

TOWN OF HERMOSA
HERMOSA, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE TWO YEARS ENDING DECEMBER 31, 2023
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

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FOR THE TWO YEARS ENDING DECEMBER 31, 2023

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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

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P.O. Box 262
Madison, South Dakota 57042
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Governing Board
Town of Hermosa
Hermosa, South Dakota

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

Financial Statement Audit:

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, 2023, and for each of the years in the biennial period then ended, and the related notes to the financial statements. These financial statements collectively comprise the Town's basic financial statements as listed in the table of contents.

Qualified Opinions:

In my opinion, except for the effects of matters described in the Basis for Qualified Opinions section of my report, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities and each major fund of the Town of Hermosa, Custer County, South Dakota as of December 31, 2023, and the respective changes in its financial position for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting described in Note 1c to the financial statement.

Basis for Qualified 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, Custer County, 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 qualified audit opinions.

Matter Giving Rise to Qualified Opinions:

The 2022 general ledger did not include December 2022 activity because of a change in software. The 2022 vouchers and invoices were not available.

Responsibilities of Management 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 these 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.

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 will 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 control. 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 - Basis of Accounting:

I draw attention to note 1c of these financial statements, which describes the basis of accounting. These 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.

Supplementary Information (no opinion):

Accounting principles generally accepted in the United States of America allow for the budgetary comparison schedules (page 30 to 34) and the pension schedules (page 35 and 36) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is allowed by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to this 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 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 of Hermosa's financial statements.

The schedule of changes in long-term liabilities (page 28 and 29) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

The schedule of changes in 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 modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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.

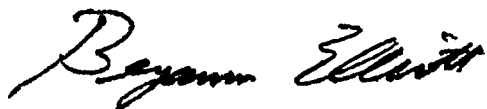
In my opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinions" paragraph above, the schedule of changes in long-term liabilities is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

Other Reporting Required by Government Auditing Standards:

In accordance with *Government Auditing Standards*, I have also issued my report dated January 15, 2025 (page 37) 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 of Hermosa's internal control over financial reporting and compliance.

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

January 15, 2025



TOWN OF HERMOSA

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2023

	Primary Government		
	Governmental	Business-	Total
	Activities	Type	
	Activities	Activities	Total
ASSETS:			
Cash and cash equivalents	611,654	374,786	986,440
Investments - SD.FIT	48,016	97,996	146,012
Restricted cash:			
Customer deposit reserve		12,232	12,232
ARPA water system		506,564	506,564
Total assets	659,670	991,578	1,651,248
NET POSITION:			
Restricted for:			
Debt service	124,794	23,004	147,798
ARPA water system		506,564	506,564
Customer deposits		12,232	12,232
FEMA relocation	1,500		1,500
Promotion	76,776		76,776
Unrestricted	456,600	449,778	906,378
Total net position	659,670	991,578	1,651,248

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2023

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
<i>Primary government:</i>							
<i>Governmental activities:</i>							
General government	226,406	14,624	3,799		-207,983		-207,983
Public safety	72,938				-72,938		-72,938
Public works	87,112	55,007			-32,105		-32,105
Economic development	7,374				-7,374		-7,374
Debt service	76,622				-76,622		-76,622
Total governmental activities	470,452	69,631	3,799	0	-397,022	0	-397,022
<i>Business-type activities:</i>							
Water	125,285	209,189				83,904	83,904
Sewer	105,588	118,073				12,485	12,485
Total business-type activities	230,873	327,262	0	0	0	96,389	96,389
Total primary government	701,325	396,893	3,799	0	-397,022	96,389	-300,633
General receipts:							
Taxes:							
					165,111		165,111
					294,026		294,026
					18,901		18,901
					1		1
					9,232	4,105	13,337
					5,900		5,900
					14,388		14,388
					36,150		36,150
					6,776		6,776
Total general receipts and transfers					550,485	4,105	554,590
Change in net position					153,463	100,494	253,957
Net position:							
					506,207	891,084	1,397,291
					659,670	991,578	1,651,248

See accompanying notes.

