



CITY OF HOT SPRINGS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2018



Ketel Thorstenson, LLP
Certified Public Accountants/Business & Personal Consultants

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CITY OF HOT SPRINGS

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the **CITY OF HOT SPRINGS** (the City), as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit

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

City Council

Adverse Opinion

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on Aggregate Discretely Presented Component Unit” paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component unit of the City as of December 31, 2018, or the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters – Required Supplementary Information

Management has omitted management’s discussion and analysis, budgetary comparison information, and pension disclosure information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 2, 2019 on our consideration of the City’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 2, 2019

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION
DECEMBER 31, 2018**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Assets:			
Cash and Cash Equivalents (Note 2)	\$ 3,058,413	\$ 2,319,054	\$ 5,377,467
Restricted Cash and Cash Equivalents (Note 2)	33,548	150,103	183,651
Receivables (Note 5)	1,717,736	220,743	1,938,479
Prepaid Expenses	11,485	10,959	22,444
Due from Component Unit	14,647	-	14,647
Inventories	-	147,569	147,569
Deposit (Note 10)	59,972	-	59,972
Net Pension Asset (Note 11)	1,289	603	1,892
Capital Assets (Notes 7 and 9):			
Land and Construction in Progress	476,186	398,958	875,144
Other Capital Assets, Net Depreciation	7,023,381	10,932,854	17,956,235
TOTAL ASSETS	12,396,657	14,180,843	26,577,500
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows of Resources (Notes 3 and 11)	351,295	116,505	467,800
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 12,747,952	\$ 14,297,348	\$ 27,045,300
Liabilities:			
Accounts Payable (Note 5)	\$ 42,149	\$ 227,151	\$ 269,300
Other Current Liabilities	77,982	99,049	177,031
Unearned Revenue	-	5,179	5,179
Noncurrent Liabilities:			
Due Within One Year (Note 7)	318,312	278,843	597,155
Due in More Than One Year (Note 7)	1,285,981	3,584,467	4,870,448
TOTAL LIABILITIES	1,724,424	4,194,689	5,919,113
Net Position:			
Net Investment in Capital Assets	6,004,460	7,480,470	13,484,930
Restricted for:			
Deposit - SDPAA (Note 10)	59,972	-	59,972
Cemetery - Nonexpendable	50,000	-	50,000
SDRS Pension (Note 11)	352,584	117,108	469,692
Cemetery - Expendable	9,948	-	9,948
Debt Service	-	150,103	150,103
Capital Projects	3,355	-	3,355
Facilities and Promoting the City	26,648	-	26,648
Business Improvement District	82,234	-	82,234
Unrestricted	4,434,327	2,354,978	6,789,305
TOTAL NET POSITION	11,023,528	10,102,659	21,126,187
TOTAL LIABILITIES AND NET POSITION	\$ 12,747,952	\$ 14,297,348	\$ 27,045,300

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

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Function/Programs	----- Program Revenues -----				Net (Expense) Revenue and Changes in		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
<i>Governmental Activities:</i>							
General Government	\$ 622,970	\$ 74,536	\$ -	\$ -	\$ (548,434)	\$ -	\$ (548,434)
Public Safety	789,274	94	3,150	25,995	(760,035)	-	(760,035)
Public Works	947,957	15,530	-	53,296	(879,131)	-	(879,131)
Health and Welfare	49,050	100	-	-	(48,950)	-	(48,950)
Culture and Recreation	666,343	74,252	-	-	(592,091)	-	(592,091)
Conservation and Development	229,054	-	-	-	(229,054)	-	(229,054)
Miscellaneous	-	155,678	-	-	155,678	-	155,678
Interest on Long Term Debt	39,180	-	-	-	(39,180)	-	(39,180)
Total Governmental Activities	3,343,828	320,190	3,150	79,291	(2,941,197)	-	(2,941,197)
<i>Business-Type Activities:</i>							
Water	803,074	898,124	-	-	-	95,050	95,050
Sewer	587,236	750,599	-	-	-	163,363	163,363
Solid Waste	173,835	199,345	-	-	-	25,510	25,510
Golf Course	543,913	387,021	-	-	-	(156,892)	(156,892)
Evans Plunge	723,256	699,584	-	-	-	(23,672)	(23,672)
Total Business-Type Activities	2,831,314	2,934,673	-	-	-	103,359	103,359
Total Primary Government	\$ 6,175,142	\$ 3,254,863	\$ 3,150	\$ 79,291	(2,941,197)	103,359	(2,837,838)
General Revenues:							
Taxes:							
Property Taxes					1,096,876	-	1,096,876
Sales Taxes					1,735,948	-	1,735,948
State Shared Revenue					176,793	-	176,793
Unrestricted Investment Earnings					3,446	7,278	10,724
Miscellaneous Revenue					87,212	21,513	108,725
Transfers (Note 6)					26,134	(26,134)	-
Total General Revenues					3,126,409	2,657	3,129,066
Changes in Net Position					185,212	106,016	291,228
Net Position, Beginning					10,838,316	9,996,643	20,834,959
Net Position, Ending					\$ 11,023,528	\$ 10,102,659	\$ 21,126,187

