

CITY OF HILL CITY
HILL CITY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE YEAR ENDING DECEMBER 31, 2018
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 YEAR ENDING DECEMBER 31, 2018

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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

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, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in note 1.c; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my unmodified audit opinions on governmental activities, business-type activities, and each major fund.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities, and each major fund of the City of Hill City, South Dakota, as of December 31, 2018, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in note 1.c to these financial statements.

Emphasis of Matter - Modified Cash Basis of Accounting

I draw attention to note 1.c 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.

Other Matters - Other Supplementary Information (No 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 management's discussion and analysis (page 4 to 9), budgetary comparison schedules (page 30 to 32), schedule of net pension liability (asset) (page 34), and schedule of pension contributions (page 34) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

I have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Matters - Other 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 debt (page 33) is presented for the purpose of additional analysis and is not a required part of the modified cash basis of accounting financial statements.

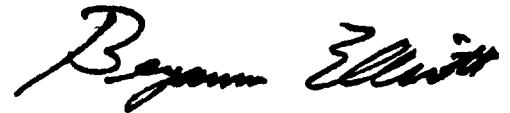
The schedule of changes in long-term debt is the responsibility of management and is derived from and relates directly to the underlying accounting and other records used to prepare the modified cash basis of accounting financial statements. The information has been subject to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling this information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 debt 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 (page 35) dated June 22, 2019 on my tests of City of Hill City's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

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

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive, flowing style.

June 22, 2019

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 one year ending December 31, 2018 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	2018
Receipts:	
Charges for goods and services	769,386
Operating grants	0
Capital grants	0
General receipts	1,824,764

Total	2,594,150

Disbursements:	
Governmental	1,425,968
Business-type	504,686

Total	1,930,654

Increase in Net Position	663,496
Net Position:	
December 31, 2017	3,043,823

December 31, 2018	3,707,319
	=====
Governmental Funds:	
General	2,098,631
3rd Cent	426,926
Business Improvement District	90,332
Debt service	0
Business-Type Funds:	
Water	464,961
Sewer	626,469

Total	3,707,319
	=====

During 2018, the City:

- * Purchased street equipment for \$81,600.
- * Purchased sewer equipment for \$20,728.
- * Paid down the City's general obligation bond by \$156,000.

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 29) and (3) other supplementary information (page 30 to 34). 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 2018 were the general fund, 3rd cent fund, business improvement district fund and debt service 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 2018 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 agent for the benefit of those groups to whom these funds belong. In 2018 the City had no fiduciary funds.

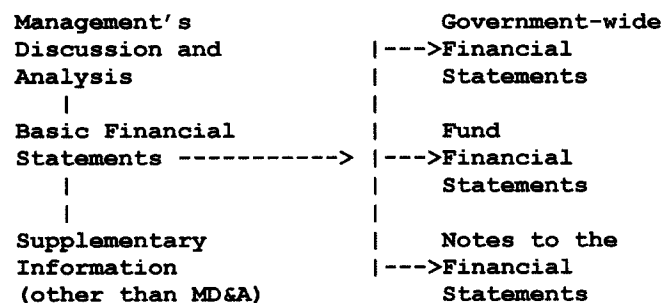
The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund and major special revenue funds.

Supplementary Information:

This Management's Discussion and Analysis (page 4 to 9), the Budgetary Comparison Schedules (page 30 to 32), Schedule of Net Pension Liability (Asset) (page 34), and Schedule of Pension Contributions (page 34) are financial information required to be presented by GASB. Such information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is 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 debt (page 33) 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	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 11) 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 the 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, 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 12 to 16) 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.

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 Year Ending December 31, 2018

(Material changes for governmental activities = changes greater than \$100,000)
(Material changes for business-type activities = changes greater than \$ 50,000)

== 2018 ==	Increase (Decrease)	Reason
Governmental Activities:		
Cash	499,158	Excess cash receipts over disbursements.
Public works	109,826	Purchased street equipment.
Business-type Activities:		
Cash	164,338	Excess cash receipts over disbursements.
Water cost	(184,297)	Water tower and reservoir improvements in prior year.
Sewer cost	102,768	Purchased sewer equipment.

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

In 2018 the City adopted a general fund budget of \$1,356,885 which is an increase of \$241,646 or 21.67% from 2017. There were no supplemental appropriations in 2018. See page 30 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 33 for more information.

CURRENTLY KNOWN FACTS

In 2018 the City established a Business Improvement District and on June 1, 2018 began collecting a \$2.00 lodging establishment occupancy tax.

