



**CITY OF HOT SPRINGS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2019



**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, 2019, 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 audit opinions.

### *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, 2019, 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.

City Council

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***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 June 15, 2020 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

June 15, 2020

**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents (Note 2)	\$ 3,114,279	\$ 1,019,820	\$ 4,134,099
Savings Certificates (Note 2)	517,420	1,278,520	1,795,940
Restricted Cash and Cash Equivalents (Note 2)	33,548	150,103	183,651
Receivables (Note 5)	1,465,545	216,107	1,681,652
Prepaid Expenses	7,044	14,184	21,228
Inventories	24,722	135,932	160,654
Deposit (Note 10)	56,870	-	56,870
Net Pension Asset (Note 11)	5,966	2,938	8,904
Capital Assets (Notes 7 and 9):			
Land and Construction in Progress	514,831	396,530	911,361
Other Capital Assets, Net Depreciation	6,817,551	10,612,037	17,429,588
<b>TOTAL ASSETS</b>	<b>12,557,776</b>	<b>13,826,171</b>	<b>26,383,947</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related Deferred Outflows of Resources (Notes 3 and 11)	148,139	72,961	221,100
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 12,705,915</b>	<b>\$ 13,899,132</b>	<b>\$ 26,605,047</b>
<b>Liabilities:</b>			
Accounts Payable (Note 5)	\$ 28,504	\$ 26,188	\$ 54,692
Other Current Liabilities	88,616	99,173	187,789
Unearned Revenue	-	5,170	5,170
Noncurrent Liabilities:			
Due Within One Year (Note 7)	262,863	290,114	552,977
Due in More Than One Year (Note 7)	1,138,344	3,347,671	4,486,015
<b>TOTAL LIABILITIES</b>	<b>1,518,327</b>	<b>3,768,316</b>	<b>5,286,643</b>
<b>Net Position:</b>			
Net Investment in Capital Assets	6,046,392	7,737,233	13,783,625
Restricted for:			
Deposit - SDPAA (Note 10)	56,870	-	56,870
Cemetery - Nonexpendable	50,000	-	50,000
SDRS Pension (Note 11)	154,105	75,899	230,004
Cemetery - Expendable	12,472	-	12,472
Debt Service	33,548	150,103	183,651
Capital Projects	5,617	-	5,617
Facilities and Promoting the City	30,730	-	30,730
Business Improvement District	96,268	-	96,268
Unrestricted	4,701,586	2,167,581	6,869,167
<b>TOTAL NET POSITION</b>	<b>11,187,588</b>	<b>10,130,816</b>	<b>21,318,404</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 12,705,915</b>	<b>\$ 13,899,132</b>	<b>\$ 26,605,047</b>

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

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

Function/Programs	----- Program Revenues -----				Net (Expense) Revenue and Changes in		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
<i>Governmental Activities:</i>							
General Government	\$ 635,717	\$ 50,587	\$ -	\$ -	\$ (585,130)	\$ -	\$ (585,130)
Public Safety	1,023,471	17	1,650	11,569	(1,010,235)	-	(1,010,235)
Public Works	975,898	52,030	-	170,951	(752,917)	-	(752,917)
Health and Welfare	48,193	475	-	-	(47,718)	-	(47,718)
Culture and Recreation	694,979	75,941	-	-	(619,038)	-	(619,038)
Conservation and Development	222,126	-	-	-	(222,126)	-	(222,126)
Miscellaneous	-	149,470	-	-	149,470	-	149,470
Interest on Long Term Debt	40,131	-	-	-	(40,131)	-	(40,131)
<b>Total Governmental Activities</b>	<b>3,640,515</b>	<b>328,520</b>	<b>1,650</b>	<b>182,520</b>	<b>(3,127,825)</b>	<b>-</b>	<b>(3,127,825)</b>
<i>Business-Type Activities:</i>							
Water	765,621	900,096	-	-	-	134,475	134,475
Sewer	541,017	797,814	-	-	-	256,797	256,797
Solid Waste	256,582	202,541	-	-	-	(54,041)	(54,041)
Golf Course	601,563	396,458	-	-	-	(205,105)	(205,105)
Evans Plunge	721,095	688,588	-	-	-	(32,507)	(32,507)
<b>Total Business-Type Activities</b>	<b>2,885,878</b>	<b>2,985,497</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>99,619</b>	<b>99,619</b>
<b>Total Primary Government</b>	<b>\$ 6,526,393</b>	<b>\$ 3,314,017</b>	<b>\$ 1,650</b>	<b>\$ 182,520</b>	<b>(3,127,825)</b>	<b>99,619</b>	<b>(3,028,206)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes					1,131,303	-	1,131,303
Sales Taxes					1,805,087	-	1,805,087
State Shared Revenue					182,270	-	182,270
Unrestricted Investment Earnings					15,999	31,166	47,165
Miscellaneous Revenue					49,413	5,185	54,598
Transfers (Note 6)					107,813	(107,813)	-
<b>Total General Revenues</b>					<b>3,291,885</b>	<b>(71,462)</b>	<b>3,220,423</b>
<b>Changes in Net Position</b>					164,060	28,157	192,217
Net Position, Beginning					11,023,528	10,102,659	21,126,187
<b>Net Position, Ending</b>					<b>\$ 11,187,588</b>	<b>\$ 10,130,816</b>	<b>\$ 21,318,404</b>

