

**CITY OF HOT SPRINGS**

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
DECEMBER 31, 2023

**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, 2023, 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, 2023, 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.

City Council

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

**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated June 3, 2024 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 3, 2024

**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION  
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	<u>Total</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 9,884,440	\$ 2,583,888	\$ 12,468,328
Savings Certificates	54,734	213,536	268,270
Restricted Cash and Investments	33,548	145,738	179,286
Receivables	592,053	373,361	965,414
Inventories	26,897	88,544	115,441
Net Pension Asset	6,029	2,313	8,342
Capital Assets:			
Land and Construction in Progress	3,025,696	2,335,021	5,360,717
Other Capital Assets, Net of Depreciation	10,439,649	10,186,302	20,625,951
<b>TOTAL ASSETS</b>	<b>24,063,046</b>	<b>15,928,703</b>	<b>39,991,749</b>

**DEFERRED OUTFLOWS OF RESOURCES**

Pension Related Deferred Outflows of Resources	461,707	177,153	638,860
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**TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES**

	\$ 24,524,753	\$ 16,105,856	\$ 40,630,609
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**Liabilities:**

Accounts Payable	\$ 195,966	\$ 113,469	\$ 309,435
Other Current Liabilities	76,364	71,475	147,839
Unearned Revenue	2,225	5,231	7,456
Noncurrent Liabilities:			
Due Within One Year	292,719	375,168	667,887
Due in More Than One Year	605,329	2,349,444	2,954,773
<b>TOTAL LIABILITIES</b>	<b>1,172,603</b>	<b>2,914,787</b>	<b>4,087,390</b>

**DEFERRED INFLOWS OF RESOURCES**

Pension Related Deferred Inflows of Resources	301,304	115,609	416,913
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**Net Position:**

Net Investment in Capital Assets	12,664,240	10,551,270	23,215,510
Restricted for:			
SDRS Pension	166,432	63,857	230,289
Cemetery - Expendable	18,771	-	18,771
Cemetery - Nonexpendable	50,000	-	50,000
Debt Service	33,548	128,000	161,548
Capital Projects	684,277	-	684,277
Facilities and Promoting the City	67,319	-	67,319
Business Improvement District	122,912	-	122,912
Unrestricted	9,243,347	2,332,333	11,575,680
<b>TOTAL NET POSITION</b>	<b>23,050,846</b>	<b>13,075,460</b>	<b>36,126,306</b>

**TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION**

	\$ 24,524,753	\$ 16,105,856	\$ 40,630,609
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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, 2023

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	
<b>Primary Government</b>							
<i>Governmental Activities:</i>							
General Government	\$ 754,814	\$ 89,658	\$ -	\$ -	\$ (665,156)	\$ -	\$ (665,156)
Public Safety	1,167,046	44,722	89,029	-	(1,033,295)	-	(1,033,295)
Public Works	1,213,422	126,685	-	124,363	(962,374)	-	(962,374)
Health and Welfare	24,097	375	-	-	(23,722)	-	(23,722)
Culture and Recreation	657,231	110,590	-	-	(546,641)	-	(546,641)
Conservation and Development	332,447	-	-	-	(332,447)	-	(332,447)
Miscellaneous	-	212,828	-	-	212,828	-	212,828
Interest on Long Term Debt	27,062	-	-	-	(27,062)	-	(27,062)
<b>Total Governmental Activities</b>	<b>4,176,119</b>	<b>584,858</b>	<b>89,029</b>	<b>124,363</b>	<b>(3,377,869)</b>	<b>-</b>	<b>(3,377,869)</b>
<i>Business-Type Activities:</i>							
Water	955,518	1,171,178	-	-	-	215,660	215,660
Sewer	629,546	884,412	-	-	-	254,866	254,866
Solid Waste	278,019	280,498	-	-	-	2,479	2,479
Golf Course	745,634	636,781	-	-	-	(108,853)	(108,853)
Evans Plunge	747,693	788,491	-	-	-	40,798	40,798
<b>Total Business-Type Activities</b>	<b>3,356,410</b>	<b>3,761,360</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>404,950</b>	<b>404,950</b>
<b>Total Primary Government</b>	<b>\$ 7,532,529</b>	<b>\$ 4,346,218</b>	<b>\$ 89,029</b>	<b>\$ 124,363</b>	<b>(3,377,869)</b>	<b>404,950</b>	<b>(2,972,919)</b>
<b>General Revenues:</b>							
<b>Taxes:</b>							
Property Taxes					1,327,344	-	1,327,344
Sales Taxes					2,547,693	-	2,547,693
Tax Deed					19,658	-	19,658
State Shared Revenue					192,598	-	192,598
Unrestricted Investment Earnings					107,788	14,199	121,987
Miscellaneous Revenue					90,413	255,186	345,599
Transfers					303,288	(303,288)	-
<b>Total General Revenues</b>					<b>4,588,782</b>	<b>(33,903)</b>	<b>4,554,879</b>
<b>Changes in Net Position</b>					<b>1,210,913</b>	<b>371,047</b>	<b>1,581,960</b>
<b>Net Position, Beginning</b>					<b>21,839,933</b>	<b>12,704,413</b>	<b>34,544,346</b>
<b>Net Position, Ending</b>					<b>\$ 23,050,846</b>	<b>\$ 13,075,460</b>	<b>\$ 36,126,306</b>

