

CITY OF HOT SPRINGS
HOT SPRINGS, SOUTH DAKOTA

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2014

CITY OF HOT SPRINGS

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
BASIC FINANCIAL STATEMENTS	
<i>Government-Wide Financial Statements:</i>	
Statement of Net Position	3
Statement of Activities	4
<i>Fund Financial Statements:</i>	
Balance Sheet - Governmental Funds	5
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	7-8
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	9
Statement of Net Position - Proprietary Funds	10
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	11
Statement of Cash Flows – Proprietary Funds.....	12
Notes to Financial Statements	13-32
OTHER REPORTS	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	33-34
Summary Schedule of Prior Audit Findings	35
Schedule of Auditor’s Findings and Recommendations.....	36-37

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, discretely presented component unit, and each major fund of the City of Hot Springs, South Dakota (the City), as of December 31, 2014 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit The Housing and Redevelopment Commission of the City of Hot Springs, as of and for the year ended December 31, 2014, which represents one hundred percent of the balance and activities of the component unit column. Those financial statements were audited by other auditors whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for The Housing and Redevelopment Commission of the City of Hot Springs is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Dependable, Innovative Solutions

521 Kansas City Street ♦ Rapid City, South Dakota 57701 ♦ P 605 721.3382 F 605 721.3383

www.denkerandassoc.com

Basis for Qualified Opinions on the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund

We were unable to obtain and test complete inventory listings for the year ended December 31, 2013 and test inventories for December 31, 2014, for the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund. We were unable to obtain sufficient audit evidence about the beginning and ending inventory balances in the funds noted in the prior sentence in order to ensure the statement of net position, statement of activities, and the statement of revenues, expenses and changes in fund net position – proprietary funds are fairly presented in all material respects for the year ended December 31, 2014.

Qualified Opinions

In our opinion, except for the effects of the matters discussed in the “Basis for Qualified Opinions” paragraph, the financial statements referred to above present fairly in all material respects, the financial position of the Business Type Activities, and the Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund of the City of Hot Springs, as of December 31, 2014, and the results of operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our report and the report of other auditors, the financial statements referred to above, present fairly in all material respects, the respective financial position of the governmental activities, discretely presented component unit and each major fund other than Water Fund, Sewer Fund, Evans Plunge Fund and Golf Course Fund of the City, as of December 31, 2014, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

The Municipality has omitted the Management’s Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 16, 2016, on our consideration of the City of Hot Springs, South Dakota’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City’s internal control over financial reporting and compliance.



Donna Denker & Associates
Certified Public Accountants

May 16, 2016

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION
DECEMBER 31, 2014**

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>	Component Unit <u>(Note 13)</u>
Assets:				
Cash and Cash Equivalents (Note 2)	\$ 643,024	\$ 3,508,660	\$ 4,151,684	\$ 393,723
Restricted Cash and Cash Equivalents (Note 2)	5,627	156,073	161,700	207,934
Receivables, Net (Note 5)	831,058	223,627	1,054,685	225,244
Prepaid Expenses	29,178	22,728	51,906	28,769
Internal Balances	86,624	(86,624)	-	-
Inventories (Note 7)	-	199,915	199,915	28,985
Deposit (Note 11)	59,972	-	59,972	-
Capital Assets (Notes 7 and 9):				
Land and Construction in Progress	411,647	254,505	666,152	150,029
Other Capital Assets, Net Depreciation	5,114,625	10,113,188	15,227,813	3,809,013
Idle Capital Assets, Net Depreciation	-	-	-	1,217,831
TOTAL ASSETS	\$ 7,181,755	\$ 14,392,072	\$ 21,573,827	\$ 6,061,528
Liabilities:				
Accounts Payable (Note 5)	\$ 38,004	\$ 102,393	\$ 140,397	\$ 91,362
Other Current Liabilities	47,506	214,063	261,569	60,219
Noncurrent Liabilities (Note 7):				
Due Within One Year	181,137	223,888	405,025	165,393
Due in More Than One Year	285,346	4,691,497	4,976,843	2,937,696
TOTAL LIABILITIES	551,993	5,231,841	5,783,834	3,254,670
Net Position:				
Net Investment in Capital Assets	5,173,412	5,882,713	11,056,125	2,086,636
Restricted for:				
Deposit - SDPAA (Note 11)	59,972	-	59,972	-
Cemetery - Nonexpendable	50,000	-	50,000	-
Cemetery - Expendable	1,432	-	1,432	-
Debt Service	-	5,970	5,970	-
Capital Project Purposes	5,201	-	5,201	-
Facilities and Promoting the City	10,786	-	10,786	-
Library	5,627	-	5,627	-
Business Improvement District	24,550	-	24,550	-
Mortgage Escrow Deposits	-	-	-	207,934
Unrestricted	1,298,782	3,271,548	4,570,330	512,288
TOTAL NET POSITION	6,629,762	9,160,231	15,789,993	2,806,858
TOTAL LIABILITIES AND NET POSITION	\$ 7,181,755	\$ 14,392,072	\$ 21,573,827	\$ 6,061,528

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

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2014

Function/Programs	Expenses	----- Program Revenues -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
<i>Governmental Activities:</i>				
General Government	\$ 437,580	\$ 103,808	\$ -	\$ -
Public Safety	1,046,483	133	-	18,220
Public Works	841,858	126,124	-	529,161
Health and Welfare	34,281	485	-	-
Culture and Recreation	629,806	243,819	13,559	199,447
Conservation and Development	260,638	-	-	-
Interest on Long Term Debt	20,731	-	-	-
Total Governmental Activities	3,271,377	474,369	13,559	746,828
<i>Business-Type Activities:</i>				
Water	724,903	847,007	-	-
Sewer	532,378	728,145	-	-
Solid Waste	159,965	167,509	-	-
Golf Course	614,903	394,373	-	-
Evans Plunge	856,647	722,209	-	-
Total Business-Type Activities	2,888,796	2,859,243	-	-
Total Primary Government	\$ 6,160,173	\$ 3,333,612	\$ 13,559	\$ 746,828
Component Unit:				
Housing and Development Commission	\$ 1,281,349	\$ 686,700	\$ 695,774	\$ -
General Revenues:				
Taxes:				
Property Taxes				
Sales Taxes				
State Shared Revenue				
Unrestricted Investment Earnings				
Miscellaneous Revenue				
Capital Contributions				
Transfers and Contributions (Note 6)				
Total General Revenues				
Changes in Net Position				
Net Position, Beginning				
Net Position, Ending				