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

**CITY OF HOT SPRINGS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2019**

	<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents (Note 2)	\$ 1,772,699	\$ 35,224	\$ 1,146,061
105 Savings Certificates (Note 2)	-	-	517,420
107 Restricted Cash and Cash Equivalents (Note 2)	-	-	33,548
108 Property Taxes Receivable	75,816	-	-
115 Accounts Receivable (Note 5)	181,175	-	-
121 Special Assessments Receivable - Current	-	-	151,361
122 Special Assessments Receivable - Delinquent	-	-	50,932
123 Special Assessments Receivable - Deferred	-	-	949,634
132 Due from Other Governments - State	40,176	3,069	9,320
142 Inventory of Stores - Resale	24,722	-	-
154 Deposit - SDPAA (Note 10)	56,870	-	-
155 Prepaid Expenses	7,044	-	-
<b>Total Assets</b>	<b>\$ 2,158,502</b>	<b>\$ 38,293</b>	<b>\$ 2,858,276</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable (Note 5)	\$ 19,659	\$ 7,563	\$ 1,282
216 Accrued Wages Payable	58,474	-	-
217 Accrued Taxes and Benefits Payable	30,142	-	-
<b>Total Liabilities</b>	<b>108,275</b>	<b>7,563</b>	<b>1,282</b>
<i>Deferred Inflows of Resources (Notes 3 and 4)</i>			
245 Unavailable Revenue - Property Taxes	54,564	-	-
246 Unavailable Revenue - Special Assessments	-	-	1,151,927
<b>Total Deferred Inflows of Resources</b>	<b>54,564</b>	<b>-</b>	<b>1,151,927</b>
<i>Fund Balances</i>			
<i>Nonspendable Fund Balances</i>			
263.02 SDPAA Deposit (Note 10)	56,870	-	-
263.51 Perpetual Care Cemetery	-	-	-
263.82 Prepaid Expenses	7,044	-	-
<i>Restricted Fund Balances</i>			
264.01 Debt Service	-	-	33,548
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	30,730	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balance</i>			
265.02 Capital Replacements	-	-	1,251,519
265.03 2021 DOT Road Project	-	-	420,000
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	1,931,749	-	-
<b>Total Fund Balances</b>	<b>1,995,663</b>	<b>30,730</b>	<b>1,705,067</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 2,158,502</b>	<b>\$ 38,293</b>	<b>\$ 2,858,276</b>

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

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ 92,206	\$ 5,617	\$ 62,472	\$ 3,114,279
-	-	-	517,420
-	-	-	33,548
-	-	-	75,816
4,062	-	-	185,237
-	-	-	151,361
-	-	-	50,932
-	-	-	949,634
-	-	-	52,565
-	-	-	24,722
-	-	-	56,870
-	-	-	7,044
<b>\$ 96,268</b>	<b>\$ 5,617</b>	<b>\$ 62,472</b>	<b>\$ 5,219,428</b>

\$ -	\$ -	\$ -	\$ 28,504
-	-	-	58,474
-	-	-	30,142
-	-	-	117,120
-	-	-	54,564
-	-	-	1,151,927
-	-	-	1,206,491

-	-	-	56,870
-	-	50,000	50,000
-	-	-	7,044
-	-	-	33,548
-	5,617	-	5,617
-	-	12,472	12,472
-	-	-	30,730
96,268	-	-	96,268
-	-	-	1,251,519
-	-	-	420,000
-	-	-	1,931,749
96,268	5,617	62,472	3,895,817
<b>\$ 96,268</b>	<b>\$ 5,617</b>	<b>\$ 62,472</b>	<b>\$ 5,219,428</b>

**CITY OF HOT SPRINGS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2019**

Total Funds Balance - Government Funds	\$ 3,895,817
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.	7,332,382
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.	(1,401,207)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	5,966
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	148,139
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.	1,206,491
<b>Total Net Position - Governmental Funds</b>	<b>\$ 11,187,588</b>