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

**CITY OF HOT SPRINGS**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
DECEMBER 31, 2023**

	<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Assets</b>			
101 Cash and Cash Equivalents	\$ 5,379,654	\$ 76,029	\$ 3,612,345
105 Savings Certificates	-	-	-
107 Restricted Cash and Cash Equivalents	-	-	33,548
108 Property Taxes Receivable	67,071	-	-
115 Accounts Receivable	117,397	-	-
121 Special Assessments Receivable - Current	-	-	100,309
122 Special Assessments Receivable - Delinquent	-	-	26,290
123 Special Assessments Receivable - Deferred	-	-	214,100
132 Due from Other Governments - State	50,760	2,474	8,838
142 Inventory of Stores - Resale	26,897	-	-
<b>Total Assets</b>	<b>\$ 5,641,779</b>	<b>\$ 78,503</b>	<b>\$ 3,995,430</b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances</b>			
<i>Liabilities</i>			
202 Accounts Payable	\$ 149,827	\$ 11,184	\$ 34,955
216 Accrued Wages Payable	39,770	-	-
217 Accrued Taxes and Benefits Payable	36,594	-	-
223 Unearned Revenue	2,225	-	-
<b>Total Liabilities</b>	<b>228,416</b>	<b>11,184</b>	<b>34,955</b>
<i>Deferred Inflows of Resources</i>			
245 Unavailable Revenue - Property Taxes	53,681	-	-
246 Unavailable Revenue - Special Assessments	-	-	340,699
<b>Total Deferred Inflows of Resources</b>	<b>53,681</b>	<b>-</b>	<b>340,699</b>
<i>Fund Balances</i>			
<i>Nonspendable Fund Balance</i>			
263.01 Inventory	26,897	-	-
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	-	67,319	-
264.09 Business Improvement District Purposes	-	-	-
<i>Committed Fund Balances</i>			
265.02 Capital Replacements	-	-	3,068,808
265.03 2021 DOT Road Project	-	-	517,420
<i>Unassigned Fund Balance</i>			
267.00 Unassigned Fund Balances	5,332,785	-	-
<b>Total Fund Balances</b>	<b>5,359,682</b>	<b>67,319</b>	<b>3,619,776</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 5,641,779</b>	<b>\$ 78,503</b>	<b>\$ 3,995,430</b>

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

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ 118,098	\$ 684,277	\$ 14,037	\$ 9,884,440
-	-	54,734	54,734
-	-	-	33,548
-	-	-	67,071
4,814	-	-	122,211
-	-	-	100,309
-	-	-	26,290
-	-	-	214,100
-	-	-	62,072
-	-	-	26,897
<b>\$ 122,912</b>	<b>\$ 684,277</b>	<b>\$ 68,771</b>	<b>\$ 10,591,672</b>
\$ -	\$ -	\$ -	\$ 195,966
-	-	-	39,770
-	-	-	36,594
-	-	-	2,225
-	-	-	<b>274,555</b>
-	-	-	53,681
-	-	-	340,699
-	-	-	<b>394,380</b>
-	-	-	26,897
-	-	50,000	50,000
-	-	-	33,548
-	684,277	-	684,277
-	-	18,771	18,771
-	-	-	67,319
122,912	-	-	122,912
-	-	-	3,068,808
-	-	-	517,420
-	-	-	5,332,785
<b>122,912</b>	<b>684,277</b>	<b>68,771</b>	<b>9,922,737</b>
<b>\$ 122,912</b>	<b>\$ 684,277</b>	<b>\$ 68,771</b>	<b>\$ 10,591,672</b>



**CITY OF HOT SPRINGS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
DECEMBER 31, 2023**

Total Funds Balance - Government Funds	\$ 9,922,737
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.	13,465,345
Pension related deferred outflows are components of pension asset and therefore are not reported in the funds.	461,707
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.	(898,048)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	6,029
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(301,304)
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.	394,380
<b>Total Net Position - Governmental Funds</b>	<b>\$ 23,050,846</b>

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, 2023**

		<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Revenues</b>				
<i>Taxes:</i>				
311	General Property Taxes	\$ 1,311,819	\$ -	\$ -
313	General Sales and Use Taxes	1,520,249	191,099	754,009
318	Tax Deed	19,658	-	-
319	Penalties and Interest	8,100	-	-
320	Licenses and Permits	72,952	-	-
<i>Intergovernmental Revenue:</i>				
331	Federal Grants	89,030	-	15,566
334	State Grants	-	-	85,860
<i>State Shared Revenue:</i>				
335.01	Bank Franchise Taxes	5,327	-	-
335.02	Motor Vehicle Commercial Prorate	7,857	-	-
335.03	Liquor Tax Reversion	23,472	-	-
335.04	Motor Vehicle Licenses	39,242	-	-
335.08	Local Government Highway & Bridges	84,000	-	-
335.20	Other	32,700	-	-
<i>County Shared Revenue:</i>				
338.01	County Road Tax	1,532	-	-
<i>Charges for Goods and Services:</i>				
341	General Government	15,944	-	-
342	Public Safety	44,722	-	-
343	Highways and Streets	8,267	-	-
346	Culture & Recreation	7,975	-	-
347	Other - Airport	111,811	-	-
348	Cemetery	2,725	-	-
349	Other - Library	8,301	-	-
<i>Fines and Forfeits:</i>				
352	Animal Control Fines	375	-	-
354	Library Fines	3,572	-	-
<i>Miscellaneous Revenue:</i>				
361	Earnings on Deposits & Investments	105,291	-	-
362	Rentals	90,742	-	-
363	Special Assessments	-	-	139,005
367	Contributions and Donations	259	-	-
368	Liquor Operating Agreement Income	212,828	-	-
369	Other	27,681	-	-
<b>TOTAL REVENUES</b>		<b>3,856,431</b>	<b>191,099</b>	<b>994,440</b>