TOWN OF HERMOSA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2022

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	331,704	30,859	59,061		-241,784		-241,784
Public safety	85,065				-85,065		-85,065
Public works	118,640	49,204			-69,436		-69,436
Economic development	3,763				-3,763		-3,763
Debt service	15,282				-15,282		-15,282
Total governmental activities	554,454	80,063	59,061	0	-415,330	0	-415,330
Business-type activities:							
Water	421,437	179,830		640,501		398,894	398,894
Sewer	398,285	114,009		140,501		-143,775	-143,775
Total business-type activities	819,722	293,839	0	781,002	0	255,119	255,119
Total primary government	1,374,176	373,902	59,061	781,002	-415,330	255,119	-160,211
General receipts:							
Taxes:							
					61,004		61,004
					387,356		387,356
					16,515		16,515
					65		65
					2,087	2,459	4,546
					4,200		4,200
					5,500		5,500
					35,665		35,665
					6,428		6,428
					518,820	2,459	521,279
					103,490	257,578	361,068
					402,717	633,506	1,036,223
					506,207	891,084	1,397,291

See accompanying notes.

TOWN OF HERMOSA

BALANCE SHEET -- MODIFIED CASH BASIS
 ALL GOVERNMENTAL FUNDS
 AS OF DECEMBER 31, 2023

	General Fund	3 rd Cent Fund	TIF Fund	FEMA Fund	Total
	-----	-----	-----	-----	-----
ASSETS:					
Cash and cash equivalents	408,584	76,776	124,794	1,500	611,654
Investments - SD.FIT	48,016				48,016
	-----	-----	-----	-----	-----
Total assets	456,600	76,776	124,794	1,500	659,670
	=====	=====	=====	=====	=====
FUND BALANCE:					
Nonspendable					0
Restricted - debt service			124,794		124,794
Restricted - FEMA relocation				1,500	1,500
Restricted - promotion		76,776			76,776
Assigned					0
Unassigned	456,600				456,600
	-----	-----	-----	-----	-----
Total fund balances	456,600	76,776	124,794	1,500	659,670**
	=====	=====	=====	=====	=====

** 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, 2023

	General Fund	3 rd Cent Fund	TIF Fund	FEMA Fund	Total
Receipts:					
Local sources:					
Taxes:					
Ad valorem taxes	68,816		96,295		165,111
General sales taxes	274,419	19,607			294,026
Licenses and permits:	14,624				14,624
Intergovernmental:					
State shared revenue:					
Grants	3,799				3,799
Bank franchise tax	236				236
Prorated	1,829				1,829
Liquor tax reversion	2,626				2,626
5% motor vehicle licenses	12,072				12,072
Highway and bridge	2,138				2,138
County shared revenue:	1				1
Charges for goods and services:					
Sanitation	55,007				55,007
Fines:					0
Miscellaneous:					
Interest received	9,232				9,232
Rents and franchise	5,900				5,900
Special assessments	14,388				14,388
Liquor operating agreement	36,150				36,150
Other	6,776				6,776
Total receipts	508,013	19,607	96,295	0	623,915
Disbursements:					
Current:					
General government:					
Town Board	27,286				27,286
Elections	1,574				1,574
Financial administration	168,274				168,274
Other	29,272				29,272
Public safety:					
Police	72,378				72,378
Inspections	560				560
Public works:					
Highways and streets	35,486				35,486
Sanitation	51,626				51,626
Conservation and development:					
Economic development	2,639	4,735			7,374
Debt service: principal			75,342		75,342
interest and fees			1,280		1,280
Total disbursements	389,095	4,735	76,622	0	470,452
Excess of receipts over (under) disbursements	118,918	14,872	19,673	0	153,463
Other financing sources (uses):					
None					0
Net change in fund balance	118,918	14,872	19,673	0	153,463**
Fund balance:					
January 1, 2023	337,682	61,904	105,121	1,500	506,207
December 31, 2023	456,600	76,776	124,794	1,500	659,670

