

TOWN OF HERMOSA
HERMOSA, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE YEAR ENDING DECEMBER 31, 2021
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

TOWN OF HERMSA
HERMOSA, SOUTH DAKOTA

TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE YEAR ENDING DECEMBER 31, 2021

FINANCIAL SECTION

1 Independent Auditor's Report

Basic Financial Statements: (Modified Cash Basis of Accounting)

Government-Wide Financial Statements:

4 Statement of Net Position

5 Statement of Activities

Fund Financial Statements:

Governmental Funds:

6 Balance Sheet

7 Statement of Receipts, Disbursements, and Changes in Fund Balances

Enterprise Funds:

8 Statement of Net Position

9 Statement of Receipts, Disbursements, and Changes in Net Position

10 Statement of Cash Flow

11 Notes to the Financial Statements

SUPPLEMENTARY INFORMATION SECTION OTHER THAN MD&A

26 Schedule of Changes in Long-Term Liabilities

Budgetary Comparison Schedules - Budgetary Basis:

For the Year Ending December 31, 2021:

28 General Fund

29 3rd Cent Sales Tax Fund (Promotion)

29 FEMA fund (relocation)

30 Notes to Supplementary Information - Budgets

Pension Schedules:

31 Schedule of the Town's Proportional Share of Net Pension (Asset)/Liability

31 Schedule of the Town's Contributions

32 Notes to Supplementary Information - Pension

GOVERNMENTAL SECTION

33 Report on Compliance and Other Matters and on Internal Control over
Financial Reporting Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

35 Schedule of Prior Audit Findings

35 Schedule of Current Audit Findings and Responses

NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.270.3020

Governing Board
Town of Hermosa
Hermosa, South Dakota

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions:

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the Town of Hermosa (Town), Custer County, South Dakota as of December 31, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise the Town of Hermosa's basic financial statements as listed in the Table of Contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of governmental activities, business-type activities, and each major fund of the Town of Hermosa, South Dakota as of December 31, 2021, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for year then ended, in accordance with the modified cash basis of accounting described in Note 1c to the financial statements.

Basis for Opinions:

I conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standard applicable to financial audits contained in Government Auditing Standards (*Government Auditing Standards*), issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the Town of Hermosa, South Dakota and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions.

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1c of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to this matter.

Management's Responsibilities for the Financial Statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1c, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Town of Hermosa
Independent Auditor's Report -- Page Two

In preparing the modified cash basis of accounting financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Hermosa's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements:

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, I:

- > Exercise professional judgment and maintain professional skepticism throughout the audit.
- > Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- > Obtain an understanding of internal control relevant to the audit 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 Town of Hermosa's internal control. Accordingly, no such opinion is expressed.
- > Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- > Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Town of Hermosa's ability to continue as a going concern for a reasonable period of time.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that I identified during the audit.

Other Matters - Supplementary Information (no opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Town of Hermosa's basic financial statements. The accompanying budgetary comparison schedule (page 28 to 30) and pension schedules (page 31 to 32) are presented for the purpose of additional analysis and are not a required part of the basic

financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other record used to prepare the basic modified cash basis of accounting financial statements.

I have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic modified cash basis of accounting financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information (Opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Town's financial statements.

The schedule of long-term liabilities (page 26 and 27) listed in the table of contents as supplementary information, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

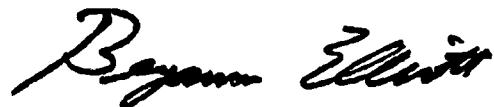
The schedule of long-term liabilities is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of long-term liabilities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 27, 2023 (page 33) on my consideration of the Town of Hermosa's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Hermosa's 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 Town's internal control over financial reporting and compliance.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

June 27, 2023



TOWN OF HERMOSA

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2021

	Primary Government		
	Governmental	Business-	
	Activities	Type	
	Activities	Activities	Total
	-----	-----	-----
ASSETS:			
Cash and cash equivalents	344,191	526,694	870,885
Investments - Edward Jones	19,014		19,014
Investments - SD.FIT	39,512	98,101	137,613
Restricted cash:			
Customer deposit reserve		8,711	8,711
	-----	-----	-----
Total assets	402,717	633,506	1,036,223
	=====	=====	=====
NET POSITION:			
Restricted for:			
Debt service	34,864	23,004	57,868
FEMA relocation	1,500		1,500
Customer deposits		8,711	8,711
Unrestricted	366,353	601,791	968,144
	-----	-----	-----
Total net position	402,717	633,506	1,036,223
	=====	=====	=====

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2021

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	269,933	37,541	55,523		-176,869		-176,869
Public safety	72,499				-72,499		-72,499
Public works	168,568	43,797	1,173		-123,598		-123,598
Economic development	3,709				-3,709		-3,709
Debt service	255,669				-255,669		-255,669
	-----	-----	-----	-----	-----	-----	-----
Total governmental activities	770,378	81,338	56,696	0	-632,344	0	-632,344
Business-type activities:							
Water	146,207	151,245				5,038	5,038
Sewer	49,543	92,190				42,647	42,647
	-----	-----	-----	-----	-----	-----	-----
Total business-type activities	195,750	243,435	0	0	0	47,685	47,685
	-----	-----	-----	-----	-----	-----	-----
Total primary government	966,128	324,773	56,696	0	-632,344	47,685	-584,659
	=====	=====	=====	=====	-----	-----	-----
General receipts:							
Taxes:							
Property taxes					142,364		142,364
Sales taxes					314,909		314,909
State shared receipts					18,504		18,504
Interest and dividends received					312		312
Rents and franchise fees					3,660		3,660
Donations					2,145		2,145
Liquor operating agreement					31,999		31,999
Miscellaneous receipts					4,223		4,223
Compensation for damaged property					3,185		3,185
					-----	-----	-----
Total general receipts and transfers					521,301	0	521,301
					-----	-----	-----
Change in net position					-111,043	47,685	-63,358
Net position:							
January 1, 2021					513,760	585,821	1,099,581
					-----	-----	-----
December 31, 2021					402,717	633,506	1,036,223
					=====	=====	=====

See accompanying notes.

