b>\$ 3,681</b>	<b>\$ 53,414</b>	<b>\$ 1,727,590</b>

**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, 2015**

Net change in fund balance - total governmental funds \$ 767,531

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. 101,537

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. (313,661)

The fund financial statements 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". (19,807)

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. (47,594)

Repayment of bond principal is an expenditure in the governmental funds,  
but the repayment reduces long-term liabilities in the Statement of Net  
Position. 68,208

Pension expense reported in the Statement of Activities does not require  
the use of current financial resources and are not reported as expenditures  
in the governmental funds. (27,529)

Changes in the pension related deferred outflows/inflows are direct  
components of pension asset and are not reflected in the governmental funds. 68,405

Governmental funds do not reflect the change in accrued leave, but the  
Statement of Activities reflects the change in accrued leave through  
expenditures. 39,890

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**Changes in Net Position of Governmental Activities \$ 636,980**

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

**CITY OF HOT SPRINGS**

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

<u>Assets</u>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Current Assets</b>			
101 Cash and Cash Equivalents (Note 2)	\$ 1,174,522	\$ 1,475,801	\$ 317,437
107 Restricted Cash and Cash Equivalents (Note 2)	-	7,717	-
115 Accounts Receivable, Net (Note 5)	58,935	82,985	16,489
117 Unbilled Accounts Receivable	26,510	28,334	8,004
Special Assessments Receivable:			
121 Current	-	3,685	-
122 Delinquent	-	350	-
123 Deferred	-	4,035	-
141 Inventory of Supplies (Note 7)	88,668	36,353	-
142 Inventory of Stores - Resale (Note 7)	-	-	-
155 Prepaid Expenses	-	2,693	-
<b>Total Current Assets</b>	<b>1,348,635</b>	<b>1,641,953</b>	<b>341,930</b>
<b>Noncurrent Assets</b>			
189 Net Pension Asset (Note 11)	34,292	16,543	-
Capital Assets (Notes 7 and 9):			
160 Land	57,320	-	-
162 Buildings	1,245,606	2,143,054	-
163 Accumulated Depreciation (A/D) - Buildings	(693,495)	(1,803,474)	-
164 Improvements Other Than Buildings	4,911,976	4,265,859	-
165 A/D - Improvements Other Than Buildings	(1,757,369)	(1,169,387)	-
166 Machinery and Equipment	435,892	579,751	294,391
167 A/D - Machinery and Equipment	(237,998)	(407,153)	(284,181)
168 Construction in Progress	279,863	32,458	-
<b>Total Noncurrent Assets</b>	<b>4,276,087</b>	<b>3,657,651</b>	<b>10,210</b>
<b>Total Assets</b>	<b>5,624,722</b>	<b>5,299,604</b>	<b>352,140</b>
<b>Deferred Outflows of Resources</b>			
196 Pension Related Deferred Outflows (Note 11)	<b>60,195</b>	<b>29,040</b>	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 5,684,917</b>	<b>\$ 5,328,644</b>	<b>\$ 352,140</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ -	\$ -	\$ 2,967,760
-	150,148	157,865
-	925	159,334
-	-	62,848
-	-	3,685
-	-	350
-	-	4,035
-	-	125,021
10,038	38,444	48,482
1,425	428	4,546
<b>11,463</b>	<b>189,945</b>	<b>3,533,926</b>
17,885	21,422	90,142
-	190,060	247,380
632,165	1,284,563	5,305,388
(152,577)	(63,510)	(2,713,056)
1,501,248	-	10,679,083
(646,302)	-	(3,573,058)
476,834	33,203	1,820,071
(398,832)	(5,634)	(1,333,798)
-	-	312,321
<b>1,430,421</b>	<b>1,460,104</b>	<b>10,834,473</b>
<b>1,441,884</b>	<b>1,650,049</b>	<b>14,368,399</b>
<b>31,394</b>	<b>37,603</b>	<b>158,232</b>
<b>\$ 1,473,278</b>	<b>\$ 1,687,652</b>	<b>\$ 14,526,631</b>

