# CITY OF HILL CITY

# HILL CITY, SOUTH DAKOTA

# FINANCIAL REPORT

# FOR THE TWO YEARS ENDING DECEMBER 31, 2022

# WITH INDEPENDENT AUDITOR'S REPORTS

**INDEPENDENT AUDIT SERVICES, P.C.**

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

CITY OF HILL CITY
HILL CITY, SOUTH DAKOTA

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FOR THE TWO YEARS ENDING DECEMBER 31, 2022

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

**INDEPENDENT AUDIT SERVICES, PC**
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Governing Board
City of Hill City
Hill City, South Dakota

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

*Financial Statement Audit:*

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities and each major fund of the City of Hill City (City), Pennington County, South Dakota, as of December 31, 2022 and for each of the years in the biennial period then ended, and the related notes to the financial statements. These financial statements collectively comprise the City's basic financial statements as listed in the table of contents.

*Opinions:*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities and each major fund of the City of Hill City, Pennington County, South Dakota as of December 31, 2022, and the respective changes in its financial position and, where applicable, cash flows thereof for each of the years in the biennial period then ended in accordance with the modified cash basis of accounting.

*Basis for Opinions:*

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

*Responsibilities of Management for the Financial Statements:*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting 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 misstatements, 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 of Hill City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

> Exercise professional judgment and maintain professional skepticism throughout the audit.
> Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
> Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City of Hill 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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Hill City's ability to continue as a going concern for a reasonable period of time.

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

*Other Matters - Basis of Accounting:*

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

*Supplementary Information (no opinion):*

Accounting principles generally accepted in the United States of America allow for the Management's Discussion and Analysis (page 4 to 9), the budgetary comparison schedules (page 35 to 39), and the pension schedules (page 40 to 42) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is allowed by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of

preparing the formation and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information (opinion):*

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

> The schedule of changes in long-term liabilities (page 34) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

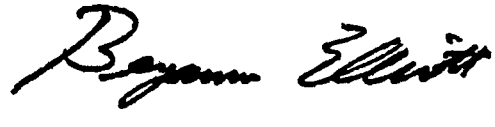
The schedule of changes in long-term liabilities is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements, or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America.

In my opinion, the schedule of changes in long-term liabilities is fairly stated, in all material respects, in relation to the modified cash basis of accounting financial statements as a whole.

*Other Reporting Required by Government Auditing Standards:*

In accordance with *Government Auditing Standards*, I have also issued my report dated May 20, 2024 (page 43) on my consideration of City Hill City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Hill 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 of Hill City's internal control over financial reporting and compliance.

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



May 20, 2024

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Hill City's (City) financial report presents our discussion and analysis of the City's financial performance during the two years ending December 31, 2022 within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements, which follow this section.

| FINANCIAL HIGHLIGHTS | 2022 | 2021 |
|---|---|---|
| Receipts: | | |
| Charges for goods and services | 769,612 | 859,008 |
| Operating grants | 95,359 | 199,183 |
| Capital grants | 7,775 | 630,881 |
| General receipts | 2,469,216 | 2,571,133 |
| Total | 3,341,962 | 4,260,205 |
| Disbursements: | | |
| Governmental | 3,055,232 | 2,895,471 |
| Business-type | 557,844 | 689,470 |
| Total | 3,613,076 | 3,584,941 |
| Increase (decrease) in Net Position | (271,114) | 675,264 |
| Net Position: | | |
| December 31, 2020 | | 4,316,612 |
| December 31, 2021 | 4,991,876 | 4,991,876 |
| December 31, 2022 | 4,720,762 | |
| Governmental Funds: | | |
| General | 2,789,548 | 2,807,339 |
| 3rd Cent | 311,950 | 348,711 |
| Business Improvement District | 50,773 | 430,054 |
| Debt service | 0 | 0 |
| Bridge | 31,824 | 31,824 |
| Business-Type Funds: | | |
| Water | 770,682 | 664,455 |
| Sewer | 765,985 | 709,493 |
| Total | 4,720,762 | 4,991,876 |

<u>During 2022, the City</u>:

* Received property taxes of $619,860.
* Received sales taxes of $1,559,435.
* Received occupancy taxes of $110,076.
* Received federal road grant of $7,775.
* Received federal CARES grant of $94,358.
* Made improvements to the community center for $1,289,357.
* Purchased library books and equipment for $26,057.
* Purchased water equipment for $25,862.
* Paid down the City's general obligation bond by $172,000.

During 2021, the City:
* Received property taxes of $577,721.
* Received sales taxes of $1,602,519.
* Received occupancy taxes of $129,300.
* Received federal road grant of $545,423.
* Received state road grant of $85,458.
* Received federal CARES grant of $198,473.
* Made street improvements for $803,594.
* Made improvements to the community center for $546,375.
* Purchased library books and equipment for $16,172.
* Purchased water equipment for $45,308.
* Purchased sewer equipment for $147,908.
* Paid down the City's general obligation bond by $168,000.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

The financial report consists of three parts: (1) management's discussion and analysis (page 4 to 9), (2) the basic financial statements (page 10 to 33) and (3) other supplementary information (page 34 to 42). The basic financial statements include two types of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on significant operations of the governmental and enterprise activities of the City.

The governmental financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. The governmental funds operated by the City during 2021 and 2022 were the general fund, 3rd cent fund, business improvement district fund, debt service fund and the bridge fund.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City during 2021 and 2022 were the water and sewer funds.

The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or custodian for the benefit of those groups to whom these funds belong. In 2021 and 2022 the City had no fiduciary funds.

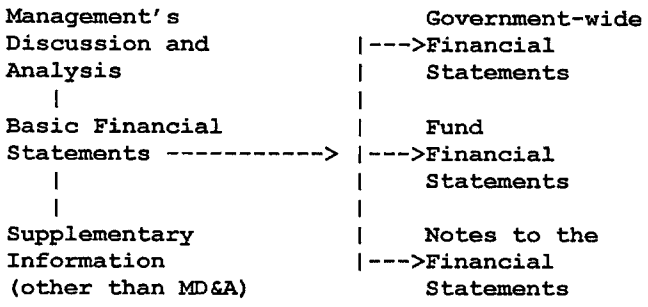
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds and also pension schedules.

Supplementary Information:

This Management's Discussion and Analysis (page 4 to 9), the Budgetary Comparison Schedules (page 35 to 39), and the Pension Schedules (page 40 and 42) are financial information allowed to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide state-ments and fund financial statements. The Budgetary Comparison Schedules are presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

The schedule of changes in liabilities (page 34) is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Here is an overview of the City's financial statements.






Here is a summary of the major features of these financial statement.

| | Government-wide Statements | Fund Statements | |
|---|---|---|---|
| | | Governmental Funds | Enterprise Funds |
| Scope | Entire City (including component units if any) | City activities except enterprise (general fund) | Activities operated like a private business (water and sewer) |
| Required Financial Statements | Statement of Net Position | Balance Sheet | Statement of Net Position |
| Required Financial Statements | Statement of Activities | Statement of Receipts Disbursements and Changes in Fund Balances | Statement of Receipts, Disbursements and Changes in Net Position |
| Basis of Accounting | Modified Cash | Modified Cash | Modified Cash |
| Measurement Focus | Modified Cash | Modified Cash | Modified Cash |
| Types of assets & Liabilities | Only cash No liabilities | Only cash No liabilities | Only cash No liabilities |
| Types of Revenue and Expenditures or Expense | Cash receipts Cash disbursements | Cash receipts Cash disbursements | Cash receipts Cash disbursements |

BASIS OF ACCOUNTING

The City has elected to present its financial statements on a modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to *when* financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities. Under the City's modified cash basis of accounting, revenues, expenses and related assets are recorded when they result from cash transactions, except for the recording of investments.

GOVERNMENT-WIDE STATEMENTS
(Reporting the City as a whole)

The government-wide statements (page 10 to 12) report information about the City as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's cash. The

statement of activities includes all of the City's receipts and disbursements for each year.

The two government-wide statements report the City's net position and how it has changed. Net position is the City's petty cash, checking accounts, savings accounts, certificate of deposit and money market accounts. The change in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the property tax base, and/or sales tax receipts generated from local businesses.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include basic services such care of streets, police protection, parks and recreation. Property taxes, sales taxes, grants and interest earnings finance most of these activities.

The business-type activities account for the City's water and sewer activities. These services are funded by user fees. Bond proceeds and federal and state grants help pay for capital improvements to the water and sewer systems.

FUND FINANCIAL STATEMENTS
(Reporting the City's most significant funds)

The fund financial statements (page 13 to 18) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose like a construction project.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds financial statements provide detail that help you determine whether there is more or fewer cash resources available for spending in the near future to finance the City's programs.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The water and sewer funds are the only enterprise funds maintained by the City.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

For the Two Years Ending December 31, 2022
(Material changes for governmental activities = changes greater than $200,000)
(Material changes for business-type activities = changes greater than $100,000)

| == 2022 == | Increase (Decrease) | Reason |
|---|---|---|
| Governmental Activities: | | |
| Cash | (433,833) | Excess cash disbursements over receipts. |
| Capital grants | (623,106) | 2021 road project nearly complete. |
| Public works | (640,761) | 2021 Major Lake road project nearly complete. |
| Economic development | 786,878 | Community center improvements. |
| Business-type Activities: | | |
| Cash | 162,719 | Excess cash receipts over disbursements. |
| Sewer cost | (123,365) | More sewer improvements in prior year. |

| == 2021 == | Increase (Decrease) | Reason |
|---|---|---|
| Governmental Activities: | | |
| Cash | 604,647 | Excess cash receipts over disbursements. |
| Capital grants | 599,057 | 2021 road project grants. |
| Sales tax receipts | 423,424 | More economic activity. |
| Public works | 296,918 | 2021 Major Lake road project. |
| Economic development | 474,583 | Community center improvements. |
| Business-type Activities: | | |
| Sewer cost | 147,419 | Additional sewer improvements. |

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2022 the City adopted a general fund budget of $1,718,989 which is an increase of $138,615 or 8.78% from 2021. There were no supplemental appropriations in 2022. See page 35 for more information.