TOWN OF HERMOSA

BALANCE SHEET -- MODIFIED CASH BASIS

ALL GOVERNMENTAL FUNDS

AS OF DECEMBER 31, 2021

	General Fund	BBB Fund	FEMA Fund	TIF Fund	Total
	-----	-----	-----	-----	-----
ASSETS:					
Cash and cash equivalents	264,988	42,839	1,500	34,864	344,191
Investments - Edward Jones	19,014				19,014
Investments - SD.FIT	39,512				39,512
	-----	-----	-----	-----	-----
Total assets	323,514	42,839	1,500	34,864	402,717
	=====	=====	=====	=====	=====
FUND BALANCE:					
Nonspendable					0
Restricted - debt service				34,864	34,864
Restricted - FEMA relocation			1,500		1,500
Committed - Town promotion		42,839			42,839
Assigned					0
Unassigned	323,514				323,514
	-----	-----	-----	-----	-----
Total fund balances	323,514	42,839	1,500	34,864	402,717**
	=====	=====	=====	=====	=====

** Equals net position on
statement of net position

See accompanying notes.

TOWN OF HERMOSA
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2021

	General Fund	BBB Fund	FEMA Fund	TIF Fund	Total
Receipts:					
Local sources:					
Taxes:					
Ad valorem taxes	59,488			82,876	142,364
General sales taxes	299,933	14,976			314,909
Licenses and permits:	37,391				37,391
Intergovernmental:					
Federal shared revenue	38,001				38,001
State shared revenue:					
Grant - cares	16,922				16,922
Grant - mosquito	1,173				1,173
Grant - other	600				600
Bank franchise tax	248				248
Prorated	1,570				1,570
Liquor tax reversion	2,886				2,886
5% motor vehicle licenses	11,737				11,737
Highway and bridge	2,063				2,063
Charges for goods and services:					
Sanitation	43,797				43,797
Fines:	150				150
Miscellaneous:					
Interest received	312				312
Rents and franchise	3,660				3,660
Donations	2,145				2,145
Liquor operating agreement	31,999				31,999
Other	4,223				4,223
Total receipts	558,298	14,976	0	82,876	656,150
Disbursements:					
Current:					
General government:					
Town Board	27,331				27,331
Elections	1,208				1,208
Financial administration	148,383			5,591	153,974
Other	80,309				80,309
Public safety:					
Police	64,269				64,269
Inspections	8,230				8,230
Public works:					
Highways and streets	62,474				62,474
Sanitation	34,801				34,801
Conservation and development:					
Economic development	3,709				3,709
Debt service: principal				246,686	246,686
interest and fees				8,983	8,983
Capital outlay	14,515			63,889	78,404
Total disbursements	445,229	0	0	325,149	770,378
Excess of receipts over (under) disbursements	113,069	14,976	0	-242,273	-114,228
Other financing sources (uses):					
Compensation for damaged property	3,185				3,185
Net change in fund balance	116,254	14,976	0	-242,273	-111,043**
Fund balance:					
January 1, 2021	207,260	27,863	1,500	277,137	513,760
December 31, 2021	323,514	42,839	1,500	34,864	402,717

** Equals change in net position on
Statement of Activities
See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
ENTERPRISE FUNDS
AS OF DECEMBER 31, 2021

	Water Fund -----	Sewer Fund -----	Total -----
ASSETS			
Current assets:			
Cash and cash equivalent	251,028	275,666	526,694
Investments - SD.FIT	30,812	67,289	98,101
Restricted cash:			
Customer deposits	8,711		8,711
	-----	-----	-----
Total assets	290,551	342,955	633,506
	=====	=====	=====
NET POSITION			
Restricted for:			
Debt service	19,170	3,834	23,004
Customer deposits	8,711		8,711
Unrestricted	262,670	339,121	601,791
	-----	-----	-----
Total net position	290,551	342,955	633,506
	=====	=====	=====

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2021

	Water Fund -----	Sewer Fund -----	Total -----
Operating receipts:			
Charges for goods and services	151,245	92,190	243,435
	-----	-----	-----
Total operating receipts	151,245	92,190	243,435
	-----	-----	-----
Operating disbursements:			
Personal services	3,171		3,171
Other current services	112,962	33,834	146,796
Cost of goods sold			0
Capital costs	4,760	11,556	16,316
	-----	-----	-----
Total operating disbursements	120,893	45,390	166,283
	-----	-----	-----
Excess operating receipts (disbursements)	30,352	46,800	77,152
Nonoperating receipts (disbursements):			
Debt service: principal	-11,176	-1,330	-12,506
interest and fees	-14,138	-2,823	-16,961
	-----	-----	-----
Total nonoperating receipts (disbursements)	-25,314	-4,153	-29,467
Excess receipts (disbursements)	5,038	42,647	47,685
Other financing sources (uses):			
None			0
	-----	-----	-----
Change in net position	5,038	42,647	47,685
Net position:			
January 1, 2021	285,513	300,308	585,821
	-----	-----	-----
December 31, 2021	290,551	342,955	633,506
	=====	=====	=====