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

Net (Expense) Revenue and Changes in

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

Governmental Activities	Business-Type Activities	Total	Component Unit (Note 13)
\$ (333,772)	\$ -	\$ (333,772)	\$ -
(1,028,130)	-	(1,028,130)	-
(186,573)	-	(186,573)	-
(33,796)	-	(33,796)	-
(172,981)	-	(172,981)	-
(260,638)	-	(260,638)	-
(20,731)	-	(20,731)	-
(2,036,621)	-	(2,036,621)	-
-	122,104	122,104	-
-	195,767	195,767	-
-	7,544	7,544	-
-	(220,530)	(220,530)	-
-	(134,438)	(134,438)	-
-	(29,553)	(29,553)	-
(2,036,621)	(29,553)	(2,066,174)	-
-	-	-	101,125
1,037,299	-	1,037,299	-
1,633,914	-	1,633,914	-
54,084	-	54,084	-
2,893	116	3,009	9,506
47,788	17,333	65,121	14,071
-	-	-	18,233
(1,278,482)	1,278,482	-	-
1,497,496	1,295,931	2,793,427	41,810
(539,125)	1,266,378	727,253	142,935
7,168,887	7,893,853	15,062,740	2,663,923
\$ 6,629,762	\$ 9,160,231	\$ 15,789,993	\$ 2,806,858

CITY OF HOT SPRINGS

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2014

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 420,878	\$ 8,221	\$ 131,584
107 Restricted Cash and Cash Equivalents (Note 2)	5,627	-	-
108 Property Taxes Receivable	79,472	-	-
115 Accounts Receivable (Note 5)	67,161	-	-
121 Special Assessments Receivable - Current	-	-	58,041
122 Special Assessments Receivable - Delinquent	-	-	25,905
123 Special Assessments Receivable - Deferred	-	-	460,878
131 Due from Golf Course Fund	86,624	-	-
132 Due from Other Governments - State	41,486	2,565	91,708
154 Deposit - SDPAA (Note 11)	59,972	-	-
155 Prepaid Expenses	29,178	-	-
Total Assets	\$ 790,398	\$ 10,786	\$ 768,116
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable (Note 5)	\$ 13,460	\$ -	\$ 19,544
216 Accrued Wages Payable	29,614	-	-
217 Accrued Taxes Payable	17,892	-	-
Total Liabilities	60,966	-	19,544
<i>Deferred Inflows of Resources (Notes 3 and 4)</i>			
245 Unavailable Revenue - Property Taxes	65,089	-	-
246 Unavailable Revenue - Special Assessments	-	-	544,825
Total Deferred Inflows of Resources	65,089	-	544,825
<i>Fund Balances</i>			
<i>Nonspendable Fund Balances</i>			
263.02 SDPAA Deposit (Note 11)	59,972	-	-
263.51 Perpetual Care Cemetery	-	-	-
263.82 Prepaid Expenses	29,178	-	-
<i>Restricted Fund Balances</i>			
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	10,786	-
264.05 Library	5,627	-	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balance</i>			
265.02 Capital Replacements	-	-	203,747
<i>Assigned Fund Balance</i>			
266.01 Subsequent Year's Budget	293,394	-	-
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	276,172	-	-
Total Fund Balances	664,343	10,786	203,747
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 790,398	\$ 10,786	\$ 768,116

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ 25,708	\$ 5,201	\$ 51,432	\$ 643,024
-	-	-	5,627
-	-	-	79,472
3,842	-	-	71,003
-	-	-	58,041
-	-	-	25,905
-	-	-	460,878
-	-	-	86,624
-	-	-	135,759
-	-	-	59,972
-	-	-	29,178
\$ 29,550	\$ 5,201	\$ 51,432	\$ 1,655,483
\$ 5,000	\$ -	\$ -	\$ 38,004
-	-	-	29,614
-	-	-	17,892
5,000	-	-	85,510
-	-	-	65,089
-	-	-	544,825
-	-	-	609,914
-	-	-	59,972
-	-	50,000	50,000
-	-	-	29,178
-	5,201	-	5,201
-	-	1,432	1,432
-	-	-	10,786
-	-	-	5,627
24,550	-	-	24,550
-	-	-	203,747
-	-	-	293,394
-	-	-	276,172
24,550	5,201	51,432	960,059
\$ 29,550	\$ 5,201	\$ 51,432	\$ 1,655,483

CITY OF HOT SPRINGS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2014**

Total Funds Balance - Government Funds \$ 960,059

Amount to be reported for governmental activities in the Statement
of Net Position are different because:

Capital assets used in governmental activities are not financial resources and
therefore are not reported in the funds. 5,526,272

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. (466,483)

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. 609,914

Total Net Position - Governmental Funds \$ 6,629,762

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, 2014

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Revenues				
<i>Taxes:</i>				
311	\$ 1,005,168	\$ -	\$ -	\$ -
313	992,634	147,890	493,390	-
315	660	-	-	-
319	9,062	-	-	-
320	27,797	-	-	-
<i>Intergovernmental Revenue:</i>				
331	104,029	-	95,418	-
334	13,918	-	4,302	-
<i>State Shared Revenue:</i>				
335.01	3,169	-	-	-
335.02	6,776	-	-	-
335.03	25,908	-	-	-
335.04	29,999	-	-	-
335.08	78,361	-	-	-
335.20	25,007	-	-	-
<i>County Shared Revenue:</i>				
338.02	1,532	-	-	-
<i>Charges for Goods and Services:</i>				
341	33,509	-	-	572
342	133	-	-	-
343	2,890	-	-	-
344	2,216	-	-	-
346	5,350	-	-	-
348	1,975	-	-	-
349	-	-	-	101,241
	Other - Liquor	137,228	-	-
<i>Fines and Forfeits:</i>				
352	485	-	-	-
<i>Miscellaneous Revenue:</i>				
361	2,886	-	-	-
362	41,930	-	-	-
363	-	-	30,369	-
367	12,659	-	-	-
369	37,599	-	10,189	-
Total Revenue	2,602,880	147,890	633,668	101,813