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ -	\$ 1,311,819
82,336	-	-	2,547,693
-	-	-	19,658
-	-	-	8,100
-	-	-	72,952
-	-	-	104,596
-	3,060	-	88,920
-	-	-	5,327
-	-	-	7,857
-	-	-	23,472
-	-	-	39,242
-	-	-	84,000
-	-	-	32,700
-	-	-	1,532
762	-	-	16,706
-	-	-	44,722
-	-	-	8,267
-	-	-	7,975
-	-	-	111,811
-	-	2,350	5,075
-	-	-	8,301
-	-	-	375
-	-	-	3,572
-	-	2,497	107,788
-	-	-	90,742
-	-	-	139,005
-	-	-	259
-	-	-	212,828
-	-	-	27,681
<b>83,098</b>	<b>3,060</b>	<b>4,847</b>	<b>5,132,975</b>

**CITY OF HOT SPRINGS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

		<b>General Fund</b>	<b>Liquor, Lodging &amp; Dining Fund</b>	<b>Additional Sales Tax Fund</b>
<b>Expenditures</b>				
<i>General Governments:</i>				
411	Legislative	75,042	-	-
414	Financial Administration	258,248	-	-
419	Other	164,637	-	242,771
<i>Public Safety:</i>				
421	Police	923,732	-	-
422	Fire	90,000	-	-
423	Protective Inspection	84,786	-	-
<i>Public Works:</i>				
431	Highway and Streets	637,211	-	-
432	Sanitation - Street Cleaning	25,145	-	-
435	Airport	186,801	-	-
437	Cemeteries	73,058	-	-
<i>Health and Welfare:</i>				
441	Health	24,097	-	-
<i>Culture and Recreation:</i>				
451	Recreation	13,498	-	-
452	Parks	169,373	-	-
455	Library	250,500	-	-
456	Auditorium	130,383	-	-
<i>Conservation and Development:</i>				
465	Economic Development Assistance	19,922	202,510	6,975
470	Debt Service	35,397	-	182,002
485	Capital Outlay	614,044	-	42,399
<b>Total Expenditures</b>		<b>3,775,874</b>	<b>202,510</b>	<b>474,147</b>
<b>Other Financing Sources (Uses)</b>				
391.01	Transfers In	1,305,288	-	590,000
391.04	Compensation for Loss or Damage to Capital Assets	56,813	5,660	-
511	Transfers Out	-	-	-
<b>Total Other Financing Sources (Uses)</b>		<b>1,362,101</b>	<b>5,660</b>	<b>590,000</b>
<b>Net Change in Fund Balances</b>		<b>1,442,658</b>	<b>(5,751)</b>	<b>1,110,293</b>
Fund Balances - December 31, 2022		3,917,024	73,070	2,509,483
<b>Fund Balances - December 31, 2023</b>		<b>\$ 5,359,682</b>	<b>\$ 67,319</b>	<b>\$ 3,619,776</b>

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

<b>Business Improvement District #1 Fund</b>	<b>HS Capital Improvement Fund</b>	<b>Cemetery Perpetual Care Fund</b>	<b>Total Governmental Funds</b>
-	-	-	75,042
-	-	-	258,248
-	-	-	407,408
-	-	-	923,732
-	-	-	90,000
-	-	-	84,786
-	-	-	637,211
-	-	-	25,145
-	-	-	186,801
-	-	-	73,058
-	-	-	24,097
-	-	-	13,498
-	-	-	169,373
-	-	-	250,500
-	-	-	130,383
99,980	3,060	-	332,447
-	-	-	217,399
-	717,429	-	1,373,872
<u>99,980</u>	<u>720,489</u>	<u>-</u>	<u>5,273,000</u>
-	-	-	1,895,288
-	-	-	62,473
<u>(2,000)</u>	<u>(1,590,000)</u>	<u>-</u>	<u>(1,592,000)</u>
<u>(2,000)</u>	<u>(1,590,000)</u>	<u>-</u>	<u>365,761</u>
(18,882)	(2,307,429)	4,847	225,736
141,794	2,991,706	63,924	9,697,001
<u><u>\$ 122,912</u></u>	<u><u>\$ 684,277</u></u>	<u><u>\$ 68,771</u></u>	<u><u>\$ 9,922,737</u></u>

**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, 2023**

Net change in fund balance - total governmental funds	225,736
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	1,373,872
Depreciation expense	(440,071)
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.	190,337
Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures.	(7,074)
Changes in the pension related deferred outflows/inflows, pension asset/liability, and related pension revenue/expenses are reported in the governmental fund statements.	(20,183)
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".	7,425
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.	(119,129)
<b>Changes in Net Position of Governmental Activities</b>	<b>1,210,913</b>

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

**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2023**

<u>Assets</u>	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Current Assets</b>			
101 Cash and Cash Equivalents	\$ 815,367	\$ 977,477	\$ 298,697
105 Savings Certificates	107,723	105,813	-
107 Restricted Investments	-	-	-
115 Accounts Receivable	69,527	84,696	24,045
117 Unbilled Accounts Receivable	30,952	32,133	12,375
121 Special Assessments Receivable--Current	10,225	1,671	-
122 Special Assessments Receivable--Delinquent	10,108	-	-
123 Special Assessments Receivable--Deferred	65,377	13,366	-
141 Inventory of Supplies	30,179	18,438	-
142 Inventory of Stores - Resale	-	-	-
<b>Total Current Assets</b>	<b>1,139,458</b>	<b>1,233,594</b>	<b>335,117</b>
<b>Noncurrent Assets</b>			
189 Net Pension Asset	967	317	-
<b>Capital Assets:</b>			
160 Land	57,320	-	-
162 Buildings	1,245,606	2,232,951	-
163 Accumulated Depreciation (A/D) - Buildings	(887,777)	(2,021,659)	-
164 Improvements Other Than Buildings	5,852,073	5,808,559	-
165 A/D - Improvements Other Than Buildings	(2,866,894)	(2,357,378)	-
166 Machinery and Equipment	760,736	1,063,699	-
167 A/D - Machinery and Equipment	(530,874)	(572,933)	-
168 Construction in Progress	1,386,094	695,032	-
<b>Total Noncurrent Assets</b>	<b>5,017,251</b>	<b>4,848,588</b>	<b>-</b>
<b>Deferred Outflows of Resources</b>			
196 Pension Related Deferred Outflows	74,028	24,240	-
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 6,230,737</b>	<b>\$ 6,106,422</b>	<b>\$ 335,117</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 257,885	\$ 234,462	\$ 2,583,888
-	-	213,536
-	145,738	145,738
-	18,886	197,154
-	-	75,460
-	-	11,896
-	-	10,108
-	-	78,743
-	-	48,617
24,127	15,800	39,927
<b>282,012</b>	<b>414,886</b>	<b>3,405,067</b>
459	570	2,313
-	172,060	229,380
669,612	1,507,555	5,655,724
(255,677)	(304,026)	(3,469,139)
1,604,075	144,415	13,409,122
(1,037,633)	(61,802)	(6,323,707)
685,104	85,013	2,594,552
(518,722)	(57,721)	(1,680,250)
24,515	-	2,105,641
<b>1,171,733</b>	<b>1,486,064</b>	<b>12,523,636</b>
35,242	43,643	177,153
<b>\$ 1,488,987</b>	<b>\$ 1,944,593</b>	<b>\$ 16,105,856</b>



