CITY OF HOT SPRINGS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025

KETEL
THORSTENSON
CPAs · ADVISORS

CITY OF HOT SPRINGS

TABLE OF CONTENTS

KETEL THORSTENSON
CPAs · ADVISORS

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions
We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Hot Springs (the City), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our 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 our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, 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.

City Council
City of Hot Springs
Page Two

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- 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 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 City'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 our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are 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 other internal control matters that we identified during the audit.

Required Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

June 15, 2026

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION
DECEMBER 31, 2025

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents	$ 9,374,108	$ 2,660,797	$ 12,034,905
Savings Certificates	59,707	233,803	293,510
Restricted Cash and Investments	33,548	128,000	161,548
Receivables	405,610	355,547	761,157
Inventories	24,800	97,118	121,918
Net Pension Asset	5,113	2,030	7,143
Capital Assets:			
Land and Construction in Progress	925,484	390,339	1,315,823
Other Capital Assets, Net of Depreciation	15,864,450	12,263,937	28,128,387
TOTAL ASSETS	26,692,820	16,131,571	42,824,391
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows of Resources	478,603	189,964	668,567
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 27,171,423	$ 16,321,535	$ 43,492,958
Liabilities:			
Accounts Payable	$ 102,778	$ 66,654	$ 169,432
Other Current Liabilities	69,049	81,621	150,670
Unearned Revenue	960	6,480	7,440
Noncurrent Liabilities:			
Due Within One Year	384,151	425,330	809,481
Due in More Than One Year	196,881	1,716,895	1,913,776
TOTAL LIABILITIES	753,819	2,296,980	3,050,799
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows of Resources	271,415	107,727	379,142
Net Position:			
Net Investment in Capital Assets	16,385,945	11,325,952	27,711,897
Restricted for:			
SDRS Pension	212,301	84,267	296,568
Cemetery - Expendable	31,394	-	31,394
Cemetery - Nonexpendable	50,000	-	50,000
Debt Service	33,548	128,000	161,548
Capital Projects	19,996	-	19,996
Facilities and Promoting the City	109,622	-	109,622
Business Improvement District	93,111	-	93,111
Unrestricted	9,210,272	2,378,609	11,588,881
TOTAL NET POSITION	26,146,189	13,916,828	40,063,017
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	$ 27,171,423	$ 16,321,535	$ 43,492,958

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

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
Function/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	$ 719,576	$ 110,083	$ -	$ -	$ (609,493)	$ -	$ (609,493)
Public Safety	1,264,241	45,180	30,230	234,357	(954,474)	-	(954,474)
Public Works	1,627,248	101,552	-	876,143	(649,553)	-	(649,553)
Health and Welfare	24,000	551	-	-	(23,449)	-	(23,449)
Culture and Recreation	759,883	139,403	-	-	(620,480)	-	(620,480)
Conservation and Development	328,856	-	-	-	(328,856)	-	(328,856)
Miscellaneous	-	226,067	-	-	226,067	-	226,067
Interest on Long Term Debt*	16,048	-	-	-	(16,048)	-	(16,048)
Total Governmental Activities	4,739,852	622,836	30,230	1,110,500	(2,976,286)	-	(2,976,286)
Business-Type Activities:							
Water	985,030	1,438,182	-	-	-	453,152	453,152
Sewer	827,472	956,481	-	-	-	129,009	129,009
Solid Waste	268,787	303,296	-	-	-	34,509	34,509
Golf Course	894,939	900,229	-	-	-	5,290	5,290
Evans Plunge	784,443	781,640	-	-	-	(2,803)	(2,803)
Total Business-Type Activities	3,760,671	4,379,828	-	-	-	619,157	619,157
Total Primary Government	$ 8,500,523	$ 5,002,664	$ 30,230	$ 1,110,500	(2,976,286)	619,157	(2,357,129)
	General Revenues:						
	Taxes:						
	Property Taxes				1,414,512	-	1,414,512
	Sales Taxes				2,675,601	-	2,675,601
	State Shared Revenue				182,783	-	182,783
	Unrestricted Investment Earnings				51,572	17,693	69,265
	Miscellaneous Revenue				68,853	23,406	92,259
	Transfers				321,803	(321,803)	-
	Total General Revenues				4,715,124	(280,704)	4,434,420
	Changes in Net Position				1,738,838	338,453	2,077,291
	Net Position, Beginning				24,407,351	13,578,375	37,985,726
	Net Position, Ending				$ 26,146,189	$ 13,916,828	$ 40,063,017

* The City does not have interest expense related to the functions presented above. This amount includes indirect expense on general long-term debt.