	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$	-	\$ -	\$ 1,005,168
	-	-	1,633,914
	-	-	660
	-	-	9,062
	-	-	27,797
	-	-	199,447
	-	-	18,220
	-	-	3,169
	-	-	6,776
	-	-	25,908
	-	-	29,999
	-	-	78,361
	-	-	25,007
	-	-	1,532
	-	-	34,081
	-	-	133
	-	-	2,890
	-	-	2,216
	-	-	5,350
	-	2,375	4,350
	-	-	101,241
	-	-	137,228
	-	-	485
	-	7	2,893
	-	-	41,930
	-	-	30,369
	900	-	13,559
	-	-	47,788
	900	2,382	3,489,533

CITY OF HOT SPRINGS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Expenditures				
<i>General Governments:</i>				
411	\$ 49,910	\$ -	\$ -	\$ -
414	220,312	-	-	-
419	184,183	-	-	-
<i>Public Safety:</i>				
421	547,402	-	-	-
422	85,335	-	-	-
423	61,710	-	-	-
429	-	-	332,625	-
<i>Public Works:</i>				
431	503,958	-	-	-
432	27,635	-	-	-
435	80,294	-	-	-
437	59,323	-	-	-
<i>Health and Welfare:</i>				
441	34,281	-	-	-
<i>Culture and Recreation:</i>				
451	39,583	-	-	-
452	156,442	-	-	-
455	237,460	-	-	-
456	92,751	-	-	-
<i>Conservation and Development:</i>				
465	-	146,966	-	-
466	-	-	-	113,672
470	-	-	258,716	-
485	233,887	-	353,850	24,030
Total Expenditures	2,614,466	146,966	945,191	137,702
Other Financing Sources (Uses)				
391.01	247,192	-	-	-
511	(11,670)	-	-	-
Total Other Financing Sources (Uses)	235,522	-	-	-
Net Change in Fund Balances	223,936	924	(311,523)	(35,889)
Fund Balances - December 31, 2013	440,407	9,862	515,270	60,439
Fund Balances - December 31, 2014	\$ 664,343	\$ 10,786	\$ 203,747	\$ 24,550

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

HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ -	\$ 49,910
-	-	220,312
-	-	184,183
-	-	547,402
-	-	85,335
-	-	61,710
-	-	332,625
-	-	503,958
-	-	27,635
-	-	80,294
-	-	59,323
-	-	34,281
-	-	39,583
-	-	156,442
-	-	237,460
-	-	92,751
-	-	146,966
-	-	113,672
-	-	258,716
-	-	611,767
-	-	3,844,325
-	-	247,192
-	-	(11,670)
-	-	235,522
900	2,382	(119,270)
4,301	49,050	1,079,329
\$ 5,201	\$ 51,432	\$ 960,059

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, 2014**

Net change in fund balance - total governmental funds \$ (119,270)

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

This amount represents capital asset purchases which are reported as
expenditures on the fund financial statements, but increase assets on the
Statement of Net Position. 611,767

This amount represents net capital contributions from governmental funds to
proprietary funds. (1,514,004)

This amount represents the current year depreciation expense reported in the
Statement of Activities, which is not reported on the fund financial
statements because it does not require the use of current financial resources. (296,588)

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". 22,409

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. 498,792

Repayment of bond principal is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net
Position. 237,985

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. 19,784

Changes in Net Position of Governmental Activities \$ (539,125)

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

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

DECEMBER 31, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund
Assets				
Current Assets				
101 Cash and Cash Equivalents (Note 2)	\$ 1,522,619	\$ 1,683,186	\$ 280,384	\$ -
107 Restricted Cash and Cash Equivalents (Note 2)	-	5,970	-	-
115 Accounts Receivable, Net (Note 5)	54,321	76,941	16,262	-
117 Unbilled Accounts Receivable	26,567	27,750	7,705	-
Special Assessments Receivable:				
121 Current	2,112	3,685	-	-
122 Delinquent	-	350	-	-
123 Deferred	-	7,720	-	-
141 Inventory of Supplies	94,929	38,299	-	-
142 Inventory of Stores - Resale (Note 7)	-	-	-	13,866
155 Prepaid Expenses	-	19,405	-	-
Total Current Assets	1,700,548	1,863,306	304,351	13,866
Noncurrent Assets				
Capital Assets (Note 9):				
160 Land	57,320	-	-	-
162 Buildings	1,245,606	2,143,054	-	632,165
163 Accumulated Depreciation (A/D) - Buildings	(668,023)	(1,739,396)	-	(139,923)
164 Improvements Other Than Buildings	4,871,961	3,790,492	45,500	1,501,248
165 A/D - Improvements Other Than Buildings	(1,636,883)	(1,065,454)	(41,707)	(601,504)
166 Machinery and Equipment (Note 7)	420,092	579,751	248,891	479,684
167 A/D - Machinery and Equipment	(209,614)	(369,868)	(229,991)	(395,987)
168 Construction in Progress	-	7,125	-	-
Total Noncurrent Assets	4,080,459	3,345,704	22,693	1,475,683
Total Assets	\$ 5,781,007	\$ 5,209,010	\$ 327,044	\$ 1,489,549
Liabilities and Net Position				
Current Liabilities				
202 Accounts Payable (Note 5)	\$ 98,634	\$ 702	\$ 329	\$ 373
205 Current Portion of Long-Term Debt (Note 7)	63,933	53,250	-	-
208 Due to General Fund	-	-	-	86,624
215 Accrued Interest Payable	9,554	7,992	-	-
216 Accrued Wages Payable	5,434	3,178	-	2,342
217 Accrued Taxes Payable	3,197	1,955	885	1,599
220 Customer Deposits	160,100	-	-	-
233 Accrued Leave Payable (Note 7)	18,704	8,001	-	-
Total Current Liabilities	359,556	75,078	1,214	90,938
Long Term Liabilities				
237 Long-Term Debt, Net of Current Portion (Note 7)	1,464,681	1,471,816	-	-
Total Liabilities	1,824,237	1,546,894	1,214	90,938
Net Position				
253.1 Net Investment in Capital Assets	2,551,845	1,820,638	22,693	1,475,683
253.2 Restricted for Debt Service	-	5,970	-	-
252 Unrestricted Net Position (Deficit)	1,404,925	1,835,508	303,137	(77,072)
Total Net Position (Deficit)	3,956,770	3,662,116	325,830	1,398,611
Total Liabilities and Net Position	\$ 5,781,007	\$ 5,209,010	\$ 327,044	\$ 1,489,549