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

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019

		General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
<b>Revenues</b>					
<i>Taxes:</i>					
311	General Property Taxes	\$ 1,129,860	\$ -	\$ -	\$ -
313	General Sales and Use Taxes	1,045,464	152,320	519,381	87,922
315	Amusement Taxes	408	-	-	-
319	Penalties and Interest	6,799	-	-	-
320	Licenses and Permits	30,236	-	-	-
<i>Intergovernmental Revenue:</i>					
331	Federal Grants	10,809	-	4,717	-
334	State Grants	19,150	-	97,390	-
<i>State Shared Revenue:</i>					
335.01	Bank Franchise Taxes	4,262	-	-	-
335.02	Motor Vehicle Commercial Prorate	6,760	-	-	-
335.03	Liquor Tax Reversion	24,348	-	-	-
335.04	Motor Vehicle Licenses	37,518	-	-	-
335.08	Local Government Highway & Bridges	76,179	-	-	-
335.20	Other	33,203	-	-	-
<i>County Shared Revenue:</i>					
338.01	County Road Tax	1,532	-	-	-
<i>Charges for Goods and Services:</i>					
341	General Government	20,351	-	-	-
342	Public Safety	17	-	-	-
343	Highways and Streets	2,289	-	-	-
346	Culture & Recreation	13,982	-	-	-
347	Other - Airport	43,209	-	-	-
348	Cemetery	2,500	-	-	-
349	Other - Library	9,549	-	-	-
<i>Fines and Forfeits:</i>					
352	Animal Control Fines	475	-	-	-
354	Library Fines	3,414	-	-	-
<i>Miscellaneous Revenue:</i>					
361	Earnings on Deposits & Investments	3,319	-	11,456	-
362	Rentals	48,996	-	-	-
363	Special Assessments	-	-	234,747	-
367	Contributions and Donations	2,711	-	-	-
368	Liquor Operating Agreement Income	149,470	-	-	-
369	Other	22,140	-	-	-
<b>TOTAL REVENUES</b>		<b>2,748,950</b>	<b>152,320</b>	<b>867,691</b>	<b>87,922</b>

	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$	-	\$ -	\$ 1,129,860
	-	-	1,805,087
	-	-	408
	-	-	6,799
	-	-	30,236
	-	-	15,526
	-	-	116,540
	-	-	4,262
	-	-	6,760
	-	-	24,348
	-	-	37,518
	-	-	76,179
	-	-	33,203
	-	-	1,532
	-	-	20,351
	-	-	17
	-	-	2,289
	-	-	13,982
	-	-	43,209
	-	2,500	5,000
	-	-	9,549
	-	-	475
	-	-	3,414
	-	1,224	15,999
	-	-	48,996
	-	-	234,747
	-	-	2,711
	-	-	149,470
	-	-	22,140
	-	3,724	3,860,607

**CITY OF HOT SPRINGS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

		<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Expenditures</b>				
<i>General Governments:</i>				
411	Legislative	\$ 78,578	\$ -	\$ -
414	Financial Administration	233,682	-	-
419	Other	135,428	-	147,328
<i>Public Safety:</i>				
421	Police	749,820	-	-
422	Fire	90,000	-	-
423	Protective Inspection	69,380	-	-
<i>Public Works:</i>				
431	Highway and Streets	420,082	-	-
432	Sanitation - Street Cleaning	48,679	-	-
435	Airport	151,295	-	-
437	Cemeteries	60,697	-	-
<i>Health and Welfare:</i>				
441	Health	43,560	-	-
<i>Culture and Recreation:</i>				
451	Recreation	31,011	-	-
452	Parks	183,105	-	-
455	Library	268,427	-	-
456	Auditorium	97,234	-	-
<i>Conservation and Development:</i>				
465	Economic Development Assistance	-	148,238	-
470	Debt Service	-	-	249,248
485	Capital Outlay	164,874	-	38,645
<b>Total Expenditures</b>		<b>2,825,852</b>	<b>148,238</b>	<b>435,221</b>
<b>Other Financing Sources (Uses)</b>				
391.01	Transfers In (Note 6)	244,013	-	-
391.03	Sale of Municipal Property	29,824	-	-
511	Transfers Out (Note 6)	(2,262)	-	(135,000)
<b>Total Other Financing Sources (Uses)</b>		<b>271,575</b>	<b>-</b>	<b>(135,000)</b>
<b>Net Change in Fund Balances</b>		<b>194,673</b>	<b>4,082</b>	<b>297,470</b>
Fund Balances - December 31, 2018		1,800,990	26,648	1,407,597
<b>Fund Balances - December 31, 2019</b>		<b>\$ 1,995,663</b>	<b>\$ 30,730</b>	<b>\$ 1,705,067</b>