CITY OF HOT SPRINGS

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

	Water Fund	Sewer Fund	Solid Waste Fund
<b><u>Liabilities and Net Position</u></b>			
<b>Current Liabilities</b>			
202 Accounts Payable (Note 5)	\$ 46,122	\$ 7,911	\$ 18,896
205 Current Portion of Long-Term Debt (Note 7)	65,873	54,847	-
208 Due to General Fund	-	-	-
215 Accrued Interest Payable	9,154	7,682	-
216 Accrued Wages Payable	7,064	5,035	-
217 Accrued Taxes and Benefits Payable	1,261	988	1,396
220 Customer Deposits	160,495	-	-
230 Accrued Leave Payable (Note 7)	20,665	12,512	-
<b>Total Current Liabilities</b>	<b>310,634</b>	<b>88,975</b>	<b>20,292</b>
<b>Long Term Liabilities</b>			
236 Advance from General Fund	-	-	-
237 Long-Term Debt, Net of Current Portion (Note 7)	1,398,808	1,416,970	-
<b>Total Liabilities</b>	<b>1,709,442</b>	<b>1,505,945</b>	<b>20,292</b>
<b>Deferred Inflows of Resources</b>			
248 Pension Related Deferred Inflows (Note 11)	<b>50,599</b>	<b>24,410</b>	<b>-</b>
<b>Net Position (Deficit)</b>			
253.1 Net Investment in Capital Assets	2,777,114	2,169,291	10,210
253.2 Restricted for Debt Service	-	7,717	-
253.29 Restricted for SDRS Pension Purposes (Note 11)	43,888	21,173	-
252 Unrestricted Net Position (Deficit)	1,103,874	1,600,108	321,638
<b>Total Net Position (Deficit)</b>	<b>3,924,876</b>	<b>3,798,289</b>	<b>331,848</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)</b>	<b>\$ 5,684,917</b>	<b>\$ 5,328,644</b>	<b>\$ 352,140</b>

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 433	\$ 6,359	\$ 79,721
-	80,000	200,720
-	47,783	47,783
-	5,519	22,355
4,067	6,922	23,088
825	4,094	8,564
-	-	160,495
-	515	33,692
5,325	151,192	576,418
131,911	-	131,911
-	1,675,000	4,490,778
<b>137,236</b>	<b>1,826,192</b>	<b>5,199,107</b>
<b>26,389</b>	<b>31,609</b>	<b>133,007</b>
1,412,536	70,714	6,439,865
-	-	7,717
22,890	27,416	115,367
(125,773)	(268,279)	2,631,568
<b>1,309,653</b>	<b>(170,149)</b>	<b>9,194,517</b>
<b>\$ 1,473,278</b>	<b>\$ 1,687,652</b>	<b>\$ 14,526,631</b>

**CITY OF HOT SPRINGS**

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

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Operating Revenues</b>			
380 Charges for Goods and Services (Note 7)	\$ 839,112	\$ 751,602	\$ 177,541
<b>Total Operating Revenues</b>	<b>839,112</b>	<b>751,602</b>	<b>177,541</b>
<b>Operating Expenses</b>			
410 Personal Services	236,673	165,802	-
420 Other Current Expense	240,327	118,740	159,040
457 Depreciation	174,342	205,295	12,483
<b>Total Operating Expenses</b>	<b>651,342</b>	<b>489,837</b>	<b>171,523</b>
<b>Operating Income (Loss)</b>	<b>187,770</b>	<b>261,765</b>	<b>6,018</b>
<b>Non-Operating Income (Expense)</b>			
361 Earnings on Deposits and Investments	37	58	-
363 Special Assessments Revenue	148	821	-
366 Gain on Sale of Capital Assets	-	-	-
470 Interest Expense	(44,744)	(45,743)	-
<b>Total Non-Operating Income (Expense)</b>	<b>(44,559)</b>	<b>(44,864)</b>	<b>-</b>
<b>Income (Loss) before Transfers</b>	<b>143,211</b>	<b>216,901</b>	<b>6,018</b>
<b>Other Financing Sources (Uses)</b>			
391.1 Transfers In (Note 6)	-	7,863	-
511 Transfers Out (Note 6)	(213,435)	(107,083)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(213,435)</b>	<b>(99,220)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(70,224)</b>	<b>117,681</b>	<b>6,018</b>
Net Position (Deficit) - December 31, 2014	3,956,770	3,662,116	325,830
Change in Accounting Principle (Note 12)	38,330	18,492	-
Net Position (Deficit) - December 31, 2014, as Restated	3,995,100	3,680,608	325,830
<b>Net Position (Deficit) - December 31, 2015</b>	<b>\$ 3,924,876</b>	<b>\$ 3,798,289</b>	<b>\$ 331,848</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 427,078	\$ 715,916	\$ 2,911,249
<b>427,078</b>	<b>715,916</b>	<b>2,911,249</b>
230,641	323,820	956,936
310,865	309,254	1,138,226
74,046	31,305	497,471
<b>615,552</b>	<b>664,379</b>	<b>2,592,633</b>
<b>(188,474)</b>	<b>51,537</b>	<b>318,616</b>
-	46	141
-	-	969
3,350	-	3,350
-	(66,773)	(157,260)
<b>3,350</b>	<b>(66,727)</b>	<b>(152,800)</b>
<b>(185,124)</b>	<b>(15,190)</b>	<b>165,816</b>
76,175	4,192	88,230
-	-	(320,518)
<b>76,175</b>	<b>4,192</b>	<b>(232,288)</b>
<b>(108,949)</b>	<b>(10,998)</b>	<b>(66,472)</b>
1,398,611	(183,096)	9,160,231
19,991	23,945	100,758
1,418,602	(159,151)	9,260,989
<b>\$ 1,309,653</b>	<b>\$ (170,149)</b>	<b>\$ 9,194,517</b>