In 2021 the City adopted a general fund budget of $1,580,374 which is a decrease of $288,708 or 15.45% from 2020. There were no supplemental appropriations in 2021. See page 36 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

Significant long-term debt activity is reported above.
See also page 34 for more information.

CURRENTLY KNOWN FACTS

In 2023 the City submitted a $49,920 application for an 80/20 Bridge Improvement Grant (BIG).

The City is getting a 100% replacement grant for the Museum Drive Bridge. There is $31,824 available now in the bridge fund for this work, but the project is not expected to be completed until 2026.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Hill City's finance office at P.O. Box 395, Hill City, SD 57745 or telephone us at (605) 574-2300.

CITY OF HILL CITY

TABLE 1 - NET POSITION
MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE STATEMENT OF POSITION
AS OF DECEMBER 31, 2022, 2021, and 2020

| | Governmental Activities | | | Business-Type Activities | | | Total Government | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 |
| Cash assets: | | | | | | | | | |
| Cash | 32,116 | 23,873 | 20,973 | 2,180 | 2,393 | 2,487 | 34,296 | 26,266 | 23,460 |
| Money Market | 2,941,039 | 3,383,536 | 2,782,315 | 1,212,814 | 1,052,430 | 982,833 | 4,153,853 | 4,435,966 | 3,765,148 |
| Certif. of deposit | 210,940 | 210,519 | 209,993 | 321,673 | 319,125 | 318,011 | 532,613 | 529,644 | 528,004 |
| Total | 3,184,095 | 3,617,928 | 3,013,281 | 1,536,667 | 1,373,948 | 1,303,331 | 4,720,762 | 4,991,876 | 4,316,612 |
| Net position: | | | | | | | | | |
| Restricted | 401,413 | 817,594 | 607,232 | 44,349 | 41,351 | 34,574 | 445,762 | 858,945 | 641,806 |
| Unrestricted | 2,782,682 | 2,800,334 | 2,406,049 | 1,492,318 | 1,332,597 | 1,268,757 | 4,275,000 | 4,132,931 | 3,674,806 |
| Total | 3,184,095 | 3,617,928 | 3,013,281 | 1,536,667 | 1,373,948 | 1,303,331 | 4,720,762 | 4,991,876 | 4,316,612 |

TABLE 2 - CHANGES IN NET POSITION
MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE THREE YEARS ENDING DECEMBER 31, 2022

| | Governmental Activities | | | Business-Type Activities | | | Total Government | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 | 2022 | 2021 | 2020 |
| Receipts: | | | | | | | | | |
| Program receipts: | | | | | | | | | |
| Charges for services | 60,615 | 101,242 | 97,632 | 708,997 | 757,766 | 662,150 | 769,612 | 859,008 | 759,782 |
| Operating grants | 95,359 | 199,183 | 2,900 | | | | 95,359 | 199,183 | 2,900 |
| Capital grants | 7,775 | 630,881 | 31,824 | | | | 7,775 | 630,881 | 31,824 |
| General receipts: | | | | | | | | | |
| Property taxes | 619,860 | 577,721 | 559,360 | | | | 619,860 | 577,721 | 559,360 |
| Sales taxes | 1,559,435 | 1,602,519 | 1,179,095 | | | | 1,559,435 | 1,602,519 | 1,179,095 |
| Occupancy tax | 110,076 | 129,300 | 100,402 | | | | 110,076 | 129,300 | 100,402 |
| Other taxes | | 12 | 60 | | | | 0 | 12 | 60 |
| State sources | 37,599 | 35,905 | 36,801 | | | | 37,599 | 35,905 | 36,801 |
| County sources | 29,732 | 29,379 | 28,888 | | | | 29,732 | 29,379 | 28,888 |
| Interest received | 9,485 | 754 | 3,589 | 11,566 | 2,321 | 6,407 | 21,051 | 3,075 | 9,996 |
| Rent and franchise fees | 70,984 | 81,371 | 11,000 | | | | 70,984 | 81,371 | 11,000 |
| Donations | 219 | 80,000 | 4,584 | | | | 219 | 80,000 | 4,584 |
| Miscellaneous | 20,260 | 5,609 | 62 | | | | 20,260 | 5,609 | 62 |
| Total receipts | 2,621,399 | 3,473,876 | 2,056,197 | 720,563 | 760,087 | 668,557 | 3,341,962 | 4,233,963 | 2,724,754 |
| Disbursements: | | | | | | | | | |
| General government | 468,603 | 492,136 | 493,108 | | | | 468,603 | 492,136 | 493,108 |
| Public safety | 211,225 | 209,649 | 203,153 | | | | 211,225 | 209,649 | 203,153 |
| Public works | 303,918 | 944,679 | 647,761 | | | | 303,918 | 944,679 | 647,761 |
| Health and welfare | | 30,000 | 25,000 | | | | 0 | 30,000 | 25,000 |
| Culture/recreation | 317,926 | 252,032 | 190,319 | | | | 317,926 | 252,032 | 190,319 |
| Economic development | 1,555,904 | 769,026 | 294,443 | | | | 1,555,904 | 769,026 | 294,443 |
| Liquor agreement | 2,100 | 2,025 | 2,625 | | | | 2,100 | 2,025 | 2,625 |
| Debt service | 195,556 | 195,924 | 195,860 | | | | 195,556 | 195,924 | 195,860 |
| Water | | | | 222,321 | 230,582 | 190,051 | 222,321 | 230,582 | 190,051 |
| Sewer | | | | 335,523 | 458,888 | 311,469 | 335,523 | 458,888 | 311,469 |
| Total disbursements | 3,055,232 | 2,895,471 | 2,052,269 | 557,844 | 689,470 | 501,520 | 3,613,076 | 3,584,941 | 2,553,789 |
| Net position increase (decrease) before transfers | -433,833 | 578,405 | 3,928 | 162,719 | 70,617 | 167,037 | -271,114 | 649,022 | 170,965 |
| Other financing sources (uses): | | | | | | | | | |
| Sale of surplus property | | 26,242 | 4,850 | | | | 0 | 26,242 | 4,850 |
| Change in net position | -433,833 | 604,647 | 8,778 | 162,719 | 70,617 | 167,037 | -271,114 | 675,264 | 175,815 |
| Net position: | | | | | | | | | |
| December 31, 2019 | | | 3,004,503 | | | 1,136,294 | | | 4,140,797 |
| December 31, 2020 | | 3,013,281 | 3,013,281 | | 1,303,331 | 1,303,331 | | 4,316,612 | 4,316,612 |
| December 31, 2021 | 3,617,928 | 3,617,928 | | 1,373,948 | 1,373,948 | | 4,991,876 | 4,991,876 | |
| December 31, 2022 | 3,184,095 | | | 1,536,667 | | | 4,720,762 | | |

CITY OF HILL CITY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2022

| | Primary Government | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| Assets: | | | |
| Petty cash | 500 | | 500 |
| Checking | 24,750 | 2,180 | 26,930 |
| Checking - library | 6,866 | | 6,866 |
| Money market | 2,941,039 | 1,212,814 | 4,153,853 |
| Certificates of deposit | 210,940 | 321,673 | 532,613 |
| Total assets | 3,184,095 | 1,536,667 | 4,720,762 |
| Net Position: | | | |
| Restricted for: | | | |
| Library | 6,866 | | 6,866 |
| 3rd cent uses | 311,950 | | 311,950 |
| Business Improvement Distr | 50,773 | | 50,773 |
| Bridge | 31,824 | | 31,824 |
| Meter deposits | | 44,349 | 44,349 |
| Unrestricted | 2,782,682 | 1,492,318 | 4,275,000 |
| Total net position | 3,184,095 | 1,536,667 | 4,720,762 |

See accompanying notes.