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

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 78,578
-	-	-	233,682
-	-	-	282,756
-	-	-	749,820
-	-	-	90,000
-	-	-	69,380
-	-	-	420,082
-	-	-	48,679
-	-	-	151,295
-	-	-	60,697
-	-	-	43,560
-	-	-	31,011
-	-	-	183,105
-	-	-	268,427
-	-	-	97,234
73,888	-	-	222,126
-	-	-	249,248
-	-	-	203,519
<b>73,888</b>	<b>-</b>	<b>-</b>	<b>3,483,199</b>
-	2,262	-	246,275
-	-	-	29,824
-	-	(1,200)	(138,462)
<b>-</b>	<b>2,262</b>	<b>(1,200)</b>	<b>137,637</b>
14,034	2,262	2,524	515,045
82,234	3,355	59,948	3,380,772
<b>\$ 96,268</b>	<b>\$ 5,617</b>	<b>\$ 62,472</b>	<b>\$ 3,895,817</b>

**CITY OF HOT SPRINGS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

Net change in fund balance - total governmental funds	\$ 515,045
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	203,519
Depreciation expense	(365,442)
In the Statement of Activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a loss is recognized.	(5,262)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	209,117
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(6,031)
Changes in the pension related deferred outflows/inflows, pension asset/liability, and related pension revenue/expenses are reported in the governmental fund statements.	(198,479)
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".	(5,764)
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.	(182,643)
<b>Changes in Net Position of Governmental Activities</b>	<b>\$ 164,060</b>

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

**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2019**

<u>Assets</u>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Current Assets</b>			
101 Cash and Cash Equivalents (Note 2)	\$ 396,575	\$ 266,348	\$ 277,384
101 Cash and Cash Equivalents (Note 2)	563,645	714,875	-
107 Restricted Cash and Cash Equivalents (Note 2)	-	-	-
115 Accounts Receivable (Note 5)	53,418	80,733	17,180
117 Unbilled Accounts Receivable	26,484	29,107	8,882
141 Inventory of Supplies	78,449	24,503	-
142 Inventory of Stores - Resale	-	-	-
155 Prepaid Expenses	-	13,620	-
<b>Total Current Assets</b>	<b>1,118,571</b>	<b>1,129,186</b>	<b>303,446</b>
<b>Noncurrent Assets</b>			
189 Net Pension Asset (Note 11)	1,106	743	-
Capital Assets (Notes 7 and 9):			
160 Land	57,320	-	-
162 Buildings	1,245,606	2,232,951	-
163 Accumulated Depreciation (A/D) - Buildings	(792,315)	(1,992,651)	-
164 Improvements Other Than Buildings	5,483,751	5,268,028	-
165 A/D - Improvements Other Than Buildings	(2,323,272)	(1,691,031)	-
166 Machinery and Equipment	537,897	667,485	-
167 A/D - Machinery and Equipment	(353,567)	(525,564)	-
168 Construction in Progress	149,150	-	-
<b>Total Noncurrent Assets</b>	<b>4,005,676</b>	<b>3,959,961</b>	<b>-</b>
<b>Total Assets</b>	<b>5,124,247</b>	<b>5,089,147</b>	<b>303,446</b>
<b>Deferred Outflows of Resources</b>			
196 Pension Related Deferred Outflows (Notes 3 and 11)	27,458	18,459	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 5,151,705</b>	<b>\$ 5,107,606</b>	<b>\$ 303,446</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 31,866	\$ 47,647	\$ 1,019,820
-	-	1,278,520
-	150,103	150,103
300	3	151,634
-	-	64,473
-	-	102,952
11,548	21,432	32,980
564	-	14,184
<b>44,278</b>	<b>219,185</b>	<b>2,814,666</b>
585	504	2,938
-	190,060	247,380
632,165	1,507,555	5,618,277
(203,191)	(179,680)	(3,167,837)
1,604,075	135,104	12,490,958
(830,357)	(23,935)	(4,868,595)
550,925	59,344	1,815,651
(359,646)	(37,640)	(1,276,417)
-	-	149,150
<b>1,394,556</b>	<b>1,651,312</b>	<b>11,011,505</b>
<b>1,438,834</b>	<b>1,870,497</b>	<b>13,826,171</b>
<b>14,533</b>	<b>12,511</b>	<b>72,961</b>
<b>\$ 1,453,367</b>	<b>\$ 1,883,008</b>	<b>\$ 13,899,132</b>

**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION (CONTINUED)  
 PROPRIETARY FUNDS  
 DECEMBER 31, 2019**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b><u>Liabilities and Net Position</u></b>			
<b>Current Liabilities</b>			
202	\$ 5,471	\$ 1,794	\$ 14,273
205	74,238	55,279	-
215	7,431	5,660	-
216	11,949	7,296	-
217	2,447	1,477	1,099
220	27,485	-	-
223	5,170	-	-
230	35,915	11,348	-
<b>Total Current Liabilities</b>	<b>170,106</b>	<b>82,854</b>	<b>15,372</b>
<b>Long Term Liabilities</b>			
237			
Long-Term Debt, Net of			
Current Portion (Note 7)	1,114,716	850,342	-
<b>Total Liabilities</b>	<b>1,284,822</b>	<b>933,196</b>	<b>15,372</b>
<b>Net Position</b>			
253.1	2,815,616	3,053,597	-
253.2	-	-	-
253.29	28,564	19,202	-
252	1,022,703	1,101,611	288,074
<b>Total Net Position</b>	<b>3,866,883</b>	<b>4,174,410</b>	<b>288,074</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>	<b>\$ 5,151,705</b>	<b>\$ 5,107,606</b>	<b>\$ 303,446</b>