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

CITY OF HOT SPRINGS

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2018

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 1,615,100	\$ 34,511	\$ 1,264,191
107 Restricted Cash and Cash Equivalents (Note 2)	-	-	33,548
108 Property Taxes Receivable	71,721	-	-
115 Accounts Receivable (Note 5)	155,999	-	4,345
121 Special Assessments Receivable - Current	-	-	155,566
122 Special Assessments Receivable - Delinquent	-	-	62,573
123 Special Assessments Receivable - Deferred	-	-	1,116,431
129 Due from Component Unit	14,647	-	-
132 Due from Other Governments - State	38,619	2,397	107,175
154 Deposit - SDPAA (Note 10)	59,972	-	-
155 Prepaid Expenses	11,485	-	-
Total Assets	\$ 1,967,543	\$ 36,908	\$ 2,743,829
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable (Note 5)	\$ 28,243	\$ 10,260	\$ 1,662
216 Accrued Wages Payable	50,831	-	-
217 Accrued Taxes and Benefits Payable	27,151	-	-
Total Liabilities	106,225	10,260	1,662
<i>Deferred Inflows of Resources (Notes 3 and 4)</i>			
245 Unavailable Revenue - Property Taxes	60,328	-	-
246 Unavailable Revenue - Special Assessments	-	-	1,334,570
Total Deferred Inflows of Resources	60,328	-	1,334,570
<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	11,485	-	-
<i>Restricted Fund Balances</i>			
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	26,648	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balance</i>			
265.02 Capital Replacements	-	-	987,597
265.03 2021 DOT Road Project	-	-	420,000
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	1,729,533	-	-
Total Fund Balances	1,800,990	26,648	1,407,597
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 1,967,543	\$ 36,908	\$ 2,743,829

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ 81,308	\$ 3,355	\$ 59,948	\$ 3,058,413
-	-	-	33,548
-	-	-	71,721
2,910	-	-	163,254
-	-	-	155,566
-	-	-	62,573
-	-	-	1,116,431
-	-	-	14,647
-	-	-	148,191
-	-	-	59,972
-	-	-	11,485
\$ 84,218	\$ 3,355	\$ 59,948	\$ 4,895,801

\$ 1,984	\$ -	\$ -	\$ 42,149
-	-	-	50,831
-	-	-	27,151
1,984	-	-	120,131

-	-	-	60,328
-	-	-	1,334,570
-	-	-	1,394,898

-	-	-	59,972
-	-	50,000	50,000
-	-	-	11,485
-	3,355	-	3,355
-	-	9,948	9,948
-	-	-	26,648
82,234	-	-	82,234
-	-	-	987,597
-	-	-	420,000
-	-	-	1,729,533
82,234	3,355	59,948	3,380,772
\$ 84,218	\$ 3,355	\$ 59,948	\$ 4,895,801

CITY OF HOT SPRINGS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2018**

Total Funds Balance - Government Funds	\$ 3,380,772
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.	7,499,567
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.	(1,604,293)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	1,289
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	351,295
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.	1,394,898
Total Net Position - Governmental Funds	\$ 11,023,528

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, 2018**

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Revenues				
<i>Taxes:</i>				
311	\$ 1,071,754	\$ -	\$ -	\$ -
313	992,569	170,279	480,216	92,884
315	480	-	-	-
319	4,616	-	-	-
320	35,092	-	-	-
<i>Intergovernmental Revenue:</i>				
331	29,145	-	2,307	-
<i>State Shared Revenue:</i>				
335.01	3,761	-	-	-
335.02				
	Prorate	6,994	-	-
335.03	Liquor Tax Reversion	22,686	-	-
335.04	Motor Vehicle Licenses	37,635	-	-
335.08				
	Local Government	Highway & Bridges	75,492	-
335.20	Other	30,225	-	-
<i>County Shared Revenue:</i>				
338.01	County Road Tax	1,532	-	-
<i>Charges for Goods and Services:</i>				
341	General Government	39,444	-	-
342	Public Safety	94	-	-
343	Highways and Streets	6,249	-	-
346	Culture & Recreation	11,298	-	-
348	Cemetery	3,875	-	-
349	Other - Library	8,786	-	-
<i>Fines and Forfeits:</i>				
352	Animal Control Fines	100	-	-
354	Library Fines	3,352	-	-
<i>Miscellaneous Revenue:</i>				
361				
	Earnings on Deposits	& Investments	2,461	964
362	Rentals	50,816	-	-
363	Special Assessments	-	254,658	-
367	Contributions and Donations	7,366	-	-
368				
	Liquor Operating Agreement	Income	155,678	-
369	Other	52,499	-	-
TOTAL REVENUES	2,653,999	170,279	738,145	92,884

HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ -	\$ 1,071,754
-	-	1,735,948
-	-	480
-	-	4,616
-	-	35,092
-	-	31,452
-	-	3,761
-	-	6,994
-	-	22,686
-	-	37,635
-	-	75,492
-	-	30,225
-	-	1,532
-	-	39,444
-	-	94
-	-	6,249
-	-	11,298
-	3,874	7,749
-	-	8,786
-	-	100
-	-	3,352
-	21	3,446
-	-	50,816
-	-	254,658
5,000	-	12,366
-	-	155,678
-	-	52,499
5,000	3,895	3,664,202