CITY OF HILL CITY
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2022

| Functions/Programs: | Disbursements | Program Receipts: Charges for Services and Reimbursements | Program Receipts: Operating Grants and Contributions | Program Receipts: Capital Grants and Contributions | Net Receipts (Disbursements) and Changes in Net Position: Governmental Activities | Net Receipts (Disbursements) and Changes in Net Position: Business-type Activities | Totals |
|---|---|---|---|---|---|---|---|
| Primary government: | | | | | | | |
| *Governmental activities:* | | | | | | | |
| General government | 468,603 | 26,552 | | | -442,051 | | -442,051 |
| Public safety | 211,225 | | 94,359 | | -116,866 | | -116,866 |
| Public works | 303,918 | 5,452 | | 7,775 | -290,691 | | -290,691 |
| Health and welfare | 0 | | 1,000 | | 1,000 | | 1,000 |
| Culture and recreation | 317,926 | 5,811 | | | -312,115 | | -312,115 |
| Economic development | 1,555,904 | | | | -1,555,904 | | -1,555,904 |
| Liquor agreements | 2,100 | 22,800 | | | 20,700 | | 20,700 |
| Debt service | 195,556 | | | | -195,556 | | -195,556 |
| Total governmental activities | 3,055,232 | 60,615 | 95,359 | 7,775 | -2,891,483 | 0 | -2,891,483 |
| *Business-type activities:* | | | | | | | |
| Water | 222,321 | 324,039 | | | | 101,718 | 101,718 |
| Sewer | 335,523 | 384,958 | | | | 49,435 | 49,435 |
| Total business-type activities | 557,844 | 708,997 | 0 | 0 | 0 | 151,153 | 151,153 |
| Total primary government | 3,613,076 | 769,612 | 95,359 | 7,775 | -2,891,483 | 151,153 | -2,740,330 |
| General receipts: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 619,860 | | 619,860 |
| Sales taxes | | | | | 1,559,435 | | 1,559,435 |
| Occupancy tax | | | | | 110,076 | | 110,076 |
| State shared receipts | | | | | 37,599 | | 37,599 |
| County shared receipts | | | | | 29,732 | | 29,732 |
| Interest received | | | | | 9,485 | 11,566 | 21,051 |
| Rent and franchise fees | | | | | 70,984 | | 70,984 |
| Donations | | | | | 219 | | 219 |
| Miscellaneous | | | | | 20,260 | | 20,260 |
| Transfers | | | | | 0 | | 0 |
| Total general receipts | | | | | 2,457,650 | 11,566 | 2,469,216 |
| Change in net position | | | | | -433,833 | 162,719 | -271,114 |
| Net position: | | | | | | | |
| January 1, 2022 | | | | | 3,617,928 | 1,373,948 | 4,991,876 |
| December 31, 2022 | | | | | 3,184,095 | 1,536,667 | 4,720,762 |

See accompanying notes.

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

| Functions/Programs: | Disbursements | Program Receipts: Charges for Services and Reimbursements | Program Receipts: Operating Grants and Contributions | Program Receipts: Capital Grants and Contributions | Net Receipts (Disbursements) and Changes in Net Position: Governmental Activities | Net Receipts (Disbursements) and Changes in Net Position: Business-type Activities | Totals |
|---|---|---|---|---|---|---|---|
| Primary government: | | | | | | | |
| *Governmental activities:* | | | | | | | |
| General government | 492,136 | 60,109 | | | -432,027 | | -432,027 |
| Public safety | 209,649 | | 198,473 | | -11,176 | | -11,176 |
| Public works | 944,679 | 7,550 | | 630,881 | -306,248 | | -306,248 |
| Health and welfare | 30,000 | | | | -30,000 | | -30,000 |
| Culture and recreation | 252,032 | 5,983 | 710 | | -245,339 | | -245,339 |
| Economic development | 769,026 | | | | -769,026 | | -769,026 |
| Liquor agreements | 2,025 | 27,600 | | | 25,575 | | 25,575 |
| Debt service | 195,924 | | | | -195,924 | | -195,924 |
| Total governmental activities | 2,895,471 | 101,242 | 199,183 | 630,881 | -1,964,165 | 0 | -1,964,165 |
| *Business-type activities:* | | | | | | | |
| Water | 230,582 | 347,318 | | | | 116,736 | 116,736 |
| Sewer | 458,888 | 410,448 | | | | -48,440 | -48,440 |
| Total business-type activities | 689,470 | 757,766 | 0 | 0 | 0 | 68,296 | 68,296 |
| Total primary government | 3,584,941 | 859,008 | 199,183 | 630,881 | -1,964,165 | 68,296 | -1,895,869 |
| General receipts: | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 577,721 | | 577,721 |
| Sales taxes | | | | | 1,602,519 | | 1,602,519 |
| Occupancy tax | | | | | 129,300 | | 129,300 |
| Amusement taxes | | | | | 12 | | 12 |
| State shared receipts | | | | | 35,905 | | 35,905 |
| County shared receipts | | | | | 29,379 | | 29,379 |
| Interest received | | | | | 754 | 2,321 | 3,075 |
| Rents and franchise fees | | | | | 81,371 | | 81,371 |
| Donations | | | | | 80,000 | | 80,000 |
| Miscellaneous | | | | | 5,609 | | 5,609 |
| Sale of surplus property | | | | | 26,242 | | 26,242 |
| Transfers | | | | | 0 | | 0 |
| Total general receipts | | | | | 2,568,812 | 2,321 | 2,571,133 |
| Change in net position | | | | | 604,647 | 70,617 | 675,264 |
| Net position: | | | | | | | |
| January 1, 2021 | | | | | 3,013,281 | 1,303,331 | 4,316,612 |
| December 31, 2021 | | | | | 3,617,928 | 1,373,948 | 4,991,876 |

See accompanying notes.

CITY OF HILL CITY

BALANCE SHEET -- MODIFIED CASH BASIS
ALL GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2022

| | General Fund | 3rd Cent Fund | Business Improvement District Fund | Debt Service Fund | Bridge Fund | Total |
|---|---|---|---|---|---|---|
| ASSETS: | | | | | | |
| Petty cash | 500 | | | | | 500 |
| Checking | 16,704 | | 8,046 | | | 24,750 |
| Checking - library | 6,866 | | | | | 6,866 |
| Money market | 2,554,538 | 311,950 | 42,727 | 0 | 31,824 | 2,941,039 |
| Certificates of deposits | 210,940 | | | | | 210,940 |
| Total assets | 2,789,548 | 311,950 | 50,773 | 0 | 31,824 | 3,184,095 |
| FUND BALANCES: | | | | | | |
| Nonspendable | | | | | | 0 |
| Restricted | 6,866 | 311,950 | 50,773 | 0 | 31,824 | 401,413 |
| Committed | 333,679 | | | | | 333,679 |
| Assigned | 1,052,700 | | | | | 1,052,700 |
| Unassigned | 1,396,303 | | | | | 1,396,303 |
| Total fund balances | 2,789,548 | 311,950 | 50,773 | 0 | 31,824 | 3,184,095** |

** Equals net position on
statement of net position

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2022

| | General Fund | 3rd Cent Fund | Business Improvement District Fund | Debt Service Fund | Bridge Fund | Total |
|---|---|---|---|---|---|---|
| Receipts: | | | | | | |
| Local sources: | | | | | | |
| Taxes: | | | | | | |
| Ad valorem taxes | 619,860 | | | | | 619,860 |
| General sales and use taxes | 1,330,149 | 229,286 | | | | 1,559,435 |
| Occupancy tax | | | 110,076 | | | 110,076 |
| Licenses and permits: | 26,552 | | | | | 26,552 |
| Intergovernmental: | | | | | | |
| Federal grant: CARES | 94,358 | | | | | 94,358 |
| Federal grant: Major Lake bridge | 7,775 | | | | | 7,775 |
| State shared revenue: | | | | | | |
| Grant: Mosquito | 1,000 | | | | | 1,000 |
| Bank franchise tax | 7,483 | | | | | 7,483 |
| Motor vehicles - commercial | 1,501 | | | | | 1,501 |
| Liquor tax reversion | 6,110 | | | | | 6,110 |
| Motor vehicle licenses (5%) | 14,182 | | | | | 14,182 |
| Highway and bridge | 8,323 | | | | | 8,323 |
| County shared revenue: library | 29,732 | | | | | 29,732 |
| Charges for goods and services: | | | | | | |
| General government | 9,140 | | | | | 9,140 |
| Cemetery | 5,452 | | | | | 5,452 |
| Library | 5,811 | | | | | 5,811 |
| Miscellaneous: | | | | | | |
| Interest received | 9,486 | | | | | 9,486 |
| Rents and franchise fees | 70,984 | | | | | 70,984 |
| Donations | 219 | | | | | 219 |
| Liquor operating agreement | 22,800 | | | | | 22,800 |
| Other | 11,120 | | | | | 11,120 |
| Total receipts | 2,282,037 | 229,286 | 110,076 | 0 | 0 | 2,621,399 |
| Disbursements: | | | | | | |
| Current: | | | | | | |
| General government: | | | | | | |
| Mayor and Council | 55,142 | | | | | 55,142 |
| City administration | 119,902 | | | | | 119,902 |
| Elections | | | | | | 0 |
| Financial administration | 183,351 | | | | | 183,351 |
| Planning Commission | 7,105 | | | | | 7,105 |
| Other | 95,548 | | | | | 95,548 |
| Public safety: | | | | | | |
| Police | 132,423 | | | | | 132,423 |
| Fire | 1,415 | | | | | 1,415 |
| Development services | 77,387 | | | | | 77,387 |
| Public works: | | | | | | |
| Streets | 279,707 | | | | | 279,707 |
| Cemetery | 12,181 | | | | | 12,181 |
| Health and welfare: | | | | | | |
| Ambulance | | | | | | 0 |
| Culture and recreation: | | | | | | |
| Recreation | 56,240 | | | | | 56,240 |
| Parks | 98,590 | | | | | 98,590 |
| Library | 119,214 | | | | | 119,214 |
| Conservation and development: | | | | | | |
| Economic development | | 266,547 | 10,871 | | | 277,418 |
| Debt service: | | | | | | |
| Principal | | | | 172,000 | | 172,000 |
| Interest | | | | 23,556 | | 23,556 |
| Miscellaneous: | | | | | | |
| Liquor operating agreement | 2,100 | | | | | 2,100 |
| Capital outlay | 63,467 | | 1,278,486 | | | 1,341,953 |
| Total disbursements | 1,303,772 | 266,547 | 1,289,357 | 195,556 | 0 | 3,055,232 |
| Excess of receipts over (under) disbursements | 978,265 | -37,261 | -1,179,281 | -195,556 | 0 | -433,833 |
| Other financing sources (uses): | | | | | | |
| Transfer in (out) | -996,056 | 500 | 800,000 | 195,556 | | 0 |
| Net change in fund balance | -17,791 | -36,761 | -379,281 | 0 | 0 | -433,833** |
| Fund balance: | | | | | | |
| January 1, 2022 | 2,807,339 | 348,711 | 430,054 | 0 | 31,824 | 3,617,928 |
| December 31, 2022 | 2,789,548 | 311,950 | 50,773 | 0 | 31,824 | 3,184,095 |

** Equals change in net position on Statement of Activities

See accompanying notes.