**CITY OF HOT SPRINGS**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
DECEMBER 31, 2023**

		<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Liabilities and Net Position</b>				
<b>Current Liabilities</b>				
202	Accounts Payable	\$ 56,691	\$ 20,896	\$ 19,868
205	Current Portion of Long-Term Debt	111,328	62,299	-
215	Accrued Interest Payable	7,406	4,214	-
216	Accrued Wages Payable	6,638	2,668	-
217	Accrued Taxes and Benefits Payable	1,414	555	1,417
220	Customer Deposits	19,215	-	-
223	Unearned Revenue	5,231	-	-
230	Accrued Leave Payable	47,008	4,795	-
<b>Total Current Liabilities</b>		<b>254,931</b>	<b>95,427</b>	<b>21,285</b>
<b>Long Term Liabilities</b>				
237	Long-Term Debt, Net of Current Portion	883,132	611,937	-
<b>Total Liabilities</b>		<b>1,138,063</b>	<b>707,364</b>	<b>21,285</b>
<b>Deferred Inflows of Resources</b>				
248	Pension Related Deferred Inflows	48,310	15,819	-
<b>Net Position</b>				
253.1	Net Investment in Capital Assets	4,021,824	4,174,035	-
253.2	Restricted for Debt Service	-	-	-
253.29	Restricted for SDRS Pension Purposes	26,685	8,738	-
252	Unrestricted Net Position (Deficit)	995,855	1,200,466	313,832
<b>Total Net Position</b>		<b>5,044,364</b>	<b>5,383,239</b>	<b>313,832</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Net Position</b>		<b>\$ 6,230,737</b>	<b>\$ 6,106,422</b>	<b>\$ 335,117</b>

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 5,403	\$ 10,611	\$ 113,469
-	125,000	298,627
-	1,867	13,487
3,581	8,486	21,373
8,189	5,825	17,400
-	-	19,215
-	-	5,231
12,943	11,795	76,541
<b>30,116</b>	<b>163,584</b>	<b>565,343</b>
-	854,375	2,349,444
<b>30,116</b>	<b>1,017,959</b>	<b>2,914,787</b>
22,999	28,481	115,609
1,171,274	1,184,137	10,551,270
-	128,000	128,000
12,702	15,732	63,857
251,896	(429,716)	2,332,333
<b>1,435,872</b>	<b>898,153</b>	<b>13,075,460</b>
<b>\$ 1,488,987</b>	<b>\$ 1,944,593</b>	<b>\$ 16,105,856</b>

**CITY OF HOT SPRINGS**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<b>Water Fund</b>	<b>Sewer Fund</b>	<b>Solid Waste Fund</b>
<b>Operating Revenues</b>			
380 Charges for Goods and Services	\$ 1,171,178	\$ 884,412	\$ 280,498
<b>Total Operating Revenues</b>	<b>1,171,178</b>	<b>884,412</b>	<b>280,498</b>
<b>Operating Expenses</b>			
410 Personal Services	325,836	143,896	-
420 Other Current Expense	397,294	238,091	278,019
457 Depreciation	198,385	226,572	-
<b>Total Operating Expenses</b>	<b>921,515</b>	<b>608,559</b>	<b>278,019</b>
<b>Operating Income (Loss)</b>	<b>249,663</b>	<b>275,853</b>	<b>2,479</b>
<b>Non-Operating Income (Expense)</b>			
361 Earnings on Deposits and Investments	3,854	4,193	-
363 Special Assessments	5,605	3,258	-
369 Miscellaneous Revenue	1,038	736	200
470 Interest Expense	(34,003)	(20,987)	-
<b>Total Non-Operating Income (Expense)</b>	<b>(23,506)</b>	<b>(12,800)</b>	<b>200</b>
<b>Income (Loss) before Transfers</b>	<b>226,157</b>	<b>263,053</b>	<b>2,679</b>
<b>Other Financing Sources (Uses)</b>			
331 Federal Grants	117,285	101,539	-
391.1 Transfers In	-	8,982	-
391.4 Compensation for Loss or Damaged Capital Assets	17,793	808	-
511 Transfers Out	(259,259)	(140,231)	(10,000)
<b>Total Other Financing Sources (Uses)</b>	<b>(124,181)</b>	<b>(28,902)</b>	<b>(10,000)</b>
<b>Change in Net Position</b>	<b>101,976</b>	<b>234,151</b>	<b>(7,321)</b>
Net Position - December 31, 2022	4,942,388	5,149,088	321,153
<b>Net Position - December 31, 2023</b>	<b>\$ 5,044,364</b>	<b>\$ 5,383,239</b>	<b>\$ 313,832</b>