The City's 2019 budget authorized a loan of \$175,000 from the City's emergency fund to the Business Improvement District (BID) fund at 2% to cover BID's 2019 projects.

The 2018 tax levy payable in 2019 does not include an opt out.

In March 2019 the downtown sidewalk improvement project was let for bids.

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, 2018 and 2017

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Cash assets:						
Cash	19,951	20,364	937	737	20,888	21,101
Money market	2,391,801	1,894,863	782,909	622,734	3,174,710	2,517,597
Certif. of deposit	204,137	201,504	307,584	303,621	511,721	505,125
Total	2,615,889	2,116,731	1,091,430	927,092	3,707,319	3,043,823
Net position:						
Restricted	525,835	415,279	33,978	32,832	559,813	448,111
Unrestricted	2,090,054	1,701,452	1,057,452	894,260	3,147,506	2,595,712
Total	2,615,889	2,116,731	1,091,430	927,092	3,707,319	3,043,823

TABLE 2 - CHANGES IN NET POSITION
MODIFIED CASH BASIS - BASED ON GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE TWO YEARS ENDING DECEMBER 31, 2018

	Governmental Activities		Business-Type Activities		Total Government	
	2018	2017	2018	2017	2018	2017
Receipts:						
Program receipts:						
Charges for services	110,703	83,263	658,683	649,754	769,386	733,017
Operating grants					0	0
Capital grants					0	0
General receipts:						
Property taxes	513,755	486,621			513,755	486,621
Sales taxes	1,130,054	1,072,414			1,130,054	1,072,414
Occupancy tax	90,332				90,332	0
Other taxes	120	132			120	132
State sources	32,458	30,149			32,458	30,149
County sources	27,631	27,357			27,631	27,357
Interest received	9,073	5,242	10,341	6,120	19,414	11,362
Rent and franchise fees	11,000	11,000			11,000	11,000
Miscellaneous	0	4,174			0	4,174
Total receipts	1,925,126	1,720,352	669,024	655,874	2,594,150	2,376,226
Disbursements:						
General government	444,434	394,516			444,434	394,516
Public safety	186,104	155,503			186,104	155,503
Public works	251,527	141,701			251,527	141,701
Health and welfare	16,000	10,000			16,000	10,000
Culture/recreation	158,782	159,298			158,782	159,298
Economic development	170,902	179,390			170,902	179,390
Liquor agreement	2,775	3,447			2,775	3,447
Debt service	195,444	195,092			195,444	195,092
Water			161,876	346,173	161,876	346,173
Sewer			342,810	240,042	342,810	240,042
Total disbursements	1,425,968	1,238,947	504,686	586,215	1,930,654	1,825,162
Net position increase (decrease) before transfers	499,158	481,405	164,338	69,659	663,496	551,064
Other financing sources (uses):						
Transfers in (out)					0	0
Loan proceeds					0	0
Sale of surplus property		12,725			0	12,725
Compensation for damaged property					0	0
Change in net position	499,158	494,130	164,338	69,659	663,496	563,789
Net position:						
January 1, 2017		1,622,601		857,433		2,480,034
December 31, 2017	2,116,731	2,116,731	927,092	927,092	3,043,823	3,043,823
December 31, 2018	2,615,889		1,091,430		3,707,319	

CITY OF HILL CITY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2018

	Primary Government		
	Governmental	Business-	
	Activities	Type	Total
	Activities	Activities	
Assets:			
Petty cash	500		500
Checking	10,874	937	11,811
Checking - library	8,577		8,577
Money market	2,391,801	782,909	3,174,710
Certificates of deposit	204,137	307,584	511,721
Total assets	2,615,889	1,091,430	3,707,319
	<u>=====</u>	<u>=====</u>	<u>=====</u>
Net Position:			
Restricted for:			
Library	8,577		8,577
Business Improvement District	90,332		90,332
3rd cent uses	426,926		426,926
Debt service	0		0
Meter deposits		33,978	33,978
Unrestricted	2,090,054	1,057,452	3,147,506
Total net position	2,615,889	1,091,430	3,707,319
	<u>=====</u>	<u>=====</u>	<u>=====</u>