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
ENTERPRISE FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2021

	Water Fund -----	Sewer Fund -----	Total -----
Cash flows from:			
Operating activities:			
Receipts from customers	151,245	92,190	243,435
Payments to employees	-3,171		-3,171
Payments to suppliers	-112,962	-33,834	-146,796
Net cash provided (used) by operating activities	----- 35,112	----- 58,356	----- 93,468
Noncapital financing activities:			
None			0
Capital financing activities:			
Cash paid for improvements	-4,760	-11,556	-16,316
Debt service: principal	-11,176	-1,330	-12,506
interest and fees	-14,138	-2,823	-16,961
Investing activities:			
None			0
Net increase (decrease) in cash and cash equivalents	----- 5,038	----- 42,647	----- 47,685
Cash and cash equivalents:			
January 1, 2021	285,513	300,308	585,821
December 31, 2021	----- 290,551 =====	----- 342,955 =====	----- 633,506 =====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	30,352	46,800	77,152
Add back capital purchases	4,760	11,556	16,316
Net cash provided (used) by operating activities	----- 35,112 =====	----- 58,356 =====	----- 93,468 =====
Noncash investing, capital and financing activities: None			

See accompanying notes.

TOWN OF HERMOSA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in note 1-c, these financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the Town of Hermosa's (Town) Governing Board.

The Town's officials at December 31, 2021 are:

President:	Finance Officer:
Dan Holsworth	Gail Boddicker
Trustees:	Attorney:
Berni Flug	Mitchell Johnson
Bob King	
Vicki Henrichsen	
Terri Schumack	

The reporting entity of the Town of Hermosa consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) 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 Town 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 Town (the primary government). The Town may also be financially accountable for another organization if that organization is fiscally dependent on the Town unless that organization can, without the approval of the Town: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the Town of Hermosa does not have any component units.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the Town or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The Town has elected to classify all of its funds as major funds.

Funds of the Town are described below within their respective fund type:

Governmental Funds

General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the Town except those required to be accounted for in another fund. The general fund is always 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. The Town has the following special revenue funds:

Liquor, Lodging and Dining Gross Receipts Tax Fund (3rd Cent Sales Tax Fund) - A fund established by SDCL 10-52-8, to account for the collection of a 1% 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 Town. This fund may be established at the direction of the governing body through local ordinances. In 2021 this fund classification was changed to a major fund for public knowledge.

FEMA Relocation Fund - This fund is used to accept grant receipts and make disbursements related to the FEMA relocation project. In 2021 this fund classification was changed to a major fund for public knowledge.

Debt Service Funds - debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The Town has the following debt service fund:

Tax Increment Financing District #1 Fund - Allowed by SDCL 11-9-24 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This fund is a major fund.

Enterprise Funds
(Business-Type)

Enterprise Funds - Enterprise funds are used to account for 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 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). The Town has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the Town of Hermosa. This fund is financed primarily by user charges. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the Town of Hermosa. This fund is financed primarily by user charges. The sewer fund is a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

The Town of Hermosa has no fiduciary funds.

c. 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 (disbursements) are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Town's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions

are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied within the limitations of the modified cash basis of accounting as described below.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and major fund activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed.

Acceptable modifications to the cash basis of accounting implemented by the Town in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days and recording investments arising from cash transactions.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Town applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

The Town pools its cash resources for deposit purposes. The enterprise funds have access to their cash resources on demand.

For purposes of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments (if any) in open-end mutual funds shares or similar investments in external investment pools, are also considered to be cash equivalents.

The Town had no certificates of deposit in 2021.

Under the modified cash basis of accounting, investments are carried at cost.

The Town maintains restricted cash deposits for utility customer account deposits.

e. Capital Assets:

Government-wide Financial Statements

Under the modified cash basis of accounting, the Town's capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash. In the Statement of Activities, cash payments for capital assets are recorded in the program category for which they were acquired. Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in enterprise fund operations are accounted for in the same manner as in the government-wide financial statements.

As discussed in Note 1-c above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using the modified cash basis of accounting. The Town has not elected to modify its cash basis presentation by recording capital assets arising from cash transactions and depreciating those assets where appropriate so any capital assets owned by the Town and related depreciation are not reported on the financial statements of the Town.

f. Long-Term Liabilities:

Long-term liabilities include, but are not limited to, financing notes.

As discussed in Note 1-c above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using the modified cash basis of accounting. The Town has not elected to modify its cash basis presentation by recording long-term liabilities arising from cash transaction so any outstanding indebtedness is not reported on the financial statements of the Town. The Town does report principal and interest payments on long-term liabilities as Debt Service expenditures on the Statement of Receipts, Disbursements, and Changes in Fund Balances. On the Statement of Activities, the principal and interest on these debt service payments are reported within the appropriate expense function.

g. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

h. Revenue Received in Advance:

Under the modified cash basis of accounting, cash may have been received in advance of the Town's providing a good or service to a customer. These amounts are reported in the financial statements at the time of receipt, as applicable.

i. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Activities, reported program receipts derive directly from the program itself or from parties other than the Town's taxpayers or citizenry, as a whole. Program receipts are classified in three categories, as follows:

1. Charges for services - These 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.
3. Program-specific capital grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used for the regular operation of the Town.

g. Enterprise Fund Receipt Classifications:

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

Equity is classified as net position and is displayed in two components under the modified cash basis:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted net position".