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

| Receipts: | General Fund | 3rd Cent Fund | Business Improvement District Fund | Debt Service Fund | Bridge Fund | Total |
|---|---|---|---|---|---|---|
| Local sources: | | | | | | |
| Taxes: | | | | | | |
| Ad valorem taxes | 577,721 | | | | | 577,721 |
| General sales and use taxes | 1,331,551 | 270,968 | | | | 1,602,519 |
| Occupancy tax | | | 129,300 | | | 129,300 |
| Amusement taxes | 12 | | | | | 12 |
| Licenses and permits: | 56,801 | | | | | 56,801 |
| Intergovernmental: | | | | | | |
| Federal grant: CARES | 198,473 | | | | | 198,473 |
| Federal grant: Major Lake bridge | 545,423 | | | | | 545,423 |
| State shared revenue: | | | | | | |
| Grant: Major Lake bridge | 85,458 | | | | | 85,458 |
| Grant: Mosquitos | 710 | | | | | 710 |
| Bank franchise tax | 6,565 | | | | | 6,565 |
| Motor vehicles - commercial | -25 | | | | | -25 |
| Liquor tax reversion | 6,801 | | | | | 6,801 |
| Motor vehicle licenses (5%) | 14,307 | | | | | 14,307 |
| Highway and bridge | 8,257 | | | | | 8,257 |
| County shared revenue: library | 29,379 | | | | | 29,379 |
| Charges for goods and services: | | | | | | |
| General government | 3,308 | | | | | 3,308 |
| Cemetery | 7,550 | | | | | 7,550 |
| Library | 5,983 | | | | | 5,983 |
| Miscellaneous: | | | | | | |
| Interest received | 754 | | | | | 754 |
| Rents and franchise fees | 81,371 | | | | | 81,371 |
| Donations | | | 80,000 | | | 80,000 |
| Liquor operating agreement | 27,600 | | | | | 27,600 |
| Other | 5,609 | | | | | 5,609 |
| Total receipts | 2,993,608 | 270,968 | 209,300 | 0 | 0 | 3,473,876 |
| Disbursements: | | | | | | |
| Current: | | | | | | |
| General government: | | | | | | |
| Mayor and Council | 52,189 | | | | | 52,189 |
| City administration | 118,162 | | | | | 118,162 |
| Elections | | | | | | 0 |
| Financial administration | 184,061 | | | | | 184,061 |
| Planning Commission | 8,236 | | | | | 8,236 |
| Other | 124,316 | | | | | 124,316 |
| Public safety: | | | | | | |
| Police | 128,566 | | | | | 128,566 |
| Fire | 1,642 | | | | | 1,642 |
| Development services | 79,441 | | | | | 79,441 |
| Public works: | | | | | | |
| Streets | 119,551 | | | | | 119,551 |
| Cemetery | 15,532 | | | | | 15,532 |
| Health and welfare: | | | | | | |
| Ambulance | 30,000 | | | | | 30,000 |
| Culture and recreation: | | | | | | |
| Recreation | 15,000 | | | | | 15,000 |
| Parks | 102,381 | | | | | 102,381 |
| Library | 112,479 | | | | | 112,479 |
| Conservation and development: | | | | | | |
| Economic development | | 222,651 | 119,868 | | | 342,519 |
| Debt service: | | | | | | |
| Principal | | | | 168,000 | | 168,000 |
| Interest | | | | 27,924 | | 27,924 |
| Miscellaneous: | | | | | | |
| Liquor operating agreement | 2,025 | | | | | 2,025 |
| Capital outlay | 836,940 | | 426,507 | | | 1,263,447 |
| Total disbursements | 1,930,521 | 222,651 | 546,375 | 195,924 | 0 | 2,895,471 |
| Excess of receipts over (under) disbursements | 1,063,087 | 48,317 | -337,075 | -195,924 | 0 | 578,405 |
| Other financing sources (uses): | | | | | | |
| Transfer in (out) | -696,449 | 525 | 500,000 | 195,924 | | 0 |
| Sale of surplus property | 26,242 | | | | | 26,242 |
| Net change in fund balance | 392,880 | 48,842 | 162,925 | 0 | 0 | 604,647** |
| Fund balance: | | | | | | |
| January 1, 2021 | 2,414,459 | 299,869 | 267,129 | 0 | 31,824 | 3,013,281 |
| December 31, 2021 | 2,807,339 | 348,711 | 430,054 | 0 | 31,824 | 3,617,928 |

** Equals change in net position on Statement of Activities

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
ENTERPRISE FUNDS
AS OF DECEMBER 31, 2022

| | Water Fund | Sewer Fund | Total Enterprise Funds |
|---|---|---|---|
| Assets: | | | |
| Current assets: | | | |
| Checking | 1,402 | 778 | 2,180 |
| Money market | 769,280 | 443,534 | 1,212,814 |
| Certificates of deposit | | 321,673 | 321,673 |
| Total assets | 770,682 | 765,985 | 1,536,667 |
| Net Position: | | | |
| Restricted: | | | |
| Meter deposits | 35,650 | 8,699 | 44,349 |
| Unrestricted | 735,032 | 757,286 | 1,492,318 |
| Total net position | 770,682 | 765,985 | 1,536,667 |

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN NET POSITION -- MODIFIED CASH BASIS
ENTERPRISE FUNDS
FOR THE TWO YEARS ENDING DECEMBER 31, 2022

| | Water Fund | Sewer Fund | 2022 Total | Water Fund | Sewer Fund | 2021 Total |
|---|---|---|---|---|---|---|
| Operating receipts: | | | | | | |
| Charges for goods and services | 324,039 | 384,958 | 708,997 | 347,318 | 410,448 | 757,766 |
| Total operating receipts | 324,039 | 384,958 | 708,997 | 347,318 | 410,448 | 757,766 |
| Operating disbursements: | | | | | | |
| Personal services | 125,184 | 149,403 | 274,587 | 102,040 | 183,962 | 286,002 |
| Other current services | 71,275 | 184,371 | 255,646 | 83,234 | 127,018 | 210,252 |
| Capital purchases | 25,862 | 1,749 | 27,611 | 45,308 | 147,908 | 193,216 |
| Total operating disbursement | 222,321 | 335,523 | 557,844 | 230,582 | 458,888 | 689,470 |
| Excess operating receipts (disbursements) | 101,718 | 49,435 | 151,153 | 116,736 | -48,440 | 68,296 |
| Nonoperating receipts (disbursements): | | | | | | |
| Interest received | 4,509 | 7,057 | 11,566 | 102 | 2,219 | 2,321 |
| Total nonoperating receipts (di | 4,509 | 7,057 | 11,566 | 102 | 2,219 | 2,321 |
| Transfers - none | | | 0 | | | 0 |
| Change in net position | 106,227 | 56,492 | 162,719 | 116,838 | -46,221 | 70,617 |
| Net position: | | | | | | |
| January 1, 2021 | | | | 547,617 | 755,714 | 1,303,331 |
| December 31, 2021 | 664,455 | 709,493 | 1,373,948 | 664,455 | 709,493 | 1,373,948 |
| December 31, 2022 | 770,682 | 765,985 | 1,536,667 | | | |

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
ENTERPRISE FUNDS
FOR THE TWO YEARS ENDING DECEMBER 31, 2022

| | Water Fund | Sewer Fund | 2022 Total | Water Fund | Sewer Fund | 2021 Total |
|---|---|---|---|---|---|---|
| Cash flows from: | | | | | | |
| Operating activities: | | | | | | |
| Receipts from customers | 324,039 | 384,958 | 708,997 | 347,318 | 410,448 | 757,766 |
| Payments to employees | -125,184 | -149,403 | -274,587 | -102,040 | -183,962 | -286,002 |
| Payments to suppliers | -71,275 | -184,371 | -255,646 | -83,234 | -127,018 | -210,252 |
| Payments for capital items | -25,862 | -1,749 | -27,611 | -45,308 | -147,908 | -193,216 |
| Net cash provided (used) by operating activities | 101,718 | 49,435 | 151,153 | 116,736 | -48,440 | 68,296 |
| Noncapital financing activities: | | | | | | |
| None | | | 0 | | | 0 |
| Capital financing activities: | | | | | | |
| None | | | 0 | | | 0 |
| Investing activities: | | | | | | |
| Interest received | 4,509 | 7,057 | 11,566 | 102 | 2,219 | 2,321 |
| Purchase certificates of deposit | | -2,548 | -2,548 | | -1,114 | -1,114 |
| Net increase (decrease) in cash and cash equivalents | 106,227 | 53,944 | 160,171 | 116,838 | -47,335 | 69,503 |
| Cash: | | | | | | |
| January 1, 2021 | | | | 547,617 | 437,703 | 985,320 |
| December 31, 2021 | 664,455 | 390,368 | 1,054,823 | 664,455 | 390,368 | 1,054,823 |
| December 31, 2022 | 770,682 | 444,312 | 1,214,994 | | | |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | | | |
| Operating income (loss) | 101,718 | 49,435 | 151,153 | 116,736 | -48,440 | 68,296 |
| Net cash provided (used) by operating activities | 101,718 | 49,435 | 151,153 | 116,736 | -48,440 | 68,296 |

Noncash investing, capital and financing activities: None

See accompanying notes.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity:

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

The City's officials at December 31, 2022 are:

| | |
|---|---|
| Mayor: | City Administrator: |
| Kathy Skorzewski | Brett McMacken |
| | |
| Alderpersons: | Finance Officer |
| Carl Doaty, Jr., President | Stacia Tallon |
| Gary Auch | |
| Jason Gillaspie | Attorney: |
| Dale Householder | Katelyn Cook |

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
- Primary Government: - City of Hill City
- Component Units: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Hill City consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organiza- tions for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the City of Hill City does not have any component units.

b. Basis of Presentation:

*Government-wide Financial Statements:*

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

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

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

*Fund Financial Statements:*

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

a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and

b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

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

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

*Governmental Funds*

*General Fund - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.*

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

3rd Cent Sales Tax Fund - A fund allowed by SDCL 10-52-8 to account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including promotion and advertising of the City. The 3rd cent sales tax fund is a major fund.