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

Evans Plunge Fund	Total Proprietary Funds
\$ 22,471	\$ 3,508,660
150,103	156,073
214	147,738
-	62,022
-	5,797
-	350
-	7,720
-	133,228
52,821	66,687
3,323	22,728
228,932	4,111,003

190,060	247,380
1,284,563	5,305,388
(36,883)	(2,584,225)
-	10,209,201
-	(3,345,548)
6,369	1,734,787
(955)	(1,206,415)
-	7,125
1,443,154	10,367,693
\$ 1,672,086	\$ 14,478,696

\$ 2,355	\$ 102,393
80,000	197,183
-	86,624
5,569	23,115
6,434	17,388
5,824	13,460
-	160,100
-	26,705
100,182	626,968

1,755,000	4,691,497
1,855,182	5,318,465

11,854	5,882,713
-	5,970
(194,950)	3,271,548
(183,096)	9,160,231
\$ 1,672,086	\$ 14,478,696

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund
Operating Revenues				
380 Charges for Goods and Services (Note 7)	\$ 847,007	\$ 728,145	\$ 167,509	\$ 394,373
Total Operating Revenues	847,007	728,145	167,509	394,373
Operating Expenses				
410 Personal Services	245,268	163,737	-	210,929
420 Other Current Expense	306,634	122,521	144,022	331,127
457 Depreciation	126,552	198,764	15,943	72,847
Total Operating Expenses	678,454	485,022	159,965	614,903
Operating Income (Loss)	168,553	243,123	7,544	(220,530)
Non-Operating Income (Expense)				
361 Earnings on Deposits and Investments	50	66	-	-
363 Special Assessments Revenue	444	6,331	-	-
369 Other	-	-	150	9,887
470 Interest Expense	(46,449)	(47,356)	-	-
Total Non-Operating Income (Expense)	(45,955)	(40,959)	150	9,887
Income (Loss) before Transfers	122,598	202,164	7,694	(210,643)
Other Financing Sources (Uses)				
Transfers In (Out) (Note 6)	(230,035)	(108,124)	-	95,250
Capital Contribution	-	-	-	1,514,004
Total Other Financing Sources (Uses)	(230,035)	(108,124)	-	1,609,254
Change in Net Position	(107,437)	94,040	7,694	1,398,611
Net Position (Deficit) - December 31, 2013	4,064,207	3,568,076	318,136	-
Net Position (Deficit) - December 31, 2014	\$ 3,956,770	\$ 3,662,116	\$ 325,830	\$ 1,398,611

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

Evans Plunge Fund	Total Proprietary Funds
\$ 722,209	\$ 2,859,243
722,209	2,859,243
328,312	948,246
440,561	1,344,865
26,369	440,475
795,242	2,733,586
(73,033)	125,657
-	116
-	6,775
521	10,558
(61,405)	(155,210)
(60,884)	(137,761)
(133,917)	(12,104)
7,387	(235,522)
-	1,514,004
7,387	1,278,482
(126,530)	1,266,378
(56,566)	7,893,853
\$ (183,096)	\$ 9,160,231

CITY OF HOTSPRINGS

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 745,982	\$ 717,930	\$ 167,361	\$ 394,373
Receipts for Interfund Services Used	116,417	8,123	-	-
Payments to Suppliers	(351,410)	(159,798)	(155,431)	(249,370)
Payments to Employees	(239,723)	(163,285)	58	(206,988)
Payments for Interfund Services Used	-	-	-	(83,580)
Net Cash Flows Provided by (Used in) Operating Activities	271,266	402,970	11,988	(145,565)
Cash Flows from Noncapital Financing Activities:				
Operating Subsidies	-	-	-	86,624
Transfers Out	(11,670)	(108,124)	-	83,580
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(11,670)	(108,124)	-	170,204
Cash Flows from Capital and Related Financing Activities				
Purchase of Capital Assets	(961,328)	(28,601)	-	(34,526)
Principal Paid on Capital Debt	(62,051)	(51,669)	-	-
Interest Paid	(47,026)	(47,633)	-	-
Other Receipts	4,065	8,296	150	9,887
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(1,066,340)	(119,607)	150	(24,639)
Cash Flows from Investing Activities:				
Earnings on Deposit and Investments	50	66	-	-
Increase (Decrease) in Cash and Cash Equivalents	(806,694)	175,305	12,138	-
Cash and Cash Equivalents - December 31, 2013	2,547,678	1,513,851	268,246	-
Cash and Cash Equivalents - December 31, 2014	\$ 1,740,984	\$ 1,689,156	\$ 280,384	\$ -
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used In) Operating Activities				
Operating Income (Loss)	\$ 168,553	\$ 243,123	\$ 7,544	\$ (220,530)
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used In) Operating Activities</i>				
Depreciation Expense	126,552	198,764	15,943	72,847
Change in Assets and Liabilities:				
Accounts Receivable	4,728	(2,092)	(148)	-
Inventories	(46,832)	(13,043)	-	(2,196)
Prepaid Expense	-	(19,405)	-	-
Accounts Payable	2,056	(4,829)	(11,409)	373
Accrued Wages Payable	216	(582)	-	2,342
Accrued Taxes Payable	788	364	58	1,599
Customer Deposits	10,664	-	-	-
Accrued Leave Payable	4,541	670	-	-
Net Cash Flows Provided by (Used in) Operating Activities	\$ 271,266	\$ 402,970	\$ 11,988	\$ (145,565)
Noncash Investing, Capital and Financing Activities:				
Purchases of Capital Assets Included in				
Accounts Payable	\$ 88,603	\$ -	\$ -	\$ -
Transfer In of Inventory	-	-	-	11,670
Capital Contribution	-	-	-	1,514,004