It is the Town's policy to first use restricted net position prior to the use of unrestricted net position when a disbursement is made for purposes for which both restricted and unrestricted net position are available.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) is reported as "Custodial Net Position".

It is the Town's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position, unless there is are legal documents or contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Town would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Town does not have a formal minimum fund cash balance policy.

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Revenue Source: (see page 7)
* BBB	Sales tax
* FEMA Relocation	Grant receipts

i. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- * Nonspendable - includes fund cash balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund cash 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 (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund cash balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund cash balance may be assigned by the Board of Trustees or Finance Officer.
- * Unassigned - includes positive fund cash balance within the general fund which has not been classified within the above categories and negative fund balance amounts in other governmental funds.

The Town of Hermosa fund cash balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	TIF Fund	Debt service	34,864
	FEMA Fund	Relocation	1,500
Committed	BBB Fund: promotion	Ordinance	42,839
Assigned	None		0
Unassigned	General		323,514

			402,717

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget Overdrafts:

The Town is prohibited by statute from spending in excess of appropriated amounts by department within a fund.

The general fund/financial administration went over its budget by \$819. However, this is not considered a significant violation of a departmental expenditure compared to appropriations. In the future, the Town expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the Town follows the practice of aggregating deposits of its 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 Town 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. 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 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 authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2021 were as follows: Insured \$250,000, Collateralized ** \$635,755, for a total of \$885,755.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits at December 31, 2021 was \$879,596.

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

4. INVESTMENTS AND RELATED RISKS

In general, SDCL 4-5-6 permits Town money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). 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.

The investments held by the Town at December 31, 2021 were as follows:

	Credit Rating	Maturity Date	Initial Cost
FNMA Pool	AA+	3-15 yrs	1,245
GNMA Pool	AAA	10-15 yrs	247
FHLMC Pool	AA+	7-17 yrs	80

Total bonds			1,572
Mutual funds - U.S. Government Money Market			17,343
Cash held in money market			99

Total investments			19,014
			=====

Fair Value Measurement:

The Town reports its investments based on cash paid for such investments and not the fair market value. If the Town reported its investments at fair market value, each investment would be evaluated in accordance with generally accepted accounting principles and reported in a fair value hierarchy. The hierarchy is based on valuation inputs used to measure the fair value of the asset. The investments held by the Town would be considered Level 2, which includes significant observable inputs other than quoted prices in active markets.

South Dakota Public Fund Investment Trust (SD.FIT):

South Dakota FIT is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SD.FIT money market account is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. The Town's investment in SD.FIT is recognized as cash equivalents on the Statement of Net Position and Balance Sheet. The investment balance at December 31, 2021 was \$137,613, which was allocated among the General, Water, and Sewer Funds.

Custodial Credit Risk (Deposits) - The risk that, in the event of a depository failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. At December 31, 2021, the Town's deposits were adequately secured by FDIC Insurance and collateralize with pledged securities.

Custodial Credit Risk (Investments) - The risk that, in the event of failure of the counterparty to a transaction, the Town will not be able to recover the value of investment or collateral securities that are in possession of an outside party. At December 31, 2021, the Town's investments in financial institutions were not exposed to investment custodial credit risk.

Investment Risk - State law limits eligible investments for the Town as discussed above. The Town has no investment policy that would further limit its investment choices.

Interest Rate Risk - The Town 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.

Concentration of Credit Risk - The Town places no limit on the amount that may be deposited or invested in any one institution. At December 31, 2021, the Town has its cash deposits at Pioneer Bank & Trust and investments at Edward Jones and South Dakota Public Fund Investment Trust.

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 Town's policy is to credit all income from deposits and investments to the fund making the investment.

Cash Flows - For the purposes of the statement of cash flows, the Town considers all highly liquid investments (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents.

5. RESTRICTED ASSET

The Town is obligated for \$8,711 of customer deposits in the Water Fund.

6. RESTRICTED NET POSITION

The following table shows the December 31, 2021 net position restricted for specific purposes as shown on the Statement of Net Position

Purpose:	Restricted By:	Governmental	Business-Type
Debt	Covenants	34,864	23,004
Relocation	FEMA grant agreement	1,500	
Meter deposits	Contract		8,711
		-----	-----
Total Restricted Net Position		36,364	31,715

7. LONG-TERM LIABILITIES (see schedule one)

A summary of changes in long-term liabilities is presented as supplementary information on page 26. The Town has no: (a) unused lines-of-credit, (b) short-term debt, (c) debt extinguishments, defeasances, refundings or troubled debt restructuring, (d) special assessment debt, (e) conduit debt, (f) derivatives or hedging of variable rate debt, (g) debt related to claims and judgments, or (h) other than the collateral specified, terms in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences or (3) subjective acceleration clauses.

8. REVENUES PLEDGED TO SECURE DEBT (See also page 26)

TIF fund tax receipts are pledged to secure State Revolving Fund Tax Increment District Loan #1 with a remaining balance of \$88,061. The loan will mature in 2028. In 2021 the TIF fund had tax receipts of \$82,875 which, with beginning cash of \$277,137 was used to make payments of \$172,282 on this loan.

