

CITY OF HOT SPRINGS

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2022



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

CITY OF HOT SPRINGS

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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, 2022, 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, 2022, 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.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

City Council

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2023 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
Certified Public Accountants

June 20, 2023

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION
DECEMBER 31, 2022**

	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and Cash Equivalents (Note 2)	\$ 9,636,936	\$ 2,943,759	\$ 12,580,695
Savings Certificates (Note 2)	52,237	205,489	257,726
Restricted Cash and Investments (Note 2)	33,548	139,586	173,134
Receivables (Note 5)	676,727	495,438	1,172,165
Inventories	29,023	61,515	90,538
Net Pension Asset (Note 11)	5,498	2,460	7,958
Capital Assets (Notes 7 and 8):			
Land and Construction in Progress	2,281,696	2,056,354	4,338,050
Other Capital Assets, Net of Depreciation	10,249,848	10,027,976	20,277,824
TOTAL ASSETS	22,965,513	15,932,577	38,898,090

DEFERRED OUTFLOWS OF RESOURCES

Pension Related Deferred Outflows of Resources (Notes 3 and 11)	500,892	224,053	724,945
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TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	\$ 23,466,405	\$ 16,156,630	\$ 39,623,035
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Liabilities:

Accounts Payable (Note 5)	\$ 134,123	\$ 233,619	\$ 367,742
Other Current Liabilities	70,263	66,081	136,344
Unearned Revenue	21,000	5,855	26,855
Noncurrent Liabilities:			
Due Within One Year (Note 7)	280,237	355,551	635,788
Due in More Than One Year (Note 7)	801,074	2,648,072	3,449,146
TOTAL LIABILITIES	1,306,697	3,309,178	4,615,875

DEFERRED INFLOWS OF RESOURCES

Pension Related Deferred Inflows of Resources (Notes 3 and 11)	319,775	143,039	462,814
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Net Position:

Net Investment in Capital Assets	11,540,102	9,806,078	21,346,180
Restricted for:			
SDRS Pension (Note 11)	186,615	83,474	270,089
Cemetery - Expendable	13,924	-	13,924
Cemetery - Nonexpendable	50,000	-	50,000
Debt Service	33,548	128,000	161,548
Capital Projects	2,991,706	-	2,991,706
Facilities and Promoting the City	73,070	-	73,070
Business Improvement District	141,794	-	141,794
Unrestricted	6,809,174	2,686,861	9,496,035
TOTAL NET POSITION	21,839,933	12,704,413	34,544,346

TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

	\$ 23,466,405	\$ 16,156,630	\$ 39,623,035
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The accompanying notes are an integral part of the financial statements.

CITY OF HOT SPRINGS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2022

Function/Programs	----- Program Revenues -----				Net (Expense) Revenue and Changes in		Total
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government							
<i>Governmental Activities:</i>							
General Government	\$ 585,989	\$ 108,931	\$ -	\$ -	\$ (477,058)	\$ -	\$ (477,058)
Public Safety	1,038,160	35,099	327,900	-	(675,161)	-	(675,161)
Public Works	1,229,030	109,356	-	54,625	(1,065,049)	-	(1,065,049)
Health and Welfare	24,986	25	-	-	(24,961)	-	(24,961)
Culture and Recreation	656,000	110,557	-	-	(545,443)	-	(545,443)
Conservation and Development	257,776	-	-	-	(257,776)	-	(257,776)
Miscellaneous	-	213,489	-	-	213,489	-	213,489
Interest on Long Term Debt	222,209	-	-	-	(222,209)	-	(222,209)
Total Governmental Activities	4,014,150	577,457	327,900	54,625	(3,054,168)	-	(3,054,168)
<i>Business-Type Activities:</i>							
Water	967,187	1,322,511	-	-	-	355,324	355,324
Sewer	588,784	873,074	-	-	-	284,290	284,290
Solid Waste	244,120	267,552	-	-	-	23,432	23,432
Golf Course	761,340	629,060	-	-	-	(132,280)	(132,280)
Evans Plunge	718,260	731,607	-	-	-	13,347	13,347
Total Business-Type Activities	3,279,691	3,823,804	-	-	-	544,113	544,113
Total Primary Government	\$ 7,293,841	\$ 4,401,261	\$ 327,900	\$ 54,625	(3,054,168)	544,113	(2,510,055)
General Revenues:							
Taxes:							
Property Taxes					1,257,211	-	1,257,211
Sales Taxes					2,461,999	-	2,461,999
State Shared Revenue					199,474	-	199,474
Unrestricted Investment Earnings					27,480	3,267	30,747
Miscellaneous Revenue					1,238,286	1,506,204	2,744,490
Transfers (Note 6)					301,231	(301,231)	-
Total General Revenues					5,485,681	1,208,240	6,693,921
Changes in Net Position					2,431,513	1,752,353	4,183,866
Net Position, Beginning					19,408,420	10,952,060	30,360,480
Net Position, Ending					\$ 21,839,933	\$ 12,704,413	\$ 34,544,346