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

	Evans Plunge Fund	Total Proprietary Funds
\$	721,995	\$ 2,747,641
	-	124,540
	(445,459)	(1,361,468)
	(328,057)	(937,995)
	(7,387)	(90,967)
	<u>(58,908)</u>	<u>481,751</u>
	-	86,624
	7,387	(28,827)
	<u>7,387</u>	<u>57,797</u>
	(123,400)	(1,147,855)
	(65,000)	(178,720)
	(82,454)	(177,113)
	521	22,919
	<u>(270,333)</u>	<u>(1,480,769)</u>
	-	116
	(321,854)	(941,105)
	494,428	4,824,203
	<u>\$ 172,574</u>	<u>\$ 3,883,098</u>

\$	(73,033)	\$ 125,657
	26,369	440,475
	(214)	2,274
	3,669	(58,402)
	(3,323)	(22,728)
	(12,631)	(26,440)
	(365)	1,611
	1,249	4,058
	-	10,664
	(629)	4,582
	<u>\$ (58,908)</u>	<u>\$ 481,751</u>

\$	-	\$ 88,603
	-	11,670
	-	1,514,004

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies

Financial Reporting Entity

The reporting entity of the City of Hot Springs (the City), consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

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

The Housing and Redevelopment Commission of the City of Hot Springs, South Dakota (the Commission) is a proprietary fund-type, discretely-presented component unit (Note 13). The five members of the Commission are appointed by the Mayor with the approval of the Governing Board for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct a low-income housing unit, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: 201 South River Street, Hot Springs, SD 57747.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet certain criteria above, and may be classified as either governmental or business-type activities.

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, deferred inflows and outflows, fund equity, revenues and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, deferred inflows and outflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

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

Governmental Funds:

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

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

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

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

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

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

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements (Continued):

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 new 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 Waterpark. This is a major fund.

Measurement Focus and Basis of Accounting

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (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, 2014, 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.

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets

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

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

Government-wide Financial Statements:

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

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Continued)

Capital Assets (Continued)

Fund Financial Statements:

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

Long-Term Liabilities

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

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

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

Use of Estimates

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(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.

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

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

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

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

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

Inventory

The City maintains inventory including golf course pro-shop and Evans Plunge gift shop saleable items, including food items. Additionally, the City maintains inventory in the water and sewer funds including small infrastructure repair/replacement items. Inventory is recorded at the lower of cost or market on first-in, first-out cost flow assumption. In both the government-wide financial statements and the proprietary fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(1) Summary of Significant Accounting Policies (Concluded)

Compensated Absences

Employees accrue vacation as follows: 40 hours after one full year of fulltime employment; 80 hours during his/her second full year of employment; 120 hours during his/her third through sixth full year of employment; 168 hours during his/her seventh through twelfth full year of employment; 192 hours during his/her thirteenth full year and thereafter. The anniversary date is exactly 12 months from the date of first hire. Upon separation from employment, an employee will be paid for any accumulated vacation time. Reimbursement for vacation leave will be at the employee's salary rate per their last day of employment.

Employees accrue sick leave as follows: 4 hours per month during the first year of employment after 60 completed days of service and 8 hours per month during the second year and thereafter of employment. All employees who have completed five years of service, and either quit with two weeks written notice or are laid off, or die, shall be paid accumulated sick leave as follows: 33 percent for over five years but less than ten years of employment; 40 percent for over ten years but less than 20 year of employment; and 60 percent for over 20 years of employment. Reimbursement for sick leave will be at the employee's salary rate per their last day of employment.

(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.

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, 2014, none of the City's deposits were exposed to custodial credit risk.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(2) Deposits and Investments (Continued)

Concentration of Credit Risk:

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

Interest Rate Risk:

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income:

State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City’s policy per ordinance is to credit all income from investments to the fund making the investment and then transferring the cash to the general fund for spending purposes, except for the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the City’s cemetery, as required by SDCL 9-32-18.

Restricted Cash and Investments:

Debt covenants and donor restrictions require the following restricted cash balances as of December 31, 2014:

General Fund – Restricted Donations for Library	\$ 5,627
Sewer Fund – 2010 Sewer Revenue Bonds	5,970
Evans Plunge Fund – 2013 Sales Tax Bonds	150,103

(3) Deferred Inflows

The statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that apply to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist primarily of property taxes and special assessments.

(4) Property Taxes

Property taxes are levied on or before October 1 of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

(5) Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year. Appropriate allowances for estimated uncollectible balances have been established by review of past due accounts. Allowances of \$5,500, \$11,500 and \$500 have been recorded in the water fund, sewer fund and solid waste fund, respectively.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(6) Interfund Transfers

Interfund transfers during the year ended December 31, 2014, were as follows:

Fund	Transfers	
	In	Out
General Fund	\$ 247,192	\$ 11,670
Water Fund	-	230,035
Sewer Fund	-	108,124
Golf Course Fund	95,250	-
Evans Plunge Fund	7,387	-
Total Transfers	\$ 349,829	\$ 349,829

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

The Water Fund paid \$13,618 toward a street project in the General Fund.

Additionally, as of January 1, 2014, the General Fund contributed net capital assets totaling \$1,514,004 and transferred \$11,670 in inventory to the Golf Course Fund upon establishment of the new proprietary fund. This is reported in government-wide Statement of Activities as a transfer.