Business Improvement District Fund - A fund allowed by SDCL 9-55 to account for the collection of a $2.00 per night lodging establishment occupancy tax for the purpose of improving Hill City's business district. The business improvement district fund is a major fund.

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

Debt Service Fund - A fund allowed by SDCL 11-9-24 to account for the proceeds of property taxes, restricted to the payment of principal and interest on the City's 2015 general obligation bond. The debt service fund is a major fund.

*Capital Project Funds - capital project 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 and trust funds for individuals, private organizations, or other governments). The City has the following capital project fund:*

Museum Drive Bridge Fund - the City received a maximum grant of $31,824 from the State of South Dakota to improve this bridge. The Museum Drive Bridge fund is a major fund.

*Enterprise Funds*
(Business-Type)

*Enterprise Funds - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:*

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Hill City. The water fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Hill City. The sewer fund is a major fund.

*Fiduciary Funds*

Fiduciary funds are never considered to be major funds.

The City of Hill City has no fiduciary funds.

c. Measurement Focus and Basis of Accounting:

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

focus. The City's basis of accounting is the modified cash basis of accounting, which is a basis of accounting other than United States generally accepted accounting principals (US-GAAP). Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

*Government-wide Financial Statements:*

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

*Fund Financial Statements:*

In the fund financial statements, the "current financial resources" measurement focus is used for governmental funds and the "economic resources" measurement focus is used for enterprise funds, both applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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

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

d. <u>Cash and Cash Equivalents</u>:

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

The City's certificates of deposit have a maturity of more than three months when purchased and are not considered a cash equivalent.

e. Interfund Transactions:

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

f. Program Receipts and General Receipts:

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

1. Charges for services - These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.

2. Program-specific operating grants and contribution - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

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

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

g. Enterprise Fund Receipt Classifications:

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

h. Equity Classifications:

*Government-wide financial Statements:*

Equity is classified as net position and is displayed in two components:

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

2. Unrestricted Net Position - All other net position that does not meet the definition of "restricted net position".

*Fund Financial Statements:*

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

i. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

j. Fund Balance Classification Policies and Procedures:

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

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

The City of Hill City December 31, 2022 fund cash balance classifications are made up of:

| Fund Balance Classifications | Account or Fund | Authority or Action | Amount |
|---|---|---|---|
| Nonspendable | None | | 0 |
| Restricted | Library | Statute | 6,866 |
| | 3rd Cent | Statute | 311,950 |
| | Business Imp. Dist. | Statute | 50,773 |
| | Debt service | Covenant | 0 |
| | Bridge | Contract | 31,824 |
| Committed | Street improvements | Ordinance | 333,679 |
| Assigned | Emergencies when declared by the Common Council | Resolution | 750,000 |
| | Parks | Finance officer | 302,700 |
| Unassigned | General | | 1,396,303 |
| | | | 3,184,095 |

The City uses "restricted" and "committed" amounts first when 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 cash balance policy.

The purpose of each special revenue fund is given on page 21 above and the revenue source is:

| Special Revenue Fund: | Revenue Source: (see page 14 and 15) |
|---|---|
| * 3rd Cent | Sales tax |
| * Business Improvement District | Occupancy tax |

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

*Budget Overdrafts:*

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2021 the general fund went over its pubic works/ street budget by $509,345 because of the Major Lake road project. The 3rd Cent fund went over its 2021 budget by $2,651.

These are not considered significant overdraft of departmental expenditures compared to appropriations. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

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

Investments - In general, SDCL 4-5-6 permits City money to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a); or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires that investments shall 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.

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

Actual bank balances at December 31, 2022 were as follows: Insured $582,992, Collateralized ** $4,186,380 for a total of $4,769,372.

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

The carrying amount of these deposits plus $500 of petty cash at December 31, 2022 was $4,720,762 held as follows.

| | |
|---|---|
| First Interstate Bank (Hill City, SD): | |
| Checking | $ 33,796 |
| Money Market | 4,153,853 |
| Black Hills Community Bank (Rapid City, SD): | |
| Certificates of deposit | 532,613 |
| Petty cash | 500 |
| | $ 4,720,762 |

Certificates of deposit, with a term to maturity of greater than 90 days when purchased, are insured or collateralized and are considered deposits.

Custodial Deposit Risk - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2022 the City's cash deposits in financial institutions were not exposed to custodial deposit risk. The City's deposits are with First Interstate Bank and Black Hills Community Bank.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one institution.

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

Investment Custodial Risk - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty. At December 31, 2022 the City's investments in financial institutions were not exposed to investment custodial risk.

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.

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 deposits and investments to the general fund except for enterprise fund interest.

4. RESTRICTED NET POSITION

The following table shows the December 31, 2022 net position restricted for specific purposes as shown on the statement of net position

| Purpose: | Restricted By: | Governmental | Business-Type |
|---|---|---|---|
| Library | Statute | 6,866 | |
| 3rd cent | Statute | 311,950 | |
| Business Improvement Dist. | Statute | 50,773 | |
| Bridge | Contract | 31,824 | |
| Debt service | Covenant | 0 | |
| Water: Meter deposits | Contracts | | 35,650 |
| Sewer: Meter deposits | Contracts | | 8,699 |
| Total Restricted Net Position | | 401,413 | 44,349 |

5. WATER AND SEWER FUNDS CAPITAL IMPROVEMENT BALANCE IN UNRESTRICTED NET POSITION

A City resolution establishes capital improvement rates of $0.00175 per gallon for water and $0.001 per gallon for sewer. At December 31, 2022 the water fund's capital improvement balance is determined to be $362,270, which is included in the water fund's unrestricted net position. At December 31, 2022 the sewer fund's capital improvement balance is determined to be $109,756, which is included in the sewer fund's unrestricted net position.

6. REFUNDING OF $2,600,000 GENERAL OBLIGATION BOND - SERIES 2007

On October 1, 2015, the City of Hill City issued $1,846,000 General Obligation Bonds, Series 2015, with an average interest rate of 2.557686% to refund General Obligation Bonds, Series 2007 dated June 4, 2007 with an average remaining interest rate of 4.525% and unpaid principal of $1,935,000 at October 1, 2015. The final maturity of the Series 2015 bonds is December 15, 2026. However, the "Term Certificate Maturing in 2026" [R2 for the years 2021 to 2026] may be redeemed on or after December 15, 2021 at option of the City. The City refunded this debt to reduce total debt service over the next 11 years by $225,076 and to obtain an economic gain of $177,989.

The Series 2015 bonds are paid by a debt service fund with a transfer from the general fund.

7. GENERAL FUND LOAN OF $500,000 TO BUSINESS IMPROVEMENT DISTRICT FUND TRANSFERS BETWEEN FUNDS

On December 13, 2021 the Hill City Common Council agreed to have the General Fund loan the Business Improvement District (BID) Fund $500,000 at 2.0% to be repaid with an annual payment of $90,000 per year for a term of 6 years. Because this is a cash basis financial statement, this transaction is referred to as a transfer between funds. In October 2023 the BID Fund made its first payment of $80,000 principal and $10,000 to the General Fund.

In 2021 the general fund transferred $525 to the 3rd cent fund for operations, $195,924 to the debt service fund for a Series 2015 bond payment, and $500,000 to the business improvement district fund as a loan, described above, to cover part of the cost of the Hill City Center project.

In 2022 the general fund transferred $500 to the 3rd cent fund for operations, $195,556 to the debt service fund for a Series 2015 bond payment, and $800,000 to the business improvement district fund as a gift to cover part of the cost of the Hill City Center project.

8. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension (assets)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Information:

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

Benefits Provided:

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

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

Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

> Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.

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

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

Legislation enacted in 2021 reduced the minimum COLA from .05% to 0.0%. percent.

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

Contributions:

Per SDCL 3-12, contributions requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following

percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the years ending December 31, 2022, 2021 and 2020 were $37,792, $35,611, and $33,401, respectively (employer's share) equal to the required contribution each year.

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

At June 30, 2022 SDRS is 100.1% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2022 and reported by the City as of December 31, 2022 are as follows:

| | |
|---|---|
| Proportionate share of total pension liability | $ 3,539,319 |
| Less: Proportionate share of net position restricted for pension benefits | (3,541,688) |
| Proportionate share of net pension (asset)/liability | $ (2,369) |

The net pension liability (asset) was measured as of June 30, 2022 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was .000250720 which is a decrease of .00001001 over its proportion measured as of June 30, 2021.