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

<b>Golf Course Fund</b>	<b>Evans Plunge Fund</b>	<b>Total Proprietary Funds</b>
\$ 636,781	\$ 788,491	\$ 3,761,360
<b>636,781</b>	<b>788,491</b>	<b>3,761,360</b>
328,337	449,799	1,247,868
301,900	233,033	1,448,337
115,397	46,215	586,569
<b>745,634</b>	<b>729,047</b>	<b>3,282,774</b>
<b>(108,853)</b>	<b>59,444</b>	<b>478,586</b>
-	6,152	14,199
-	-	8,863
2,794	2,849	7,617
-	(18,646)	(73,636)
<b>2,794</b>	<b>(9,645)</b>	<b>(42,957)</b>
<b>(106,059)</b>	<b>49,799</b>	<b>435,629</b>
-	-	218,824
83,679	13,541	106,202
1,281	-	19,882
-	-	(409,490)
<b>84,960</b>	<b>13,541</b>	<b>(64,582)</b>
<b>(21,099)</b>	<b>63,340</b>	<b>371,047</b>
1,456,971	834,813	12,704,413
<b>\$ 1,435,872</b>	<b>\$ 898,153</b>	<b>\$ 13,075,460</b>

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2023

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
<b>Cash Flows from Operating Activities:</b>						
Receipts from Customers	\$ 1,122,916	\$ 914,570	\$ 279,281	\$ 636,781	\$ 777,453	\$ 3,731,001
Receipts for Interfund Services Provided	129,447	20,565	-	-	-	150,012
Payments to Suppliers	(439,882)	(341,237)	(277,675)	(399,926)	(245,621)	(1,704,341)
Payments to Employees	(317,620)	(137,055)	-	(308,272)	(442,307)	(1,205,254)
Payments for Interfund Services Used	-	5,177	-	86,010	17,593	108,780
<b>Net Cash Flows Provided by Operating Activities</b>	<b>494,861</b>	<b>462,020</b>	<b>1,606</b>	<b>14,593</b>	<b>107,118</b>	<b>1,080,198</b>
<b>Cash Flows from Noncapital Financing Activities:</b>						
Transfers In (Out)	(259,259)	(131,249)	(10,000)	83,679	13,541	(303,288)
<b>Net Cash Flows Provided by (Used in) Noncapital Financing Activities</b>	<b>(259,259)</b>	<b>(131,249)</b>	<b>(10,000)</b>	<b>83,679</b>	<b>13,541</b>	<b>(303,288)</b>
<b>Cash Flows from Capital and Related Financing Activities</b>						
Purchase of Capital Assets	(489,433)	(388,996)	-	(145,133)	-	(1,023,562)
Principal Paid on Capital Debt	(107,981)	(60,466)	-	-	(127,054)	(295,501)
Special Assessments Receipts	5,605	3,258	-	-	-	8,863
Other Receipts	136,116	103,083	200	4,075	2,849	246,323
Interest Paid	(32,593)	(21,365)	-	-	(18,946)	(72,904)
<b>Net Cash Flows Provided by (Used in) Capital and Related Financing Activities</b>	<b>(488,286)</b>	<b>(364,486)</b>	<b>200</b>	<b>(141,058)</b>	<b>(143,151)</b>	<b>(1,136,781)</b>
<b>Cash Flows Provided by Investing Activities:</b>						
Earnings on Deposit and Investments	3,854	4,193	-	-	6,152	14,199
<b>Change in Cash, Certificates, and Investments</b>	<b>(248,830)</b>	<b>(29,522)</b>	<b>(8,194)</b>	<b>(42,786)</b>	<b>(16,340)</b>	<b>(345,672)</b>
Cash, Certificates, and Investments - December 31, 2022	1,171,920	1,112,812	306,891	300,671	396,540	3,288,834
<b>Cash, Certificates, and Investments - December 31, 2023</b>	<b>\$ 923,090</b>	<b>\$ 1,083,290</b>	<b>\$ 298,697</b>	<b>\$ 257,885</b>	<b>\$ 380,200</b>	<b>\$ 2,943,162</b>

CITY OF HOT SPRINGS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED DECEMBER 31, 2023

	Water Fund	Sewer Fund	Solid Waste Fund	Golf Course Fund	Evans Plunge Fund	Total Proprietary Funds
<b>Reconciliation of Operating Income (Loss) to Net Cash Flows Provided by Operating Activities</b>						
Operating Income (Loss)	\$ 249,663	\$ 275,853	\$ 2,479	\$ (108,853)	\$ 59,444	\$ 478,586
<i>Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities</i>						
Depreciation Expense	198,385	226,572	-	115,397	46,215	586,569
Change in Assets and Liabilities:						
Accounts Receivable	19,232	601	(1,217)	-	(11,038)	7,578
Special Assessments Receivable	64,377	50,122	-	-	-	114,499
Inventories	(1,781)	(9,555)	-	(15,372)	(321)	(27,029)
Pension Asset	(58)	106	-	77	22	147
Pension Related Deferred Outflows/Inflows	4,213	5,501	-	5,423	4,333	19,470
Accounts Payable	(40,807)	(88,414)	389	3,356	5,326	(120,150)
Accrued Wages Payable	1,256	631	-	433	1,802	4,122
Accrued Taxes Payable	259	107	(45)	1,189	830	2,340
Customer Deposits	(1,800)	-	-	-	-	(1,800)
Unearned Revenue	(624)	-	-	-	-	(624)
Accrued Leave Payable	2,546	496	-	12,943	505	16,490
<b>Net Cash Flows Provided by Operating Activities</b>	<b>\$ 494,861</b>	<b>\$ 462,020</b>	<b>\$ 1,606</b>	<b>\$ 14,593</b>	<b>\$ 107,118</b>	<b>\$ 1,080,198</b>