**CITY OF HOT SPRINGS**

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

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
<b>Cash Flows from Operating Activities:</b>						
Receipts from Customers	\$ 721,515	\$ 737,891	\$ 177,015	\$ 427,078	\$ 715,206	\$ 2,778,705
Receipts for Interfund Services Provided	113,435	7,083	-	-	-	120,518
Payments to Suppliers	(329,578)	(90,468)	(139,962)	(232,228)	(283,786)	(1,076,022)
Payments to Employees	(240,576)	(163,082)	-	(232,588)	(328,018)	(964,264)
Payments for Interfund Services Used	-	(7,863)	-	(76,175)	(4,192)	(88,230)
<b>Net Cash Flows Provided by (Used in)</b>						
<b>Operating Activities</b>	264,796	483,561	37,053	(113,913)	99,210	770,707
<b>Cash Flows from Noncapital Financing Activities:</b>						
Internal Activity - Receipts from Other Funds	-	-	-	45,287	47,783	93,070
Transfers In (Out)	(213,435)	(99,220)	-	76,175	4,192	(232,288)
<b>Net Cash Flows Provided by (Used in)</b>						
<b>Noncapital Financing Activities</b>	(213,435)	(99,220)	-	121,462	51,975	(139,218)
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchase of Capital Assets	(292,678)	(495,241)	-	(10,899)	(26,834)	(825,652)
Principal Paid on Capital Debt	(63,933)	(53,249)	-	-	(80,000)	(197,182)
Proceeds from Sale of Capital Assets	-	-	-	3,350	-	3,350
Interest Paid	(45,144)	(46,053)	-	-	(66,823)	(158,020)
Special Assessments Receipts	2,260	4,506	-	-	-	6,766
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	(399,495)	(590,037)	-	(7,549)	(173,657)	(1,170,738)
<b>Cash Flows from Investing Activities:</b>						
Earnings on Deposit and Investments	37	58	-	-	46	141
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(348,097)	(205,638)	37,053	-	(22,426)	(539,108)
Cash and Cash Equivalents - December 31, 2014	1,522,619	1,689,156	280,384	-	172,574	3,664,733
<b>Cash and Cash Equivalents - December 31, 2015</b>	<b>\$1,174,522</b>	<b>\$ 1,483,518</b>	<b>\$ 317,437</b>	<b>\$ -</b>	<b>\$ 150,148</b>	<b>\$ 3,125,625</b>

**CITY OF HOT SPRINGS**

**STATEMENT OF CASH FLOWS (CONTINUED)  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2015**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used In) Operating Activities</b>						
Operating Income (Loss)	\$ 187,770	\$ 261,765	\$ 6,018	\$ (188,474)	\$ 51,537	\$ 318,616
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used In) Operating Activities</i>						
Depreciation Expense	174,342	205,295	12,483	74,046	31,305	497,471
<b>Change in Assets and Liabilities:</b>						
Accounts Receivable	(4,557)	(6,628)	(526)	-	(710)	(12,421)
Inventories	6,261	1,946	-	3,828	14,377	26,412
Prepaid Expenses	-	16,712	-	(1,425)	2,895	18,182
Pension Asset	24,474	11,807	-	12,764	15,289	64,334
Pension Related Deferred Outflows	(12,570)	(6,064)	-	(6,555)	(7,852)	(33,041)
Accounts Payable	(95,512)	1,751	18,567	59	4,004	(71,131)
Accrued Wages Payable	1,630	1,857	-	1,725	488	5,700
Accrued Taxes Payable	(1,936)	(967)	511	(774)	(1,730)	(4,896)
Customer Deposits	395	-	-	-	-	395
Accrued Leave Payable	1,961	4,511	-	-	515	6,987
Pension Related Deferred Inflows	(17,462)	(8,424)	-	(9,107)	(10,908)	(45,901)
<b>Net Cash Flows Provided by (Used in)</b>						
<b>Operating Activities</b>	<b>\$ 264,796</b>	<b>\$ 483,561</b>	<b>\$ 37,053</b>	<b>\$(113,913)</b>	<b>\$ 99,210</b>	<b>\$ 770,707</b>
<b>Noncash Investing, Capital and Financing Activities:</b>						
Purchases of Capital Assets Included in						
Accounts Payable	\$ 43,000	\$ 5,460	\$ -	\$ -	\$ -	\$ 48,460
Gain on Sale of Capital Assets	-	-	-	3,350	-	3,350

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

## CITY OF HOT SPRINGS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

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

##### **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 City (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 (the Commission) is a proprietary fund-type, discretely-presented component unit (Note 14). 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.

##### **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 above, and may be classified as either governmental or business-type activities.

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

###### *Fund Financial Statements:*

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, 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.

## CITY OF HOT SPRINGS

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

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

##### Basis of Presentation (Continued)

###### *Fund Financial Statements: (Continued)*

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

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

Liquor, Lodging and Dining 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 – 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 City Council. This is a major fund.

Business Improvement District #1 Fund – to account for an occupancy 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.

Capital Projects Funds – 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 Improvement Fund – to account for financial resources to be used for special projects throughout the community per City Ordinance #1138. This fund is a major fund.