** Equals change in net position on
Statement of Activities
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, 2022

	General Fund	3 rd Cent Fund	TIF Fund	FEMA Fund	Total
Receipts:					
Local sources:					
Taxes:					
Ad valorem taxes	61,004				61,004
General sales taxes	282,752	19,065	85,539		387,356
Licenses and permits:	30,759				30,759
Intergovernmental:					
Federal shared revenue	53,115				53,115
State shared revenue:					
Grants	5,946				5,946
Bank franchise tax	321				321
Prorated					0
Liquor tax reversion	2,677				2,677
5% motor vehicle licenses	11,438				11,438
Highway and bridge	2,079				2,079
County shared revenue:	65				65
Charges for goods and services:					
Sanitation	49,204				49,204
Fines:	100				100
Miscellaneous:					
Interest received	2,087				2,087
Rents and franchise	4,200				4,200
Donations	5,500				5,500
Liquor operating agreement	35,665				35,665
Other	6,428				6,428
Total receipts	553,340	19,065	85,539	0	657,944
Disbursements:					
Current:					
General government:					
Town Board	30,840				30,840
Elections	60				60
Financial administration	192,060				192,060
Other	108,744				108,744
Public safety:					
Police	81,063				81,063
Inspections	4,002				4,002
Public works:					
Highways and streets	73,355				73,355
Sanitation	42,468				42,468
Conservation and development:					
Economic development	3,763				3,763
Debt service: principal			12,718		12,718
interest and fees			2,564		2,564
Capital outlay	2,817				2,817
Total disbursements	539,172	0	15,282	0	554,454
Excess of receipts over (under) disbursements	14,168	19,065	70,257	0	103,490
Other financing sources (uses):					
None					0
Net change in fund balance	14,168	19,065	70,257	0	103,490**
Fund balance:					
January 1, 2022	323,514	42,839	34,864	1,500	402,717
December 31, 2022	337,682	61,904	105,121	1,500	506,207

** 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, 2023

	Water Fund -----	Sewer Fund -----	Total -----
ASSETS			
Current assets:			
Cash and cash equivalent	230,240	144,546	374,786
Investments - SD.FIT	30,877	67,119	97,996
Restricted cash:			
Customer deposits	12,232		12,232
ARPA water system	506,564		506,564
	-----	-----	-----
Total assets	779,913	211,665	991,578
	=====	=====	=====
 NET POSITION			
Restricted for:			
Debt service	19,170	3,834	23,004
ARPA water system	506,564		506,564
Customer deposits	12,232		12,232
Unrestricted	241,947	207,831	449,778
	-----	-----	-----
Total net position	779,913	211,665	991,578
	=====	=====	=====

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

	Water Fund	Sewer Fund	2023 Total	Water Fund	Sewer Fund	2022 Total
	-----	-----	-----	-----	-----	-----
Operating receipts:						
Charges for goods and services	209,189	118,073	327,262	179,830	114,009	293,839
Total operating receipts	209,189	118,073	327,262	179,830	114,009	293,839
Operating disbursements:						
Personal services	9,669	4,550	14,219	3,126		3,126
Other current services	90,473	55,714	146,187	89,043	90,326	179,369
Cost of goods sold			0			0
Capital costs		41,490	41,490	304,125	304,125	608,250
Total operating disbursements	100,142	101,754	201,896	396,294	394,451	790,745
Excess operating receipts (disbursements)	109,047	16,319	125,366	-216,464	-280,442	-496,906
Nonoperating receipts (disbursements):						
Interest received	4,105		4,105	2,459		2,459
ARPA grant receipt			0	500,000		500,000
Donation			0	140,501	140,501	281,002
Debt service: principal	-10,018	-1,193	-11,211	-9,659	-1,143	-10,802
interest and fees	-15,125	-2,641	-17,766	-15,484	-2,691	-18,175
Total nonoperating receipts (disbursement)	-21,038	-3,834	-24,872	617,817	136,667	754,484
Excess receipts (disbursements)	88,009	12,485	100,494	401,353	-143,775	257,578
Other financing sources (uses):						
None			0			0
Change in net position	88,009	12,485	100,494	401,353	-143,775	257,578
Net position:						
January 1, 2022				290,551	342,955	633,506
December 31, 2022	691,904	199,180	891,084	691,904	199,180	891,084
December 31, 2023	779,913	211,665	991,578			

See accompanying notes.

TOWN OF HERMOSA

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

	Water Fund -----	Sewer Fund -----	2023 Total -----	Water Fund -----	Sewer Fund -----	2022 Total -----
Cash flows from:						
Operating activities:						
Receipts from customers	209,189	118,073	327,262	179,830	114,009	293,839
Payments to employees	-9,669	-4,550	-14,219	-3,126		-3,126
Payments to suppliers	-90,473	-55,714	-146,187	-89,043	-90,326	-179,369
Net cash provided (used) by operating activities	----- 109,047	----- 57,809	----- 166,856	----- 87,661	----- 23,683	----- 111,344
Noncapital financing activities:						
None			0			0
Capital financing activities:						
ARPA water system grant			0	500,000		500,000
Capital donation			0	140,501	140,501	281,002
Cash paid for improvements		-41,490	-41,490	-304,125	-304,125	-608,250
Debt service: principal	-10,018	-1,193	-11,211	-9,659	-1,143	-10,802
interest and f	-15,125	-2,641	-17,766	-15,484	-2,691	-18,175
Investing activities:						
Interest received	4,105		4,105	2,459		2,459
Net increase (decrease) in cash and cash equivalents	----- 88,009	----- 12,485	----- 100,494	----- 401,353	----- -143,775	----- 257,578
Cash and cash equivalents:						
January 1, 2022				290,551	342,955	633,506
December 31, 2022	691,904	199,180	891,084	691,904	199,180	891,084
December 31, 2023	=====	=====	=====	=====	=====	=====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	109,047	16,319	125,366	-216,464	-280,442	-496,906
Add back capital purchases		41,490	41,490	304,125	304,125	608,250
Net cash provided (used) by operating activities	----- 109,047	----- 57,809	----- 166,856	----- 87,661	----- 23,683	----- 111,344
Noncash investing, capital and financing activities: None						
See accompanying notes.						