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 583	\$ 4,067	\$ 26,188
22,300	85,000	236,817
-	5,021	18,112
5,467	11,778	36,490
7,106	4,957	17,086
-	-	27,485
-	-	5,170
-	6,034	53,297
<u>35,456</u>	<u>116,857</u>	<u>420,645</u>

47,613	1,335,000	3,347,671
<b>83,069</b>	<b>1,451,857</b>	<b>3,768,316</b>

1,324,058	543,962	7,737,233
-	150,103	150,103
15,118	13,015	75,899
31,122	(275,929)	2,167,581
<u>1,370,298</u>	<u>431,151</u>	<u>10,130,816</u>

<u><b>\$ 1,453,367</b></u>	<u><b>\$ 1,883,008</b></u>	<u><b>\$ 13,899,132</b></u>
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**CITY OF HOT SPRINGS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Operating Revenues</b>			
380 Charges for Goods and Services (Note 7)	\$ 900,096	\$ 797,814	\$ 202,541
<b>Total Operating Revenues</b>	<b>900,096</b>	<b>797,814</b>	<b>202,541</b>
<b>Operating Expenses</b>			
410 Personal Services	310,994	207,662	-
420 Other Current Expense	204,734	116,196	256,582
457 Depreciation	213,319	189,332	-
<b>Total Operating Expenses</b>	<b>729,047</b>	<b>513,190</b>	<b>256,582</b>
<b>Operating Income (Loss)</b>	<b>171,049</b>	<b>284,624</b>	<b>(54,041)</b>
<b>Non-Operating Income (Expense)</b>			
361 Earnings on Deposits and Investments	11,802	15,689	-
369 Miscellaneous Revenue	344	367	300
470 Interest Expense	(36,574)	(27,827)	-
<b>Total Non-Operating Income (Expense)</b>	<b>(24,428)</b>	<b>(11,771)</b>	<b>300</b>
<b>Income (Loss) before Transfers</b>	<b>146,621</b>	<b>272,853</b>	<b>(53,741)</b>
<b>Other Financing Sources (Uses)</b>			
391.1 Transfers In (Note 6)	-	4,285	-
391.4 Gain on Sale of Capital Assets	-	-	-
511 Transfers Out (Note 6)	(191,296)	(114,885)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(191,296)</b>	<b>(110,600)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>(44,675)</b>	<b>162,253</b>	<b>(53,741)</b>
Net Position - December 31, 2018	3,911,558	4,012,157	341,815
<b>Net Position - December 31, 2019</b>	<b>\$ 3,866,883</b>	<b>\$ 4,174,410</b>	<b>\$ 288,074</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 396,458	\$ 688,588	\$ 2,985,497
<b>396,458</b>	<b>688,588</b>	<b>2,985,497</b>
270,513	388,776	1,177,945
217,591	222,945	1,018,048
109,652	47,441	559,744
<b>597,756</b>	<b>659,162</b>	<b>2,755,737</b>
<b>(201,298)</b>	<b>29,426</b>	<b>229,760</b>
-	3,675	31,166
1,096	2,531	4,638
(3,807)	(61,933)	(130,141)
<b>(2,711)</b>	<b>(55,727)</b>	<b>(94,337)</b>
<b>(204,009)</b>	<b>(26,301)</b>	<b>135,423</b>
136,808	57,275	198,368
-	547	547
-	-	(306,181)
<b>136,808</b>	<b>57,822</b>	<b>(107,266)</b>
<b>(67,201)</b>	<b>31,521</b>	<b>28,157</b>
1,437,499	399,630	10,102,659
<b>\$ 1,370,298</b>	<b>\$ 431,151</b>	<b>\$ 10,130,816</b>