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

CITY OF HOT SPRINGS

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Assets			
101 Cash and Cash Equivalents	$ 4,853,381	$ 118,305	$ 4,274,908
105 Savings Certificates	-	-	-
107 Restricted Cash and Cash Equivalents	-	-	33,548
108 Property Taxes Receivable	97,855	-	-
115 Accounts Receivable	49,856	-	-
121 Special Assessments Receivable - Current	-	-	64,100
122 Special Assessments Receivable - Delinquent	-	-	24,290
123 Special Assessments Receivable - Deferred	-	-	58,000
132 Due from Other Governments - State	65,357	3,486	35,386
142 Inventory of Stores - Resale	24,800	-	-
Total Assets	$ 5,091,249	$ 121,791	$ 4,490,232
Liabilities, Deferred Inflows of Resources and Fund Balances			
Liabilities			
202 Accounts Payable	$ 51,469	$ 12,169	$ 39,140
216 Accrued Wages Payable	56,935	-	-
217 Accrued Taxes and Benefits Payable	12,114	-	-
223 Unearned Revenue	960	-	-
Total Liabilities	121,478	12,169	39,140
Deferred Inflows of Resources			
245 Unavailable Revenue - Property Taxes	89,752	-	-
246 Unavailable Revenue - Special Assessments	-	-	146,390
247 Unavailable Revenue - Grants	-	-	20,301
Total Deferred Inflows of Resources	89,752	-	166,691
Fund Balances			
Nonspendable Fund Balance			
263.01 Inventory	24,800	-	-
263.51 Perpetual Care Cemetery	-	-	-
Restricted Fund Balances			
264.01 Debt Service	-	-	33,548
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	109,622	-
264.09 Business Improvement District Purposes	-	-	-
Committed Fund Balances			
265.02 Capital Replacements	-	-	4,250,853
Unassigned Fund Balance			
267.00 Unassigned Fund Balances	4,855,219	-	-
Total Fund Balances	4,880,019	109,622	4,284,401
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 5,091,249	$ 121,791	$ 4,490,232

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
$ 85,831	$ 19,996	$ 21,687	$ 9,374,108
-	-	59,707	59,707
-	-	-	33,548
-	-	-	97,855
7,280	-	-	57,136
-	-	-	64,100
-	-	-	24,290
-	-	-	58,000
-	-	-	104,229
-	-	-	24,800
$ 93,111	$ 19,996	$ 81,394	$ 9,897,773
$ -	$ -	$ -	$ 102,778
-	-	-	56,935
-	-	-	12,114
-	-	-	960
-	-	-	172,787
-	-	-	89,752
-	-	-	146,390
-	-	-	20,301
-	-	-	256,443
-	-	-	24,800
-	-	50,000	50,000
-	-	-	33,548
-	19,996	-	19,996
-	-	31,394	31,394
-	-	-	109,622
93,111	-	-	93,111
-	-	-	4,250,853
-	-	-	4,855,219
93,111	19,996	81,394	9,468,543
$ 93,111	$ 19,996	$ 81,394	$ 9,897,773

CITY OF HOT SPRINGS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION DECEMBER 31, 2025

Total Funds Balance - Government Funds	$	9,468,543
Amount to be reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		16,789,934
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.		478,603
Long-term liabilities, including bonds payable, financing leases, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(581,032)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		5,113
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.		(271,415)
Assets, such as delinquent taxes receivable, special assessments receivable, and due from governments, are not available to pay for current period expenditures and therefore are deferred in the funds.		256,443
Total Net Position - Governmental Funds	$	26,146,189

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

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Revenues				
	Taxes:			
311	General Property Taxes	$ 1,390,822	$ -	$ -
313	General Sales and Use Taxes	1,603,581	215,413	793,633
319	Penalties and Interest	6,297	-	-
320	Licenses and Permits	71,854	-	-
	Intergovernmental Revenue:			
331	Federal Grants	30,230	-	234,357
334	State Grants	-	-	849,408
	State Shared Revenue:			
335.01	Bank Franchise Taxes	3,225	-	-
335.02	Motor Vehicle Commercial Prorate	7,918	-	-
335.03	Liquor Tax Reversion	23,064	-	-
335.04	Motor Vehicle Licenses	29,249	-	-
335.08	Local Government Highway & Bridges	85,937	-	-
335.20	Other	33,390	-	-
	County Shared Revenue:			
338.01	County Road Tax	1,532	-	-
	Charges for Goods and Services:			
341	General Government	38,229	-	-
342	Public Safety	45,180	-	-
343	Highways and Streets	2,842	-	-
346	Culture & Recreation	21,537	-	-
347	Other - Airport	73,177	-	-
348	Cemetery	20,400	-	-
349	Other - Library	8,927	-	-
	Fines and Forfeits:			
352	Animal Control Fines	551	-	-
354	Library Fines	3,366	-	-
	Miscellaneous Revenue:			
361	Earnings on Deposits & Investments	49,303	-	-
362	Rentals	105,573	-	-
363	Special Assessments	-	-	72,434
367	Contributions and Donations	3,011	-	-
368	Liquor Operating Agreement Income	226,067	-	-
369	Other	30,414	-	-
TOTAL REVENUES		3,915,676	215,413	1,949,832

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
$ -	$ -	$ -	$ 1,390,822
62,974	-	-	2,675,601
-	-	-	6,297
-	-	-	71,854
-	-	-	264,587
-	-	-	849,408
-	-	-	3,225
-	-	-	7,918
-	-	-	23,064
-	-	-	29,249
-	-	-	85,937
-	-	-	33,390
-	-	-	1,532
-	-	-	38,229
-	-	-	45,180
-	-	-	2,842
-	-	-	21,537
-	-	-	73,177
-	-	3,601	24,001
-	-	-	8,927
-	-	-	551
-	-	-	3,366
-	-	2,269	51,572
-	-	-	105,573
-	-	-	72,434
-	32,686	-	35,697
-	-	-	226,067
-	-	-	30,414
62,974	32,686	5,870	6,182,451