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

CITY OF HOT SPRINGS

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2022**

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 3,926,546	\$ 84,586	\$ 2,476,174
105 Savings Certificates (Note 2)	-	-	-
107 Restricted Cash and Cash Equivalents (Note 2)	-	-	33,548
108 Property Taxes Receivable	53,077	-	-
115 Accounts Receivable (Note 5)	114,766	-	2,114
121 Special Assessments Receivable - Current	-	-	104,514
122 Special Assessments Receivable - Delinquent	-	-	28,700
123 Special Assessments Receivable - Deferred	-	-	326,614
132 Due from Other Governments - State	35,096	191	5,637
142 Inventory of Stores - Resale	29,023	-	-
Total Assets	\$ 4,158,508	\$ 84,777	\$ 2,977,301
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable (Note 5)	\$ 103,965	\$ 11,707	\$ 7,990
216 Accrued Wages Payable	34,113	-	-
217 Accrued Taxes and Benefits Payable	36,150	-	-
223 Unearned Revenue	21,000	-	-
Total Liabilities	195,228	11,707	7,990
<i>Deferred Inflows of Resources (Notes 3 and 4)</i>			
245 Unavailable Revenue - Property Taxes	46,256	-	-
246 Unavailable Revenue - Special Assessments	-	-	459,828
Total Deferred Inflows of Resources	46,256	-	459,828
<i>Fund Balances</i>			
<i>Nonspendable Fund Balance</i>			
263.51 Perpetual Care Cemetery	-	-	-
<i>Restricted Fund Balances</i>			
264.01 Debt Service	-	-	33,548
264.02 Capital Projects	-	-	-
264.03 Perpetual Care Cemetery	-	-	-
264.04 Facilities and Promoting the City	-	73,070	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balances</i>			
265.02 Capital Replacements	-	-	2,055,935
265.03 2021 DOT Road Project	-	-	420,000
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	3,917,024	-	-
Total Fund Balances	3,917,024	73,070	2,509,483
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,158,508	\$ 84,777	\$ 2,977,301

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
\$ 140,448	\$ 2,997,495	\$ 11,687	\$ 9,636,936
-	-	52,237	52,237
-	-	-	33,548
-	-	-	53,077
6,018	-	-	122,898
-	-	-	104,514
-	-	-	28,700
-	-	-	326,614
-	-	-	40,924
-	-	-	29,023
\$ 146,466	\$ 2,997,495	\$ 63,924	\$ 10,428,471

\$ 4,672	\$ 5,789	\$ -	\$ 134,123
-	-	-	34,113
-	-	-	36,150
-	-	-	21,000
4,672	5,789	-	225,386

-	-	-	46,256
-	-	-	459,828
-	-	-	506,084

-	-	50,000	50,000
-	-	-	33,548
-	2,991,706	-	2,991,706
-	-	13,924	13,924
-	-	-	73,070
141,794	-	-	141,794
-	-	-	2,055,935
-	-	-	420,000
-	-	-	3,917,024
141,794	2,991,706	63,924	9,697,001
\$ 146,466	\$ 2,997,495	\$ 63,924	\$ 10,428,471

CITY OF HOT SPRINGS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2022**

Total Funds Balance - Government Funds	\$	9,697,001
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.		12,531,544
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.		500,892
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and therefore are not reported in the funds.		(1,081,311)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.		5,498
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.		(319,775)
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.		506,084
Total Net Position - Governmental Funds	\$	21,839,933

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, 2022

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund	Business Improvement District #1 Fund
Revenues				
<i>Taxes:</i>				
311	General Property Taxes	\$ 1,244,705	\$ -	\$ -
313	General Sales and Use Taxes	1,468,210	179,399	84,888
319	Penalties and Interest	6,979	-	-
320	Licenses and Permits	81,523	-	-
<i>Intergovernmental Revenue:</i>				
331	Federal Grants	32,000	-	295,900
334	State Grants	12,125	-	-
<i>State Shared Revenue:</i>				
335.01	Bank Franchise Taxes	8,681	-	-
335.02	Motor Vehicle Commercial Prorate	7,590	-	-
335.03	Liquor Tax Reversion	23,597	-	-
335.04	Motor Vehicle Licenses	41,776	-	-
335.08	Local Government Highway & Bridges	81,010	-	-
335.20	Other	36,820	-	-
<i>County Shared Revenue:</i>				
338.01	County Road Tax	3,063	-	-
<i>Charges for Goods and Services:</i>				
341	General Government	27,408	-	-
342	Public Safety	35,099	-	-
343	Highways and Streets	474	-	-
346	Culture & Recreation	24,322	-	-
347	Other - Airport	99,319	-	-
348	Cemetery	3,250	-	-
349	Other - Library	7,109	-	-
<i>Fines and Forfeits:</i>				
352	Animal Control Fines	25	-	-
354	Library Fines	3,119	-	-
<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits & Investments	22,576	-	824
362	Rentals	76,007	-	-
363	Special Assessments	-	-	256,452
367	Contributions and Donations	164	-	-
368	Liquor Operating Agreement Income	213,489	-	-
369	Other	30,918	-	-
TOTAL REVENUES		3,591,358	179,399	1,282,678
				84,888