CITY OF HOT SPRINGS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Expenditures			
<i>General Governments:</i>			
411 Legislative	\$ 85,627	\$ -	\$ -
414 Financial Administration	240,395	-	-
419 Other	173,258	-	89,476
<i>Public Safety:</i>			
421 Police	585,937	-	-
422 Fire	90,000	-	-
423 Protective Inspection	55,352	-	-
<i>Public Works:</i>			
431 Highway and Streets	491,981	-	-
432 Sanitation - Street Cleaning	55,544	-	-
435 Airport	80,088	-	-
437 Cemeteries	52,445	-	-
<i>Health and Welfare:</i>			
441 Health	46,845	-	-
<i>Culture and Recreation:</i>			
451 Recreation	26,704	-	-
452 Parks	147,048	-	-
455 Library	252,343	-	-
456 Auditorium	140,038	-	-
<i>Conservation and Development:</i>			
465 Economic Development Assistance	-	154,087	-
470 Debt Service	-	-	385,217
485 Capital Outlay	71,790	-	52,275
Total Expenditures	2,595,395	154,087	526,968
Other Financing Sources (Uses)			
391.01 Transfers In (Note 6)	241,964	-	420,000
391.02 Special Assessment Bond Proceeds	-	-	130,007
391.03 Sale of Municipal Property	22,347	-	-
511 Transfers Out (Note 6)	(422,451)	-	(215,830)
Total Other Financing Sources (Uses)	(158,140)	-	334,177
Net Change in Fund Balances	(99,536)	16,192	545,354
Fund Balances - December 31, 2017	1,900,526	10,456	862,243
Fund Balances - December 31, 2018	\$ 1,800,990	\$ 26,648	\$ 1,407,597

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 85,627
-	-	-	240,395
-	-	-	262,734
-	-	-	585,937
-	-	-	90,000
-	-	-	55,352
-	-	-	491,981
-	-	-	55,544
-	-	-	80,088
-	-	-	52,445
-	-	-	46,845
-	-	-	26,704
-	-	-	147,048
-	-	-	252,343
-	-	-	140,038
66,392	8,575	-	229,054
-	-	-	385,217
-	-	-	124,065
66,392	8,575	-	3,351,417
-	2,451	-	664,415
-	-	-	130,007
-	-	-	22,347
-	-	-	(638,281)
-	2,451	-	178,488
26,492	(1,124)	3,895	491,273
55,742	4,479	56,053	2,889,499
\$ 82,234	\$ 3,355	\$ 59,948	\$ 3,380,772

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, 2018**

Net change in fund balance - total governmental funds	\$ 491,273
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense	
Capital asset purchases capitalized	124,065
Depreciation expense	(358,616)
Borrowings in the governmental funds, but increase long-term debt in the Statement of Net Position.	(130,007)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	346,037
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(11,302)
Changes in the pension related deferred outflows/inflows, pension asset/liability, and related pension revenue/expenses are reported in the governmental fund statements.	(92,595)
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".	20,026
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.	(203,669)
Changes in Net Position of Governmental Activities	\$ 185,212

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

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2018**

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>
Current Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 1,047,535	\$ 882,683	\$ 330,750
107 Restricted Cash and Cash Equivalents (Note 2)	-	-	-
115 Accounts Receivable (Note 5)	57,112	75,961	17,501
117 Unbilled Accounts Receivable	26,837	29,062	8,213
141 Inventory of Supplies	85,885	26,262	-
142 Inventory of Stores - Resale	-	-	-
155 Prepaid Expenses	-	10,322	-
Total Current Assets	1,217,369	1,024,290	356,464
Noncurrent Assets			
189 Net Pension Asset (Note 11)	223	153	-
Capital Assets (Notes 7 and 9):			
160 Land	57,320	-	-
162 Buildings	1,245,606	2,232,951	-
163 Accumulated Depreciation (A/D) - Buildings	(768,397)	(1,985,111)	-
164 Improvements Other Than Buildings	5,483,751	5,116,450	-
165 A/D - Improvements Other Than Buildings	(2,175,865)	(1,536,197)	-
166 Machinery and Equipment	494,222	644,282	-
167 A/D - Machinery and Equipment	(311,572)	(505,096)	-
168 Construction in Progress	-	151,578	-
Total Noncurrent Assets	4,025,288	4,119,010	-
Total Assets	5,242,657	5,143,300	356,464
Deferred Outflows of Resources			
196 Pension Related Deferred Outflows (Notes 3 and 11)	44,200	18,046	-
Total Assets and Deferred Outflows of Resources	\$ 5,286,857	\$ 5,161,346	\$ 356,464

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 15,293	\$ 42,793	\$ 2,319,054
-	150,103	150,103
116	5,941	156,631
-	-	64,112
-	-	112,147
10,526	24,896	35,422
637	-	10,959
26,572	223,733	2,848,428
120	107	603
-	190,060	247,380
632,165	1,507,555	5,618,277
(190,537)	(148,593)	(3,092,638)
1,604,075	135,104	12,339,380
(778,538)	(15,748)	(4,506,348)
536,942	59,344	1,734,790
(314,466)	(29,473)	(1,160,607)
-	-	151,578
1,489,761	1,698,356	11,332,415
1,516,333	1,922,089	14,180,843
24,686	29,573	116,505
\$ 1,541,019	\$ 1,951,662	\$ 14,297,348