All water fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a 2005 USDA Rural Development Bond with a remaining balance of \$217,565; one-half of a 2009 USDA Rural Development Bond with a water fund remaining balance of \$40,308; and one-half of a 2010 USDA Rural Development Bond with a water fund remaining balance of \$21,367. The bonds will mature in 2045, 2049, and 2050 respectively. In 2021 the water fund had net revenue of \$35,112 before capital asset cost and payments of \$25,314 on these bonds.

All sewer fund net revenue (after normal operating, repair and maintenance expenses) is pledged to secure a one-half of a 2009 USDA Rural Development Bond with a sewer fund remaining balance of \$40,308; and one-half of a 2010 USDA Rural Development Bond with a sewer fund remaining balance of \$21,367. The bonds will mature in 2049 and 2050 respectively. In 2021 the sewer fund had net revenue of \$58,356 before capital asset cost and payments of \$4,153 on these bonds.

9. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting.

Consequently, these financial statements do not measure the net pension (assets)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Description:

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

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund members.

Members that were hired before July 1, 2017 are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80.

Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

Members that were hired on or after July 1, 2017 are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

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

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

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

Contributions:

Per SDCL 3-12, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The Town's share of contributions to the SDRS for the calendar years ending December 31, 2021, 2020, and 2019 were \$4,242, \$3,409 and \$4,218 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities:

At June 30, 2021 SDRS is 105.52% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the Town as of this measurement period ending June 30, 2021 and reported by the Town as of December 31, 2021 are as follows:

Proportionate share of total pension liability	\$ 402,679
Less: Proportionate share of net position restricted for pension benefits	(424,919)

Proportionate share of net pension (asset)/liability	\$ (22,240)
	=====

The net pension (asset)/liability was measured as of June 30, 2021 and the total pension (asset)/liability used to calculate the net pension (asset)/liability was based on a projection of the Town's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the Town's proportion was .000029040 which is an increase of .00000036 over its proportion measured as of June 30, 2020.

Actuarial Assumptions:

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%.
Future COLAs	2.25%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investments

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%

	100.0%	

Discount Rate:

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

Sensitivity of (Asset)/Liability to Changes in the Discount Rate:

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
Town's proportionate share of the net pension (asset)/liability	\$36,012	\$(22,240)	\$(69,526)

Pension Plan Fiduciary Net Position:

Detailed information about the Plan's fiduciary net position is available in a separately issued SDRS financial report.

10. PROPERTY TAX

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

11. INSURANCE

The Town 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 ending December 31, 2021 the Town managed its risks as follows:

Employee Health Insurance:

The Town joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The Town pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The policy has a maximum per year out-of-pocket deductible of \$500 for a single person and \$1,000 for a family.

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

Liability and Property Insurance:

The Town 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 Town'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 Town. The Town pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-based 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 Town pays an annual premium to the pool to provide coverage for general liability, auto liability, auto damage, property, and equipment breakdown insurance.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expense whether reported or unreported at the time of their departure from SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

The Town 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.

Worker's Compensation:

The Town joined the South Dakota Municipal League Workers' Compensation Fund (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 Town'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 Town 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 Town 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 Town provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota. During the year ended December 31, 2021, no claims were paid for unemployment benefits. At December 31, 2021, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

12. TAX ABATEMENTS

As of December 31, 2021 the Town did not provide any tax abatement incentives through a Tax Increment Financing District Project or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

13. LITIGATION

At December 31, 2021, the Town was not a party to litigation. However, should the Town become involved in litigation it has liability coverage for itself and its employees through South Dakota Public Assurance Alliance as discussed in the risk management note above. Therefore, litigation is not expected to have a potential material effect on the Town's financial statements.

14. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The Town does not operate a landfill.

In May 2022 the Town received a \$375,400 ARPA grant from the South Dakota Department of Agriculture and Natural Resources for Wastewater Lagoon Expansion and Gumbo Lily Lane Addition improvements.

In July 2022 the Town received a \$163,044 ARPA grant from the South Dakota Department of Agriculture and Natural Resources for Gumbo Lily Lane Addition improvements.

In November 2022 the Town received a \$500,000 ARPA award from Custer County for a Water Remediation Technology (WRT) System.

TOWN OF HERMOSA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN LONG-TERM LIABILITIES
 FOR THE ONE YEAR ENDING DECEMBER 31, 2021

	Beginning Balance 12-31-20	Additions	(Deletions)	Governmental Activities Ending 12-31-21	Business-Type Activities Ending 12-31-21	Principal Due in 2022
	-----	-----	-----	-----	-----	-----
GOVERNMENTAL - DIRECT BORROWING						
State Revolving Fund Tax Incremental District Loan #1:						
Original loan amount de-obligated to \$292,156						
Maturing in 2028						
Interest at 3.25%						
Quarterly payments of \$3,821						
Paid by TIF Fund	252,232		-164,171	88,061		12,420
2013 State CWFCP Loan (2012L-109):						
Original loan amount of \$108,615						
Maturing March 2021						
Interest at 3.00%						
Bi-annual payments of \$3,631						
Paid by TIF Fund	82,515		-82,515	0		0
BUSINESS-TYPE - DIRECT BORROWING						
2005 USDA Rural Development Bond (RD1):						
Original amount of _____						
Maturing in 2045						
Interest at 4.717%						
Secured by fund operations						
Monthly payments of \$1,278						
Paid by the Water Fund	224,037		-6,472		217,565	5,073
2009 USDA Rural Development Bond (RD2):						
Original amount of _____						
Maturing in 2049						
Interest at 4.429%						
Secured by fund operations						
Monthly payments of \$417						
Paid by the Water and Sewer Funds	82,339		-1,723		80,616	1,541
2010 USDA Rural Development Bond (RD3):						
Original amount of _____						
Maturing in 2050						
Interest at 4.489%						
Secured by fund operations						
Monthly payments of \$222						
Paid by the Water and Sewer Funds	43,671		-937		42,734	745
2017 State Revolving Fund Loan #2 (C462278-02):						
Original loan amount de-obligated to \$134,500						
Maturing November 2049						
Interest at 2.00%						
Secured by fund operations						
Quarterly payments of \$1,493						
Paid by Water Fund	131,192		-3,374		127,818	3,417
Total	815,986	0	-259,192	88,061	468,733	10,776