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
<b>Cash Flows from Operating Activities:</b>						
Receipts from Customers	\$ 811,463	\$ 786,356	\$ 202,193	\$ 396,274	\$ 694,526	\$ 2,890,812
Receipts for Interfund Services Provided	86,296	6,641	-	-	-	92,937
Payments to Suppliers	(215,589)	(278,550)	(255,859)	(167,826)	(229,360)	(1,147,184)
Payments to Employees	(288,435)	(205,572)	-	(258,830)	(369,979)	(1,122,816)
Payments for Interfund Services Used	-	(4,285)	-	(51,808)	(7,275)	(63,368)
<b>Net Cash Flows Provided by (Used in) Operating Activities</b>	<b>393,735</b>	<b>304,590</b>	<b>(53,666)</b>	<b>(82,190)</b>	<b>87,912</b>	<b>650,381</b>
<b>Cash Flows from Noncapital Financing Activities:</b>						
Transfers In (Out)	(191,296)	(110,600)	-	136,808	57,275	(107,813)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(191,296)</b>	<b>(110,600)</b>	<b>-</b>	<b>136,808</b>	<b>57,275</b>	<b>(107,813)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchase of Capital Assets	(192,824)	(29,693)	-	(13,982)	-	(236,499)
Principal Paid on Capital Debt	(72,052)	(53,651)	-	(21,352)	(85,000)	(232,055)
Other Receipts	344	367	300	1,096	3,078	5,185
Interest Paid	(37,024)	(28,162)	-	(3,807)	(62,086)	(131,079)
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(301,556)</b>	<b>(111,139)</b>	<b>300</b>	<b>(38,045)</b>	<b>(144,008)</b>	<b>(594,448)</b>
<b>Cash Flows Provided by Investing Activities:</b>						
Earnings on Deposit and Investments	11,802	15,689	-	-	3,675	31,166
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(87,315)</b>	<b>98,540</b>	<b>(53,366)</b>	<b>16,573</b>	<b>4,854</b>	<b>(20,714)</b>
Cash and Cash Equivalents - December 31, 2018	1,047,535	882,683	330,750	15,293	192,896	2,469,157
<b>Cash and Cash Equivalents - December 31, 2019</b>	<b>\$ 960,220</b>	<b>\$ 981,223</b>	<b>\$ 277,384</b>	<b>\$ 31,866</b>	<b>\$ 197,750</b>	<b>\$ 2,448,443</b>

**CITY OF HOT SPRINGS**

**STATEMENT OF CASH FLOWS (CONTINUED)  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>	<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
<b>Reconciliation of Operating</b>						
<b>Income (Loss) to Net Cash Flows</b>						
<b>Provided by (Used In) Operating</b>						
<b>Activities</b>						
Operating Income (Loss)	\$ 171,049	\$ 284,624	\$ (54,041)	\$ (201,298)	\$ 29,426	\$ 229,760
<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	213,319	189,332	-	109,652	47,441	559,744
Change in Assets and Liabilities:						
Accounts Receivable	4,047	(4,817)	(348)	(184)	5,938	4,636
Inventories	7,436	1,759	-	(1,022)	3,464	11,637
Prepaid Expenses	-	(3,298)	-	73	-	(3,225)
Pension Asset	(883)	(590)	-	(465)	(397)	(2,335)
Pension Related Deferred Outflows	16,742	(413)	-	10,153	17,062	43,544
Accounts Payable	(18,291)	(165,100)	676	(1,094)	(17,154)	(200,963)
Accrued Wages Payable	2,560	1,001	-	306	1,088	4,955
Accrued Taxes Payable	607	242	47	1,689	(103)	2,482
Customer Deposits	(6,375)	-	-	-	-	(6,375)
Unearned Revenue	(9)	-	-	-	-	(9)
Accrued Leave Payable	3,533	1,850	-	-	1,147	6,530
<b>Net Cash Flows Provided by (Used in)</b>						
<b>Operating Activities</b>	<b>\$ 393,735</b>	<b>\$ 304,590</b>	<b>\$ (53,666)</b>	<b>\$ (82,190)</b>	<b>\$ 87,912</b>	<b>\$ 650,381</b>

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

## **CITY OF HOT SPRINGS**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019**

#### **(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 was a component unit of the City and was dissolved in April 2019. Due to limited activity in 2019 and lack of timely financial statements, the City has not included the component unit in these financial statements.

##### **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, 2019**

**(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, 2019**

**(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, 2019**

**(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, 2019, 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, 2019**

**(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.

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.

## **CITY OF HOT SPRINGS**

### **NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019**

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

##### **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.

##### **Subsequent Events**

Subsequent to year-end, the City has been impacted by the effects of the world-wide coronavirus pandemic. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of the situation. As of the date of issuance of these financial statements, the full impact to the City's financial position is not known.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(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, Evans Plunge gift shop saleable items, including food items. Additionally, the City maintains inventory in the water, sewer and general funds including small infrastructure repair/replacement items and fuel. 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, 2019**

**(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, 2019**

**(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, 2019, 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	\$ 750,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	5,363,690
<b>Total Deposits</b>	<b>\$ 6,113,690</b>

*Assignment of Investment Income:*

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy 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, 2019:

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, 2019**

**(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, 2019, were:

Fund	Transfers	
	In	Out
General Fund	\$ 244,013	\$ 2,262
Additional Sales Tax Fund	-	135,000
HS Capital Improvement Fund	2,262	-
Cemetery Perpetual Care	-	1,200
Water Fund	-	191,296
Sewer Fund	4,285	114,885
Golf Course Fund	136,808	-
Evans Plunge Fund	57,275	-
<b>Total Interfund Transfers</b>	<b>\$ 444,643</b>	<b>\$ 444,643</b>

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.