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION (CONTINUED)
 PROPRIETARY FUNDS
 DECEMBER 31, 2018**

	Water Fund	Sewer Fund	Solid Waste Fund
<u>Liabilities and Net Position</u>			
Current Liabilities			
202 Accounts Payable (Note 5)	\$ 23,762	\$ 166,894	\$ 13,597
205 Current Portion of Long-Term Debt (Note 7)	72,053	53,651	-
215 Accrued Interest Payable	7,881	5,995	-
216 Accrued Wages Payable	9,389	6,295	-
217 Accrued Taxes and Benefits Payable	1,840	1,235	1,052
220 Customer Deposits	33,860	-	-
223 Unearned Revenue	5,179	-	-
230 Accrued Leave Payable (Note 7)	32,382	9,498	-
Total Current Liabilities	186,346	243,568	14,649
Long Term Liabilities			
237 Long-Term Debt, Net of Current Portion (Note 7)	1,188,953	905,621	-
Total Liabilities	1,375,299	1,149,189	14,649
Net Position			
253.1 Net Investment in Capital Assets	2,764,059	3,159,585	-
253.2 Restricted for Debt Service	-	-	-
253.29 Restricted for SDRS Pension Purposes (Note 11)	44,423	18,199	-
252 Unrestricted Net Position	1,103,076	834,373	341,815
Total Net Position	3,911,558	4,012,157	341,815
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 \$ 5,286,857	 \$ 5,161,346	 \$ 356,464

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 1,677	\$ 21,221	\$ 227,151
21,372	85,000	232,076
-	5,174	19,050
5,161	10,690	31,535
5,417	5,060	14,604
-	-	33,860
-	-	5,179
-	4,887	46,767
<u>33,627</u>	<u>132,032</u>	<u>610,222</u>

<u>69,893</u>	<u>1,420,000</u>	<u>3,584,467</u>
<u>103,520</u>	<u>1,552,032</u>	<u>4,194,689</u>

1,398,376	158,450	7,480,470
-	150,103	150,103
24,806	29,680	117,108
14,317	61,397	2,354,978
<u>1,437,499</u>	<u>399,630</u>	<u>10,102,659</u>

\$ 1,541,019 \$ 1,951,662 \$ 14,297,348

CITY OF HOT SPRINGS

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water Fund	Sewer Fund	Solid Waste Fund
Operating Revenues			
380 Charges for Goods and Services (Note 7)	\$ 898,124	\$ 750,599	\$ 199,345
Total Operating Revenues	898,124	750,599	199,345
Operating Expenses			
410 Personal Services	296,024	200,828	-
420 Other Current Expense	261,321	122,554	173,835
457 Depreciation	207,020	234,421	-
Total Operating Expenses	764,365	557,803	173,835
Operating Income (Loss)	133,759	192,796	25,510
Non-Operating Income (Expense)			
361 Earnings on Deposits and Investments	3,385	3,852	-
369 Miscellaneous Revenue	964	593	229
470 Interest Expense	(38,709)	(29,433)	-
492 Loss on Disposition of Assets	-	(5,265)	-
Total Non-Operating Income (Expense)	(34,360)	(30,253)	229
Income (Loss) before Transfers	99,399	162,543	25,739
Other Financing Sources (Uses)			
391.1 Transfers In (Note 6)	-	6,182	-
391.4 Compensation for Loss or Damage to Capital Assets	4,469	-	-
511 Transfers Out (Note 6)	(195,117)	(112,389)	-
Total Other Financing Sources (Uses)	(190,648)	(106,207)	-
Change in Net Position	(91,249)	56,336	25,739
Net Position - December 31, 2017	4,002,807	3,955,821	316,076
Net Position - December 31, 2018	\$ 3,911,558	\$ 4,012,157	\$ 341,815

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 387,021	\$ 699,584	\$ 2,934,673
387,021	699,584	2,934,673
247,047	360,828	1,104,727
197,404	250,890	1,006,004
97,194	47,778	586,413
541,645	659,496	2,697,144
(154,624)	40,088	237,529
-	41	7,278
2,978	1,296	6,060
(2,268)	(63,760)	(134,170)
-	-	(5,265)
710	(62,423)	(126,097)
(153,914)	(22,335)	111,432
221,685	53,505	281,372
97	16,152	20,718
-	-	(307,506)
221,782	69,657	(5,416)
67,868	47,322	106,016
1,369,631	352,308	9,996,643
\$ 1,437,499	\$ 399,630	\$ 10,102,659