## CITY OF HOT SPRINGS

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

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

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

*Fund Financial Statements (Concluded):*

##### Governmental Funds (Continued):

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

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

##### Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

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

Water Fund – 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 – 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 – 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.

Golf Course Fund – financed primarily by user charges. This fund accounts for the operation of the City golf course and pro-shop. This is a major fund.

Evans Plunge Fund – financed primarily by user charges. This fund accounts for the operation and capital improvements of the Evans Plunge Mineral Springs. This is a major fund.

##### **Measurement Focus and Basis of Accounting**

*Measurement Focus:*

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

## **CITY OF HOT SPRINGS**

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

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

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

###### *Measurement Focus (Continued):*

###### 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 economic resources measurement focus, applied on the accrual basis of accounting.

###### Fund Financial Statements:

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

###### Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2015, 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.

##### **Cash and Cash Equivalents**

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.

**CITY OF HOT SPRINGS**

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

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

**Cash and Cash Equivalents (Continued)**

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.

**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.

Government-wide Financial Statements:

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

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

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’s 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 --
Buildings	\$5,000	Straight-line	30-50 years
Improvements Other than Buildings	\$5,000	Straight-line	10-30 years
Machinery and Equipment	\$5,000	Straight-line	3-25 years

Land is an inexhaustible capital asset and is not depreciated.

**CITY OF HOT SPRINGS**

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

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

**Capital Assets (Continued)**

Fund Financial Statements:

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

**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 and 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.

**Program Revenues**

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

1. Charges for services – arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for use in a particular program.
3. Program-specific capital grants and contributions – arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals and are restricted for the acquisition of capital assets for use in a particular program.

**Proprietary Funds Revenue and Expense Classifications**

In the proprietary fund's Statement of 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.

**Use of Estimates**

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

## CITY OF HOT SPRINGS

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

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

##### Equity Classification

###### Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components:

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of restricted or net investment in capital assets.

###### Fund Financial Statements:

The City classifies governmental fund balances as follows:

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

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

*Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Fund Balance may be committed by City Ordinance adopted by City Council.

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

*Unassigned* – 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 fund equity is classified the same as in the government-wide financial statements.

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

## CITY OF HOT SPRINGS

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

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

##### Compensated Absences

Eligible employees shall be granted paid vacation based on years of service.

Upon separation from employment, an employee shall be paid for accumulated paid vacation at the employee's rate of pay on the last day of employment, provided the separation is in good standing and after an initial 6 month probationary period.

Eligible employees shall earn sick leave at a rate of 4 hours per pay period. Employees may accumulate an unlimited number of hours of sick leave. Upon separation from employment, an employee with a minimum of seven years of continuous service will be paid one-fourth of unused sick leave, but no more than 120 hours, at the employee's rate of pay on the last day of employment, provided the separation is in good standing.

##### Internal Balances

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified in order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances.

#### (2) Deposits and Investments

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

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

**Investments** – In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the 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.

##### *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.

##### *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.

**CITY OF HOT SPRINGS**

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

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

*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, 2015, 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.

	<u>Bank Balance</u>
Insured - FDIC	\$ 717,803
Uninsured, collateralized in accordance with SDCL 4-6A-3	3,749,817
<b>Total Deposits</b>	<b>\$ 4,467,620</b>

*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, 2015:

Sewer Fund – 2010 Sewer Revenue Bonds	\$ 7,717
Evans Plunge Fund – 2013 Sales Tax Bonds	150,148

**(3) Deferred Inflows and Deferred Outflows of Resources**

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

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist of property taxes and special assessments on the governmental funds balance sheet and pension activity on the statement of net position.

**(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.

**CITY OF HOT SPRINGS**

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

**(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.

**(6) Interfund Transfers and Balances**

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

Fund	Transfers In	Transfers Out
General Fund	\$ 232,288	\$ -
Water Fund	-	213,435
Sewer Fund	7,863	107,083
Golf Course Fund	76,175	-
Evans Plunge Fund	4,192	-
<b>Total Interfund Transfers</b>	<b>\$ 320,518</b>	<b>\$ 320,518</b>

Transfers are used to provide operating resources from the proprietary funds to the general fund. The City also approved a transfer back of cash to the various funds for interfund utility services provided.

Interfund receivable and payables balances at December 31, 2015, were:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 179,694	\$ -
Golf Course Fund	-	131,911
Evans Plunge Fund	-	47,783
<b>Total Interfund Balances</b>	<b>\$ 179,694</b>	<b>\$ 179,694</b>

The purposes for the interfund receivable and payable balances are due to operating deficiencies in both the Golf Course and Evans Plunge funds. The City expects all interfund receivables and payables to be repaid within one year, except for the Golf Course fund payable. The City anticipates approving an operating transfer in from either the general fund or the additional sales tax fund after a thorough review and analysis of the financial position of the Golf Course fund is completed, which is planned for early 2017.