(7) Long-Term Debt

	Balance 12/31/2013	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2014	Due Within One Year
Primary Government:					
<i>Governmental Activities:</i>					
Sales Tax Revenue Bonds	\$ 134,274	\$ -	\$ (134,274)	\$ -	\$ -
Special Assessment Note Payable	456,571	-	(103,711)	352,860	67,514
Compensated Absences	133,407	44,424	(64,208)	113,623	113,623
Total Governmental Activities	724,252	44,424	(302,193)	466,483	181,137
<i>Business - Type Activities:</i>					
Revenue Bonds	5,067,400	-	(178,720)	4,888,680	197,183
Compensated Absences	22,123	27,234	(22,652)	26,705	26,705
Total Business - Type Activities	5,089,523	27,234	(201,372)	4,915,385	223,888
Total Primary Government	\$ 5,813,775	\$ 71,658	\$ (503,565)	\$ 5,381,868	\$ 405,025

Total interest expense included in the Statement of Activities for the year ended December 31, 2014 was \$175,941.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2014 is comprised of the following:

Revenue Bonds:

Sales Tax Revenue Bonds Series 2013 for acquisition, maintenance and improvement of Evans Plunge. Issued August 27, 2013 for \$1,900,000, due in variable semi-annual installments including interest at 0.75 to 5.00 percent through December 2032. Financed through the Evans Plunge Fund, in addition to 1/3 of the City's sales tax revenue. \$ 1,835,000

Drinking Water Revenue State Revolving Fund Loan (SRF) for drinking water facilities improvements. Issued May 18, 2011 for \$1,636,000, due in quarterly installments of \$27,269 including interest at 3.00 percent through July 2033. Financed through the Water Fund. 1,528,614

Clean Water Revenue State Revolving Fund Loan (SRF) for sewer facilities improvements. Issued May 18, 2011 for \$1,227,332, due in quarterly installments of \$20,457 including interest at 3.00 percent through April 2033. Financed through the Sewer Fund. 1,158,537

Sewer Revenue Bonds Series 2010 for sewer improvements. Issued August 4, 2010 for \$385,000, due in monthly installments of \$1,456, including interest at 3.25 percent through May 2050. Financed through the Sewer Fund. 366,529

Special Assessment:

Special Assessments Note Payable for street improvements. Issued July 18, 2013 for \$500,000, due in semi-annual installments of \$40,228 including interest at 3.85 percent through May 2020. Financed through the Sales Tax Fund and collateralized with inventory and equipment. 352,860

5,241,540

Compensated Absences:

General Fund 113,623
Water Fund 18,704
Sewer Fund 8,001

Total Compensated Absences 140,328

Total Long-Term Debt \$ 5,381,868

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2014, except for compensated absences, are as follows:

	Revenue Bonds		Special Assessments		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2015	\$ 158,022	\$ 197,183	\$ 12,941	\$ 67,514	\$ 170,963	\$ 264,697
2016	153,881	200,720	10,317	70,139	164,198	270,859
2017	149,050	209,431	7,591	72,865	156,641	282,296
2018	144,069	213,222	4,759	75,697	148,828	288,919
2019	138,335	217,128	1,816	66,645	140,151	283,773
2020-2024	593,825	1,183,476	-	-	593,825	1,183,476
2025-2029	378,924	1,395,656	-	-	378,924	1,395,656
2030-2034	110,407	1,061,482	-	-	110,407	1,061,482
2035-2039	29,726	57,634	-	-	29,726	57,634
2040-2044	19,576	67,784	-	-	19,576	67,784
2045-2049	7,612	79,748	-	-	7,612	79,748
2050	32	5,216	-	-	32	5,216
Total	\$ 1,883,459	\$ 4,888,680	\$ 37,424	\$ 352,860	\$ 1,920,883	\$ 5,241,540

The City has remaining unspent debt proceeds of \$66,390, which must be used for capital improvements to the Evans Plunge facility. The City also has a debt reserve of \$150,103 in the Evans Plunge Fund, which was funded with debt proceeds, in accordance with and as allowed by the debt agreement.

Business-type Activities

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

Funds	Water Fund	Sewer Fund
Current Year Principal and Interest	\$ 109,077	\$ 99,302
Pledged Revenue	847,007	728,145

(8) Legal Contingency

The City is involved in several lawsuits at December 31, 2014. 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, 2014**

(9) Changes in Capital Assets

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

	Balance 12/31/2013	Transfers/ Additions	Transfers/ Deletions	Balance 12/31/2014
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 364,571	\$ -	\$ -	\$ 364,571
Construction in Progress	102,010	47,076	102,010	47,076
Total Capital Assets, not being Depreciated	466,581	47,076	102,010	411,647
Capital Assets, being Depreciated:				
Buildings	5,826,491	116,631	608,867	5,334,255
Improvements Other Than Buildings	4,075,441	391,902	1,422,536	3,044,807
Machinery and Equipment	2,097,320	56,158	445,157	1,708,321
Total Capital Assets, being Depreciated	11,999,252	564,691	2,476,560	10,087,383
Less Accumulated Depreciation for:				
Buildings	1,974,782	106,319	127,269	1,953,832
Improvements Other Than Buildings	2,059,851	101,319	556,706	1,604,464
Machinery and Equipment	1,706,103	88,950	380,591	1,414,462
Total Accumulated Depreciation	5,740,736	296,588	1,064,566	4,972,758
Total Governmental Activities Capital Assets, being Depreciated, Net	6,258,516	268,103	1,411,994	5,114,625
Total Governmental Capital Assets, Net	\$ 6,725,097	\$ 315,179	\$ 1,514,004	\$ 5,526,272

Depreciation expense was charged to functions as follows:

Public Works	\$ 170,648
Culture and Recreation	103,570
Public Safety	19,411
General Government	2,959
Total Depreciation Expense - Governmental	\$ 296,588

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(9) Changes in Capital Assets (Continued)

	Balance 12/31/2013	Transfers/ Additions	Deletions	Balance 12/31/2014
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 247,380	\$ -	\$ -	\$ 247,380
Construction in Progress	20,598	7,125	20,598	7,125
Total Capital Assets, not being Depreciated	267,978	7,125	20,598	254,505
Capital Assets, being Depreciated:				
Buildings	4,535,594	769,794	-	5,305,388
Improvements Other Than Buildings	7,743,031	2,466,170	-	10,209,201
Machinery and Equipment	1,142,247	592,540	-	1,734,787
Total Capital Assets, being Depreciated	13,420,872	3,828,504	-	17,249,376
Less Accumulated Depreciation for:				
Buildings	2,329,340	254,885	-	2,584,225
Improvements Other Than Buildings	2,560,715	784,833	-	3,345,548
Machinery and Equipment	741,092	465,323	-	1,206,415
Total Accumulated Depreciation	5,631,147	1,505,041	-	7,136,188
Total Business-type Activities Capital Assets, being Depreciated, Net	7,789,725	2,323,463	-	10,113,188
Total Business-type Capital Assets, Net	\$ 8,057,703	\$ 2,330,588	\$ 20,598	\$ 10,367,693