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Cash Flows from Operating Activities:						
Receipts from Customers	\$ 800,931	\$ 727,863	\$ 198,706	\$ 396,353	\$ 701,335	\$ 2,825,188
Receipts for Interfund Services Provided	88,935	18,572	-	-	-	107,507
Payments to Suppliers	(245,386)	(156,758)	(174,381)	(146,463)	(240,304)	(963,292)
Payments to Employees	(278,441)	(192,254)	-	(239,001)	(350,042)	(1,059,738)
Payments for Interfund Services Used	-	(6,182)	-	(50,855)	(8,505)	(65,542)
Net Cash Flows Provided by (Used in) Operating Activities	366,039	391,241	24,325	(39,966)	102,484	844,123
Cash Flows from Noncapital Financing Activities:						
Transfers In (Out)	(195,117)	(106,207)	-	221,685	53,505	(26,134)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(195,117)	(106,207)	-	221,685	53,505	(26,134)
Cash Flows from Capital and Related Financing Activities						
Purchase of Capital Assets	(88,745)	(242,642)	-	(164,218)	(11,854)	(507,459)
Principal Paid on Capital Debt	(69,930)	(52,072)	-	(22,484)	(85,000)	(229,486)
Other Receipts	5,433	593	229	3,075	17,448	26,778
Interest Paid	(39,146)	(29,759)	-	(2,268)	(63,912)	(135,085)
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(192,388)	(323,880)	229	(185,895)	(143,318)	(845,252)
Cash Flows Provided by Investing Activities:						
Earnings on Deposit and Investments	3,385	3,852	-	-	41	7,278
Increase (Decrease) in Cash and Cash Equivalents	(18,081)	(34,994)	24,554	(4,176)	12,712	(19,985)
Cash and Cash Equivalents - December 31, 2017	1,065,616	917,677	306,196	19,469	180,184	2,489,142
Cash and Cash Equivalents - December 31, 2018	\$ 1,047,535	\$ 882,683	\$ 330,750	\$ 15,293	\$ 192,896	\$ 2,469,157

**STATEMENT OF CASH FLOWS (CONTINUED)
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Reconciliation of Operating						
Income (Loss) to Net Cash Flows						
Provided by (Used In) Operating						
Activities						
Operating Income (Loss)	\$ 133,759	\$ 192,796	\$ 25,510	\$ (154,624)	\$ 40,088	\$ 237,529
<i>Adjustments to Reconcile Operating</i>						
<i>Income (Loss) to Net Cash</i>						
<i>Flows Provided by (Used In)</i>						
<i>Operating Activities</i>						
Depreciation Expense	207,020	234,421	-	97,194	47,778	586,413
Change in Assets and Liabilities:						
Accounts Receivable	(2,507)	(4,164)	(639)	9,332	1,751	3,773
Inventories	2,809	422	-	692	(2,166)	1,757
Prepaid Expenses	-	(1,485)	-	208	1,000	(277)
Pension Asset	756	524	-	35	429	1,744
Pension Related Deferred Outflows	15,362	10,551	-	8,298	7,347	41,558
Accounts Payable	13,126	(39,323)	(534)	(814)	3,247	(24,298)
Accrued Wages Payable	1,519	783	-	664	1,914	4,880
Accrued Taxes Payable	(1,697)	(1,261)	(12)	(951)	195	(3,726)
Customer Deposits	(4,975)	-	-	-	-	(4,975)
Unearned Revenue	(776)	-	-	-	-	(776)
Accrued Leave Payable	1,643	(2,023)	-	-	901	521
Net Cash Flows Provided by (Used in)						
Operating Activities	\$ 366,039	\$ 391,241	\$ 24,325	\$ (39,966)	\$ 102,484	\$ 844,123

Noncash Capital and Related

Financing Activities

Purchase of Capital Assets through

Long-Term Debt	\$ -	\$ -	\$ -	\$ 113,749	\$ -	\$ 113,749
Loss on Sale of Capital Assets	-	5,265	-	-	-	5,265
Purchase of Capital Assets through Accounts Payable	-	160,530	-	-	-	160,530

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

(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, component unit that should be discretely presented. However, due to lack of timely financial statements for the Commission, the City has elected not to include the component unit in these financial statements. 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, 2018**

(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, deferred inflows and outflows, 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 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 (HS) Capital Improvement Fund – to account for financial resources to be used for special projects throughout the community per City Ordinance #1138. This is a major fund.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(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, 2018**

(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, 2018, 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, 2018**

(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.”

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, 2018

(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 revenue bonds, special assessment bonds, capital lease 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

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 disclosures reported in the financial statements. Actual results could differ from these estimates.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2018

(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, 2018**

(1) Summary of Significant Accounting Policies (Concluded)

Compensated Absences

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

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, 2018**

(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, 2018, 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	\$ 720,872
Uninsured, collateralized in accordance with SDCL 4-6A-3	4,917,211
Total Deposits	\$ 5,638,083

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy is to credit all income from investments to the fund making the investment, except for the Cemetery Perpetual Care Fund, 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, 2018:

Evans Plunge Fund – 2013 Sales Tax Bonds	\$150,103
Additional Sales Tax Fund – 2017 Sales Tax Bonds	33,548

(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 on the statement of net position.

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.

(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, 2018**

(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, 2018, were:

Fund	Transfers In	Transfers Out
General Fund	\$ 241,964	\$ 422,451
Additional Sales Tax Fund	420,000	215,830
HS Capital Improvement Fund	2,451	-
Water Fund	-	195,117
Sewer Fund	6,182	112,389
Golf Course Fund	221,685	-
Evans Plunge Fund	53,505	-
Total Interfund Transfers	\$ 945,787	\$ 945,787

Transfers are used to provide operating resources from the proprietary funds to the general fund. The City also approved a transfer of cash to the various funds for interfund utility services provided, as well as a transfer from the general fund to the HS capital improvements fund to transfer donations received. The additional sales tax fund provided operating subsidies to the golf course and Evans Plunge funds as well as a transfer to the general fund for a future road project (see committed funds). The additional sales tax fund also transferred monies to the golf course fund for an irrigation improvement project.