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Expenditures				
	General Governments:			
411	Legislative	108,948	-	-
414	Financial Administration	321,393	-	-
419	Other	172,546	-	112,773
	Public Safety:			
421	Police	1,093,867	-	-
422	Fire	90,000	-	-
423	Protective Inspection	77,817	-	-
	Public Works:			
431	Highway and Streets	800,521	-	-
432	Sanitation - Street Cleaning	31,163	-	-
435	Airport	145,592	-	-
437	Cemeteries	77,707	-	-
	Health and Welfare:			
441	Health	24,000	-	-
	Culture and Recreation:			
451	Recreation	31,542	-	-
452	Parks	176,169	-	-
455	Library	306,035	-	-
456	Auditorium	146,634	-	-
	Conservation and Development:			
465	Economic Development Assistance	16,677	193,491	-
470	Debt Service	35,397	-	182,002
485	Capital Outlay	64,420	-	258,081
Total Expenditures		3,720,428	193,491	552,856
Other Financing Sources (Uses)				
391.01	Transfers In	321,803	-	-
391.04	Compensation for Loss or Damage to Capital Assets	2,742	-	-
Total Other Financing Sources (Uses)		324,545	-	-
Net Change in Fund Balances		519,793	21,922	1,396,976
Fund Balances - December 31, 2024		4,360,226	87,700	2,887,425
Fund Balances - December 31, 2025		$ 4,880,019	$ 109,622	$ 4,284,401

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

Business Improvement District #1 Fund	HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
-	-	-	108,948
-	-	-	321,393
-	-	-	285,319
-	-	-	1,093,867
-	-	-	90,000
-	-	-	77,817
-	-	-	800,521
-	-	-	31,163
-	-	-	145,592
-	-	-	77,707
-	-	-	24,000
-	-	-	31,542
-	-	-	176,169
-	-	-	306,035
-	-	-	146,634
86,005	32,683	-	328,856
-	-	-	217,399
-	-	-	322,501
86,005	32,683	-	4,585,463
-	-	-	321,803
-	-	-	2,742
-	-	-	324,545
(23,031)	3	5,870	1,921,533
116,142	19,993	75,524	7,547,010
$ 93,111	$ 19,996	$ 81,394	$ 9,468,543

CITY OF HOT SPRINGS

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2025

Net change in fund balance - total governmental funds	$	1,921,533
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense		
Capital asset purchases capitalized		322,501
Depreciation expense		(788,573)
Repayment of bond principal and financing lease are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.		201,351
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.		2,152
Changes in the pension related deferred outflows/inflows, pension asset/liability, and related pension revenue/expenses are reported in the governmental fund statements.		108,180
The fund financial statements governmental fund property tax and grant revenue accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amount to be "available".		37,694
Governmental funds report special assessments and as revenue but the Statement of Activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.		(66,000)
Changes in Net Position of Governmental Activities	$	1,738,838

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

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

Assets		Water Fund	Sewer Fund	Solid Waste Fund
Current Assets				
101	Cash and Cash Equivalents	$ 944,073	$ 835,855	$ 347,875
105	Savings Certificates	118,376	115,427	-
107	Restricted Cash	-	-	-
115	Accounts Receivable	83,703	101,908	26,294
117	Unbilled Accounts Receivable	35,086	34,734	13,282
121	Special Assessments Receivable--Current	9,245	1,671	-
122	Special Assessments Receivable--Delinquent	3,456	-	-
123	Special Assessments Receivable--Deferred	28,744	10,025	-
141	Inventory of Supplies	41,245	20,071	-
142	Inventory of Stores - Resale	-	-	-
Total Current Assets		1,263,928	1,119,691	387,451
Noncurrent Assets				
189	Net Pension Asset	762	412	-
Capital Assets:				
160	Land	57,320	-	-
162	Buildings	1,245,606	2,232,951	-
163	Accumulated Depreciation (A/D) - Buildings	(934,459)	(2,035,739)	-
164	Improvements Other Than Buildings	7,574,448	6,939,057	-
165	A/D - Improvements Other Than Buildings	(3,214,902)	(2,759,046)	-
166	Machinery and Equipment	802,804	1,083,377	-
167	A/D - Machinery and Equipment	(617,724)	(579,482)	-
168	Construction in Progress	94,435	66,524	-
Total Noncurrent Assets		5,008,290	4,948,054	-
Deferred Outflows of Resources				
196	Pension Related Deferred Outflows	71,281	38,608	-
Total Assets and Deferred Outflows of Resources		$ 6,343,499	$ 6,106,353	$ 387,451

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
$ 455,914	$ 77,080	$ 2,660,797
-	-	233,803
-	128,000	128,000
100	7,299	219,304
-	-	83,102
-	-	10,916
-	-	3,456
-	-	38,769
-	-	61,316
22,249	13,553	35,802
478,263	225,932	3,475,265
455	401	2,030
-	172,060	229,380
669,612	1,507,555	5,655,724
(286,911)	(366,199)	(3,623,308)
1,786,134	144,415	16,444,054
(1,152,757)	(81,900)	(7,208,605)
802,888	130,858	2,819,927
(556,932)	(69,717)	(1,823,855)
-	-	160,959
1,262,489	1,437,473	12,656,306
42,585	37,490	189,964
$ 1,783,337	$ 1,700,895	$ 16,321,535