HS Capital Improvement Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
\$ -	\$ -	\$ 1,244,705
-	-	2,461,999
-	-	6,979
-	-	81,523
-	-	327,900
-	-	12,125
-	-	8,681
-	-	7,590
-	-	23,597
-	-	41,776
-	-	81,010
-	-	36,820
-	-	3,063
-	-	27,408
-	-	35,099
-	-	474
-	-	24,322
-	-	99,319
-	3,250	6,500
-	-	7,109
-	-	25
-	-	3,119
3,728	352	27,480
-	-	76,007
-	-	256,452
-	-	164
-	-	213,489
-	-	30,918
3,728	3,602	5,145,653

CITY OF HOT SPRINGS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022**

	General Fund	Liquor, Lodging & Dining Fund	Additional Sales Tax Fund
Expenditures			
<i>General Governments:</i>			
411	66,509	-	-
414	295,177	-	-
419	150,747	-	72,196
<i>Public Safety:</i>			
421	832,243	-	-
422	90,000	-	-
423	90,442	-	-
<i>Public Works:</i>			
431	629,246	-	-
432	57,411	-	-
435	177,032	-	-
437	66,973	-	-
<i>Health and Welfare:</i>			
441	25,041	-	-
<i>Culture and Recreation:</i>			
451	39,269	-	-
452	156,100	-	-
455	253,194	-	-
456	125,012	-	-
<i>Conservation and Development:</i>			
465	17,864	168,265	-
470	35,397	-	182,002
485	350,883	-	312,072
Total Expenditures	3,458,540	168,265	566,270
Other Financing Sources (Uses)			
391.01	301,231	-	-
391.02	196,132	-	-
391.03	10,277	-	-
391.04	1,059,534	-	-
511	(1,002,152)	-	(590,000)
Total Other Financing Sources (Uses)	565,022	-	(590,000)
Net Change in Fund Balances	697,840	11,134	126,408
Fund Balances - December 31, 2021	3,219,184	61,936	2,383,075
Fund Balances - December 31, 2022	\$ 3,917,024	\$ 73,070	\$ 2,509,483

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
-	-	-	66,509
-	-	-	295,177
-	-	-	222,943
-	-	-	832,243
-	-	-	90,000
-	-	-	90,442
-	-	-	629,246
-	-	-	57,411
-	-	-	177,032
-	-	-	66,973
-	-	-	25,041
-	-	-	39,269
-	-	-	156,100
-	-	-	253,194
-	-	-	125,012
67,552	4,095	-	257,776
-	-	-	217,399
-	1,168,916	7,000	1,838,871
67,552	1,173,011	7,000	5,440,638
-	1,592,152	-	1,893,383
-	-	-	196,132
-	-	-	10,277
-	-	-	1,059,534
-	-	-	(1,592,152)
-	1,592,152	-	1,567,174
17,336	422,869	(3,398)	1,272,189
124,458	2,568,837	67,322	8,424,812
\$ 141,794	\$ 2,991,706	\$ 63,924	\$ 9,697,001

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, 2022**

Net change in fund balance - total governmental funds \$ 1,272,189

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 1,838,871
Depreciation expense (441,657)

In the Statement of Activities, losses on disposal of capital assets are reported,
whereas, in the governmental funds, the proceeds from the disposal of capital assets
are reflected, regardless of whether a loss is recognized. (58,739)

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. 191,322

The proceeds from a financing lease is an other financing source in the fund statements
but increases long-term liabilities in the Statement of Net Position. (196,132)

Governmental funds do not reflect the change in accrued leave, but the
Statement of Activities reflects the change in accrued leave through
expenditures. (3,396)

Changes in the pension related deferred outflows/inflows, pension asset/liability,
and related pension revenue/expenses are reported in the governmental fund
statements. 37,480

The fund financial statements governmental fund property tax accruals differ
from the government-wide statement property tax accruals in that the fund
financial statements require the amount to be "available". 5,527

Governmental funds report special assessments as revenue when available,
but the Statement of Activities includes the full amount of special
assessments as revenue upon completion of the project at the point when an
enforceable legal claim arises. (213,952)

Changes in Net Position of Governmental Activities \$ 2,431,513

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

CITY OF HOT SPRINGS

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2022**

<u>Assets</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Solid Waste Fund</u>
Current Assets			
101 Cash and Cash Equivalents (Note 2)	\$ 1,068,051	\$ 1,011,192	\$ 306,891
105 Savings Certificates (Note 2)	103,869	101,620	-
107 Restricted Investments (Note 2)	-	-	-
115 Accounts Receivable (Note 5)	87,742	85,033	23,264
117 Unbilled Accounts Receivable	31,969	32,397	11,939
121 Special Assessments Receivable--Current	16,062	6,516	-
122 Special Assessments Receivable--Delinquent	3,369	-	-
123 Special Assessments Receivable--Deferred	130,656	58,643	-
141 Inventory of Supplies	28,398	8,883	-
142 Inventory of Stores - Resale	-	-	-
Total Current Assets	1,470,116	1,304,284	342,094
Noncurrent Assets			
189 Net Pension Asset (Note 11)	909	423	-
Capital Assets (Notes 7 and 8):			
160 Land	57,320	-	-
162 Buildings	1,245,606	2,232,951	-
163 Accumulated Depreciation (A/D) - Buildings	(864,067)	(2,014,619)	-
164 Improvements Other Than Buildings	5,632,901	5,612,486	-
165 A/D - Improvements Other Than Buildings	(2,746,294)	(2,187,496)	-
166 Machinery and Equipment	760,736	879,182	-
167 A/D - Machinery and Equipment	(476,800)	(523,282)	-
168 Construction in Progress	1,115,834	686,625	-
Total Noncurrent Assets	4,726,145	4,686,270	-
Deferred Outflows of Resources			
196 Pension Related Deferred Outflows (Notes 3 and 11)	82,776	38,503	-
Total Assets and Deferred Outflows of Resources	\$ 6,279,037	\$ 6,029,057	\$ 342,094