(7) Long-Term Debt

	Balance 12/31/2017	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2018	Due Within One Year
Primary Government:					
<i>Governmental Activities:</i>					
Special Assessment Note Payable	\$ 1,431,144	\$ -	\$ (286,725)	\$ 1,144,419	\$ 185,058
Revenue Bonds	279,993	130,007	(59,312)	350,688	24,068
Compensated Absences	97,884	102,544	(91,242)	109,186	109,186
Total Governmental Activities	1,809,021	232,551	(437,279)	1,604,293	318,312
<i>Business - Type Activities:</i>					
Revenue Bonds	3,932,280	-	(207,002)	3,725,278	210,704
Capital Lease	-	113,749	(22,484)	91,265	21,372
Compensated Absences	46,246	49,032	(48,511)	46,767	46,767
Total Business - Type Activities	3,978,526	162,781	(277,997)	3,863,310	278,843
Total Primary Government	\$ 5,787,547	\$ 395,332	\$ (715,276)	\$ 5,467,603	\$ 597,155

Total interest expense included in the Statement of Activities for the year ended December 31, 2018 was \$175,217.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2018 is comprised of the following:

Revenue Bonds:

Sales Tax Revenue Bonds Series 2013 for acquisition, maintenance and improvement of Evans Plunge. Due in variable semi-annual installments including interest at 0.75 to 5.00 percent through December 2032. Financed through the Evans Plunge Fund, pledged 1/3 of the City's sales tax revenue. \$ 1,505,000

Drinking Water Revenue State Revolving Fund Loan (SRF) for drinking water facilities improvements. Due in quarterly installments of \$27,269 including interest at 3.00 percent through July 2033. Financed through the Water Fund. 1,261,006

Clean Water Revenue State Revolving Fund Loan (SRF) for sewer facilities improvements. Due in quarterly installments of \$20,457 including interest at 3.00 percent through April 2033. Financed through the Sewer Fund. 959,272

Sales Tax Revenue Bonds Series 2017 for the Boulder Falls Street Improvement. Due in semi-annual installments of \$24,956 including interest at 2.75 percent through November 2033. Financed through the Additional Sales Tax Fund. 350,688

Special Assessment:

Special Assessments Note Payable for street improvements. Due in semi-annual installments of \$40,228 including interest at 3.85 percent through May 2020. Financed through the Additional Sales Tax Fund. 65,459

Special Assessments Bond, Series 2017, for street improvements. Due in semi-annual installments of \$74,227 including interest at 2.75 percent through November 2028. Financed through the Additional Sales Tax Fund and collateralized with a special assessment bond. 1,078,960

Capital Lease:

Lease to own with finance company for the lease of golf carts. Due in seasonal monthly payments of \$4,180.38 including interest at 4.35 percent through November 2022. Financed through the Golf Course Fund and secured by the equipment. 91,265

5,311,650

Compensated Absences:

General Fund 109,186
Water Fund 32,382
Sewer Fund 9,498
Evans Plunge Fund 4,887

Total Compensated Absences 155,953

Total Long-Term Debt \$ 5,467,603

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2018, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		Capital Lease		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2019	\$ 136,768	\$ 234,772	\$ 30,543	\$ 185,058	\$ 3,730	\$ 21,373	\$ 171,041	\$ 441,203
2020	130,460	239,252	25,543	122,911	2,782	22,300	158,785	384,463
2021	123,466	248,866	22,140	126,314	1,793	23,290	147,399	398,470
2022	116,193	253,619	18,642	129,812	779	24,302	135,614	407,733
2023	108,419	263,514	15,048	133,406	-	-	123,467	396,920
2024-2028	403,581	1,451,279	22,900	446,918	-	-	426,481	1,898,197
2029-2033	121,148	1,384,664	-	-	-	-	121,148	1,384,664
2034-2038	-	-	-	-	-	-	-	-
2039-2043	-	-	-	-	-	-	-	-
2044-2048	-	-	-	-	-	-	-	-
2049-2053	-	-	-	-	-	-	-	-
Total	\$ 1,140,035	\$ 4,075,966	\$ 134,816	\$ 1,144,419	\$ 9,084	\$ 91,265	\$ 1,283,935	\$ 5,311,650

Business-type Activities

The City has pledged future revenues of Water, Sewer, and Additional Sales Tax Funds 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.