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2025

Liabilities and Net Position		**Water Fund**	**Sewer Fund**	**Solid Waste Fund**
Current Liabilities				
202	Accounts Payable	$ 14,178	$ 17,362	$ 21,906
205	Current Portion of Long-Term Debt	118,337	66,137	-
215	Accrued Interest Payable	5,417	3,423	-
216	Accrued Wages Payable	9,213	5,815	-
217	Accrued Taxes and Benefits Payable	1,764	1,062	1,567
220	Customer Deposits	16,065	-	-
223	Unearned Revenue	6,480	-	-
230	Accrued Leave Payable	66,242	7,633	-
Total Current Liabilities		237,696	101,432	23,473
Long Term Liabilities				
237	Long-Term Debt, Net of Current Portion	650,016	481,612	-
Total Liabilities		887,712	583,044	23,473
Deferred Inflows of Resources				
248	Pension Related Deferred Inflows	40,423	21,894	-
Net Position				
253.1	Net Investment in Capital Assets	4,239,175	4,399,893	-
253.2	Restricted for Debt Service	-	-	-
253.29	Restricted for SDRS Pension Purposes	31,620	17,126	-
252	Unrestricted Net Position (Deficit)	1,144,569	1,084,396	363,978
Total Net Position		5,415,364	5,501,415	363,978
Total Liabilities, Deferred Inflows of Resources, and Net Position		$ 6,343,499	$ 6,106,353	$ 387,451

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
$ 1,880	$ 11,328	$ 66,654
-	130,000	314,474
-	1,242	10,082
5,428	12,226	32,682
10,463	7,936	22,792
-	-	16,065
-	-	6,480
24,157	12,824	110,856
41,928	175,556	580,085
-	585,267	1,716,895
41,928	760,823	2,296,980
24,150	21,260	107,727
1,262,034	1,424,850	11,325,952
-	128,000	128,000
18,890	16,631	84,267
436,335	(650,669)	2,378,609
1,717,259	918,812	13,916,828
$ 1,783,337	$ 1,700,895	$ 16,321,535

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

		Water Fund	Sewer Fund	Solid Waste Fund
Operating Revenues				
380	Charges for Goods and Services	$ 1,438,182	$ 956,481	$ 303,296
Total Operating Revenues		1,438,182	956,481	303,296
Operating Expenses				
410	Personal Services	347,790	212,882	-
420	Other Current Expense	339,760	294,872	268,787
457	Depreciation	272,695	302,479	-
Total Operating Expenses		960,245	810,233	268,787
Operating Income		477,937	146,248	34,509
Non-Operating Income (Expense)				
361	Earnings on Deposits and Investments	6,753	4,387	-
363	Special Assessments	3,020	668	-
369	Miscellaneous Revenue	939	690	263
470	Interest Expense	(24,785)	(17,239)	-
Total Non-Operating Income (Expense)		(14,073)	(11,494)	263
Income before Transfers		463,864	134,754	34,772
Other Financing Sources (Uses)				
390	Gain on Sale of Capital Assets	-	7,500	-
391.1	Transfers In	-	16,727	-
391.4	Compensation for Loss or Damaged Capital Assets	5,460	-	-
511	Transfers Out	(353,610)	(140,187)	(10,000)
Total Other Financing Sources (Uses)		(348,150)	(115,960)	(10,000)
Change in Net Position		115,714	18,794	24,772
Net Position - December 31, 2024		5,299,650	5,482,621	339,206
Net Position - December 31, 2025		$ 5,415,364	$ 5,501,415	$ 363,978

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
$ 900,229	$ 781,640	$ 4,379,828
900,229	781,640	4,379,828
351,369	481,438	1,393,479
413,799	243,739	1,560,957
129,771	47,982	752,927
894,939	773,159	3,707,363
5,290	8,481	672,465
-	6,553	17,693
-	-	3,688
2,187	2,679	6,758
-	(11,284)	(53,308)
2,187	(2,052)	(25,169)
7,477	6,429	647,296
-	-	7,500
157,831	7,436	181,994
-	-	5,460
-	-	(503,797)
157,831	7,436	(308,843)
165,308	13,865	338,453
1,551,951	904,947	13,578,375
$ 1,717,259	$ 918,812	$ 13,916,828