TOWN OF HERMOSA
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2023

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, 2023 are:

President:	Finance Officer:
Jerry Styles	Gail Boddicker
Trustees:	Attorney:
Donna Ferguson	Mitchell Johnson
Vicki Henrichsen	
Dan Holsworth	
Linda Kramer	

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. This fund is classified as a major fund.

FEMA Relocation Fund - This fund is used to accept grant receipts and make disbursements related to the FEMA relocation project. This fund is classified as a major fund.

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 had no fiduciary funds in 2022 or 2023.

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 one certificates of deposit in 2022 and 2023 with a term to maturity of 90 days or less.

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

The Town maintains restricted cash deposits for utility customer account deposits and ARPA cash earmarked for a water system project.

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. 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.

i. 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.

j. 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".

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 "Net Position - Restricted".

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 8 and 9)
* 3 rd Cent	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 Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	TIF Fund	Debt service	124,794
	FEMA Fund	Relocation	1,500
	3 rd Cent Fund	Statute	76,776
Committed	None		0
Assigned	None		0
Unassigned	General		456,600

			659,670

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.

In 2022 the general fund/Town Board went over its budget by \$1,315 and the general fund/financial administration went over its budget by \$5,148. In 2023 the 3rd Cent fund went over its budget by \$235. However, these are 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, 2023 were as follows: Insured \$500,000, Collateralized ** \$1,009,539, for a total of \$1,509,539.

** 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, plus \$234 of petty cash, at December 31, 2023 was \$1,505,236.

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.

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, 2023, the Town's deposits were adequately secured by FDIC Insurance and collateralize with pledged securities.

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.

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.

At December 31, 2023, the Town had the following investment:

	Credit Rating	Maturities	Fair Value	Interest Rate Risk
South Dakota FIT: (100%)				
Govt. Cash Reserve Money Market	Unrated	NA	\$146,012	note 1 note 2

		Total investments	\$146,012	

notes

- 1 Fixed principal. Interest rate varies. Not subject to interest rate risk.
- 2 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 (GCR) 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.

Investment Credit 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.

Custodial Investment Credit Risk - 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, 2023, the Town's investments in financial institutions were not exposed to investment custodial credit risk.

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, 2023, the Town has its cash deposits at Pioneer Bank & Trust and investments at 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.

5. WATER AND SEWER FUNDS RESERVED BALANCES IN UNRESTRICTED NET POSITION

The water fund has reserved \$51,762 for equipment, which is included in the water fund's unrestricted net position.

The sewer fund has reserved \$314 for other purposes, which is included in the sewer fund's unrestricted net position.

6. RESTRICTED ASSET

The Town has restricted cash of \$12,232 for customer deposits and \$506,564 for a water system project.

7. RESTRICTED NET POSITION

The following table shows the December 31, 2023 net position restricted for specific purposes as shown on the Statement of Net Position

Purpose:	Restricted By:	Governmental	Business-Type
Debt	Covenants	124,794	23,004
Relocation	FEMA grant agreement	1,500	
Promotion	Statute	76,776	
Water system	ARPA grant agreement		506,564
Meter deposits	Contract		12,232
		-----	-----
Total Restricted Net Position		203,070	541,800

8. LONG-TERM LIABILITIES (see schedule one)

A summary of changes in long-term liabilities is presented as supplementary information on page 28. 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.