	Water Fund	Sewer Fund	Special Assessment - Additional Sales Tax Fund
Current Year Principal and Interest	\$ 108,639	\$ 81,505	\$ 254,658
Pledged Revenue	898,124	750,599	254,658

(8) Legal Contingency

The City is involved in several lawsuits at December 31, 2018. No determination can be made at this time regarding potential outcome of these lawsuits, and accordingly no accrual is included on the accompanying financial statements. Any potential loss may be covered by the City's insurance coverage.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(9) Changes in Capital Assets

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

	Balance 12/31/2017	Additions	Disposals/ Transfers	Balance 12/31/2018
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 364,571	\$ -	\$ -	\$ 364,571
Construction in Progress	59,340	52,275	-	111,615
Total Capital Assets, not being Depreciated	423,911	52,275	-	476,186
Capital Assets, being Depreciated:				
Buildings	5,283,700	-	-	5,283,700
Improvements Other Than Buildings	6,003,126	-	-	6,003,126
Machinery and Equipment	1,667,649	71,790	-	1,739,439
Total Capital Assets, being Depreciated	12,954,475	71,790	-	13,026,265
Less Accumulated Depreciation for:				
Buildings	2,228,471	108,398	-	2,336,869
Improvements Other Than Buildings	1,974,263	194,025	-	2,168,288
Machinery and Equipment	1,441,534	56,193	-	1,497,727
Total Accumulated Depreciation	5,644,268	358,616	-	6,002,884
Total Governmental Activities Capital Assets, being Depreciated, Net	7,310,207	(286,826)	-	7,023,381
Total Governmental Capital Assets, Net	\$ 7,734,118	\$ (234,551)	\$ -	\$ 7,499,567

Depreciation expense was charged to functions as follows:

Public Works	\$ 246,030
Culture and Recreation	84,762
Public Safety	20,668
General Government	7,156
Total Depreciation Expense - Governmental	\$ 358,616

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(9) Changes in Capital Assets (Continued)

	Balance 12/31/2017	Additions	Disposals/ Transfers	Balance 12/31/2018
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 247,380	\$ -	\$ -	\$ 247,380
Construction in Progress	12,826	151,578	12,826	151,578
Total Capital Assets, not being Depreciated	260,206	151,578	12,826	398,958
Capital Assets, being Depreciated:				
Buildings	5,528,380	105,895	15,998	5,618,277
Improvements Other Than Buildings	12,116,234	223,146	-	12,339,380
Machinery and Equipment	1,517,328	313,944	96,482	1,734,790
Total Capital Assets, being Depreciated	19,161,942	642,985	112,480	19,692,447
Less Accumulated Depreciation for:				
Buildings	2,971,459	131,913	10,734	3,092,638
Improvements Other Than Buildings	4,157,245	349,103	-	4,506,348
Machinery and Equipment	1,151,692	105,397	96,482	1,160,607
Total Accumulated Depreciation	8,280,396	586,413	107,216	8,759,593
Total Business-type Activities Capital Assets, being Depreciated, Net	10,881,546	56,572	5,264	10,932,854
Total Business-type Capital Assets, Net	\$ 11,141,752	\$ 208,150	\$ 18,090	\$ 11,331,812

Depreciation expense was charged to funds as follows:

Sewer	\$ 234,421
Water	207,020
Golf Course	97,194
Evans Plunge	47,778
Total Depreciation Expense - Business-type	\$ 586,413

Capital Lease Obligations

The City leases 40 golf carts under terms of a non-cancelable capital lease. The golf carts had a cost of **\$113,749** with accumulated depreciation of **\$13,271** as of December 31, 2018.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(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, 2018, 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.

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool’s total contributions, along with the member’s total contributions, current losses, unpaid losses, and loss expenses, the member’s loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

Years	Percentage
1	55%
2	50%
3	40%
4	35%
5	30%
6+	20%

All refunds shall be paid to the withdrawing Member over a five-year term.

The amount available for refund to the Municipality is considered a deposit for financial reporting purposes.

As of December 31, 2018, the Municipality’s balance available to be refunded per the SDPAA was **\$59,972**. In future periods the change in the amount available for refund will be accounted for as an increase or decrease in the insurance expenditure/expenses.

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(10) Risk Management (Continued)

Worker's Compensation:

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

The City does not carry additional insurance 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.

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 general members, Class B public safety and judicial members and Class C Cement plan retirement fund members.

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(11) Pension Plan (Continued)

Benefits Provided (Continued):

Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. 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, 2018, 2017, and 2016 were **\$104,767**, \$103,503, and \$95,429, respectively, equal to the required contributions each year.

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

At June 30, 2018, SDRS is 100.02 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, 2018 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 6,762,887	\$ 3,163,181	\$ 9,926,068
Less: Proportionate Share of Total Pension Asset	(6,761,598)	(3,162,578)	(9,924,176)
Proportionate Share of Net Pension Asset	\$ 1,289	\$ 603	\$ 1,892

At December 31, 2018, the City reported an asset of **\$1,892** for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018 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, 2018, the City’s proportion was .0811237 percent, which is a decrease of .0001485 percent from its proportion measured as of June 30, 2017.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018**

(11) Pension Plan (Continued)

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

For the year ended December 31, 2018, the City recognized pension expense of **\$246,848**. At December 31, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 71,510	\$ -
Changes in Assumption	480,344	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(142,991)	-
Changes in proportion and difference between City contributions and proportionate share of contributions	-	-
City Contributions Subsequent to the Measurement Date	58,937	-
Total	\$ 467,800	\$ -

Deferred outflow of resources includes **\$58,937** resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset in the year ending December 31, 2019. 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:

2019	\$ 257,981
2020	191,916
2021	(25,172)
2022	(15,862)
	<u><u>\$ 408,863</u></u>