**(7) Long-Term Debt**

	Balance 12/31/2014	Earned/ Borrowed	Used/ Repayments	<b>Balance 12/31/2015</b>	Due Within One Year
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
Special Assessment Note Payable	\$ 352,860	\$ -	\$ (68,208)	<b>\$ 284,652</b>	\$ 72,048
Compensated Absences	113,623	80,154	(120,044)	<b>73,733</b>	73,733
<b>Total Governmental Activities</b>	466,483	80,154	(188,252)	<b>358,385</b>	145,781
<i>Business - Type Activities:</i>					
Revenue Bonds	4,888,680	-	(197,182)	<b>4,691,498</b>	200,720
Compensated Absences	26,705	39,157	(32,170)	<b>33,692</b>	33,692
<b>Total Business - Type Activities</b>	4,915,385	39,157	(229,352)	<b>4,725,190</b>	234,412
<b>Total Primary Government</b>	<b>\$ 5,381,868</b>	<b>\$ 119,311</b>	<b>\$ (417,604)</b>	<b>\$ 5,083,575</b>	<b>\$ 380,193</b>

Total interest expense included in the Statement of Activities for the year ended December 31, 2015 was \$169,508.

**CITY OF HOT SPRINGS**

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

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

Long-term debt at December 31, 2015 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 0.75 to 5.00 percent through December 2032. Financed through the Evans Plunge Fund, in addition to 1/3 of the City's sales tax revenue. \$ 1,755,000

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 3.00 percent through July 2033. Financed through the Water Fund. 1,464,681

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 3.00 percent through April 2033. Financed through the Sewer Fund. 1,110,932

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. 360,885

**Special Assessment:**

Special Assessments Note Payable for street improvements. 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 inventory and equipment. 284,652

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4,976,150

**Compensated Absences:**

General Fund 73,733  
Water Fund 20,665  
Sewer Fund 12,512  
Evans Plunge Fund 515

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Total Compensated Absences 107,425

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**Total Long-Term Debt** \$ 5,083,575

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**CITY OF HOT SPRINGS**

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

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

The annual requirements to amortize long-term debt outstanding as of December 31, 2015, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2016	\$ 153,881	\$ 200,720	\$ 8,408	\$ 72,048	\$ 162,289	\$ 272,768
2017	149,050	209,431	7,490	72,966	156,540	282,397
2018	144,069	213,222	4,653	75,802	148,722	289,024
2019	138,335	217,128	1,707	63,836	140,042	280,964
2020	132,512	221,124	-	-	132,512	221,124
2021-2025	557,531	1,220,549	-	-	557,531	1,220,549
2026-2030	326,184	1,451,271	-	-	326,184	1,451,271
2031-2035	73,606	758,464	-	-	73,606	758,464
2036-2040	27,838	59,522	-	-	27,838	59,522
2041-2045	17,326	70,034	-	-	17,326	70,034
2046-2050	17,326	70,033	-	-	17,326	70,033
<b>Total</b>	<b>\$ 1,737,658</b>	<b>\$ 4,691,498</b>	<b>\$ 22,258</b>	<b>\$ 284,652</b>	<b>\$ 1,759,916</b>	<b>\$ 4,976,150</b>

The City has a debt reserve of \$150,148 in the Evans Plunge Fund, which was funded with debt proceeds, in accordance with and as allowed by the debt agreement.

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	Evans Plunge
Current Year Principal and Interest	\$ 108,677	\$ 98,992	\$ 146,773
Pledged Revenue	839,112	751,602	715,916

**(8) Legal Contingency**

The City is involved in several lawsuits at December 31, 2015. 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.

Subsequent to year-end, however, the City did settle one lawsuit alleging it should pave roads and provide other improvements in the Boulder Falls Subdivision. The City has provided estimates to Rural Development for review and the City's share of the cost cannot be reasonably estimated at this time.

**CITY OF HOT SPRINGS**

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

**(9) Changes in Capital Assets**

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

	Balance 12/31/2014	Additions	Disposals/ Transfers	Balance 12/31/2015
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 364,571	\$ -	\$ -	\$ 364,571
Construction in Progress	47,076	16,390	18,165	45,301
<b>Total Capital Assets, not being Depreciated</b>	<b>411,647</b>	<b>16,390</b>	<b>18,165</b>	<b>409,872</b>
Capital Assets, being Depreciated:				
Buildings	5,334,255	-	-	5,334,255
Improvements Other Than Buildings	3,044,807	52,386	-	3,097,193
Machinery and Equipment	1,708,321	50,926	24,300	1,734,947
<b>Total Capital Assets, being Depreciated</b>	<b>10,087,383</b>	<b>103,312</b>	<b>24,300</b>	<b>10,166,395</b>
Less Accumulated Depreciation for:				
Buildings	1,953,832	108,398	-	2,062,230
Improvements Other Than Buildings	1,604,464	119,779	-	1,724,243
Machinery and Equipment	1,414,462	85,484	24,300	1,475,646
<b>Total Accumulated Depreciation</b>	<b>4,972,758</b>	<b>313,661</b>	<b>24,300</b>	<b>5,262,119</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>5,114,625</b>	<b>(210,349)</b>	<b>-</b>	<b>4,904,276</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 5,526,272</b>	<b>\$ (193,959)</b>	<b>\$ 18,165</b>	<b>\$ 5,314,148</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 184,804
Culture and Recreation	108,427
Public Safety	17,224
General Government	3,206
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 313,661</b>