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Cash Flows from Operating Activities:						
Receipts from Customers	$1,233,566	$934,246	$301,675	$900,244	$774,341	$4,144,072
Receipts for Interfund Services Provided	228,610	15,187	-	-	-	243,797
Payments to Suppliers	(350,421)	(308,666)	(268,239)	(577,730)	(250,417)	(1,755,473)
Payments to Employees	(354,020)	(220,707)	-	(354,931)	(481,493)	(1,411,151)
Payments for Interfund Services Used	-	16,727	-	157,831	7,436	181,994
Net Cash Flows Provided by Operating Activities	757,735	436,787	33,436	125,414	49,867	1,403,239
Cash Flows from Noncapital Financing Activities:						
Transfers In (Out)	(353,610)	(123,460)	(10,000)	157,831	7,436	(321,803)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	(353,610)	(123,460)	(10,000)	157,831	7,436	(321,803)
Cash Flows from Capital and Related Financing Activities						
Purchase of Capital Assets	(52,607)	(130,203)	-	(92,510)	-	(275,320)
Proceeds from the Sale of Capital Assets	-	7,500	-	-	-	7,500
Principal Paid on Capital Debt	(114,778)	(64,188)	-	-	(132,054)	(311,020)
Special Assessments Receipts	3,020	668	-	-	-	3,688
Other Receipts	6,399	690	263	2,187	2,679	12,218
Interest Paid	(25,795)	(17,641)	-	-	(11,596)	(55,032)
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(183,761)	(203,174)	263	(90,323)	(140,971)	(617,966)
Cash Flows Provided by Investing Activities:						
Earnings on Deposit and Investments	6,753	4,387	-	-	6,553	17,693
Change in Cash and Certificates	227,117	114,540	23,699	192,922	(77,115)	481,163
Cash and Certificates - December 31, 2024	835,332	836,742	324,176	262,992	282,195	2,541,437
Cash and Certificates - December 31, 2025	$1,062,449	$951,282	$347,875	$455,914	$205,080	$3,022,600
Reconciliation of Cash and Certificates						
Cash and Cash Equivalents	1,062,449	951,282	347,875	455,914	77,080	2,894,600
Restricted Cash	-	-	-	-	128,000	128,000
Total Cash and Certificates	$1,062,449	$951,282	$347,875	$455,914	$205,080	$3,022,600

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities						
Operating Income	$ 477,937	$146,248	$ 34,509	$ 5,290	$ 8,481	$ 672,465
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities						
Depreciation Expense	272,695	302,479	-	129,771	47,982	752,927
Change in Assets and Liabilities:						
Accounts Receivable	(7,108)	(8,718)	(1,621)	15	(7,299)	(24,731)
Special Assessments Receivable	29,829	1,670	-	-	-	31,499
Inventories	(9,052)	(4,484)	-	(852)	(2,855)	(17,243)
Pension Asset	(399)	(240)	-	(245)	(212)	(1,096)
Pension Related Deferred Outflows/Inflows	(15,024)	(9,199)	-	(9,282)	(8,001)	(41,506)
Accounts Payable	(1,609)	7,417	516	(5,248)	3,613	4,689
Accrued Wages Payable	687	1,877	-	595	1,793	4,952
Accrued Taxes Payable	(69)	233	32	1,346	1,269	2,811
Customer Deposits	(550)	-	-	-	-	(550)
Unearned Revenue	1,823	-	-	-	-	1,823
Accrued Leave Payable	8,575	(496)	-	4,024	5,096	17,199
Net Cash Flows Provided by Operating Activities	$ 757,735	$436,787	$ 33,436	$125,414	$ 49,867	$1,403,239

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Financial Reporting Entity

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

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

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

Fund Financial Statements:

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

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

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Basis of Presentation

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

Governmental Funds:

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

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

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

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

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

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

> Hot Springs (HS) Capital Improvement Fund – to account for financial resources to be used for special projects throughout the community per City Ordinance #1138. This fund is a major fund.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs—that is for the benefit of the City and its citizenry.

> Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and of which only the income from the trust fund investments is used for the care and maintenance of the cemetery (SDCL 9-32-18). This fund is a major fund.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Proprietary Funds:

Enterprise Funds – enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity).
b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Water Fund – financed primarily by user charges. This fund accounts for the construction, capital improvements, and operation of the City waterworks system and related facilities (SDCL 9-47-1). This fund is a major fund.

Sewer Fund – financed primarily by user charges. This fund accounts for the construction, capital improvements, and operation of the City sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Solid Waste Fund – financed primarily by user charges. This fund accounts for the collection, capital improvements, and removal of solid waste from the City (SDCL 9-32-11 and 34A-6). This fund is a major fund.

Golf Course Fund – financed primarily by user charges. This fund accounts for the operation and capital improvements of the City golf course and pro-shop. This fund is a major fund.

Evans Plunge Fund – financed primarily by user charges. This fund accounts for the operation and capital improvements of the Evans Plunge Mineral Springs. This fund is a major fund.

Measurement Focus and Basis of Accounting

Measurement Focus:

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2025, are property tax, sales tax, special assessments receivable and other state shared revenues.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflows of resources are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Cash and Cash Equivalents

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Capital Assets

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

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

Government-wide Financial Statements:

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of revenue bonds, special assessment note payable, financing leases and compensated absences.

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

Use of Estimates

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

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City contributions and net pension assets are recognized on an accrual basis of accounting.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Equity Classification

Government-wide Financial Statements:

Equity is classified as Net Position and is displayed in three components:

1. Net investment in capital assets – consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of restricted or net investment in capital assets.

Fund Financial Statements:

The City classifies governmental fund balances as follows:

Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Fund Balance may be committed by City Ordinance adopted by City Council.
Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by action of the Mayor and the City Council.
Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories.

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

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

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

Inventory

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Compensated Absences

Eligible employees are granted paid vacation and sick leave based on years of service.

Internal Balances

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified in order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government. Amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as Internal Balances. The City has no internal balance as of December 31, 2025.