Actuarial Assumptions:

The total pension liability in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---|---|
| Inflation | 2.50% |
| Salary Increases | Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service |
| Discount Rate | 6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real return of 4.00% |
| Future COLAs | 2.10% |
| Mortality rates: | All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020 |

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

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

Beneficiaries:
Pub G-2010 contingent survivor mortality table
Disabled Members:
Public Safety: Pub S-2010 disabled member mortality table
Others: Pub G-2010 disabled member mortality table

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

Investments

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate:

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

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

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

| | 1% Decrease 5.50% | Current Discount Rate 6.50% | 1% Increase 7.50% |
|---|---|---|---|
| City's proportionate share of the net pension (asset)/liability | $491,997 | (2,369) | $(406,397) |

Pension Plan Fiduciary Net Position:

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

9. PROPERTY TAX

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

The 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.

10. LITIGATION

At December 31, 2022 the City was a party to litigation. However, as discussed in the risk management note below, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Any potential litigation liability is not expected to have a material effect on the City's financial statements.

11. INSURANCE

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 two years ending December 31, 2022 the City managed its risks as follows:

Employee Health Insurance:

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The policy has a maximum per year out-of-pocket deductible of $2,000 for a single person and $4,000 for a family.

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

Property and 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 an occurrence-based policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, auto liability, auto damage, property, and equipment breakdown insurance.

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

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

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program.

The 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 add- ition to a separate combined employer liability limit of $2,000,000 per incident.

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

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the two years ending December 31, 2022 the City did not made any unemployment insurance payments. No unemployment benefits were paid in 2023.

12. TAX INCREMENT FINANCE DISTRICTS (TIFs)

TIF #1 (Sunset Creek) with original authorized expenditures of $406,500 was paid-off in 2015.

TIF #2 (Bull Run) has eligible project cost of $2,000,000 paid by the developer, which includes $1,221,000 of TIF improvement cost. The TIF improvement cost will be repaid to the developer from an incremental increase in property taxes. See page 34.

TIF #3 (Ranger Square) has eligible project cost of $2,350,000 paid by the developer, which includes $1,525,000 of TIF improvement cost. The TIF improvement cost will be repaid to the developer from an incremental increase in property taxes. TIF #3 Development Agreement was submitted to Hill City Common Council in September 2022 but was not approved by the Council until November 27, 2023 and is not included in the City's Schedule of Changes in Long-Term Liabilities.

13 TAX ABATEMENTS

As of December 31, 2022 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

14. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City does not operate a landfill or rubble site.

The City does not have any material related party activities.

The City does not offer any "Other Post Employment Benefits".

The 2021 and 2022 tax levies do not include an opt out.

In 2023 the City submitted a $49,920 application for an 80/20 Bridge Improvement Grant (BIG).

The City is getting a 100% replacement grant for the Museum Drive Bridge. There is $31,824 available now in the bridge fund for this work, but the project is not expected to be completed until 2026.

CITY OF HILL CITY
SCHEDULE OF CHANGES IN LONG-TERM LIABILITIES
FOR THE TWO YEARS ENDING DECEMBER 31, 2022

| | Beginning 12-31-20 | 2021 Additions (Deletions) | 2022 Additions (Deletions) | Governmental Funds Ending 12-31-22 | Enterprise Funds Ending 12-31-22 | Principal Payments Due in 2023 |
|---|---|---|---|---|---|---|
| GOVERNMENTAL - DIRECT BORROWING | | | | | | |
| 2015 General Obligation Refunding Bond: | | | | | | |
| Original advance: $1,846,000 | | | | | | |
| Maturing in December 15, 2026 | | | | | | |
| Fixed interest from 2.40% to 2.60% | | | | | | |
| Refunding of 2007 General Obligation Bond | | | | | | |
| R2 certificates due between 2021 and 2026 | | | | | | |
| can be prepaid on or after 2021 | | | | | | |
| Paid by the Debt Service Fund | 1,074,000 | -168,000 | -172,000 | 734,000 | | 176,000 |
| GOVERNMENTAL - OTHER DEBT | | | | | | |
| 2022 Advance from General to BID Fund: | | | | | | |
| Original advance: $500,000 | | | | | | |
| Maturing in 2027 | | | | | | |
| Fixed interest ay 2.00% | | | | | | |
| To support BID Fund capital improvements | | | | | | |
| To be repaid from BID Fund occupancy tax receipts | 0 | 500,000 | | 500,000 | | 80,000 |
| 2020 Developer Advance to TIF #2 (Bull Run): | | | | | | |
| Total advance: $1,221,000 | | | | | | |
| Repayment from incremental tax revenues received from Pennington County over a period of 20 years and passed through the general to the developer | 1,289,078 adjusted 0 | 71,875 | 75,881 | 1,436,834 | | -6,719 |
| BUSINESS-TYPE - NONE | | | | | | |
| Totals | 2,363,078 | 403,875 | -96,119 | 2,670,834 | 0 | 249,281 |

SCHEDULE OF PAYMENTS FOR LONG-TERM LIABILITIES
AT DECEMBER 31, 2022

| | Total Payment | Principal | Interest | Balance |
|---|---|---|---|---|
| 2015 General Obligation Bond: | | | | |
| 2023 | 195,084 | 176,000 | 19,084 | 558,000 |
| 2024 | 195,508 | 181,000 | 14,508 | 377,000 |
| 2025 | 195,802 | 186,000 | 9,802 | 191,000 |
| 2026 | 195,966 | 191,000 | 4,966 | 0 |
| Totals | 782,360 | 734,000 | 48,360 | |

| | Total Payment | Principal | Interest | Balance |
|---|---|---|---|---|
| 2022 Advance from General to BID Fund: | | | | |
| 2023 | 90,000 | 80,000 | 10,000 | 420,000 |
| 2024 | 90,000 | 81,600 | 8,400 | 338,400 |
| 2025 | 90,000 | 83,232 | 6,768 | 255,168 |
| 2026 | 90,000 | 84,897 | 5,103 | 170,271 |
| 2027 | 90,000 | 86,595 | 3,405 | 83,676 |
| 2028 | 85,350 | 83,676 | 1,674 | 0 |
| Totals | 535,350 | 500,000 | 35,350 | |

| | Total Payment | Principal | Interest | Balance |
|---|---|---|---|---|
| 2020 Developer Advance to TIF #2 (Bull Run): | | | | |
| 2023 | 72,125 | -6,719 | 78,844 | 1,443,553 |
| 2024 | 100,968 | 21,869 | 79,099 | 1,421,684 |
| 2025 | 100,968 | 23,088 | 77,880 | 1,398,596 |
| 2026 | 100,968 | 24,375 | 76,593 | 1,374,221 |
| 2027 | 100,968 | 25,734 | 75,234 | 1,348,487 |
| 2028-2032 | 504,838 | 151,864 | 352,974 | 1,196,623 |
| 2033-2037 | 504,838 | 199,192 | 305,646 | 997,431 |
| 2038-2042 | 504,838 | 261,271 | 243,567 | 736,160 |
| 2043-2047 | 504,838 | 342,696 | 162,142 | 393,464 |
| 2048-2052 | 448,953 | 393,464 | 55,489 | 0 |
| Totals | 2,944,302 | 1,436,834 | 1,507,468 | |

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

| GENERAL FUND | Budgeted Amounts | | | | Actual | Variance |
|---|---|---|---|---|---|---|
| Receipts: | Original | Contingency Transfers | Supplementals | Final | (Modified Cash Basis) | Positive (Negative) |
| Receipts from local sources: | | | | | | |
| Taxes: | | | | | | |
| Ad valorem taxes | 599,711 | | | 599,711 | 619,860 | 20,149 |
| Sales and use tax | 949,977 | | | 949,977 | 1,330,149 | 380,172 |
| Amusement tax | | | | 0 | | 0 |
| Licenses and permits: | 32,200 | | | 32,200 | 26,552 | -5,648 |
| Intergovernmental receipts: | | | | | | |
| Federal grant - CARES | | | | 0 | 94,358 | 94,358 |
| Federal grant - Major Lake bridge | | | | 0 | 7,775 | 7,775 |
| State shared revenue: | | | | | | |
| Grant - Mosquito | | | | 0 | 1,000 | 1,000 |
| Bank franchise tax | 6,000 | | | 6,000 | 7,483 | 1,483 |
| Motor vehicles - commercial | 1,000 | | | 1,000 | 1,501 | 501 |
| Liquor tax reversion | 6,000 | | | 6,000 | 6,110 | 110 |
| Motor vehicle licenses (5%) | 11,000 | | | 11,000 | 14,182 | 3,182 |
| Highway and bridge | 7,600 | | | 7,600 | 8,323 | 723 |
| County shared revenue: library | 29,732 | | | 29,732 | 29,732 | 0 |
| Charges for goods and services: | | | | | | |
| General government | 195,000 | | | 195,000 | 9,140 | -185,860 |
| Cemetery | 1,900 | | | 1,900 | 5,452 | 3,552 |
| Library | | | | 0 | 5,811 | 5,811 |
| Miscellaneous receipts: | | | | | | 0 |
| Interest received | 700 | | | 700 | 9,486 | 8,786 |
| Rent and franchise fees | 48,400 | | | 48,400 | 70,984 | 22,584 |
| Donations | | | | 0 | 219 | 219 |
| Liquor operating agreement | 22,800 | | | 22,800 | 22,800 | 0 |
| Other | 3,025 | | | 3,025 | 11,120 | 8,095 |
| Total receipts | 1,915,045 | 0 | 0 | 1,915,045 | 2,282,037 | 366,992 |
| Disbursements: | | | | | | |
| General government: | | | | | | |
| Mayor and Council | 55,144 | 500 | | 55,644 | 55,142 | 502 |
| Contingency | 81,880 | | | 81,880 | | 81,880 |
| Amount transferred | | -48,194 | | -48,194 | | -48,194 |
| City administration | 124,635 | | | 124,635 | 122,162 | 2,473 |
| Elections | | | | 0 | | 0 |
| Financial administration | 211,891 | 4,521 | | 216,412 | 187,587 | 28,825 |
| Planning Commission | 9,788 | | | 9,788 | 7,105 | 2,683 |
| Other | 142,800 | | | 142,800 | 96,607 | 46,193 |
| Public safety: | | | | | | |
| Police | 132,423 | | | 132,423 | 132,423 | 0 |
| Fire | 2,000 | | | 2,000 | 1,415 | 585 |
| Development services | 87,511 | | | 87,511 | 77,387 | 10,124 |
| Public works: | | | | | | |
| Streets | 320,758 | | | 320,758 | 291,433 | 29,325 |
| Cemetery | 57,549 | | | 57,549 | 12,485 | 45,064 |
| Health and welfare: | | | | | | |
| Ambulance | | | | 0 | 0 | 0 |
| Culture and recreation: | | | | | | |
| Recreation | 15,000 | 42,673 | | 57,673 | 57,673 | 0 |
| Parks | 293,727 | | | 293,727 | 114,983 | 178,744 |
| Library | 162,133 | | | 162,133 | 145,270 | 16,863 |
| Conservation and development: | | | | | | |
| Economic Development Corp. | 20,000 | | | 20,000 | | 20,000 |
| Miscellaneous: | 2,250 | | | 2,250 | 2,100 | 150 |
| Total disbursements | 1,719,489 | -500 | 0 | 1,718,989 | 1,303,772 | 415,217 |
| Excess of receipts over (under) disbursements | 195,556 | 500 | 0 | 196,056 | 978,265 | 782,209 |
| Other financing sources (uses): | | | | | | |
| Sale of surplus property | | | | 0 | | 0 |
| Transfer in | 195,000 | | | 195,000 | | -195,000 |
| Transfer (out) | -390,556 | -500 | | -391,056 | -996,056 | -605,000 |
| Change in fund balance | 0 | 0 | 0 | 0 | -17,791 | -17,791 |
| Fund balance: | | | | | | |
| January 1, 2022 | 2,807,339 | | | 2,807,339 | 2,807,339 | 0 |
| December 31, 2022 | 2,807,339 | 0 | 0 | 2,807,339 | 2,789,548 | -17,791 |