Actuarial Assumptions:

The total pension asset in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50 percent to 3.00 percent after 25 years of service
Investment Rate of Return	6.50 percent, net of pension plan investment expense

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, while collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disable Retiree Mortality Table, projected generationally with Scale MP-2016.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2018**

(11) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

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, 2017 (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	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,428,984	\$ (1,892)	\$ (1,165,833)

Pension Plan Fiduciary Net Position:

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

OTHER REPORTS



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

City Council
City of Hot Springs
Hot Springs, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of **CITY OF HOT SPRINGS** (the City) as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 2, 2019. Our report was modified for an Adverse Opinion on the aggregate discretely presented component unit as the City did not include financial data for the City's component unit.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2018-001 and #2018-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as #2018-003 to be a significant deficiency.

Compliance and Other Matters

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

City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

July 2, 2019

CITY OF HOT SPRINGS

**SCHEDULE OF FINDINGS
DECEMBER 31, 2018**

Current Year Audit Findings and Recommendations

MATERIAL WEAKNESS

#2018-001 FINDING: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size.

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

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's financial statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response/Corrective Action Plan: The City is in agreement with the finding. See City's Corrective Action Plan.

#2018-002 FINDING: Audit Adjustments

Condition and Cause: During the course of the engagement, we proposed material audit adjustments, as well as adjusting for the City's share of SDRS pension activity. Additionally, reclassification entries were posted that had no effect on net income. Lastly, other entries were proposed as a part of the audit, but were not recorded due to the overall insignificance to the financial statements.

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

Recommendation: We recommend the following:

- Entries should not be posted after the trial balance is supplied to the auditors. Additionally, the individual balance sheets and revenue/expense reports should be exported at the same time to ensure they agree with each other and do not create issues with net assets/net position being incorrect.
- Amounts due from other governments should be reclassified out of accounts receivable.
- Deferred property taxes should not include the amount received during the availability period.
- The general capital asset fund should be adjusted to agree to totals on the governmental depreciation schedule. Additionally, accumulated depreciation and corresponding gain/loss on disposition of assets should be adjusted for an enterprise asset disposal, rather than adjusting such through an expense account.

Response/Corrective Action Plan: The City is in agreement with the finding. See City's Corrective Action Plan.

CITY OF HOT SPRINGS

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2018**

SIGNIFICANT DEFICIENCY

#2018-003 FINDING: Controls over Inventory – Evan’s Plunge and Water

Condition and Cause: During our testing, we noted the following issues related to inventory:

- We noted two instances at Evan’s Plunge and two instances at the Water department of the quantity per the inventory listing not agreeing to the count performed by the auditors at year-end.
- We noted two instances at the Water department of the cost per the inventory listing not agreeing to the cost per supporting invoices.

Criteria and Effect: These errors were not identified in a timely manner by the City’s existing internal controls, and therefore could result in the quantity or cost of inventory being misstated.

Recommendation:

- Staff should perform a complete inventory count over all inventory in each location to ensure the inventory listing is appropriately representing the units of inventory on hand. Any variances between units on hand versus the inventory listing should be investigated further and adjusted, if significant.
- Inventory cost should be updated to equal the average invoiced purchase price of items remaining in inventory.

Response/Corrective Action Plan: The City is in agreement with the finding. See City’s Corrective Action Plan.

MANAGEMENT RESPONSE



Misty Summers-Walton
Finance Officer
hsfinanceofficer@hs-sd.org

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2018

The City respectfully submits the following summary schedule of prior audit findings from the December 31, 2017 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2017 Schedule of Findings.

#2017-001 FINDING: Financial Statement Preparation

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

Initial Year Report: Originally issued in 2015.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditors preparing the financial statements, it will be repeated in 2018, see Corrective Action Plan.

#2017-002 FINDING: Audit Adjustments

Status: Audit adjustments were posted during the 2018 audit.

Initial Year Report: Originally issued in 2017.

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



Misty Summers-Walton
Finance Officer
hsfinanceofficer@hs-sd.org

CORRECTIVE ACTION PLAN
DECEMBER 31, 2018

The City respectfully submits the following corrective action plan regarding findings from the December 31, 2018 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2018 Schedule of Findings.

#2018-001 FINDING: Financial Statement Preparation

Responsible Individuals: Misty Summers – Walton, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2018-001 regarding the preparation of the financial statements, and will continue to have the independent auditor prepare the annual financial statements. The Finance Officer annually reviews the financial statements in detail.

Anticipated Completion Date: Ongoing

#2018-002 FINDING: Audit Adjustments

Responsible Individuals: Misty Summers – Walton, Finance Officer

Corrective Action Plan: The City agrees with the recommended adjustments of the auditors and will post the adjusting entries.

Anticipated Completion Date: Ongoing

#2018-003 FINDING: Controls over Inventory – Evan’s Plunge and Water

Responsible Individuals: Misty Summers – Walton, Finance Officer

Corrective Action Plan: The City Finance Officer with the assistance and support of the Water Department Foreman and Evans Plunge Facility Director will perform test counts prior to year-end to ensure all inventory is listed appropriately and represents the correct units and costs.

Anticipated Completion Date: 2019