Adopted Accounting Standard

As of January 1, 2025, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 102, Certain Risk Disclosures, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The implementation of this standard did not have a material impact on the City at December 31, 2025.

Emerging Accounting Standards

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, Financial Reporting Model Improvements, which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the City's year ending December 31, 2026.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, Disclosure of Certain Capital Assets, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. The statement is effective for the City's year ending December 31, 2026.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, Subsequent Events, which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the City's year ending December 31, 2027.

The City is currently evaluating the impact these statements will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through June 15, 2026, the date which the financial statements were available to be issued.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(2) Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits City funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City's investments consist of $453,641 invested in the South Dakota Public Fund Investment Trust (SDFIT), which 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 SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. The balance of GCR at December 31, 2025 was $181,300. The SDFIT balance of $272,341 consists of government securities. Earnings are credited to each account on a monthly basis. SDFIT is measured as level 2 recurring fair value measurements according to the fair value hierarchy.

Credit Risk:
State law limits eligible investments for the City, as discussed above. The City's investment policy does not further limit its investment choices.

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

Custodial Credit Risk:
The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2025, the City's deposits were exposed to custodial credit risk as follows:

	Bank Balance
Insured - FDIC	$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	11,786,149
Total Deposits	$ 12,036,149

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(2) Deposits and Investments

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

Assignment of Investment Income:
State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The City's policy is to credit all income from investments to the fund making the investment, except for interest generated by the Cemetery Perpetual Care Fund, which must be credited to the General Fund, and used only for maintenance of the municipal cemetery, as required by SDCL 9-32-18.

Restricted Cash and Investments:
Debt covenants require the following cash reserves as of December 31, 2025:

Evans Plunge Fund – 2020 Sales Tax Bonds	$128,000
Additional Sales Tax Fund – 2017 Sales Tax Bonds	33,548

(3) Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the City reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period. Deferred outflows of resources consist primarily of pension activity.

In addition to liabilities, the City reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows of resources consist of pension activity, property taxes, grant revenue, and special assessments.

(4) Property Taxes

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

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

(5) Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The City expects all receivables to be collected within one year.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(6) Interfund Transfers and Balances

Interfund transfers during the year ended December 31, 2025, were:

Fund	Transfers In	Transfers Out
General Fund	$ 321,803	$ -
Water Fund	-	353,610
Sewer Fund	16,727	140,187
Solid Waste Fund	-	10,000
Golf Course Fund	157,831	-
Evans Plunge Fund	7,436	-
Total Interfund Transfers	$ 503,797	$ 503,797

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

(7) Changes in Capital Assets

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

	Balance 12/31/2024	Additions	Disposals/ Transfers	Balance 12/31/2025
Governmental Activities:				
Capital Assets, not being Depreciated				
Land	$ 430,932	$ -	$ -	$ 430,932
Construction in Progress	670,549	251,678	(427,675)	494,552
Total Capital Assets, not being Depreciated	1,101,481	251,678	(427,675)	925,484
Capital Assets, being Depreciated:				
Buildings	5,934,551	-	-	5,934,551
Improvements Other Than Buildings	15,563,159	37,931	427,675	16,028,765
Machinery and Equipment	3,188,360	32,892	-	3,221,252
Total Capital Assets, being Depreciated	24,686,070	70,823	427,675	25,184,568
Less Accumulated Depreciation for:				
Buildings	3,008,544	130,792	-	3,139,336
Improvements Other Than Buildings	3,427,635	467,494	-	3,895,129
Machinery and Equipment	2,095,366	190,287	-	2,285,653
Total Accumulated Depreciation	8,531,545	788,573	-	9,320,118
Total Governmental Activities Capital Assets, being Depreciated, Net	16,154,525	(717,750)	427,675	15,864,450
Total Governmental Capital Assets, Net	$ 17,256,006	$ (466,072)	$ -	$ 16,789,934

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Changes in Capital Assets

Depreciation expense was charged to functions as follows:

Public Works	$	598,137
Culture and Recreation		113,790
Public Safety		55,789
General Government		20,857
Total Depreciation Expense - Governmental	$	788,573

As of December 31, 2025, the City has remaining commitments on the Minnekahta Bridge Replacement, Historic Stair Reconstruction, and the AWOS Installation. The Minnekahta Bridge project has remaining commitments of approximately $1,759,000. The project is funded through the Additional Sales Tax Fund. The Historic Stair Reconstruction project has remaining commitments of approximately $21,000. The project is funded through the Additional Sales Tax Fund. The AWOS Installation has remaining commitments of approximately $313,000. The project is funded through the Additional Sales Tax Fund.