TOWN OF HERMOSA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE (continued)
 CHANGES IN LONG-TERM LIABILITIES
 FOR THE ONE YEAR ENDING DECEMBER 31, 2021

Payment Schedules:	Total Payment	Principal	Interest	Remaining Balance
	-----	-----	-----	-----
State Revolving Fund Tax Incremental District Loan #1:				
2022	15,282	12,420	2,862	75,641
2023	15,282	12,824	2,458	62,817
2024	15,282	13,241	2,041	49,576
2025	15,282	13,671	1,611	35,905
2026	15,282	14,115	1,167	21,790
2027-2028	22,732	21,790	942	0
	-----	-----	-----	-----
Totals	99,142	88,061	11,081	
	-----	-----	-----	
2005 USDA Rural Development Bond:				
2022	15,336	5,073	10,263	212,492
2023	15,336	5,313	10,023	207,179
2024	15,336	5,563	9,773	201,616
2025	15,336	5,826	9,510	195,790
2026	15,336	6,101	9,235	189,689
2027-2031	76,680	35,100	41,580	154,589
2032-2036	76,680	44,197	32,483	110,392
2037-2041	76,680	55,652	21,028	54,740
2042-2045	61,344	54,740	6,604	0
	-----	-----	-----	-----
Totals	368,064	217,565	150,499	
	-----	-----	-----	
2009 USDA Rural Development Bond:				
2022	5,004	1,541	3,463	79,075
2023	5,004	1,608	3,396	77,467
2024	5,004	1,677	3,327	75,790
2025	5,004	1,749	3,255	74,041
2026	5,004	1,824	3,180	72,217
2027-2031	25,020	10,364	14,656	61,853
2032-2036	25,020	12,789	12,231	49,064
2037-2041	25,020	15,781	9,239	33,283
2042-2046	25,020	19,475	5,545	13,808
2047-2049	15,011	13,808	1,203	0
	-----	-----	-----	-----
Totals	140,111	80,616	59,495	
	-----	-----	-----	
2010 USDA Rural Development Bond:				
2022	2,664	745	1,919	41,989
2023	2,664	779	1,885	41,210
2024	2,664	814	1,850	40,396
2025	2,664	850	1,814	39,546
2026	2,664	889	1,775	38,657
2027-2031	13,320	5,079	8,241	33,578
2032-2036	13,320	6,326	6,994	27,252
2037-2041	13,320	7,879	5,441	19,373
2042-2046	13,320	9,814	3,506	9,559
2047-2051	10,656	9,559	1,097	0
	-----	-----	-----	-----
Totals	77,256	42,734	34,522	
	-----	-----	-----	
2017 State Revolving Fund Loan #2 (C462278-02):				
2022	5,973	3,417	2,556	124,401
2023	5,973	3,485	2,488	120,916
2024	5,973	3,555	2,418	117,361
2025	5,973	3,626	2,347	113,735
2026	5,973	3,698	2,275	110,037
2027-2031	29,865	19,630	10,235	90,407
2032-2036	29,864	21,674	8,190	68,733
2037-2041	29,865	23,929	5,936	44,804
2042-2046	29,864	26,420	3,444	18,384
2047-2049	19,149	18,384	765	0
	-----	-----	-----	-----
Totals	168,472	127,818	40,654	
	-----	-----	-----	

TOWN OF HERMOSA
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE YEAR ENDING DECEMBER 31, 2021