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 300,671	\$ 256,954	\$ 2,943,759
-	-	205,489
-	139,586	139,586
-	7,848	203,887
-	-	76,305
-	-	22,578
-	-	3,369
-	-	189,299
-	-	37,281
8,755	15,479	24,234
<u>309,426</u>	<u>419,867</u>	<u>3,845,787</u>
536	592	2,460
-	172,060	229,380
632,165	1,507,555	5,618,277
(241,151)	(272,940)	(3,392,777)
1,604,075	144,415	12,993,877
(985,814)	(51,753)	(5,971,357)
599,418	85,013	2,324,349
(491,670)	(52,641)	(1,544,393)
24,515	-	1,826,974
<u>1,142,074</u>	<u>1,532,301</u>	<u>12,086,790</u>
48,858	53,916	224,053
<u>\$ 1,500,358</u>	<u>\$ 2,006,084</u>	<u>\$ 16,156,630</u>

CITY OF HOT SPRINGS

STATEMENT OF NET POSITION (CONTINUED)
 PROPRIETARY FUNDS
 DECEMBER 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund
Liabilities and Net Position			
Current Liabilities			
202	\$ 97,498	\$ 109,310	\$ 19,479
205	107,981	60,465	-
215	5,996	4,592	-
216	5,382	2,037	-
217	1,155	448	1,462
220	21,015	-	-
223	5,855	-	-
230	44,462	4,299	-
Total Current Liabilities	289,344	181,151	20,941
Long Term Liabilities			
237			
Long-Term Debt, Net of			
Current Portion (Note 7)	994,460	674,237	-
Total Liabilities	1,283,804	855,388	20,941
Deferred Inflows of Resources			
248	52,845	24,581	-
Net Position			
253.1	3,622,795	3,951,145	-
253.2	-	-	-
253.29	30,840	14,345	-
252	1,288,753	1,183,598	321,153
Total Net Position	4,942,388	5,149,088	321,153
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 6,279,037	\$ 6,029,057	\$ 342,094

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 2,047	\$ 5,285	\$ 233,619
-	127,054	295,500
-	2,167	12,755
3,148	6,684	17,251
7,000	4,995	15,060
-	-	21,015
-	-	5,855
-	11,290	60,051
<u>12,195</u>	<u>157,475</u>	<u>661,106</u>
-	979,375	2,648,072
<u>12,195</u>	<u>1,136,850</u>	<u>3,309,178</u>
31,192	34,421	143,039
1,141,538	1,090,600	9,806,078
-	128,000	128,000
18,202	20,087	83,474
297,231	(403,874)	2,686,861
<u>1,456,971</u>	<u>834,813</u>	<u>12,704,413</u>
<u>\$ 1,500,358</u>	<u>\$ 2,006,084</u>	<u>\$ 16,156,630</u>

CITY OF HOT SPRINGS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund
Operating Revenues			
380 Charges for Goods and Services (Note 7)	\$ 1,322,511	\$ 873,074	\$ 267,552
Total Operating Revenues	1,322,511	873,074	267,552
Operating Expenses			
410 Personal Services	320,629	161,952	-
420 Other Current Expense	419,801	191,701	244,120
457 Depreciation	196,984	212,352	-
Total Operating Expenses	937,414	566,005	244,120
Operating Income (Loss)	385,097	307,069	23,432
Non-Operating Income (Expense)			
361 Earnings (Loss) on Deposits and Investments	(71)	1,358	-
363 Special Assessments	112,750	90,999	-
369 Miscellaneous Revenue	882	1,144	367
470 Interest Expense	(29,773)	(22,779)	-
Total Non-Operating Income (Expense)	83,788	70,722	367
Income (Loss) before Transfers	468,885	377,791	23,799
Other Financing Sources (Uses)			
331 Federal Grants	630,270	144,316	-
391.1 Transfers In (Note 6)	-	5,178	-
391.4 Compensation for Loss or Damaged Capital Assets	29,775	102,318	-
511 Transfers Out (Note 6)	(254,447)	(145,565)	(10,000)
Total Other Financing Sources (Uses)	405,598	106,247	(10,000)
Change in Net Position	874,483	484,038	13,799
Net Position - December 31, 2021	4,067,905	4,665,050	307,354
Net Position - December 31, 2022	\$ 4,942,388	\$ 5,149,088	\$ 321,153

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

Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
\$ 629,060	\$ 731,607	\$ 3,823,804
629,060	731,607	3,823,804
317,753	407,507	1,207,841
329,591	242,855	1,428,068
113,996	45,789	569,121
761,340	696,151	3,205,030
(132,280)	35,456	618,774
-	1,980	3,267
-	-	203,749
12,608	4,859	19,860
-	(22,109)	(74,661)
12,608	(15,270)	152,215
(119,672)	20,186	770,989
-	-	774,586
86,010	17,593	108,781
135,500	240,416	508,009
-	-	(410,012)
221,510	258,009	981,364
101,838	278,195	1,752,353
1,355,133	556,618	10,952,060
\$ 1,456,971	\$ 834,813	\$ 12,704,413