9. REVENUES PLEDGED TO SECURE DEBT (See also page 28)

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 \$207,439; one-half of a 2009 USDA Rural Development Bond with a water fund remaining balance of \$38,828; and one-half of a 2010 USDA Rural Development Bond with a water fund remaining balance of \$20,606. The bonds will mature in 2045, 2049, and 2050 respectively. In 2023 the water fund had net revenue of \$109,047 before capital asset cost and payments of \$25,143 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 \$38,828; and one-half of a 2010 USDA Rural Development Bond with a sewer fund remaining balance of \$20,606. The bonds will mature in 2049 and 2050 respectively. In 2023 the sewer fund had net revenue of \$57,809 before capital asset cost and payments of \$3,834 on these bonds.

10. 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 Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDFRS 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. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098; accessing <http://sdrs.sd.gov/publications.aspx> or calling (605) 773-3731.

Benefits Provided:

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation 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. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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 greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from .05 percent to 0.0 percent. All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, 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, 2023, 2022 and 2021 were \$4,244, \$4,878, and \$4,242 respectively (employer's share) equal to the required contribution each year.

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

At June 30, 2023 SDRS is 100.1% 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, 2023 and reported by the Town as of December 31, 2023 are as follows:

Proportionate share of total pension liability	\$ 476,454
Less: Proportionate share of net position restricted for pension benefits	(476,775)

Proportionate share of net pension (asset)/liability	\$ (321)
	=====

The net pension (asset) was measured as of June 30, 2023 and the total pension liability/(asset) used to calculate the net pension liability/(asset) was based on a projection of the Town's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2023, the Town's proportion was .000032880 which is an increase of .00000244 over its proportion measured as of June 30, 2022.

Actuarial Assumptions:

The total pension (asset) in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real return of 4.00%
Future COLAs	1.91%
Mortality rates:	All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: Pub T-2010
 Other Class A Members: Pub G-2010
 Public Safety Members: Pub S-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees:
Pub T-2010, 108% of rates above age 65

Other Class A Retirees: Pub G-2010, 93% of rates through
age 74, increasing by 2% per year until 111% of rates
at age 83 and above

Public Safety Retirees: Pub S-2010, 102% of rate at all
ages

Beneficiaries:

Pub G-2010 contingent survivor mortality table

Disabled Members:

Public Safety: Pub S-2010 disabled member mortality table

Others: Pub G-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2022.

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, 2023 (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
Public Equity	56.3%	3.8%
Investment grade debt	22.8%	1.7%
High Yield debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9	0.8%

	100.0%	
	=====	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member 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.

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

The following presents the Town's proportionate share of the net pension (asset)/liability 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 the 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	\$65,778	\$(321)	\$(54,377)

Pension Plan Fiduciary Net Position:

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

11. 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.

12. 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, 2023 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 two years ended December 31, 2023, no claims were paid for unemployment benefits. At December 31, 2023, no claims had been filed for unemployment benefits and none are anticipated in 2024.

13. TAX ABATEMENTS

As of December 31, 2023 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 Stmt # 77.

14. LITIGATION

At December 31, 2023, 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.

15. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The Town does not operate a landfill.

In 2024 the Town purchased a used wastewater treatment system from another another municipality which, including delivery and instillation, cost approximately \$600,000. The Town borrowed \$600,000 to finance this project.

TOWN OF HERMOSA

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
 CHANGES IN LONG-TERM LIABILITIES
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

	Beginning Balance 12-31-21 -----	2022 Additions (Deletions) -----	2023 Additions (Deletions) -----	Governmental Activities Ending 12-31-23 -----	Business-Type Activities Ending 12-31-23 -----	Principal Due in 2024 -----
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	88,061	-12,718	-75,343	0		0
BUSINESS-TYPE - DIRECT BORROWING						
2005 USDA Rural Development Bond (RD1):						
Original amount of \$300,000						
Maturing in 2045						
Interest at 4.125%						
Secured by fund operations						
Monthly payments of \$1,278	260 adj					
Paid by the Water Fund	217,565	-5,073	-5,313		207,439	5,551
2009 USDA Rural Development Bond (RD2):						
Original amount of \$96,000						
Maturing in 2049						
Interest at 4.25%						
Secured by fund operations						
Monthly payments of \$417	189 adj					
Paid by the Water and Sewer Funds	80,616	-1,541	-1,608		77,656	1,669
2010 USDA Rural Development Bond (RD3):						
Original amount of \$53,000						
Maturing in 2050						
Interest at 4.00%						
Secured by fund operations						
Monthly payments of \$222	4 adj					
Paid by the Water and Sewer Funds	42,734	-746	-779		41,213	814
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	127,818	-3,442	-3,512		120,864	3,556
Total	557,247	-23,520	-86,555	0	447,172	11,590