GENERAL FUND	Budgeted Amounts				Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplemental:	Final		
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	56,345			56,345	59,488	3,143
General sales and use taxes	162,000			162,000	299,933	137,933
Other taxes	2,125			2,125		-2,125
Licenses and permits:	13,900			13,900	37,391	23,491
Intergovernmental receipts:						
Federal shared receipts:				0	38,001	38,001
State shared receipts:	5,130			5,130		-5,130
Grants	1,100			1,100	18,695	17,595
Bank franchise tax				0	248	248
Prorate				0	1,570	1,570
Liquor tax reversion				0	2,886	2,886
5% motor vehicle licenses				0	11,737	11,737
Highway and bridge				0	2,063	2,063
County shared receipts:	8,000			8,000		-8,000
Charges for goods and services:				0		
Sanitation	42,000			42,000	43,797	1,797
Fines:	250			250	150	-100
Miscellaneous receipts:				0		
Interest received	1,000			1,000	312	-688
Rents and franchise fees	4,500			4,500	3,660	-840
Donations				0	2,145	2,145
Liquor operating agreement	20,000			20,000	31,999	11,999
Other				0	4,223	4,223
Total receipts	316,350	0	0	316,350	558,298	241,948
Disbursements:						
General government:						
Town Board	26,580		1,500	28,080	27,331	749
Contingency	15,840			15,840		15,840
Amount transferred				0		0
Elections	1,125		100	1,225	1,208	17
Financial administration	135,925		18,750	154,675	155,494	-819
Other	30,000		71,000	101,000	80,309	20,691
Public safety:						
Police	38,817		25,500	64,317	64,269	48
Inspections	3,000		5,700	8,700	8,230	470
Public works:						
Highways and streets	100,193		3,000	103,193	69,878	33,315
Sanitation	32,900		3,020	35,920	34,801	1,119
Economic development:	4,140		500	4,640	3,709	931
Total disbursements	388,520	0	129,070	517,590	445,229	72,361
Excess of receipts over (under) disbursements	-72,170	0	-129,070	-201,240	113,069	314,309
Other financing sources (uses):						
Compensation for damaged property				0	3,185	3,185
Net change in fund balance	-72,170	0	-129,070	-201,240	116,254	317,494
Fund balance:						
January 1, 2021	207,260			207,260	207,260	0
December 31, 2021	135,090	0	-129,070	6,020	323,514	317,494

TOWN OF HERMOSA

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

FOR THE YEAR ENDING DECEMBER 31, 2021

BBB FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes	9,000		9,000	14,976	5,976
Total revenues	9,000	0	9,000	14,976	5,976
Expenditures:					
Promotional costs	9,000		9,000	0	9,000
Total expenditures	9,000	0	9,000	0	9,000
Excess of revenues over (under) expenditures	0	0	0	14,976	14,976
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	14,976	14,976
Fund balance:					
January 1, 2021	27,863		27,863	27,863	0
December 31, 2021	27,863	0	27,863	42,839	14,976

FEMA FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplemental	Final		
Revenue:					
None			0		0
Total revenues	0	0	0	0	0
Expenditures:					
None			0	0	0
Total expenditures	0	0	0	0	0
Excess of revenues over (under) expenditures	0	0	0	0	0
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	0	0
Fund balance:					
January 1, 2021	1,500		1,500	1,500	0
December 31, 2021	1,500	0	1,500	1,500	0

TOWN OF HERMOSA

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL,
3RD CENT AND FEMA FUNDS FOR THE YEAR ENDING December 31, 2021

1. BUDGETS AND BUDGETARY ACCOUNTING

The Town of Hermosa (Town) follows these procedures in establishing the budgetary data reflected in the budgetary supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2021 there was a supplemental budget to the general fund. See page 28.
- e. Formal budgetary integration is employed as a management control device for the general, 3rd cent and FEMA funds.
- f. Budgets for the general, 3rd cent and FEMA funds are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting is on a modified cash basis of accounting from which the budgetary comparison schedules are prepared.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund balances. However, in the budgetary schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

TOWN OF HERMOSA
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021
SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE
SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION (ASSET)/LIABILITY

SDRS Measurement Date Year Ended (1)	Town's Pension Allocation Percentage	Town's Proportionate Share of Net Pension (Asset) Liability	Town's Covered Employee Payroll for a June 30th Year End	Town's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2021	0.0029040%	-22,240	65,895	(33.75%)	105.52%
June 30, 2020	0.0028680%	-125	62,359	(00.20%)	100.04%
June 30, 2019	0.0032146%	-341	68,349	(00.50%)	100.09%
June 30, 2018	0.0024725%	-58	51,405	(00.11%)	100.02%
June 30, 2017	0.0021336%	-194	43,352	(00.45%)	100.10%
June 30, 2016	0.0027474%	9,280	52,143	16.47%	96.89%
June 30, 2015	0.0042522%	-18,035	70,185	(23.36%)	104.10%
June 30, 2014	0.0046725%	-33,663	70,920	(47.47%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension liability (asset) which is 6-30 of the District's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

TOWN OF HERMOSA
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE TOWN'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

Town's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	Town's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2021	4,242	4,242	0	70,707	6.00%
December 31, 2020	3,409	3,409	0	56,809	6.00%
December 31, 2019	4,218	4,218	0	70,305	6.00%
December 31, 2018	3,592	3,592	0	59,863	6.00%
December 31, 2017	2,802	2,802	0	46,692	6.00%
December 31, 2016	3,248	3,248	0	54,139	6.00%
December 31, 2015	3,435	3,435	0	55,368	6.20%
December 31, 2014	4,935	4,935	0	70,920	6.96%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

See accompanying notes.

TOWN OF Hermosa
DECEMBER 31, 2021

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE ONE YEAR ENDING December 31, 2021

Changes of Prior Valuation:

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

The details of the changes since the last valuation are as follows:

Benefit Provision Changes:

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes:

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0.0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%. The condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 actuarial valuation, future COLAs were assumed to equal the restricted maximum of 1.41%. For this June 30, 2021 actuarial valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the actuarial accrued liability by \$1,135 million, or 8.9% of the actuarial accrued liability based on the 1.41% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2022 actuarial valuation.

Actuarial Method Changes:

No changes in actuarial methods were made since the prior valuation.

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

Governing Board
Town of Hermosa
Hermosa, South Dakota

INDEPENDENT AUDITOR'S REPORT

I 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 modified cash basis financial statements of governmental activities, business-type activities and each major fund of the Town of Hermosa (Town), Custer County, South Dakota, as of and for the one year ended December 31, 2021 and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued my report thereon dated June 27, 2023 which was unmodified.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Hermosa's internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Hermosa's internal control.