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Cash Flows from Operating Activities:						
Receipts from Customers	\$ 1,117,358	\$ 788,830	\$ 265,811	\$ 629,506	\$ 736,214	\$ 3,537,719
Receipts for Interfund Services Provided	110,131	14,150	-	-	-	124,281
Payments to Suppliers	(410,708)	(107,085)	(255,129)	(406,641)	(257,423)	(1,436,986)
Payments to Employees	(317,708)	(168,020)	-	(321,782)	(406,347)	(1,213,857)
Payments for Interfund Services Used	-	5,594	-	72,963	8,820	87,377
Net Cash Flows Provided by (Used in)						
Operating Activities	499,073	533,469	10,682	(25,954)	81,264	1,098,534
Cash Flows from Noncapital						
Financing Activities:						
Transfers In (Out)	(254,447)	(140,387)	(10,000)	86,010	17,593	(301,231)
Net Cash Flows Provided by (Used in)						
Noncapital Financing Activities	(254,447)	(140,387)	(10,000)	86,010	17,593	(301,231)
Cash Flows from Capital and						
Related Financing Activities						
Purchase of Capital Assets	(1,181,682)	(824,166)	-	(8,508)	(20,469)	(2,034,825)
Proceeds from Capital Debt	174,525	-	-	-	-	174,525
Principal Paid on Capital Debt	(110,309)	(58,683)	-	(21,320)	(122,053)	(312,365)
Special Assessments Receipts	112,750	90,999	-	-	-	203,749
Other Receipts	660,927	247,778	367	148,108	245,275	1,302,455
Interest Paid	(30,266)	(23,146)	-	-	(22,396)	(75,808)
Net Cash Flows Provided by (Used in) Capital						
and Related Financing Activities	(374,055)	(567,218)	367	118,280	80,357	(742,269)
Cash Flows Provided by (Used in) Investing Activities:						
Earnings (Loss) on Deposit and Investments	(71)	1,358	-	-	1,980	3,267
Change in Cash, Certificates,						
and Investments	(129,500)	(172,778)	1,049	178,336	181,194	58,301
Cash, Certificates, and Investments -						
December 31, 2021	1,301,420	1,285,590	305,842	122,335	215,346	3,230,533
Cash, Certificates, and Investments -						
December 31, 2022	\$ 1,171,920	\$ 1,112,812	\$ 306,891	\$ 300,671	\$ 396,540	\$ 3,288,834

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS (CONTINUED)
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2022

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by (Used in)						
Operating Activities						
Operating Income (Loss)	\$ 385,097	\$ 307,069	\$ 23,432	\$ (132,280)	\$ 35,456	\$ 618,774
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by (Used in) Operating Activities</i>						
Depreciation Expense	196,984	212,352	-	113,996	45,789	569,121
Change in Assets and Liabilities:						
Accounts Receivable	(22,023)	(4,935)	(1,741)	446	4,607	(23,646)
Special Assessments Receivable	(71,659)	(65,159)	-	-	-	(136,818)
Inventories	(2,272)	(2,559)	-	(2,962)	475	(7,318)
Pension Asset	73,560	44,582	-	41,787	43,366	203,295
Pension Related Deferred Outflows/Inflows	(78,137)	(43,055)	-	(45,063)	(47,950)	(214,205)
Accounts Payable	11,365	92,769	(11,169)	(1,125)	(6,223)	85,617
Accrued Wages Payable	1,262	(681)	-	642	1,088	2,311
Accrued Taxes Payable	301	(76)	160	(1,395)	(186)	(1,196)
Customer Deposits	(2,060)	-	-	-	-	(2,060)
Unearned Revenue	720	-	-	-	-	720
Accrued Leave Payable	5,935	(6,838)	-	-	4,842	3,939
Net Cash Flows Provided by (Used in)						
Operating Activities	\$ 499,073	\$ 533,469	\$ 10,682	\$ (25,954)	\$ 81,264	\$ 1,098,534

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2022

(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.

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Governmental Funds:

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

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

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

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

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

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

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

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

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Fund Financial Statements (Concluded):

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 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 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 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 is a major fund.

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

Measurement Focus and Basis of Accounting

Measurement Focus:

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Measurement Focus (Continued):

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2022, are property tax, sales tax, special assessments receivable and other state shared revenues.

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

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

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

Cash and Cash Equivalents

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(1) Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

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

Capital Assets

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

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

Government-wide Financial Statements:

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their 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 (CONTINUED) DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies (Continued)

Long-Term Liabilities

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

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

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies (Continued)

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.

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.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(1) Summary of Significant Accounting Policies (Concluded)

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.

Compensated Absences

Eligible employees shall be 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.

Adopted Accounting Standards

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. Adoption did not materially impact the City's financial statements as all leases are either financing leases or have terms of twelve months or less.