**(7) Long-Term Debt**

	Balance 12/31/2018	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2019	Due Within One Year
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
Special Assessment Note Payable	\$ 1,144,419	\$ -	\$ (185,050)	\$ 959,369	\$ 122,911
Revenue Bonds	350,688	-	(24,067)	326,621	24,735
Compensated Absences	109,186	98,472	(92,441)	115,217	115,217
<b>Total Governmental Activities</b>	<b>1,604,293</b>	<b>98,472</b>	<b>(301,558)</b>	<b>1,401,207</b>	<b>262,863</b>
<i>Business - Type Activities:</i>					
Revenue Bonds	3,725,278	-	(210,703)	3,514,575	214,517
Capital Lease	91,265	-	(21,352)	69,913	22,300
Compensated Absences	46,767	55,385	(48,855)	53,297	53,297
<b>Total Business - Type Activities</b>	<b>3,863,310</b>	<b>55,385</b>	<b>(280,910)</b>	<b>3,637,785</b>	<b>290,114</b>
<b>Total Primary Government</b>	<b>\$ 5,467,603</b>	<b>\$ 153,857</b>	<b>\$ (582,468)</b>	<b>\$ 5,038,992</b>	<b>\$ 552,977</b>

Total interest expense included in the Statement of Activities for the year ended December 31, 2019 was \$172,076.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2019**

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

Long-term debt at December 31, 2019 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. \$ 1,420,000

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. 1,188,954

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. 905,621

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. 326,621

**Special Assessment:**

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. 959,369

**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. 69,913

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**4,870,478**

**Compensated Absences:**

General Fund	115,217
Water Fund	35,915
Sewer Fund	11,348
Evans Plunge Fund	6,034
<b>Total Compensated Absences</b>	<b>168,514</b>

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**Total Long-Term Debt** **\$ 5,038,992**

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**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

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

The annual requirements to amortize long-term debt outstanding as of December 31, 2019, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		Capital Lease		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
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	24,323	135,614	407,754
2023	108,418	263,514	15,048	133,406	-	-	123,466	396,920
2024	100,337	273,555	11,354	137,100	-	-	111,691	410,655
2025-2029	351,117	1,503,843	11,546	309,826	-	-	362,663	1,813,669
2030-2033	73,275	1,058,547	-	-	-	-	73,275	1,058,547
<b>Total</b>	<b>\$ 1,003,266</b>	<b>\$ 3,841,196</b>	<b>\$ 104,273</b>	<b>\$ 959,369</b>	<b>\$ 5,354</b>	<b>\$ 69,913</b>	<b>\$ 1,112,893</b>	<b>\$ 4,870,478</b>

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	\$ 108,626	\$ 81,478	\$ 148,454
Pledged Revenue	900,096	797,814	234,747

**(8) Legal Contingency**

The City is involved in lawsuits at December 31, 2019. 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, 2019**

**(9) Changes in Capital Assets**

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

	Balance 12/31/2018	Additions	Disposals/ Transfers	Balance 12/31/2019
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 364,571	\$ -	\$ -	\$ 364,571
Construction in Progress	111,615	38,645	-	150,260
<b>Total Capital Assets, not being Depreciated</b>	<b>476,186</b>	<b>38,645</b>	<b>-</b>	<b>514,831</b>
Capital Assets, being Depreciated:				
Buildings	5,283,700	-	-	5,283,700
Improvements Other Than Buildings	6,003,126	-	-	6,003,126
Machinery and Equipment	1,739,439	164,874	(62,722)	1,841,591
<b>Total Capital Assets, being Depreciated</b>	<b>13,026,265</b>	<b>164,874</b>	<b>(62,722)</b>	<b>13,128,417</b>
Less Accumulated Depreciation for:				
Buildings	2,336,869	108,398	-	2,445,267
Improvements Other Than Buildings	2,168,288	194,025	-	2,362,313
Machinery and Equipment	1,497,727	63,019	(57,460)	1,503,286
<b>Total Accumulated Depreciation</b>	<b>6,002,884</b>	<b>365,442</b>	<b>(57,460)</b>	<b>6,310,866</b>
Total Governmental Activities Capital Assets, being Depreciated, Net				
	7,023,381	(200,568)	(5,262)	6,817,551
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 7,499,567</b>	<b>\$ (161,923)</b>	<b>\$ (5,262)</b>	<b>\$ 7,332,382</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 250,100
Culture and Recreation	84,411
Public Safety	26,389
General Government	4,542
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 365,442</b>