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

## **CITY OF HOT SPRINGS**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023**

#### **(1) Summary of Significant Accounting Policies**

##### **Financial Reporting Entity**

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

##### **Basis of Presentation**

###### *Government-wide Financial Statements:*

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

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

###### *Fund Financial Statements:*

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

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

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

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

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

Governmental Funds:

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

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

Liquor, Lodging and Dining Fund - to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the maintenance, staffing, and operations of such facilities and the promotion and advertising of the City (SDCL 10-52A-2). This 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  
DECEMBER 31, 2023**

**(1) Summary of Significant Accounting Policies**

**Basis of Presentation**

*Fund Financial Statements:*

Proprietary Funds:

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

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

Water Fund – financed primarily by user charges. This fund accounts for the construction, capital improvements, and operation of the City waterworks system and related facilities (SDCL 9-47-1). This 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 DECEMBER 31, 2023

#### (1) Summary of Significant Accounting Policies

##### Measurement Focus and Basis of Accounting

###### *Measurement Focus:*

###### Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental, 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, 2023, are property tax, sales tax, special assessments receivable and other state shared revenues.

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

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

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

##### Cash and Cash Equivalents

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

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(1) Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

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

**Capital Assets**

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

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

Government-wide Financial Statements:

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

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

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

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

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

## **CITY OF HOT SPRINGS**

### **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023**

#### **(1) Summary of Significant Accounting Policies**

##### **Long-Term Liabilities**

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

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

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

##### **Program Revenues**

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

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

##### **Proprietary Funds Revenue and Expense Classifications**

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

##### **Use of Estimates**

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

##### **Pensions**

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

## CITY OF HOT SPRINGS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

#### (1) Summary of Significant Accounting Policies

##### Equity Classification

###### Government-wide Financial Statements:

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

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

###### Fund Financial Statements:

The City classifies governmental fund balances as follows:

*Nonspendable* – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

*Restricted* – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

*Committed* – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. Fund Balance may be committed by City Ordinance adopted by City Council.

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

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

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

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

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

##### Inventory

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

## CITY OF HOT SPRINGS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

#### (1) Summary of Significant Accounting Policies

##### 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. The City has no internal balance as of December 31, 2023.

##### Adopted Accounting Standard

In 2023, the City implemented the provisions of Governmental Accounting Standards Boards (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. This statement improves accounting and financial reporting for SBITAs; enhances the comparability of financial statements between governments; and also enhances the understandability, reliability, relevance and consistency of information about SBITAs. Adoption did not materially impact the City's financial statements.

##### 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.

In December 2023, the Governmental Accounting Standards Board (GASB) issued Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The statement is effective for the City's year ending December 31, 2025. 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 3, 2024, 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 DECEMBER 31, 2023

#### (2) Deposits and Investments

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

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

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

The City’s investments consist of \$414,008 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, 2023 was \$165,528. The SDFIT balance of \$248,480 consists of government securities. Earnings are credited to each account on a monthly basis. SDFIT is measured as level 2 recurring fair value measurements according to the fair value hierarchy.

#### *Credit Risk:*

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

#### *Interest Rate Risk:*

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

#### *Custodial Credit Risk:*

The risk that, in the event of a depository failure, the City’s deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2023, none of the City’s deposits were exposed to custodial credit risk.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(2) Deposits and Investments**

*Concentration of Credit Risk:*

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

	<u>Bank Balance</u>
Insured - FDIC	\$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	12,265,081
<b>Total Deposits</b>	<b>\$ 12,515,081</b>

*Assignment of Investment Income:*

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

*Restricted Cash and Investments:*

Debt covenants require the following cash reserves as of December 31, 2023:

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

**(3) Deferred Inflows and Deferred Outflows of Resources**

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

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

**(4) Property Taxes**

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

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

**(5) Receivables and Payables**

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



**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(6) Interfund Transfers and Balances**

Interfund transfers during the year ended December 31, 2023, were:

Fund	Transfers In	Transfers Out
General Fund	\$ 1,305,288	\$ -
Additional Sales Tax Fund	590,000	-
Business Improvement	-	2,000
HS Capital Improvement Fund	-	1,590,000
Water Fund	-	259,259
Sewer Fund	8,982	140,231
Solid Waste Fund	-	10,000
Golf Course Fund	83,679	-
Evans Plunge Fund	13,541	-
<b>Total Interfund Transfers</b>	<b>\$ 2,001,490</b>	<b>\$ 2,001,490</b>

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 HS Capital Improvement Fund to the General Fund and Additional Sales Tax fund to return funds previously transferred but not used for a construction project.

**(7) Long-Term Debt**

	Balance 12/31/2022	Earned/ Borrowed	Used/ Repayments	Balance 12/31/2023	Due Within One Year
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
Special Assessment Note Payable	\$ 580,359	\$ -	\$ (133,397)	\$ 446,962	\$ 137,099
Revenue Bonds	250,348	-	(26,845)	223,503	27,590
Financing Lease	160,735	-	(30,095)	130,640	31,087
Compensated Absences	89,869	109,133	(102,059)	96,943	96,943
<b>Total Governmental Activities</b>	<b>1,081,311</b>	<b>109,133</b>	<b>(292,396)</b>	<b>898,048</b>	<b>292,719</b>
<i>Business - Type Activities:</i>					
Revenue Bonds	2,744,115	-	(261,668)	2,482,447	270,965
Financing Lease	143,028	-	(26,779)	116,249	27,663
Compensated Absences	60,051	55,675	(39,185)	76,541	76,541
Premium on Refunding Bonds	56,429	-	(7,054)	49,375	7,054
<b>Total Business - Type Activities</b>	<b>3,003,623</b>	<b>55,675</b>	<b>(334,686)</b>	<b>2,724,612</b>	<b>382,223</b>
<b>Total Primary Government</b>	<b>\$ 4,084,934</b>	<b>\$ 164,808</b>	<b>\$ (627,082)</b>	<b>\$ 3,622,660</b>	<b>\$ 674,942</b>