Emerging Accounting Standards

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means should generally be recognized at the employee's pay rate as of the financial statement date. The standard also includes guidance for types of leave other than vacation, requires accrual of salary related payments, and changes the disclosure requirements. The statement is effective for the City's year ending December 31, 2024. The City is currently evaluating the impact this statement will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through June 20, 2023, the date which the financial statements were available to be issued.

(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:

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(2) Deposits and Investments (Continued)

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 savings certificates consist of nonnegotiable certificates of deposits with original maturities of greater than three months. The City’s investments consist of \$191,823 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, 2022 was \$419. The remaining SDFIT balance consists of certificates of deposit with original maturities of greater than three months. 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, 2022, none of the City’s deposits were exposed to custodial credit risk.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(2) Deposits and Investments (Concluded)

Concentration of Credit Risk:

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

	<u>Bank Balance</u>
Insured - FDIC	\$ 601,620
Uninsured, collateralized in accordance with SDCL 4-6A-3	12,446,036
Total Deposits	\$ 13,047,656

Assignment of Investment Income:

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

Restricted Cash and Investments:

Debt covenants require the following cash reserves as of December 31, 2022:

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

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

(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 (CONTINUED)
DECEMBER 31, 2022**

(6) Interfund Transfers and Balances

Interfund transfers during the year ended December 31, 2022, were:

Fund	Transfers	
	In	Out
General Fund	\$ 301,231	\$ 1,002,152
Additional Sales Tax Fund	-	590,000
HS Capital Improvement Fund	1,592,152	-
Water Fund	-	254,447
Sewer Fund	5,178	145,565
Solid Waste Fund	-	10,000
Golf Course Fund	86,010	-
Evans Plunge Fund	17,593	-
Total Interfund Transfers	\$ 2,002,164	\$ 2,002,164

Transfers are used to provide operating resources from the proprietary funds to the general fund. The City also approved a transfer of cash to the various funds for interfund utility services provided, as well as transfers from the general fund and additional sales tax fund to the HS Capital Improvements Fund for a construction project, and to transfer donations received.

(7) Long-Term Debt

	Balance 12/31/2021	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2022	Due Within One Year
Primary Government:					
<i>Governmental Activities:</i>					
Special Assessment Note Payable	\$ 710,162	\$ -	\$ (129,803)	\$ 580,359	\$ 133,422
Revenue Bonds	276,470	-	(26,122)	250,348	26,851
Financing Lease	-	196,132	(35,397)	160,735	30,095
Compensated Absences	86,473	91,881	(88,485)	89,869	89,869
Total Governmental Activities	1,073,105	288,013	(279,807)	1,081,311	280,237
<i>Business - Type Activities:</i>					
Revenue Bonds	2,996,611	-	(252,496)	2,744,115	261,667
Financing Lease	21,320	174,525	(52,817)	143,028	26,779
Compensated Absences	56,112	44,212	(40,273)	60,051	60,051
Premium on Refunding Bonds	63,481	-	(7,052)	56,429	7,054
Total Business - Type Activities	3,137,524	218,737	(352,638)	3,003,623	355,551
Total Primary Government	\$ 4,210,629	\$ 506,750	\$ (632,445)	\$ 4,084,934	\$ 635,788

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(7) Long-Term Debt (Continued)

Long-term debt at December 31, 2022 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. \$ 1,050,000
Unamortized deferred premium 56,429

1,106,429

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. 959,413

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. 734,702

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. 250,348

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. 580,359

Financing Lease:

Lease to own 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. 160,735

Lease to own 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. 143,028

3,935,014

Compensated Absences:

General Fund 89,869
Water Fund 44,462
Sewer Fund 4,299
Evans Plunge Fund 11,290

Total Compensated Absences 149,920

Total Long-Term Debt \$ 4,084,934

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(7) Long-Term Debt (Concluded)

The annual requirements to amortize long-term debt outstanding as of December 31, 2022, excluding compensated absences and bond premium, are as follows:

	Revenue Bonds		Special Assessments		Financing Lease		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2023	\$ 81,941	\$ 288,518	\$ 15,049	\$ 133,422	\$ 10,021	\$ 56,874	\$ 107,011	\$ 478,814
2024	73,299	298,555	11,355	137,099	8,145	58,750	92,799	494,404
2025	64,357	303,747	7,558	140,896	6,206	60,688	78,121	505,331
2026	55,259	314,095	3,657	144,797	4,204	62,690	63,120	521,582
2027	45,851	319,603	327	24,145	2,136	64,761	48,314	408,509
2028-2032	103,503	1,402,420	-	-	-	-	103,503	1,402,420
2033	658	67,525	-	-	-	-	658	67,525
Total	\$ 424,868	\$ 2,994,463	\$ 37,946	\$ 580,359	\$ 30,712	\$ 303,763	\$ 493,526	\$ 3,878,585

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	\$ 140,082	\$ 81,462	\$ 147,183	\$ 158,965
Pledged Revenue	1,322,511	873,074	256,452	792,370 (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.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Changes in Capital Assets