**CITY OF HOT SPRINGS**

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

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

	Balance 12/31/2014	Additions	Disposals/ Transfers	Balance 12/31/2015
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 247,380	\$ -	\$ -	\$ 247,380
Construction in Progress	7,125	312,321	7,125	312,321
<b>Total Capital Assets, not being Depreciated</b>	<b>254,505</b>	<b>312,321</b>	<b>7,125</b>	<b>559,701</b>
Capital Assets, being Depreciated:				
Buildings	5,305,388	-	-	5,305,388
Improvements Other Than Buildings	10,209,201	469,882	-	10,679,083
Machinery and Equipment	1,734,787	99,034	13,750	1,820,071
<b>Total Capital Assets, being Depreciated</b>	<b>17,249,376</b>	<b>568,916</b>	<b>13,750</b>	<b>17,804,542</b>
Less Accumulated Depreciation for:				
Buildings	2,584,226	128,830	-	2,713,056
Improvements Other Than Buildings	3,345,549	227,509	-	3,573,058
Machinery and Equipment	1,206,416	141,132	13,750	1,333,798
<b>Total Accumulated Depreciation</b>	<b>7,136,191</b>	<b>497,471</b>	<b>13,750</b>	<b>7,619,912</b>
<b>Total Business-type Activities Capital Assets, being Depreciated, Net</b>	<b>10,113,185</b>	<b>71,445</b>	<b>-</b>	<b>10,184,630</b>
<b>Total Business-type Capital Assets, Net</b>	<b>\$ 10,367,690</b>	<b>\$ 383,766</b>	<b>\$ 7,125</b>	<b>\$ 10,744,331</b>

Depreciation expense was charged to funds as follows:

Sewer	\$ 205,295
Water	174,342
Golf Course	74,046
Evans Plunge	31,305
Solid Waste	12,483
<b>Total Depreciation Expense - Business-type</b>	<b>\$ 497,471</b>

The City has a construction commitment related to construction in progress of \$20,136 for the design/engineering services of a sludge dewatering device in the Sewer Fund, which will be paid for with cash on hand.

## CITY OF HOT SPRINGS

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

#### **(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, 2015, 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 for general, automobile, law enforcement and officials' liability coverage with a \$1,000,000 limit and law enforcement coverage has a \$2,000 deductible.

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, 2015, the City has a vested balance in the cumulative reserve fund of **\$59,972**.

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.

##### 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.

## CITY OF HOT SPRINGS

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

#### (10) Risk Management (Continued)

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) Pension Plan

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

#### Benefits Provided:

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

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

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

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

#### Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2015, 2014, and 2013 were **\$92,853**, \$86,265, and \$84,189, respectively, equal to the required contributions each year.

**CITY OF HOT SPRINGS**

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

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

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

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

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 6,408,810	\$ 2,290,396	\$ 8,699,206
Less: Proportionate Share of Total Pension Liability	(6,156,580)	(2,200,254)	(8,356,834)
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 252,230</b>	<b>\$ 90,142</b>	<b>\$ 342,372</b>

At December 31, 2015, the City reported an asset of **\$342,372** for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the City's proportion was 0.0807236 percent, which is a decrease of .0007 percent from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the City recognized pension expense of \$37,367. At December 31, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 70,102	\$ -
Changes in Assumption	271,479	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	209,149	505,176
Changes in Proportion and Difference between City Contributions and Proportionate Share of Contributions	2,969	-
City Contributions Subsequent to the Measurement Date	47,281	-
<b>Total</b>	<b>\$ 600,980</b>	<b>\$ 505,176</b>

Deferred outflow of resources includes **\$47,281** resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2016	\$ 19,192
2017	16,223
2018	(43,645)
2019	56,753
	<b>\$ 48,523</b>

**CITY OF HOT SPRINGS**

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

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

Actuarial Assumptions:

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

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
	<u>100.0%</u>	

Discount Rate:

The discount rate used to measure the total pension asset was 7.25 percent through 2017 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

**CITY OF HOT SPRINGS**

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

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

Sensitivity of Asset to Changes in the Discount Rate:

The following presents the City’s proportionate share of net pension asset calculated using the discount rate of 7.25 percent through 2017 and 7.50 percent thereafter, as well as what the City’s proportionate share of the net pension asset would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50 percent) or 1-percentage point higher (8.25/8.50 percent) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City’s Proportionate Share of the Net Pension Asset	\$ (861,746)	\$ 342,372	\$ 1,324,226

Pension Plan Fiduciary Net Position:

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

**(12) Change in Accounting Principle**

In 2015, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, beginning net position has been restated to reflect the related net pension asset totaling **\$586,716**, deferred outflows of resources totaling **\$475,491**, and deferred inflows of resources totaling **(\$679,516)** at December 31, 2014. The result was an increase of net position of **\$382,691** at December 31, 2014. See Note 11.