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(7) Long-Term Debt**

Long-term debt at December 31, 2023 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.	\$ 930,000
Unamortized deferred premium	49,375
	<hr/> 979,375

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.	878,211
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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.	674,236
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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.	223,503
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**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.	446,962
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**Financing Leases:**

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.	130,640
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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.	116,249
	<hr/> 3,449,176

**Compensated Absences:**

General Fund	96,943
Water Fund	47,008
Sewer Fund	4,795
Golf Course Fund	12,943
Evans Plunge Fund	11,795
Total Compensated Absences	<hr/> 173,484

<b>Total Long-Term Debt</b>	<b>\$ 3,622,660</b>
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**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(7) Long-Term Debt**

The annual requirements to amortize long-term debt outstanding as of December 31, 2023, excluding compensated absences and bond premium, are as follows:

	Revenue Bonds		Special Assessments		Financing Lease		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2024	\$ 73,300	\$ 298,555	\$ 11,355	\$ 137,099	\$ 8,145	\$ 58,750	\$ 92,800	\$ 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	24,170	2,136	64,761	48,314	408,534
2028	103,503	1,402,426	-	-	-	-	103,503	1,402,426
2029-2033	658	67,524	-	-	-	-	658	67,524
<b>Total</b>	<b>\$ 342,928</b>	<b>\$ 2,705,950</b>	<b>\$ 22,897</b>	<b>\$ 446,962</b>	<b>\$ 20,691</b>	<b>\$ 246,889</b>	<b>\$ 386,516</b>	<b>\$ 3,399,801</b>

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	\$ 141,984	\$ 81,453	\$ 155,157	\$ 128,920
Pledged Revenue	1,171,178	884,412	139,005	821,786 (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.

The City secured a State Highway Fund Loan from the South Dakota Department of Transportation for transportation related improvements in conjunction with the State’s Highway Project on U.S. Highway 385/18. This loan has a maximum borrowing capacity of \$1,967,000 with an interest rate of 1.00 percent per annum. For the year ended December 31, 2023, the balance due was \$-0-.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(8) Changes in Capital Assets**

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

	Balance 12/31/2022	Additions	Disposals/ Transfers	Balance 12/31/2023
<i>Governmental Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 430,932	\$ -	\$ -	\$ 430,932
Construction in Progress	1,850,764	769,499	(25,499)	2,594,764
<b>Total Capital Assets, not being Depreciated</b>	<b>2,281,696</b>	<b>769,499</b>	<b>(25,499)</b>	<b>3,025,696</b>
Capital Assets, being Depreciated:				
Buildings	5,294,180	398,278	-	5,692,458
Improvements Other Than Buildings	10,110,309	13,951	25,499	10,149,759
Machinery and Equipment	2,489,516	192,144	22,000	2,703,660
<b>Total Capital Assets, being Depreciated</b>	<b>17,894,005</b>	<b>604,373</b>	<b>47,499</b>	<b>18,545,877</b>
Less Accumulated Depreciation for:				
Buildings	2,771,858	110,602	-	2,882,460
Improvements Other Than Buildings	2,986,586	220,794	-	3,207,380
Machinery and Equipment	1,885,713	108,675	22,000	2,016,388
<b>Total Accumulated Depreciation</b>	<b>7,644,157</b>	<b>440,071</b>	<b>22,000</b>	<b>8,106,228</b>
<b>Total Governmental Activities Capital Assets, being Depreciated, Net</b>	<b>10,249,848</b>	<b>164,302</b>	<b>25,499</b>	<b>10,439,649</b>
<b>Total Governmental Capital Assets, Net</b>	<b>\$ 12,531,544</b>	<b>\$ 933,801</b>	<b>\$ -</b>	<b>\$ 13,465,345</b>

Depreciation expense was charged to functions as follows:

Public Works	\$ 286,696
Culture and Recreation	91,096
Public Safety	57,946
General Government	4,333
<b>Total Depreciation Expense - Governmental</b>	<b>\$ 440,071</b>

As of December 31, 2023, the City has remaining commitments on the 10-unit T Hangar, Suspended Sidewalk, Mueller Civic Center Lobby Roof and Skylight, and Southern Hills Golf Course Retaining Wall projects. The 10-unit T Hangar project has remaining commitments of approximately \$469,000. The project is funded through the Additional Sales Tax Fund. The Suspended Sidewalk project has remaining commitments of approximately \$2,200,000. The project is funded through the HS Capital Improvement Fund by a State Transportation Fund loan. The Mueller Civic Center Lobby Roof and Skylight project has remaining commitments of approximately \$67,000. The project is funded through the General Fund. The Southern Hills Golf Course Retaining Wall project has remaining commitments of approximately \$139,000. The project is funded through the Golf Course Fund.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(8) Changes in Capital Assets**