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

| GENERAL FUND | Budgeted Amounts | | | | Actual | Variance |
|---|---|---|---|---|---|---|
| Receipts: | Original | Contingency Transfers | Supplementals | Final | (Modified Cash Basis) | Positive (Negative) |
| Receipts from local sources: | | | | | | |
| Taxes: | | | | 0 | | 0 |
| Ad valorem taxes | 582,215 | | | 582,215 | 577,721 | -4,494 |
| Sales and use tax | 876,829 | | | 876,829 | 1,331,551 | 454,722 |
| Amusement tax | 100 | | | 100 | 12 | -88 |
| Licenses and permits: | 27,200 | | | 27,200 | 56,801 | 29,601 |
| Intergovernmental receipts: | | | | 0 | | 0 |
| Federal grant - CARES | | | | 0 | 198,473 | 198,473 |
| Federal grant - Major Lake bridge | | | | 0 | 545,423 | 545,423 |
| State shared revenue: | | | | | | |
| Grant - Major Lake bridge | | | | 0 | 85,458 | 85,458 |
| Grant - Mosquito | | | | 0 | 710 | 710 |
| Bank franchise tax | 5,000 | | | 5,000 | 6,565 | 1,565 |
| Motor vehicles - commercial | 750 | | | 750 | -25 | -775 |
| Liquor tax reversion | 5,500 | | | 5,500 | 6,801 | 1,301 |
| Motor vehicle licenses (5%) | 10,800 | | | 10,800 | 14,307 | 3,507 |
| Highway and bridge | 7,600 | | | 7,600 | 8,257 | 657 |
| County shared revenue: library | 29,379 | | | 29,379 | 29,379 | 0 |
| Charges for goods and services: | | | | | | |
| General government | | | | 0 | 3,308 | 3,308 |
| Cemetery | 1,900 | | | 1,900 | 7,550 | 5,650 |
| Library | | | | 0 | 5,983 | 5,983 |
| Miscellaneous receipts: | 150,000 | | | 150,000 | | -150,000 |
| Interest received | 4,250 | | | 4,250 | 754 | -3,496 |
| Rents and franchise fees | 48,950 | | | 48,950 | 81,371 | 32,421 |
| Donations | | | | 0 | | 0 |
| Liquor operating agreement | 22,800 | | | 22,800 | 27,600 | 4,800 |
| Other | 3,025 | | | 3,025 | 5,609 | 2,584 |
| Total receipts | 1,776,298 | 0 | 0 | 1,776,298 | 2,993,608 | 1,217,310 |
| Disbursements: | | | | | | |
| General government: | | | | | | |
| Mayor and Council | 55,204 | | | 55,204 | 52,189 | 3,015 |
| Contingency | 75,256 | | | 75,256 | | 75,256 |
| Amount transferred | | -11,300 | | -11,300 | | -11,300 |
| City administration | 120,508 | | | 120,508 | 119,148 | 1,360 |
| Elections | | | | 0 | | 0 |
| Financial administration | 195,031 | 100 | | 195,131 | 187,843 | 7,288 |
| Planning Commission | 9,938 | | | 9,938 | 8,236 | 1,702 |
| Other | 119,816 | 7,000 | | 126,816 | 124,720 | 2,096 |
| Public safety: | | | | | | |
| Police | 128,566 | | | 128,566 | 128,566 | 0 |
| Fire | 650 | 1,200 | | 1,850 | 1,642 | 208 |
| Development services | 77,426 | 3,000 | | 80,426 | 79,441 | 985 |
| Public works: | | | | | | |
| Streets | 413,802 | | | 413,802 | 923,147 | -509,345 |
| Cemetery | 41,578 | | | 41,578 | 21,532 | 20,046 |
| Health and welfare: | | | | | | |
| Ambulance | 30,000 | | | 30,000 | 30,000 | 0 |
| Culture and recreation: | | | | | | |
| Recreation | 15,000 | | | 15,000 | 15,000 | 0 |
| Parks | 158,087 | | | 158,087 | 108,381 | 49,706 |
| Library | 136,812 | | | 136,812 | 128,651 | 8,161 |
| Miscellaneous: | 2,700 | | | 2,700 | 2,025 | 675 |
| Total disbursements | 1,580,374 | 0 | 0 | 1,580,374 | 1,930,521 | -350,147 |
| Excess of receipts over (under) disbursements | 195,924 | 0 | 0 | 195,924 | 1,063,087 | 867,163 |
| Other financing sources (uses): | | | | | | |
| Sale of surplus property | | | | 0 | | 0 |
| Transfer in | 150,000 | | | 150,000 | | -150,000 |
| Transfer (out) | -345,924 | | | -345,924 | -696,449 | -350,525 |
| Sale of surplus property | | | | 0 | 26,242 | 26,242 |
| Change in fund balance | 0 | 0 | 0 | 0 | 392,880 | 392,880 |
| Fund balance: | | | | | | |
| January 1, 2021 | 2,414,459 | | | 2,414,459 | 2,414,459 | 0 |
| December 31, 2021 | 2,414,459 | 0 | 0 | 2,414,459 | 2,807,339 | 392,880 |

CITY OF HILL CITY

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

| 3RD CENT (PROMOTION) | Budget Amounts | | | Actual | Variance Positive |
|---|---|---|---|---|---|
| | Original | Supplemental | Final | (Cash Basis) | (Negative) |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| General sales and use taxes | 195,000 | | 195,000 | 229,286 | 34,286 |
| Miscellaneous: | | | | | |
| Interest received | 0 | | 0 | 0 | 0 |
| Total receipts | 195,000 | 0 | 195,000 | 229,286 | 34,286 |
| Disbursements: | | | | | |
| Economic development: | | | | | |
| Promoting the City | 228,200 | 38,347 | 266,547 | 266,547 | 0 |
| Total disbursements | 228,200 | 38,347 | 266,547 | 266,547 | 0 |
| Excess of receipts over (under) disbursements | -33,200 | -38,347 | -71,547 | -37,261 | 34,286 |
| Other financing sources (uses): | | | | | |
| Transfer in | 33,200 | | 33,200 | 500 | -32,700 |
| Net change in fund balance | 0 | -38,347 | -38,347 | -36,761 | 1,586 |
| Fund balance: | | | | | |
| January 1, 2022 | 348,711 | | 348,711 | 348,711 | 0 |
| December 31, 2022 | 348,711 | -38,347 | 310,364 | 311,950 | 1,586 |

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

| 3RD CENT (PROMOTION) | Budget Amounts | | | Actual | Variance Positive |
|---|---|---|---|---|---|
| | Original | Supplemental | Final | (Cash Basis) | (Negative) |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| General sales and use taxes | 190,000 | | 190,000 | 270,968 | 80,968 |
| Miscellaneous: | | | | | |
| Interest received | | | 0 | 0 | 0 |
| Total receipts | 190,000 | 0 | 190,000 | 270,968 | 80,968 |
| Disbursements: | | | | | |
| Economic development: | | | | | |
| Promoting the City | 220,000 | | 220,000 | 222,651 | -2,651 |
| Total disbursements | 220,000 | 0 | 220,000 | 222,651 | -2,651 |
| Excess of receipts over (under) disbursements | -30,000 | 0 | -30,000 | 48,317 | 78,317 |
| Other financing sources (uses): | | | | | |
| Transfer in | 30,000 | | 30,000 | 525 | -29,475 |
| Net change in fund balance | 0 | 0 | 0 | 48,842 | 48,842 |
| Fund balance: | | | | | |
| January 1, 2021 | 299,869 | | 299,869 | 299,869 | 0 |
| December 31, 2021 | 299,869 | 0 | 299,869 | 348,711 | 48,842 |