**(13) Emerging Accounting Standard**

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

**(14) Discretely Presented Component Unit**

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

The carrying amount of deposits for the Commission, a discretely presented component unit, was \$621,277. Of this balance \$458,680 was attributable to the primary government, of which \$226,707 is restricted for mortgage escrow deposits. The remaining \$162,597 was attributable to the Commission’s component unit, the Fall River Housing and Redevelopment Commission. All of the deposits were fully insured or collateralized.

**CITY OF HOT SPRINGS**

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

**(14) Discretely Presented Component Unit (Continued)**

The Housing and Redevelopment Commission of the City of Hot Springs, South Dakota (Continued)

The component unit's capitalization policy is \$1,000. Capital asset activity for the Housing and Redevelopment Commission for the year ended December 31, 2015, is as follows:

<i>Hot Springs Housing and Redevelopment Commission:</i>	Balance 12/31/2014	Additions	Transfers/ Deletions	Balance 12/31/2015
Capital Assets not Being Depreciated:				
Land	\$ 108,775	\$ -	\$ -	\$ 108,775
Construction in Progress	18,233	-	18,233	-
<b>Total Capital Assets not Being Depreciated</b>	<b>127,008</b>	<b>-</b>	<b>18,233</b>	<b>108,775</b>
Capital Assets Being Depreciated:				
Buildings and Improvements	6,118,029	1,416,956	-	7,534,985
Furniture and Equipment	263,690	33,769	14,455	283,004
Idle Capital Assets	1,293,588	-	1,293,588	-
<b>Total Capital Assets Being Depreciated</b>	<b>7,675,307</b>	<b>1,450,725</b>	<b>1,308,043</b>	<b>7,817,989</b>
Less Accumulated Depreciation for:				
Buildings and Improvements	2,689,931	246,779	-	2,936,710
Furniture and Equipment	148,326	25,599	14,455	159,470
Idle Capital Assets	75,757	-	75,757	-
<b>Total Accumulated Depreciation</b>	<b>2,914,014</b>	<b>272,378</b>	<b>90,212</b>	<b>3,096,180</b>
<b>Total Capital Assets Being Depreciated</b>	<b>4,761,293</b>	<b>1,178,347</b>	<b>1,217,831</b>	<b>4,721,809</b>
<b>Hot Springs Housing and Redevelopment Commission Capital Assets, Net</b>	<b>\$ 4,888,301</b>	<b>\$ 1,178,347</b>	<b>\$ 1,236,064</b>	<b>\$ 4,830,584</b>

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015

(14) Discretely Presented Component Unit (Continued)

<i>Fall River Housing and Redevelopment Commission:</i>	Balance 12/31/2014	Additions	Deletions	Balance 12/31/2015
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	809,325	-	-	809,325
Furniture and Equipment	44,473	-	-	44,473
Total Capital Assets Being Depreciated	853,798	-	-	853,798
Less Accumulated Depreciation for:				
Buildings and Improvements	547,052	33,602	-	580,654
Furniture and Equipment	41,195	810	-	42,005
Total Accumulated Depreciation	588,247	34,412	-	622,659
Total Capital Assets Being Depreciated	265,551	(34,412)	-	231,139
Fall River Housing and Redevelopment Commission Capital Assets, Net	\$ 288,572	\$ (34,412)	\$ -	\$ 254,160

Changes in long-term liabilities of the Housing and Redevelopment Commission for the year ended December 31, 2015, are as follows:

	Balance 12/31/2014	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2015	Due Within One Year
Notes Payable	\$ 3,090,237	\$ -	\$ (165,230)	\$ 2,925,007	\$ 180,240
Compensated Absences	12,852	9,699	(5,706)	16,845	6,394
Total	\$ 3,103,089	\$ 9,699	\$ (170,936)	\$ 2,941,852	\$ 186,634

**CITY OF HOT SPRINGS**

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

**(14) Discretely Presented Component Unit (Continued)**

Notes payable at December 31, 2015 is comprised of the following:

Mortgage payable (2nd mortgage) due to South Dakota Housing Development Authority, monthly installments of \$17,747 deferred until January 2021 including interest at 2.50 percent, due December 2025; secured by land, building and equipment.	\$ 1,000,000
Mortgage payable due to South Dakota Housing Development Authority, monthly installments of \$18,738 including interest at 6.78 percent, due September 2020; secured by land, building and equipment.	910,859
Mortgage payable (3rd mortgage) due to South Dakota Housing Development Authority, irregular installments deferred until September 2021, no interest, due September 2029; secured by land, building and equipment.	800,000
Note payable due to Fall River Housing Redevelopment Commission: \$220,000 dated August 7, 2014; final maturity date September 2029; 3.00 percent interest rate; monthly payments of \$1,519 beginning July 1, 2015; unsecured.	214,148
<hr/> <b>Total</b>	<hr/> <b>\$ 2,925,007</b>

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. Rent 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 sale 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.