	Balance 12/31/2022	Additions	Disposals/ Transfers	Balance 12/31/2023
<i>Business -Type Activities:</i>				
Capital Assets, not being Depreciated				
Land	\$ 229,380	\$ -	\$ -	\$ 229,380
Construction in Progress	1,826,974	439,059	(160,392)	2,105,641
<b>Total Capital Assets, not being Depreciated</b>	<b>2,056,354</b>	<b>439,059</b>	<b>(160,392)</b>	<b>2,335,021</b>
Capital Assets, being Depreciated:				
Buildings	5,618,277	37,447	-	5,655,724
Improvements Other Than Buildings	12,993,877	254,853	160,392	13,409,122
Machinery and Equipment	2,324,349	292,203	(22,000)	2,594,552
<b>Total Capital Assets, being Depreciated</b>	<b>20,936,503</b>	<b>584,503</b>	<b>138,392</b>	<b>21,659,398</b>
Less Accumulated Depreciation for:				
Buildings	3,392,777	76,362	-	3,469,139
Improvements Other Than Buildings	5,971,357	352,350	-	6,323,707
Machinery and Equipment	1,544,393	157,857	(22,000)	1,680,250
<b>Total Accumulated Depreciation</b>	<b>10,908,527</b>	<b>586,569</b>	<b>(22,000)</b>	<b>11,473,096</b>
<b>Total Business-type Activities Capital Assets, being Depreciated, Net</b>	<b>10,027,976</b>	<b>(2,066)</b>	<b>160,392</b>	<b>10,186,302</b>
<b>Total Business-type Capital Assets, Net</b>	<b>\$ 12,084,330</b>	<b>\$ 436,993</b>	<b>\$ -</b>	<b>\$ 12,521,323</b>

Depreciation expense was charged to funds as follows:

Sewer	\$ 226,572
Water	198,385
Golf Course	115,397
Evans Plunge	46,215
<b>Total Depreciation Expense - Business-type</b>	<b>\$ 586,569</b>

As of December 31, 2023, the City has remaining commitments on the Water Main and Sanitary Sewer project of approximately \$840,000 and are funded through the Water and Sewer Funds.

## CITY OF HOT SPRINGS

### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

#### **(9) Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2023, 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.

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 DECEMBER 31, 2023

#### (10) 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. Class A and B eligible spouses of foundation members will receive a 60% joint survivor benefit when the member dies.

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

Legislation enacted in 2017 established the current Cost-of-Living Adjustment (COLA) process. At each valuation date:

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

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

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

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(10) Pension Plan**

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, 2023, 2022, and 2021 were **\$132,275**, \$120,635, and \$111,767, 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, 2023, 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, 2023 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 8,956,871	\$ 3,436,666	\$ <b>12,393,537</b>
Less: Proportionate Share of Total Pension Asset	(8,950,842)	(3,434,353)	(12,385,195)
<b>Proportionate Share of Net Pension Asset</b>	<b>\$ 6,029</b>	<b>\$ 2,313</b>	<b>\$ 8,342</b>

At December 31, 2023, the City reported an asset of \$8,342 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2023 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, 2023, the City’s proportion was .085470 percent, which is an increase from the City’s proportion of .084201 measured as of June 30, 2022.

For the year ended December 31, 2023, the City recognized pension expense of \$166,008. At December 31, 2023, 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	\$ 236,465	\$ -
Changes in Assumption	285,210	416,913
Net Difference between Projected and Actual Earnings on Pension Plan Investments	55,540	-
City Contributions Subsequent to the Measurement Date	61,645	-
<b>Total</b>	<b>\$ 638,860</b>	<b>\$ 416,913</b>



**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(10) Pension Plan**

Deferred outflow of resources includes \$61,645 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, 2024. 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:

2024	\$	113,607
2025		(126,501)
2026		161,462
2027		11,734
	<b>\$</b>	<b>160,302</b>

Actuarial Assumptions:

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

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense. This is composed of an average inflation rate of 2.50 percent and real returns of 4.00 percent
Future COLAs	1.91 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, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2022.

**CITY OF HOT SPRINGS**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023**

**(10) Pension Plan**

Actuarial Assumptions:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2023 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
	<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:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,709,869	\$ (8,342)	\$ (1,413,511)

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  
DECEMBER 31, 2023**

**(11) Conduit Debt**

In 2020, the City issued revenue bonds to provide financial assistance to a private-sector entity, Fall River Health Services, for the acquisition and/or construction of facilities deemed to be in the public interest. These bonds are secured by the property being financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities is retained by the private-sector entity served by the bond issuance. Neither the City, the State of South Dakota, nor any other political subdivision of the State is obligated in any manner for the repayment of these conduit debt issues. Accordingly, these bonds are not reported as liabilities in the accompanying financial statements. As of December 31, 2023, there was one series of conduit bonds outstanding, with an aggregate unpaid principal amount of \$4,425,000.

OTHER REPORTS



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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, 2023, 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 3, 2024.

**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 #2023-001 and #2023-002, 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

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**City's Response to Findings**

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

**Purpose of this Report**

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



KETEL THORSTENSON, LLP  
Certified Public Accountants

June 3, 2024

**CITY OF HOT SPRINGS**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2023**

**MATERIAL WEAKNESSES**

**#2023-001 FINDING: Financial Statement Preparation**

*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 2022-001.

*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.

**#2023-002 FINDING: Audit Adjustments**

*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.

*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 2022-002.

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

MANAGEMENT RESPONSE





**Misty Summers-Walton**  
**Finance Officer**  
[hsfinanceofficer@hs-sd.org](mailto:hsfinanceofficer@hs-sd.org)

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**DECEMBER 31, 2023**

The City respectfully submits the following summary schedule of prior audit 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

*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 2023, see Corrective Action Plan.

#2022-002 FINDING: Audit Adjustments

*Status:* Audit adjustments were posted during the 2023 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](mailto:hsfinanceofficer@hs-sd.org)

**CORRECTIVE ACTION PLAN**  
**DECEMBER 31, 2023**

The City respectfully submits the following corrective action plan regarding findings from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

#2023-001 FINDING: Financial Statement Preparation

*Responsible Individuals:* Misty Summers – Walton, Finance Officer

*Corrective Action Plan:* The City has accepted the risk associated with Finding #2023-001 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

#2023-002 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