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

	Balance 12/31/2021	Additions	Disposals/ Transfers	Balance 12/31/2022
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 430,932	\$ -	\$ -	\$ 430,932
Construction in Progress	370,684	1,506,487	(26,407)	1,850,764
Total Capital Assets, not being Depreciated	801,616	1,506,487	(26,407)	2,281,696
Capital Assets, being Depreciated:				
Buildings	5,294,180	-	-	5,294,180
Improvements Other Than Buildings	10,104,862	5,447	-	10,110,309
Machinery and Equipment	2,194,911	326,937	(32,332)	2,489,516
Total Capital Assets, being Depreciated	17,593,953	332,384	(32,332)	17,894,005
Less Accumulated Depreciation for:				
Buildings	2,662,412	109,446	-	2,771,858
Improvements Other Than Buildings	2,767,336	219,250	-	2,986,586
Machinery and Equipment	1,772,752	112,961	-	1,885,713
Total Accumulated Depreciation	7,202,500	441,657	-	7,644,157
Total Governmental Activities Capital				
Assets, being Depreciated, Net	10,391,453	(109,273)	(32,332)	10,249,848
Total Governmental Capital Assets, Net	\$ 11,193,069	\$ 1,397,214	\$ (58,739)	\$ 12,531,544

Depreciation expense was charged to functions as follows:

Public Works	\$ 307,651
Culture and Recreation	87,167
Public Safety	43,064
General Government	3,775
Total Depreciation Expense - Governmental	\$ 441,657

As of December 31, 2022, the City has remaining commitments on the 10-unit T Hangar, Suspended Sidewalk, and Wayfinding Signage projects. The 10-unit T Hangar project has remaining commitments of approximately \$487,000. The project is funded through the Additional Sales Tax Fund. The Suspended Sidewalk project has remaining commitments of approximately \$2,000,000. The project is funded through the HS Capital Improvement Fund. The Wayfinding Signage project has remaining commitments of approximately \$12,000. The project is funded through the Additional Sales Tax Fund.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(8) Changes in Capital Assets (Continued)

	Balance 12/31/2021	Additions	Disposals/ Transfers	Balance 12/31/2022
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 229,380	\$ -	\$ -	\$ 229,380
Construction in Progress	220,104	1,612,070	(5,200)	1,826,974
Total Capital Assets, not being Depreciated	449,484	1,612,070	(5,200)	2,056,354
Capital Assets, being Depreciated:				
Buildings	5,618,277	-	-	5,618,277
Improvements Other Than Buildings	12,993,877	-	-	12,993,877
Machinery and Equipment	1,904,539	422,755	(2,945)	2,324,349
Total Capital Assets, being Depreciated	20,516,693	422,755	(2,945)	20,936,503
Less Accumulated Depreciation for:				
Buildings	3,318,079	74,698	-	3,392,777
Improvements Other Than Buildings	5,620,994	350,363	-	5,971,357
Machinery and Equipment	1,408,478	144,060	(8,145)	1,544,393
Total Accumulated Depreciation	10,347,551	569,121	(8,145)	10,908,527
Total Business-type Activities Capital Assets, being Depreciated, Net	10,169,142	(146,366)	5,200	10,027,976
Total Business-type Capital Assets, Net	\$ 10,618,626	\$ 1,465,704	\$ -	\$ 12,084,330

Depreciation expense was charged to funds as follows:

Sewer	\$ 212,352
Water	196,984
Golf Course	113,996
Evans Plunge	45,789
Total Depreciation Expense - Business-type	\$ 569,121

As of December 31, 2022, the City has remaining commitments on the State Water Plan, Field and Lab Testing Road, Water Main and Sanitary Sewer, and WWTP Digester Cover Replacement projects. The State Water Plan and Water Main and Sanitary Sewer projects have remaining commitments of approximately \$1,055,000 and are funded through the Water Fund. The Field and Lab Testing Road project has remaining commitments of approximately \$4,000. The project is funded through the Water and Sewer Funds. The WWTP Digester Cover Replacement project has remaining commitments of approximately \$35,000. The project is funded through the Sewer Fund.

(9) Legal Contingency

The City is involved in lawsuits at December 31, 2022. No determination can be made at this time regarding potential outcome of these lawsuits, and accordingly no accrual is included on the accompanying financial statements. Any potential loss may be covered by the City's insurance coverage.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2022, 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.

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.

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

The 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.

CITY OF HOT SPRINGS

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2022

(11) Pension Plan

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

Benefits Provided:

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor Regulation Members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level.

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.

Benefits Provided (Continued):

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.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(11) Pension Plan (Continued)

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, 2022, 2021, and 2020 were **\$120,635**, \$111,767, and \$110,209, respectively, equal to the required contributions each year.

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

At June 30, 2022, SDRS is 100.1 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2022 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 8,218,210	\$ 3,676,082	\$ 11,894,292
Less: Proportionate Share of Total Pension Asset	(8,212,712)	(3,673,622)	(11,886,334)
Proportionate Share of Net Pension Asset	\$ 5,498	\$ 2,460	\$ 7,958

At December 31, 2022, the City reported an asset of \$7,958 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2022 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, 2022, the City's proportion was .0842010 percent, which is an increase from the City's proportion of .0820850 measured as of June 30, 2021.

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

For the year ended December 31, 2022, the City recognized pension expense of \$82,024. At December 31, 2022, 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	\$ 151,477	\$ 517
Changes in Assumption	505,756	443,227
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	19,070
City Contributions Subsequent to the Measurement Date	67,712	-
Total	\$ 724,945	\$ 462,814

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(11) Pension Plan (Continued)

Deferred outflow of resources includes \$67,712 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, 2023. 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:

2023	\$	52,287
2024		110,510
2025		(126,033)
2026		157,655
	<u>\$</u>	<u>194,419</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2022 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	2.10 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, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2021.