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

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

	Balance 12/31/2018	Additions	Disposals/ Transfers	Balance 12/31/2019
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 247,380	\$ -	\$ -	\$ 247,380
Construction in Progress	151,578	149,150	(151,578)	149,150
<b>Total Capital Assets, not being Depreciated</b>	<b>398,958</b>	<b>149,150</b>	<b>(151,578)</b>	<b>396,530</b>
Capital Assets, being Depreciated:				
Buildings	5,618,277	-	-	5,618,277
Improvements Other Than Buildings	12,339,380	151,578	-	12,490,958
Machinery and Equipment	1,734,790	87,349	(6,488)	1,815,651
<b>Total Capital Assets, being Depreciated</b>	<b>19,692,447</b>	<b>238,927</b>	<b>(6,488)</b>	<b>19,924,886</b>
Less Accumulated Depreciation for:				
Buildings	3,092,638	75,199	-	3,167,837
Improvements Other Than Buildings	4,506,348	362,247	-	4,868,595
Machinery and Equipment	1,160,607	122,298	(6,488)	1,276,417
<b>Total Accumulated Depreciation</b>	<b>8,759,593</b>	<b>559,744</b>	<b>(6,488)</b>	<b>9,312,849</b>
Total Business-type Activities Capital Assets, being Depreciated, Net				
	10,932,854	(320,817)	-	10,612,037
<b>Total Business-type Capital Assets, Net</b>	<b>\$ 11,331,812</b>	<b>\$ (171,667)</b>	<b>\$ (151,578)</b>	<b>\$ 11,008,567</b>

Depreciation expense was charged to funds as follows:

Sewer	\$ 189,332
Water	213,319
Golf Course	109,652
Evans Plunge	47,441
<b>Total Depreciation Expense - Business-type</b>	<b>\$ 559,744</b>

*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 **36,021** as of December 31, 2019.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(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, 2019, 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.

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:

<u>Years</u>	<u>Percentage</u>
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, 2019, the Municipality’s balance available to be refunded per the SDPAA was **\$56,870**. 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, 2019**

**(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, 2019**

**(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, 2019, 2018, and 2017 were **\$107,197**, \$104,767, and \$103,503, 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, 2019, SDRS is 100.09 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, 2019 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 7,022,173	\$ 3,458,558	<b>\$ 10,480,731</b>
Less: Proportionate Share of Total Pension Asset	(7,016,207)	(3,455,620)	<b>(10,471,827)</b>
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 5,966</b>	<b>\$ 2,938</b>	<b>\$ 8,904</b>

At December 31, 2019, the City reported an asset of **\$8,904** for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019 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, 2019, the City’s proportion was .0840287 percent, which is an increase from the City’s proportion of .0811237 measured as of June 30, 2018.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019**

**(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, 2019, the City recognized pension expense of **\$347,980**. At December 31, 2019, 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	\$ 30,899	\$ -
Changes in Assumption	181,468	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	(51,299)	-
City Contributions Subsequent to the Measurement Date	60,032	-
<b>Total</b>	<b>\$ 221,100</b>	<b>\$ -</b>

Deferred outflow of resources includes **\$60,032** 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, 2020. 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:

2020	\$ 194,689
2021	(30,173)
2022	(20,529)
2023	17,081
	<u><b>\$ 161,068</b></u>

Actuarial Assumptions:

The total pension asset in the June 30, 2019 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 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2016.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)  
DECEMBER 31, 2019**

**(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, 2019 (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%	4.7%
Fixed Income	30.0%	1.7%
Real Estate	10.0%	4.3%
Cash	2.0%	0.9%
	<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)	\$ 1,478,013	\$ (8,904)	\$ (1,220,474)

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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2020.

#### **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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2019-001 and #2019-002, that we consider to be material weaknesses.

#### **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

June 15, 2020

**CITY OF HOT SPRINGS**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2019**

**Current Year Audit Findings and Recommendations**

**MATERIAL WEAKNESSES**

**#2019-001 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.

**#2019-002 FINDING: Audit Adjustments**

*Condition and Cause:* During the course of the engagement, we proposed 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:

- The City should review the SDRS pension activity entries.
- Deferred property taxes should not include the amount received during the availability period.

*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](mailto:hsfinanceofficer@hs-sd.org)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2019**

The City respectfully submits the following summary schedule of prior audit 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

*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 2019, see Corrective Action Plan.

#2018-002 FINDING: Audit Adjustments

*Status:* Audit adjustments were posted during the 2019 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.

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

*Status:* No similar inventory issues identified. Finding is not repeated.



**Misty Summers-Walton**  
**Finance Officer**  
[hsfinanceofficer@hs-sd.org](mailto:hsfinanceofficer@hs-sd.org)

**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2019**

The City respectfully submits the following corrective action plan regarding findings from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2019 Schedule of Findings.

#2019-001 FINDING: Financial Statement Preparation

*Responsible Individuals:* Misty Summers – Walton, Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2019-001 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

#2019-002 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