A deficiency in internal control exist 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Town of Hermosa's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency, is a deficiency, or 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.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did identify a deficiency in internal control that I consider to be a material weakness, which is described in the accompanying schedule of findings and responses as item 2021-001. Other material weaknesses or significant deficiencies may exist that have not been identified.

Also, I did identify certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies. These are described in the accompanying schedule of findings and responses as items 2021-002 and 2021-003.

Government Auditing Standards require the auditor to perform limited procedures on the Town's responses to the internal control over financial reporting findings identified in my audit described in the accompanying schedule of findings and responses. The Town's responses were not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

Report on Internal Control and Compliance and Other Matters
Page Two

I also noted minor matters involving internal control that I reported to the governing body and management of the Town of Hermosa in a separate Letter of Comments dated June 27, 2023.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hermosa's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion.

I did identify a deficiency in internal control over financial reporting, described in the accompanying schedule of findings and responses as item 2021-001, that I consider to be a material weakness. The results of my tests disclose no other instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Government Auditing Standards require the auditor to perform limited procedures on the Town's responses to the compliance finding identified in my audit and described in the accompanying schedule of findings and responses. The Town's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

I did note minor matters involving compliance that I reported to the governing body and management of the Town of Hermosa in a separate Letter of Comments dated June 27, 2023.

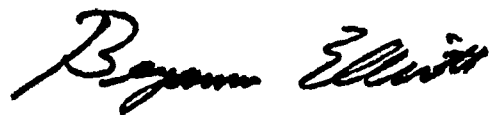
Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hermosa's internal control over financial reporting 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.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

June 27, 2023



TOWN OF HERMOSA
DECEMBER 31, 2021

SCHEDULE OF PRIOR AUDIT FINDINGS

2020-003: Statutory Noncompliance -- Repeated below at 2021-001
2020-002: Segregation of Duties -- Repeated below at 2021-002
2020-001: Drafting Financial Statements -- Repeated below at 2021-003

SCHEDULE OF CURRENT AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

Part I - Summary of the Audit:

Financial Statements:

Type of auditor's report issued:	Unmodified on:
	Governmental Activities
	Business-type Activities
	Major Funds

Material noncompliance noted: Finding 2021-001

Internal control over financial reporting:

* Material weakness(es) identified?	Finding 2021-002
	Finding 2021-003

* Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported
---	---------------

Part II - Findings Relating to the Financial Statements

Finding 2021-001: Publishing Employee Salaries and Wages
(Internal control over financial reporting and noncompliance - also reported in 2020)

Condition:

The Town did not publish a complete list of officer and employee's salaries and wages with the proceedings of the first meeting of the year or within 30 days thereafter, or in the minutes of the first meeting following the completion of salary and negotiations or within 30 days thereafter.

Criteria:

Publishing a complete list of officer and employee's salaries and wages is required by SDCL 6-1-10.

Cause of the Condition:

The Town failed to publish a complete list of officer and employee's salaries and wages.

Effect:

The Town is not in compliance with SDCL 6-1-10.

Recommendation:

I recommend the Town publish a complete list of officer and employee's salaries and wages per SDCL 6-1-10.

Management Response:

Management agrees with this recommendation and did publish a complete list of officer and employees's salaries for 2022 in the January 4, 2022 minutes.

SCHEDULE OF CURRENT AUDIT FINDINGS AND MANAGEMENT'S RESPONSES
(continued)

Finding 2021-002: Segregation of Duties
(internal control over financial reporting - also reported in 2020)

Criteria:

Management of a municipality is responsible for establishing and maintaining an internal control structure to provide management and the taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

Condition:

The Town's limited staff size does not allow it to perform oversight and separate incompatible accounting functions and processes that would be necessary under a properly designed system of internal controls.

Effect:

Lack of segregation of duties can lead to misappropriation of funds from intentional or unintentional errors that may not be detected.

Recommendation:

I recommend the Town's management be cognizant of this lack of segregation of duties and attempt to provide compensating internal controls whenever and wherever possible and practical. For example, accounting transactions should be reviewed by someone other than the person responsible for their preparation.

Response:

This comment is a result of the size of the Town, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The Town has determined it is not cost beneficial to employ additional personnel just to adequately segregate duties.

Finding 2021-003: Preparation of Financial Statements and Notes
(internal control over financial reporting - also reported in 2020)

Condition:

The Town lacks the ability to prepare financial statements and related notes.

Criteria:

Management is responsible for establishing internal controls over the preparation of the financial statements and drafting the financial statements. The Town should have a system of internal controls in place related to the preparation of the financial statements.

Cause of the Condition:

The Town does not have a system of internal controls in place to prepare the financial statements, which is common for an organization of this size due to the limited number of staff.

Effect:

The Town engages its auditor to draft the financial statements and related notes. There is a risk that errors may occur and not be detected.

SCHEDULE OF CURRENT AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

(continued)

Recommendation:

It is the responsibility of management and those charged with governance to make a the decision whether to accept the degree of risk associated with the Town's auditor to draft the financial statements because of cost or other considerations. If the Town chooses not to accept this risk, a third-party accountant should be engaged to prepare the draft financial statements and related notes.

Management Response:

Management agrees with the finding and related recommendations. The Town accepts the risk associated with the Town's auditor drafting the financial statements.