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2022**

(11) Pension Plan (Concluded)

Actuarial Assumptions (Continued):

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	3.7%
Fixed Income	30.0%	1.1%
Real Estate	10.0%	2.6%
Cash	2.0%	0.4%
	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,652,306	\$ (7,958)	\$ (1,364,832)

Pension Plan Fiduciary Net Position:

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

CITY OF HOT SPRINGS

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2022**

(12) 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, 2022, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$5,380,000.

SINGLE AUDIT SECTION

CITY OF HOT SPRINGS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Identifying Number	Assistance Listing Number	Amount
<i>U.S. Department of Housing and Urban Development</i>			
Direct Federal Funding:			
Community Development Block Grant	1919-107	14.228	\$ 537,786
Total U.S. Department of Housing and Urban Development			537,786
<i>U.S. Department of Transportation</i>			
Pass-Through the S.D. Department of Transportation			
Airport Improvement Program	3-46-0020-017-2022	20.106	11,513
Airport Improvement Program	3-46-0020-015-2021	20.106	264,587
COVID-19 - Airport Improvement Program	3-46-0020-015-2021	20.106	28,772
Total Airport Improvement Program			304,872
Total U.S. Department of Transportation			304,872
<i>U.S. Department of the Treasury</i>			
Direct Federal Funding:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds		21.027	31,661
Total U.S. Department of the Treasury			31,661
Total			\$ 874,319

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 – Indirect Cost Rate

The City did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

OTHER REPORTS



Ketel Thorstenson, LLP

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

City Council
City of Hot Springs
Hot Springs, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities and each major fund of the **CITY OF HOT SPRINGS** (the City) as of and for the year ended December 31, 2022, 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 20, 2023.

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 #2022-001 and #2022-002, 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 Council

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



KETEL THORSTENSON, LLP
Certified Public Accountants

June 20, 2023



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Hot Springs
Hot Springs, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the **CITY OF HOT SPRINGS'S** (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2022. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

City Council

Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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
Certified Public Accountants

June 20, 2023

CITY OF HOT SPRINGS

SCHEDULE OF FINDINGS

DECEMBER 31, 2022

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of **CITY OF HOT SPRINGS** (the City).
2. Material weaknesses disclosed during the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.
4. No material weaknesses were disclosed during the audit of the major federal award program and none are reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the City expresses unmodified opinions on all major programs, as listed in #7.
6. No audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program was the Community Development Block Grant (ALN #14.228).
8. The threshold for distinguishing types A and B programs was \$750,000.
9. The City was not determined to be a low-risk auditee.

CITY OF HOT SPRINGS

**SCHEDULE OF FINDINGS (CONTINUED)
DECEMBER 31, 2022**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

MATERIAL WEAKNESSES

#2022-001 FINDING: Financial Statement Preparation

Federal Program Affected: None.

Compliance Requirement: None.

Questioned Costs: None.

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the City Council as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for municipalities of your size.

Criteria and Effect: It is our responsibility to inform the City Council that this deficiency could result in a material misstatement to the financial statements that would not have been prevented or detected by the City's management.

Repeat Finding from Prior Year: Yes, prior year finding 2021-001.

Recommendation: We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's financial statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

#2022-002 FINDING: Audit Adjustments

Federal Program Affected: None.

Compliance Requirement: None.

Questioned Costs: None.

Condition and Cause: During the course of the engagement, we proposed audit adjustments, as well as adjusting for the City's share of SDRS pension activity. 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.

CITY OF HOT SPRINGS

**SCHEDULE OF FINDINGS (CONCLUDED)
DECEMBER 31, 2022**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

MATERIAL WEAKNESSES (CONTINUED)

#2022-002 FINDING: Audit Adjustments (Continued)

Recommendation: We recommend the following:

- The City should review the SDRS pension activity entries.
- We recommend balances be reviewed after year-end adjustments are made.

Repeat Finding from Prior Year: Yes, prior year finding 2021-002.

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

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

None.

MANAGEMENT RESPONSE



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2022

The City respectfully submits the following summary schedule of prior audit findings from the December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2021 Schedule of Findings.

#2021-001 FINDING: Financial Statement Preparation

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

Initial Year Report: Originally issued in 2015.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditors preparing the financial statements, it will be repeated in 2022, see Corrective Action Plan.

#2021-002 FINDING: Audit Adjustments

Status: Audit adjustments were posted during the 2022 audit.

Initial Year Report: Originally issued in 2017.

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



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

CORRECTIVE ACTION PLAN
DECEMBER 31, 2022

The City respectfully submits the following corrective action plan regarding findings from the December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2022 Schedule of Findings.

#2022-001 FINDING: Financial Statement Preparation

Responsible Individuals: Misty Summers – Walton, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2022-001 regarding the preparation of the financial statements, and will continue to have the independent auditor prepare the annual financial statements. The Finance Officer annually reviews the financial statements in detail.

Anticipated Completion Date: Ongoing

#2022-002 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