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

| BUSINESS IMPROVEMENT DISTRICT | Budget Amounts | | | Actual | Variance Positive |
|---|---|---|---|---|---|
| | Original | Supplemental | Final | (Cash Basis) | (Negative) |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| Occupancy tax | 100,000 | | 100,000 | 110,076 | 10,076 |
| Total receipts | 100,000 | 0 | 100,000 | 110,076 | 10,076 |
| Disbursements: | | | | | |
| Economic development | 1,480,000 | | 1,480,000 | 1,289,357 | 190,643 |
| Debt service: | | | | | |
| Principal | 80,000 | | 80,000 | | 80,000 |
| Interest | 10,000 | | 10,000 | | 10,000 |
| Total disbursements | 1,570,000 | 0 | 1,570,000 | 1,289,357 | 280,643 |
| Excess of receipts over (under) disbursements | -1,470,000 | 0 | -1,470,000 | -1,179,281 | 290,719 |
| Other financing sources (uses): | | | | | |
| Transfer in | 1,470,000 | | 1,470,000 | 800,000 | -670,000 |
| Net change in fund balance | 0 | 0 | 0 | -379,281 | -379,281 |
| Fund balance: | | | | | |
| January 1, 2022 | 430,054 | | 430,054 | 430,054 | 0 |
| December 31, 2022 | 430,054 | 0 | 430,054 | 50,773 | -379,281 |

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

| BUSINESS IMPROVEMENT DISTRICT | Budget Amounts | | | Actual | Variance Positive |
|---|---|---|---|---|---|
| | Original | Supplemental | Final | (Cash Basis) | (Negative) |
| Receipts: | | | | | |
| Receipts from local sources: | | | | | |
| Taxes: | | | | | |
| Occupancy tax | 95,000 | | 95,000 | 129,300 | 34,300 |
| Donation: in-kind | | | | 80,000 | 80,000 |
| Total receipts | 95,000 | 0 | 95,000 | 209,300 | 114,300 |
| Disbursements: | | | | | |
| General government: | | | | | |
| Economic development | 993,300 | | 993,300 | 546,375 | 446,925 |
| Debt service: | | | | | |
| Principal | 87,500 | | 87,500 | | 87,500 |
| Interest | 14,200 | | 14,200 | | 14,200 |
| Total disbursements | 1,095,000 | 0 | 1,095,000 | 546,375 | 548,625 |
| Excess of receipts over (under) disbursements | -1,000,000 | 0 | -1,000,000 | -337,075 | 662,925 |
| Other financing sources (uses): | | | | | |
| Transfer in (loan) | 1,000,000 | | 1,000,000 | 500,000 | -500,000 |
| Net change in fund balance | 0 | 0 | 0 | 162,925 | 162,925 |
| Fund balance: | | | | | |
| January 1, 2021 | 267,129 | | 267,129 | 267,129 | 0 |
| December 31, 2021 | 267,129 | 0 | 267,129 | 430,054 | 162,925 |

CITY OF HILL CITY

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL FUND AND SPECIAL REVENUE FUNDS FOR THE TWO YEARS ENDING DECEMBER 31, 2022

1. BUDGETS AND BUDGETARY ACCOUNTING

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

a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

b. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in d.

c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.

d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2021 there were no supplemental budgets. During 2022 there was one supplemental budget. See page 35 to 38.

e. Formal budgetary integration is employed as a management control device for the general fund, 3rd cent sales tax fund, and business improvement district fund.

f. Budgets for the general fund, 3rd cent sales tax fund, and business improvement district fund are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting is on a modified cash basis of accounting from which the budgetary comparison schedules are prepared.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

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

CITY OF HILL CITY

FOR THE NINE YEARS ENDING DECEMBER 31, 2022

SUPPLEMENTARY INFORMATION

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

| SDRS Measurement Date Year Ended (1) | City's Percentage of the Net Pension Asset | City's Proportionate Share of Net Pension Liability (Asset) | City's Covered Employee Payroll for SDRS's Fiscal Year End | City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|
| June 30, 2022 | 0.0250720% | -2,369 | 598,683 | (00.40%) | 100.10% |
| June 30, 2021 | 0.0260730% | -199,675 | 591,683 | (33.75%) | 105.52% |
| June 30, 2020 | 0.0243650% | -1,058 | 534,733 | (00.20%) | 100.04% |
| June 30, 2019 | 0.0260496% | -2,761 | 553,867 | (00.50%) | 100.09% |
| June 30, 2018 | 0.0237866% | -555 | 494,500 | (00.12%) | 100.02% |
| June 30, 2017 | 0.0226401% | -2,055 | 460,000 | (00.45%) | 100.10% |
| June 30, 2016 | 0.0256832% | 86,755 | 488,367 | 17.77% | 96.89% |
| June 30, 2015 | 0.0247638% | -105,030 | 452,117 | (23.23%) | 104.10% |
| June 30, 2014 | 0.0265725% | -191,444 | 464,683 | (41.20%) | 107.30% |

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

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

CITY OF HILL CITY

FOR THE NINE YEARS ENDING DECEMBER 31, 2022

SUPPLEMENTARY INFORMATION

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

| City's Year Ended | Contractually Required Contribution | Contributions Related to the Contractually Required Contribution | Contribution Deficiency (Excess) | City's Covered Employee Payroll for its Calendar Year End | Contributions as a Percentage of Covered Employee Payroll |
|---|---|---|---|---|---|
| December 31, 2022 | 37,792 | 37,792 | 0 | 629,867 | 6.00% |
| December 31, 2021 | 35,611 | 35,611 | 0 | 593,517 | 6.00% |
| December 31, 2020 | 33,401 | 33,401 | 0 | 556,683 | 6.00% |
| December 31, 2019 | 33,375 | 33,375 | 0 | 556,250 | 6.00% |
| December 31, 2018 | 32,662 | 32,662 | 0 | 544,367 | 6.00% |
| December 31, 2017 | 26,946 | 26,946 | 0 | 449,100 | 6.00% |
| December 31, 2016 | 28,368 | 28,368 | 0 | 472,800 | 6.00% |
| December 31, 2015 | 28,865 | 28,865 | 0 | 481,083 | 6.00% |
| December 31, 2014 | 27,285 | 27,285 | 0 | 454,750 | 6.00% |

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

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE TWO YEARS ENDING DECEMBER 31, 2022

Changes of Prior Valuation:

The June 30, 2022 Actuarial Valuation reflects numerous changes to the actuarial assumptions as a result of an experience analysis completed since the June 30, 2022 Actuarial Valuation. In addition, two changes in actuarial methods have been implemented since the prior valuation.

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

Benefit Provision Changes:

During the 2022 legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes:

As a result of an experience analysis covering the period from July 1, 2016 to June 30, 2022, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for the June 30, 2022, actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%.

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was change to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

REQUIRED SUPPLEMENTARY INFORMATION - PENSION (continued)

AS of June 30, 2022, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 20, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

Actuarial Method Changes:

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Accounts are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.

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

Governing Board
City of Hill City
Hill City, South Dakota

INDEPENDENT AUDITOR'S REPORT

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of governmental activities, business-type activities and each major fund of the City of Hill City (City), Pennington County, South Dakota, as of December 31, 2022 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the City's financial statements and have issued my report thereon dated May 20, 2024 which was unmodified.

Report on Internal Control Over Financial Reporting:

In planning and performing my audit of the financial statements, I considered City of Hill 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Hill City's internal control.

A *deficiency in internal control* exist when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

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

A *significant deficiency*, is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses.

I did identify a deficiency in internal control, described in the accompanying schedule of findings and management's responses as item 2022-01 that I consider to be a significant deficiency.

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

I did note minor matters involving internal control over financial reporting that I reported to the governing body and management of the City of Hill City in a separate Letter of Comments dated May 20, 2024.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Hill City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion.

The results of my tests disclose no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

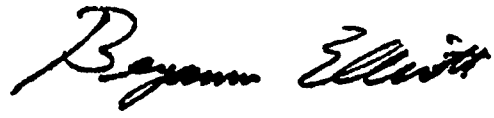
I did note minor matters involving compliance that I reported to the governing body and management of the City of Hill City in a separate Letter of Comments dated May 20, 2024.

Purpose of this Report

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

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

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



May 20, 2024

CITY OF HILL CITY
SCHEDULES OF FINDINGS
DECEMBER 31, 2022

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:
The prior audit report was not subject to Single Audit requirements.

Prior Other Audit Findings:
None reported

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

*Financial Statements*

Type of auditor's report issued:

| | |
|---|---|
| | Unmodified on:<br>Governmental Activities<br>Business-Type Activities<br>All Funds |
| Noncompliance: | None Reported |
| Internal control over financial reporting: | |
| * Material weakness(es) identified? | None Reported |
| * Significant deficiency(ies) identified that are not considered to be material weaknesses? | Finding 2022-01 |

Finding 2022-01: Preparation of Financial Statements
(internal control)

*Criteria:*
A good system of internal control contemplates an adequate system for preparation of the financial statements.

*Condition:*
The City has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited. As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

*Possible Effect:*
This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

*Recommendations:*
This situation is not unusual for an entity of this City's size. It is the responsibility of management, and those charged with governance, to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Response:*
Due to cost constraints, the City will continue to have the auditor draft the financial statements and accompanying notes to the financial statements.