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE (continued)
 CHANGES IN LONG-TERM LIABILITIES
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

Payment Schedules:	Total Payment	Principal	Interest	Remaining Balance
	-----	-----	-----	-----
2005 USDA Rural Development Bond:				
2024	15,336	5,551	9,785	201,888
2025	15,336	5,813	9,523	196,075
2026	15,336	6,087	9,249	189,988
2027	15,336	6,374	8,962	183,614
2028	15,336	6,675	8,661	176,939
2029-2033	76,680	38,405	38,275	138,534
2034-2038	76,680	48,358	28,322	90,176
2039-2043	76,680	60,891	15,789	29,285
2044-2045	31,389	29,285	2,104	0
	-----	-----	-----	
Totals	338,109	207,439	130,670	
	=====	=====	=====	
2009 USDA Rural Development Bond:				
2024	5,004	1,669	3,335	75,988
2025	5,004	1,740	3,264	74,248
2026	5,004	1,815	3,189	72,433
2027	5,004	1,893	3,111	70,540
2028	5,004	1,974	3,030	68,566
2029-2033	25,020	11,219	13,801	57,347
2034-2038	25,020	13,844	11,176	43,503
2039-2043	25,020	17,083	7,937	26,420
2044-2048	25,020	21,081	3,939	5,339
2049	5,568	5,339	229	0
	-----	-----	-----	
Totals	130,668	77,657	53,011	
	=====	=====	=====	
2010 USDA Rural Development Bond:				
2024	2,664	814	1,850	40,399
2025	2,664	850	1,814	39,549
2026	2,664	888	1,776	38,661
2027	2,664	928	1,736	37,733
2028	2,664	970	1,694	36,763
2029-2033	13,320	5,544	7,776	31,219
2034-2038	13,320	6,905	6,415	24,314
2039-2043	13,320	8,600	4,720	15,714
2044-2048	13,320	10,712	2,608	5,002
2049-2050	5,341	5,002	339	0
	-----	-----	-----	
Totals	71,941	41,213	30,728	
	=====	=====	=====	
2017 State Revolving Fund Loan #2 (C462278-02):				
2024	5,973	3,556	2,417	117,308
2025	5,973	3,627	2,346	113,681
2026	5,973	3,699	2,274	109,982
2027	5,973	3,773	2,200	106,209
2028	5,973	3,849	2,124	102,360
2029-2033	29,865	20,430	9,435	81,930
2034-2038	29,864	22,556	7,308	59,374
2039-2043	29,865	24,903	4,962	34,471
2044-2048	29,864	27,495	2,369	6,976
2049	7,139	6,976	163	0
	-----	-----	-----	
Totals	156,462	120,864	35,598	
	=====	=====	=====	

TOWN OF HERMOSA
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2023

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplementals			Final
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	56,925			56,925	68,816	11,891
General sales and use taxes	281,750			281,750	274,419	-7,331
Licenses and permits:	10,875			10,875	14,624	3,749
Intergovernmental receipts:						
Federal shared receipts:				0		0
State shared receipts:	4,750			4,750		-4,750
Grants				0	3,799	3,799
Bank franchise tax				0	236	236
Prorate				0	1,829	1,829
Liquor tax reversion				0	2,626	2,626
5% motor vehicle licenses				0	12,072	12,072
Highway and bridge				0	2,138	2,138
County shared receipts:	10,865			10,865	1	-10,864
Charges for goods and services:						
Sanitation	55,200			55,200	55,007	-193
Fines:				0		0
Miscellaneous receipts:	10,520			10,520		-10,520
Interest received				0	9,232	9,232
Rents and franchise fees	5,850			5,850	5,900	50
Special assessments				0	14,388	14,388
Liquor operating agreement	30,000			30,000	36,150	6,150
Other				0	6,776	6,776
Total receipts	466,735	0	0	466,735	508,013	41,278
Disbursements:						
General government:						
Town Board	32,420			32,420	27,286	5,134
Contingency			200	200		200
Amount transferred				0		0
Elections	1,575		360	1,935	1,574	361
Financial administration	167,665		11,200	178,865	168,274	10,591
Other	61,936		10,000	71,936	29,272	42,664
Public safety:						
Police	88,000			88,000	72,378	15,622
Inspections	3,000			3,000	560	2,440
Public works:						
Highways and streets	77,214			77,214	35,486	41,728
Sanitation	51,990			51,990	51,626	364
Economic development:	4,695			4,695	2,639	2,056
Total disbursements	488,495	0	21,760	510,255	389,095	121,160
Excess of receipts over (under) disbursements	-21,760	0	-21,760	-43,520	118,918	162,438
Other financing sources (uses):						
None				0		0
Net change in fund balance	-21,760	0	-21,760	-43,520	118,918	162,438
Fund balance:						
January 1, 2023	337,682			337,682	337,682	0
December 31, 2023	315,922	0	-21,760	294,162	456,600	162,438