	Balance 12/31/2024	Additions	Disposals/ Transfers	Balance 12/31/2025
Business -Type Activities:				
Capital Assets, not being Depreciated				
Land	$ 229,380	$ -	$ -	$ 229,380
Construction in Progress	41,828	119,131	-	160,959
Total Capital Assets, not being Depreciated	271,208	119,131	-	390,339
Capital Assets, being Depreciated:				
Buildings	5,655,724	-	-	5,655,724
Improvements Other Than Buildings	16,444,054	-	-	16,444,054
Machinery and Equipment	2,797,548	156,189	(133,810)	2,819,927
Total Capital Assets, being Depreciated	24,897,326	156,189	(133,810)	24,919,705
Less Accumulated Depreciation for:				
Buildings	3,547,005	76,303	-	3,623,308
Improvements Other Than Buildings	6,696,584	512,021	-	7,208,605
Machinery and Equipment	1,793,062	164,603	(133,810)	1,823,855
Total Accumulated Depreciation	12,036,651	752,927	(133,810)	12,655,768
Total Business-type Activities Capital Assets, being Deprecated, Net	12,860,675	(596,738)	-	12,263,937
Total Business-type Capital Assets, Net	$ 13,131,883	$ (477,607)	$ -	$ 12,654,276

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(7) Changes in Capital Assets

Depreciation expense was charged to funds as follows:

Sewer	$ 302,479
Water	272,695
Golf Course	129,771
Evans Plunge	47,982
Total Depreciation Expense - Business-type	$ 752,927

As of December 31, 2025, the City has a remaining commitment on the Wastewater Facility Improvement project of approximately $2,800 and is funded through the Sewer Fund.

(8) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2025:

	Balance 12/31/2024	Borrowed *	Repayments	Balance 12/31/2025	Due Within One Year
Primary Government:					
Governmental Activities:					
Special Assessment Note Payable	$ 309,872	$ -	$ (140,886)	$ 168,986	$ 144,797
Revenue Bonds	195,915	-	(28,352)	167,563	29,139
Financing Lease	99,553	-	(32,113)	67,440	33,172
Compensated Absences	179,195	(2,152)	-	177,043	177,043
Total Governmental Activities	784,535	(2,152)	(201,351)	581,032	384,151
Business - Type Activities:					
Revenue Bonds	2,211,482	-	(275,391)	1,936,091	284,956
Financing Lease	88,586	-	(28,575)	60,011	29,518
Compensated Absences	93,657	17,199	-	110,856	110,856
Premium on Refunding Bonds	42,321	-	(7,054)	35,267	-
Total Business - Type Activities	2,436,046	17,199	(311,020)	2,142,225	425,330
Total Primary Government	$ 3,220,581	$ 15,047	$ (512,371)	$ 2,723,257	$ 809,481

* The amounts included in the borrowed column for the compensated absences liabilities represent net change.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(8) Long-Term Debt

Long-term debt at December 31, 2025 is comprised of the following:

Revenue Bonds:	
Sales Tax Revenue Refunding Bonds, Series 2020 due in variable semi-annual installments including interest at 2.00 to 3.00 percent through December 2030. Financed through the Evans Plunge Fund, pledged 1/3 of the City's sales tax revenue.	$ 680,000
Unamortized deferred premium	35,267
	715,267
Drinking Water Revenue State Revolving Fund Loan (SRF) for drinking water facilities improvements. Due in quarterly installments of $27,269 including interest at 3.00 percent through July 2033. Financed through the Water Fund.	708,342
Clean Water Revenue State Revolving Fund Loan (SRF) for sewer facilities improvements. Due in quarterly installments of $20,457 including interest at 3.00 percent through April 2033. Financed through the Sewer Fund.	547,749
Sales Tax Revenue Bonds Series 2017 for the Boulder Falls Street Improvement. Due in semi-annual installments of $24,956 including interest at 2.75 percent through November 2033. Financed through the Additional Sales Tax Fund.	167,563
Special Assessment:	
Special Assessments Bond, Series 2017, for Boulder Falls street improvements. Due in semi-annual installments of $74,227 including interest at 2.75 percent through November 2027. Financed through the Additional Sales Tax Fund and collateralized with a special assessment bond.	168,986
Financing Leases:	
Purchase agreement with finance company for equipment. Due in annual payments of $35,397 including interest at 3.25 percent through April 2027. Financed through the General Fund and secured by the equipment.	67,440
Purchase agreement with finance company for equipment. Due in annual payments of $31,497 including interest at 3.25 percent through June 2027. Financed through the Water Fund and secured by the equipment.	60,011
	2,435,358
Compensated Absences:	
General Fund	177,043
Water Fund	66,242
Sewer Fund	7,633
Golf Course Fund	24,157
Evans Plunge Fund	12,824
Total Compensated Absences	287,899
Total Long-Term Debt	$2,723,257

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(8) Long-Term Debt

The annual requirements to amortize long-term debt outstanding as of December 31, 2025, excluding compensated absences and bond premium, are as follows:

	Revenue Bonds		Special Assessments		Financing Leases		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2026	$ 55,259	$ 314,095	$ 3,657	$ 144,797	$ 4,204	$ 62,690	$ 63,120	$ 521,582
2027	45,851	319,603	332	24,189	2,136	64,761	48,319	408,553
2028	37,578	330,277	-	-	-	-	37,578	330,277
2029	29,035	341,119	-	-	-	-	29,035	341,119
2030	20,217	352,137	-	-	-	-	20,217	352,137
2031-2035	17,334	446,423	-	-	-	-	17,334	446,423
Total	$ 205,274	$ 2,103,654	$ 3,989	$ 168,986	$ 6,340	$ 127,451	$215,603	$2,400,091

Business-type Activities

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

	Water Fund	Sewer Fund	Special Assessment - Additional Sales Tax Fund	Evans Plunge Fund	
Current Year Principal and Interest	$ 139,563	$ 81,427	$ 148,454	$ 150,391	
Pledged Revenue	1,438,182	956,481	72,434	870,876	(a)

(a) As noted above, the Sales Tax Revenue Refunding Bonds, Series 2020 are pledged with 1/3 of the City's sales tax revenue.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2025, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(9) Risk Management

Liability Insurance:

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

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

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's 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 City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of $2,000,000 per incident.