**CITY OF HOT SPRINGS**

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

**(14) Discretely Presented Component Unit (Concluded)**

The annual requirements to amortize debt outstanding as of December 31, 2015, excluding compensated absences are as follows:

Year Ending June 30,	Principal	Interest	Total
2016	\$ 180,240	\$ 62,851	\$ 243,091
2017	192,375	50,716	243,091
2018	205,344	37,747	243,091
2019	219,204	23,887	243,091
2020	177,302	9,395	186,697
2021-2025	1,133,887	82,112	1,215,999
2026-2029	816,655	5,251	821,906
<b>Total</b>	<b>\$ 2,925,007</b>	<b>\$ 271,959</b>	<b>\$ 3,196,966</b>

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF HOT SPRINGS**

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

	<u>2015</u>
City's Proportion of the Net Pension Asset	0.08072360%
City's Proportionate Share of Net Pension	\$ 342,372
City's Covered-Employee Payroll	\$ 1,467,538
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered-Employee Payroll	23.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	104.10%

**CITY OF HOT SPRINGS**

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

	<u><b>2015</b></u>
Contractually Required Contributions	\$ 92,853
Contributions in Relation to the Contractually Required Contributions	<u>92,853</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
City's Covered-Employee Payroll	\$ 1,523,331
Contributions as a Percentage of Covered- Employee Payroll	6.1%

## 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 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, and each major fund, of the City of Hot Springs, South Dakota (the City), as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 7, 2016 which was qualified because of insufficient audit evidence related to inventory in the Water Fund, Sewer Fund, Evans Plunge Fund, and Golf Course Fund which affects the statement of net position, statement of activities, statement of net position – proprietary 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 auditor's findings and recommendations, we identified deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of auditor's findings and recommendations as item 2015-001 to be a significant deficiency.

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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 auditor's findings and recommendations as item 2015-001.

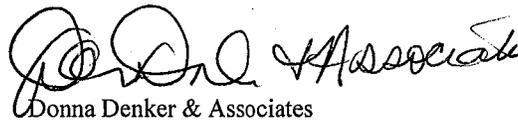
We noted certain other matters that we reported to the management of the City in a separate letter dated November 7, 2016.

**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 City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the 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

November 7, 2016

**CITY OF HOT SPRINGS**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
DECEMBER 31, 2015**

**Finding 2014-001: Internal Control over Recordkeeping**

**Condition:** Bank reconciliations for 2014 were not completed until 2015 and significant revenue and expense adjustments were required to the general ledger during that process.

**Recommendation:** We recommended the City ensure accurate and timely reconciliation of all bank accounts and develop written accounting policies to ensure the review and oversight of all phases of the accounting functions.

**Current Status:** The recommendations were adopted during the year.

**Finding 2014-002: Inventory Records**

**Condition:** The City did not have an established inventory procedure to ensure timely inventory counts, verification of counts, proper cost of inventory, identification of obsolete inventory and cut off procedures.

**Recommendation:** We recommended the City develop a written process to complete inventory counts and accurately record the current costs of the inventory at year end.

**Current Status:** The City adopted many of the recommendations for year-end inventory procedures. Due to the timing of the engagement we were unable to test inventory and thus our opinion will be qualified for inventory.

**Finding 2014-003: Documentation**

**Condition:** The City did not have a policy to maintain documentation of journal entries made and there was no independent review and approval of journal entries prior to posting. In addition, there was no policy for signed approval and documentation of account numbers on purchase orders.

**Recommendation:** We recommended 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.

**Current Status:** The City adopted many of the recommendations during the year. Due to the improvements, portions of this comment were resolved and others were moved to the letter to management.

**Finding 2014-004: Compliance with Budget Laws**

**Condition:** The City had overdrafts of expenditures compared to appropriations as of December 31, 2014.

**Recommendation:** We recommended the City monitor expenditures to budget and approve supplemental appropriations as necessary.

**Current Status:** This finding was repeated as 2015-001.

**Finding 2014-005: Compliance with Debt Issuance Laws**

**Condition:** During 2013, the City issued a promissory note for a seven year period in violation of South Dakota Codified Law 9-25-12.

**Recommendation:** We recommended the City have all debt reviewed by the City attorney to ensure all statutes are followed.

**Current Status:** At December 31, 2015, the remaining term of the loan was less than five years. The City considered refinancing the loan, however, due to the cost to refinance, the City did not feel refinancing was cost beneficial. This finding has been moved to the management letter for the remainder of the loan.

**CITY OF HOT SPRINGS**

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS  
DECEMBER 31, 2015**

**Significant Deficiency**

**2015-001: 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, 2015 in General Fund - Economic Development \$163,251, General Fund - Capital Outlay \$42,162, and Liquor and Lodging and Dining Fund \$1,386.

**Cause:** Although supplemental appropriations were made for 2015, 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.