TOWN OF HERMOSA
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2022

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	59,566			59,566	61,004	1,438
General sales and use taxes	225,000			225,000	282,752	57,752
Licenses and permits:	14,200			14,200	30,759	16,559
Intergovernmental receipts:						
Federal shared receipts:				0	53,115	53,115
State shared receipts:						
Grants				0	5,946	5,946
Bank franchise tax	250			250	321	71
Liquor tax reversion	2,900			2,900	2,677	-223
5% motor vehicle licenses	9,500			9,500	11,438	1,938
Highway and bridge	2,000			2,000	2,079	79
County shared receipts:				0	65	65
Other intergovernmental receipt	110,031			110,031		-110,031
Charges for goods and services:						
Sanitation	42,500			42,500	49,204	6,704
Fines:				0	100	100
Miscellaneous receipts:						
Interest received	1,000			1,000	2,087	1,087
Rents and franchise fees	4,200			4,200	4,200	0
Donations				0	5,500	5,500
Liquor operating agreement	30,000			30,000	35,665	5,665
Other	4,175		82,150	86,325	6,428	-79,897
Total receipts	505,322	0	82,150	587,472	553,340	-34,132
Disbursements:						
General government:						
Town Board	29,525			29,525	30,840	-1,315
Contingency				0		0
Amount transferred				0		0
Elections	1,465			1,465	60	1,405
Financial administration	144,412		42,500	186,912	192,060	-5,148
Other	86,200		24,000	110,200	108,744	1,456
Public safety:						
Police	77,966					
Fire			3,200	81,166	81,063	103
Inspections	5,000		90,000	90,000		90,000
Public works:						
Highways and streets	61,663		102,250	163,913	76,172	87,741
Sanitation	38,600		4,200	42,800	42,468	332
Economic development:	4,651			4,651	3,763	888
Capital outlay	55,840			55,840		55,840
Total disbursements	505,322	0	266,150	771,472	539,172	232,300
Excess of receipts over (under) disbursements	0	0	-184,000	-184,000	14,168	198,168
Other financing sources (uses):						
Transfer	110,031			110,031		-110,031
Net change in fund balance	110,031	0	-184,000	-73,969	14,168	88,137
Fund balance:						
January 1, 2022	323,514			323,514	323,514	0
December 31, 2022	433,545	0	-184,000	249,545	337,682	88,137

TOWN OF HERMOSA
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

3 rd CENT FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementa	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use tax	8,307		8,307	19,607	11,300
Total revenues	8,307	0	8,307	19,607	11,300
Expenditures:					
Promotional costs	4,500		4,500	4,735	-235
Total expenditures	4,500	0	4,500	4,735	-235
Excess of revenues over (under) expenditures	3,807	0	3,807	14,872	11,065
Other financing sources (uses):					
Transfer out	-3,807		-3,807		3,807
Net change in fund balance	0	0	0	14,872	14,872
Fund balance:					
January 1, 2023	61,904		61,904	61,904	0
December 31, 2023	61,904	0	61,904	76,776	14,872

3 rd CENT FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementa	Final		
Revenue:					
General sales and use tax	10,000		10,000	19,065	9,065
Total revenues	10,000	0	10,000	19,065	9,065
Expenditures:					
Other	10,000		10,000	0	10,000
Total expenditures	10,000	0	10,000	0	10,000
Excess of revenues over (under) expenditures	0	0	0	19,065	19,065
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	19,065	19,065
Fund balance:					
January 1, 2022	42,839		42,839	42,839	0
December 31, 2022	42,839	0	42,839	61,904	19,065

TOWN OF HERMOSA
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE TWO YEARS ENDING DECEMBER 31, 2023

FEMA FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementa	Final		
Revenue:					
Revenue from local sources:					
Taxes:					
General sales and use taxes			0		0
Total revenues	0	0	0	0	0
Expenditures:					
FEMA expense	1,500		1,500		1,500
Total expenditures	1,500	0	1,500	0	1,500
Excess of revenues over (under) expenditures	-1,500	0	-1,500	0	1,500
Other financing sources (uses):					
None			0		0
Net change in fund balance	-1,500	0	-1,500	0	1,500
Fund balance:					
January 1, 2023	1,500		1,500	1,500	0
December 31, 2023	0	0	0	1,500	1,500