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

Unemployment Benefits:

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

(10) Pension Plan

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 SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor benefits. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://sdrs.sd.gov/publications.aspx or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

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 retirement benefits 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/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 Cost-of-Living Adjustment (COLA) process. At each valuation date:

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

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were $149,920, $135,967, and $132,275, respectively, equal to the required contributions each year.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

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

At June 30, 2025, SDRS is 100.10 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2025, and reported by the City as of December 31, 2025, are reported as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	$ 9,181,087	$ 3,644,086	$ 12,825,173
Less: Proportionate Share of Total Pension Asset	(9,175,974)	(3,642,056)	(12,818,030)
Proportionate Share of Net Pension Asset	$ 5,113	$ 2,030	$ 7,143

At December 31, 2025, the City reported an asset of $7,143 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2025 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City's proportion was 0.083981 percent, which is an increase from the City's proportion of 0.0807740 percent measured as of June 30, 2024.

For the year ended December 31, 2025, the City recognized pension expense of $1,561. At December 31, 2025, the City reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	$ 244,546	$ -
Changes in Assumption	-	379,142
Net Difference between Projected and Actual Earnings on Pension Plan Investments	348,014	-
City Contributions Subsequent to the Measurement Date	76,007	-
Total	$ 668,567	$ 379,142

Deferred outflow of resources includes $76,007 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2026	$ 165,023
2027	17,903
2028	11,417
2029	19,075
	$ 213,418

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

Actuarial Assumptions:

The total pension asset in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense. This is composed of an average inflation rate of 2.50 percent and real returns of 4.00 percent
Future COLAs	1.56 percent

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: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members:
- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:
- PubG-2010 contingent survivor mortality table

Disabled Members:
- Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2021.

Actuarial Assumptions:

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(10) Pension Plan

Actuarial Assumptions:

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, 2025 (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%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	100.0%	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Liability/(Asset)	$ 1,750,526	$ (7,143)	$ (1,447,094)

Pension Plan Fiduciary Net Position:

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

(11) Conduit Debt

In 2020, the City issued revenue bonds to provide financial assistance to a private-sector entity, Fall River Health Services, for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2025, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of $2,420,000.

OTHER REPORTS

KETEL THORSTENSON
CPAs · ADVISORS

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

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

City Council
City of Hot Springs
Hot Springs, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the City of Hot Springs (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 15, 2026.

Report on Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2025-001 and #2025-002, that we consider to be material weaknesses.

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

City's Response to Findings
Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

June 15, 2026

CITY OF HOT SPRINGS

SCHEDULE OF FINDINGS
DECEMBER 31, 20245

MATERIAL WEAKNESSES

Finding 2025-001: Financial Statement Preparation

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the financial statements, in both form and content, based on information provided by management during the audit.

Criteria and Effect: Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: Yes, prior year Finding 2024-001.

Recommendation: Management and if applicable, governance, should review the financial statements for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

Response/Corrective Action Plan: The City agrees with the above Finding. See Corrective Action Plan.

Finding 2025-002: Audit Adjustments

Condition and Cause: During the course of the engagement, we proposed several audit adjustments. Adjustments included recording net pension assets and adjusting accounts receivable, accruals, and capital asset activity. Other entries were proposed as a part of the audit but were not recorded due to the overall insignificance to the financial statements.

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

Repeat Finding from Prior Year: Yes, prior year Finding 2024-002.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so that the appropriate journal entries can be made throughout the year. The balance sheet accounts should be adjusted to actual at year end. Specifically:

- The City should review the SDRS pension activity entries.
- Revenue from reimbursement based grants should be recognized as expenditures are incurred.
- We recommend balances be reviewed after year-end adjustments are made.

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

MANAGEMENT RESPONSE

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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2025

The City respectfully submits the following summary schedule of prior audit findings from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

#2024-001 FINDING: Financial Statement Preparation

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

Initial Year Report: Originally issued in 2015.

Reasons for Recurrence and Corrective Action Plan: Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements prepared by the auditors. The finding will be repeated in 2025, see Corrective Action Plan.

#2024-002 FINDING: Audit Adjustments

Status: The City made efforts to record all year-end entries, but several audit adjustments were made.

Initial Year Report: Originally issued in 2017.

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

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

CORRECTIVE ACTION PLAN
DECEMBER 31, 2025

The City respectfully submits the following corrective action plan regarding findings from the December 31, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2025 Schedule of Findings.

#2025-001 FINDING: Financial Statement Preparation

Responsible Individuals: Misty Summers – Walton, Finance Officer

Corrective Action Plan: Management of the City has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the City. Management and the City Council has been given adequate opportunity to ask questions regarding the financials statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

Anticipated Completion Date: Ongoing

#2025-002 FINDING: Audit Adjustments

Responsible Individuals: Misty Summers – Walton, Finance Officer

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

Anticipated Completion Date: Ongoing