Depreciation expense was charged to funds as follows:

Sewer	\$ 198,764
Water	126,552
Golf Course	72,847
Evans Plunge	26,369
Solid Waste	15,943
Total Depreciation Expense - Business-Type	\$ 440,475

The City has construction commitments related to construction in progress as follows: \$399,775 to be paid from the Sewer Fund and \$47,680 to be paid from the Additional Sales Tax Fund.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(10) Retirement Plan -- South Dakota Retirement System

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

General employees are required by state statute to contribute 6 percent of their salary to the plan, while public safety and judicial employees contribute 8 and 9 percent, respectively. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2014, 2013, and 2012 were **\$86,265**, \$84,189, and \$79,796, respectively, equal to the required contributions each year.

(11) 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, 2014, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

The agreement with the SDPAA provides that the above coverage will be provided to a \$6,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for 100% of the amount allocated to the cumulative reserve fund. As of December 31, 2014, the City has a vested balance in the cumulative reserve fund of **\$59,972**.

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

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2014

(11) Risk Management (Continued)

Worker's Compensation:

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

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

Unemployment Benefits:

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

(12) Emerging Accounting Standards

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

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

The implementation of GASB 67 will not impact the entity's financial statements. With regard to GASB 68, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends GASB No. 68. This statement requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability and should be applied simultaneously with GASB No. 68. Management has not yet determined the impact of this Statement on the financial statements. This statement is effective for the City's year ending December 31, 2015.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(12) Emerging Accounting Standards (Continued)

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

In June 2015, GASB issued Statements No. 74 and 75, *Accounting and Reporting for Postemployment Benefits Other than Pensions*, which replace GASB Statement Nos. 43 and 45, and will require additional note disclosures for the City's Other Post-Employment Benefits (OPEB) offered. These statements relate to accounting and financial reporting issues and how OPEB expenses and related obligations are measured and reported in audited financial statements. The standards describe the recognition of the entire net OPEB liability in the employer's financial statements. The implementation of GASB 74 will not impact the entity's financial statements. With regard to GASB 75, although expected to be significant, management has not yet determined the specific impact of this Statement on the financial statements. GASB Statement No. 75 is effective for the City's year ending December 31, 2018.

(13) Discretely Presented Component Unit

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

The carrying amount of deposits for the Commission, a discretely presented component unit, was \$601,657. Of this balance \$467,595 was attributable to the primary government, of which \$207,934 is restricted for mortgage escrow deposits. The remaining \$134,062 was attributable to the Commission's component unit, the Fall River Housing and Redevelopment Commission. All of the deposits were fully insured or collateralized.

The component unit's capitalization policy is \$1,000. Capital asset activity for the Housing and Redevelopment Commission for the year ended December 31, 2014, is as follows:

<i>Hot Springs Housing and Redevelopment Commission:</i>	Balance		Balance	
	12/31/2013	Additions	Deletions	12/31/2014
Capital Assets not Being Depreciated:				
Land	\$ 108,775	\$ -	\$ -	\$ 108,775
Construction in Progress	-	18,233	-	18,233
Total Capital Assets not Being Depreciated	108,775	18,233	-	127,008
Capital Assets Being Depreciated:				
Buildings and Improvements	5,820,534	297,495	-	6,118,029
Furniture and Equipment	208,444	55,246	-	263,690
Idle Capital Assets	1,293,588	-	-	1,293,588
Total Capital Assets Being Depreciated	7,322,566	352,741	-	7,675,307
Less Accumulated Depreciation for:				
Buildings and Improvements	2,529,452	160,479	-	2,689,931
Furniture and Equipment	121,366	26,960	-	148,326
Idle Capital Assets	75,757	-	-	75,757
Total Accumulated Depreciation	2,726,575	187,439	-	2,914,014
Total Capital Assets Being Depreciated	4,595,991	165,302	-	4,761,293
Hot Springs Housing and Redevelopment Commission Capital Assets, Net	\$ 4,704,766	\$ 183,535	\$ -	\$ 4,888,301

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(13) Discretely Presented Component Unit (Continued)

<i>Fall River Housing and Redevelopment Commission:</i>	Balance 12/31/2013	Additions	Deletions	Balance 12/31/2014
Capital Assets not Being Depreciated:				
Land	\$ 23,021	\$ -	\$ -	\$ 23,021
Total Capital Assets not Being Depreciated	23,021	-	-	23,021
Capital Assets Being Depreciated:				
Buildings and Improvements	808,293	1,032	-	809,325
Furniture and Equipment	44,473	-	-	44,473
Total Capital Assets Being Depreciated	852,766	1,032	-	853,798
Less Accumulated Depreciation for:				
Buildings and Improvements	504,213	42,839	-	547,052
Furniture and Equipment	40,182	1,013	-	41,195
Total Accumulated Depreciation	544,395	43,852	-	588,247
Total Capital Assets Being Depreciated	308,371	(42,820)	-	265,551
Fall River Housing and Redevelopment Commission Capital Assets, Net	\$ 331,392	\$ (42,820)	\$ -	\$ 288,572

Changes in long-term liabilities of the Housing and Redevelopment Commission for the year ended December 31, 2014, are as follows:

	Balance 12/31/2013	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2014	Due Within One Year
Notes Payable	\$ 3,015,715	\$ 222,110	\$ (147,588)	\$ 3,090,237	\$ 159,687
Compensated Absences	30,313	5,706	(23,167)	12,852	5,706
Total	\$ 3,046,028	\$ 227,816	\$ (170,755)	\$ 3,103,089	\$ 165,393

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2014**

(13) Discretely Presented Component Unit (Continued)

Notes payable at December 31, 2014 is comprised of the following:

Mortgage payable due to South Dakota Housing Development Authority, monthly of \$18,738 including interest at 6.78 percent, due September 2020: secured by land, building equipment.	\$ 1,068,127
Mortgage payable (2nd mortgage) due to South Dakota Housing Development Authority, installments of \$17,747 deferred until January 2021 including interest at 2.50 percent, due 2025: secured by land, building and equipment.	1,000,000
Mortgage payable (3rd mortgage) due to South Dakota Housing Development Authority, irregular installments deferred until September 2021, no interest, due September 2029; secured by land, building and equipment.	800,000
Note payable due to Fall River Housing Redevelopment Commission: \$220,000 dated August 7, 2014; final maturity date September 2030; 3.00 percent interest rate; monthly payments of \$1,519 beginning July 1, 2015; unsecured.	222,110
<hr/> Total	<hr/> \$ 3,090,237

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

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2014**

(13) Discretely Presented Component Unit (Concluded)

The annual requirements to amortize debt outstanding as of December 31, 2014, excluding compensated absences are as follows:

Year Ending June 30,	Principal	Interest	Total
2015	\$ 159,687	\$ 74,289	\$ 233,976
2016	180,072	63,019	243,091
2017	192,201	50,890	243,091
2018	205,165	37,926	243,091
2019	219,020	24,071	243,091
2020-2024	1,072,388	86,532	1,158,920
2025-2029	982,233	11,851	994,084
2030	79,471	363	79,834
Total	\$ 3,090,237	\$ 348,941	\$ 3,439,178

OTHER REPORTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, discretely presented component units, and each major fund, of the City of Hot Springs, South Dakota (the City), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated May 16, 2016 which was qualified because of insufficient audit evidence related to inventory in the Water Fund, Sewer Fund, Evans Plunge Fund, and Golf Course Fund which affects the statement of net position, statement of activities, and the statement of revenues, expenses and changes in fund net position – proprietary funds.

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

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2014-001 and 2014-002 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings and recommendations as items 2014-003, 2014-004 and 2014-005 to be significant deficiencies.

Dependable, Innovative Solutions

521 Kansas City Street ♦ Rapid City, South Dakota 57701 ♦ P 605 721.3382 F 605 721.3383

www.denkerandassoc.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion, the result of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as item 2014-004 and 2014-005.

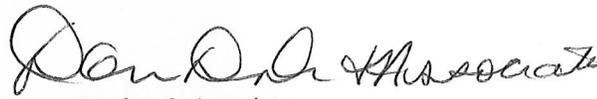
We noted certain other matters that we reported to the management of the City in a separate letter dated May 16, 2016.

Hot Springs, South Dakota's Response to Findings

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

Purpose of this Report

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



Donna Denker & Associates
Certified Public Accountants

May 16, 2016

CITY OF HOT SPRINGS

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2014**

Finding 2013-001: Internal Control over Recordkeeping

This finding was repeated as finding 2014-001.

Finding 2013-002: Compliance with Debt Covenants

This finding has been resolved.

Finding 2013-003: Inventory Records

This finding was repeated as finding 2014-002.

Finding 2013-004: Documentation

This finding was repeated as finding 2014-003.

Finding 2013-005: Compliance with Budget Laws

This finding was repeated as finding 2014-004.

Finding 2013-006: Compliance with Debt Issuance Laws

This finding was repeated as finding 2014-005.

CITY OF HOT SPRINGS

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS
DECEMBER 31, 2014**

Material Weaknesses

2014-001: Internal Control over Recordkeeping

Criteria: Timely reconciliation of all bank accounts is essential for ensuring financial reports are accurate. In addition, timely reconciliation may help identify potential misappropriations of funds.

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

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

Effect: Timely and accurate financial reports were not available during the 2014 year due to the corrections identified during the delayed reconciliation process.

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

2014-002: Inventory Records

Criteria: Complete and accurate inventory records should be maintained not only to ensure proper reporting on the financial statements but also to deter theft and misappropriation.

Condition: The City does not have an established procedure to perform year-end inventory. We noted timely inventory counts were not available for all departments. There was no verification of counts or test counts by an independent party. There was no system in place to ensure all areas have been counted. There was no system to determine proper cost of inventory and costs have not been routinely adjusted to actual. There is an inadequate process to identify obsolete inventory. Cut off procedures were not in place to ensure accurate inventories at year end.

Cause: The lack of complete and accurate inventories was an oversight due to changes in personnel throughout the City. The City does not have a written process to ensure an accurate year-end inventory.

Effect: We were not able to obtain sufficient audit evidence to provide an unqualified opinion on inventory.

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

Significant Deficiencies

2014-003: Documentation

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

CITY OF HOT SPRINGS

**SCHEDULE OF AUDITOR'S FINDINGS AND RECOMMENDATIONS (CONTINUED)
DECEMBER 31, 2014**

Significant Deficiencies (Continued)

2014-003: Documentation (Continued)

Condition: The City does not have a policy to maintain documentation of journal entries made. In addition, there is no independent review and approval of journal entries prior to posting. During testing we noted several purchase orders were not signed by the department head or did not include the account number.

Cause: The City was not following established procedures for purchase orders. A policy has not been developed for journal entries.

Effect: Without proper documentation and review the City is at risk for misstatements to the financial statements. Lack of oversight could lead to misappropriations of assets.

Recommendation: Department heads should authorize purchases made within the budget and approve coding on the purchase order. All journal entry documentation should be maintained and should include the initials of the preparer and the reviewer.

2014-004: Compliance with Budget Laws

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

Condition: The City had overdrafts of expenditures compared to appropriations as of December 31, 2014 in General Fund - Capital Outlay \$206,183, General Fund -Transfers Out \$11,670, Sales Tax Fund \$560,223, Liquor and Lodging and Dining Fund \$16,966 and Business Improvement District Fund \$37,702.

Cause: Although a supplemental appropriation was made for 2014, the expenditures exceeded the appropriation for the year.

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

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

2014-005: Compliance with Debt Issuance Laws

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

Condition: During 2013, the City issued a promissory note for a seven year period. The City owed \$352,860 on the note at December 31, 2014.

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

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

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