FEMA FUND	Budgeted Amounts			Actual	Variance Positive (Negative)
	Original	Supplementa	Final		
Revenue:					
General sales and use taxes			0		0
Total revenues	0	0	0	0	0
Expenditures:					
FEMA expense	1,500		1,500	0	1,500
Total expenditures	1,500	0	1,500	0	1,500
Excess of revenues over (under) expenditures	-1,500	0	-1,500	0	1,500
Other financing sources (uses):					
None			0		0
Net change in fund balance	-1,500	0	-1,500	0	1,500
Fund balance:					
January 1, 2022	1,500		1,500	1,500	0
December 31, 2022	0	0	0	1,500	1,500

TOWN OF HERMOSA

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL,
3RD CENT AND FEMA FUNDS FOR THE TWO YEARS ENDING December 31, 2023

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 2022 and 2023 there were supplemental budgets to the general fund. See page 30 and 31.
- 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 TEN YEARS ENDING DECEMBER 31, 2023
 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 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, 2023	0.0032880%	-321	84,817	(00.38%)	100.10%
June 30, 2022	0.0030440%	-288	72,683	(00.40%)	100.10%
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 Town's current calendar year.

Note: This schedule is intended to show information for ten years.

TOWN OF HERMOSA
 FOR THE TEN YEARS ENDING DECEMBER 31, 2023
 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, 2023	4,244	4,244	0	70,733	6.00%
December 31, 2022	4,878	4,878	0	81,304	6.00%
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.

See accompanying notes.

TOWN OF Hermosa
DECEMBER 31, 2023

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE TWO YEARS ENDING December 31, 2023

Changes of Prior Valuation:

The June 30, 2023 Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2022, Actuarial Valuation.

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

Benefit Provision Changes:

During the 2023 legislative Session no significant SDRS benefit changes were made and emergency medical services personnel prospectively became Class B Public Safety members.

Actuarial Method Changes:

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

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% 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%.

As of June 30, 2022, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2023 SDRS COLA was limited to a restricted maximum of 2.10%. For the June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 2.10%

As of June 30, 2023, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2024 SDRS COLA is limited to a restricted maximum of 1.91%. The July 2024 SDRS COLA will equal inflation, between 0% and 1.91%. For this June 30, 2023, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.91%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

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

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 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, 2023 and for each year in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Town of Hermosa's basic financial statements and have issued my report thereon dated January 15, 2025 which was qualified.

Report on 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 audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, 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'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 not identify a deficiency in internal control that I consider to be a material weakness.

I did identify deficiencies in internal control, described in the accompanying schedule of current audit findings and responses, that I consider to be a significant deficiencies. I consider the deficiencies described in the accompanying schedule of current audit findings and responses as item 2023-01 and 2023-02 to be a significant deficiencies.

Town of Hermosa
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters -- Page Two

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.

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 January 15, 2025.

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 financial statements. 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.

The results of my tests did not disclose an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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 January 15, 2025.

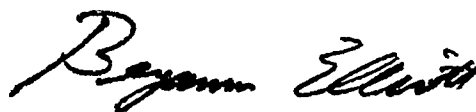
Purpose of this Report

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 internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.

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

January 15, 2025



TOWN OF HERMOSA
DECEMBER 31, 2023

SCHEDULE OF PRIOR AUDIT FINDINGS

2021-01: Statutory Noncompliance -- Resolved
2021-02: Segregation of Duties -- Repeated below at 2023-01
2021-03: Drafting Financial Statements -- Repeated below at 2023-02

SCHEDULE OF CURRENT AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

Part I - Summary of the Audit:

Financial Statements:

Type of auditor's report issued:	Qualified on: Governmental Activities Business-type Activities Major Funds
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Material noncompliance noted:	None reported
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Internal control over financial reporting:

* Material weakness(es) identified?	None reported
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* Significant deficiency(ies) identified that are not considered to be material weaknesses?	Finding 2023-01 Finding 2023-02
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Part II - Findings Relating to the Financial Statements

Finding 2023-01: 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.

SCHEDULE OF CURRENT AUDIT FINDINGS AND MANAGEMENT'S RESPONSES

(continued)

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 2023-02: 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.

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.