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2018

Functions/Programs: Primary government:	Disbursements	Program Receipts			Net Receipts (Disbursements) and Changes in Net Position		
		Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Governmental activities:							
General government	444,434	73,394			(371,040)		(371,040)
Public safety	186,104				(186,104)		(186,104)
Public works	251,527	8,250			(243,277)		(243,277)
Health and welfare	16,000				(16,000)		(16,000)
Culture and recreation	158,782	2,659			(156,123)		(156,123)
Economic development	170,902				(170,902)		(170,902)
Liquor agreements	2,775	26,400			23,625		23,625
Debt service	195,444				(195,444)		(195,444)
Total governmental activities	1,425,968	110,703	0	0	(1,315,265)	0	(1,315,265)
Business-type activities:							
Water	161,876	285,243				123,367	123,367
Sewer	342,810	373,440				30,630	30,630
Total business-type activities	504,686	658,683	0	0	0	153,997	153,997
Total primary government	1,930,654	769,386	0	0	(1,315,265)	153,997	(1,161,268)
General receipts:							
Taxes:							
Property taxes					513,755		513,755
Sales taxes					1,130,054		1,130,054
Occupancy tax					90,332		90,332
Amusement taxes					120		120
State shared receipts					32,458		32,458
County shared receipts					27,631		27,631
Interest received					9,073	10,341	19,414
Rent and franchise fees					11,000		11,000
Transfers					0		0
Total general receipts					1,814,423	10,341	1,824,764
Change in net position					499,158	164,338	663,496
Net position:							
January 1, 2018					2,116,731	927,092	3,043,823
December 31, 2018					2,615,889	1,091,430	3,707,319

See accompanying notes.

CITY OF HILL CITY

BALANCE SHEET -- MODIFIED CASH BASIS
ALL GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2018

	General Fund	3rd Cent Fund	Business Improvement District Fund	Debt Service Fund	Total
<hr/>					
ASSETS:					
Petty cash	500				500
Checking	10,874				10,874
Checking - library	8,577				8,577
Money market	1,874,543	426,926	90,332	0	2,391,801
Certificates of deposits	204,137				204,137
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	2,098,631	426,926	90,332	0	2,615,889
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
FUND BALANCES:					
Nonspendable					0
Restricted	8,577	426,926	90,332	0	525,835
Committed	122,436				122,436
Assigned	915,000				915,000
Unassigned	1,052,618				1,052,618
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	2,098,631	426,926	90,332	0	2,615,889 **
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** 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, 2018

	General Fund	3rd Cent Fund	Business Improvement District Fund	Debt Service Fund	Total
Receipts:					
Local sources:					
Taxes:					
Ad valorem taxes	513,755				513,755
General sales and use taxes	938,556	191,498			1,130,054
Occupancy tax			90,332		90,332
Amusement taxes	120				120
Licenses and permits:	69,490				69,490
Intergovernmental:					
State shared revenue:					
Bank franchise tax	5,509				5,509
Motor vehicles - commercial	1,216				1,216
Liquor tax reversion	5,962				5,962
Motor vehicle licenses (5%)	12,139				12,139
Highway and bridge	7,632				7,632
County shared revenue: library	27,631				27,631
Charges for goods and services:					
General government	3,904				3,904
Cemetery	8,250				8,250
Library	2,659				2,659
Miscellaneous:					
Interest received	9,073				9,073
Rents and franchise fees	11,000				11,000
Liquor operating agreement	26,400				26,400
Total receipts	1,643,296	191,498	90,332	0	1,925,126
Disbursements:					
Current:					
General government:					
Mayor and Council	37,773				37,773
City administration	102,396				102,396
Elections					0
Financial administration	179,882				179,882
Planning Commission	7,608				7,608
Other	111,923				111,923
Public safety:					
Police	118,809				118,809
Fire	570				570
Inspection services	66,725				66,725
Public works:					
Streets	151,780				151,780
Cemetery	14,506				14,506
Health and welfare:					
Ambulance	16,000				16,000
Culture and recreation:					
Recreation	15,000				15,000
Parks	44,593				44,593
Library	84,423				84,423
Conservation and development:					
Economic development		170,902			170,902
Debt service:					
Principal				156,000	156,000
Interest				39,444	39,444
Miscellaneous:					
Liquor operating agreement	2,775				2,775
Capital outlay	104,859				104,859
Total disbursements	1,059,622	170,902	0	195,444	1,425,968
Excess of receipts over (under) disbursements	583,674	20,596	90,332	(195,444)	499,158
Other financing sources (uses):					
Transfer in (out)	(195,444)			195,444	0
Net change in fund balance	388,230	20,596	90,332	0	499,158 **
Fund balance:					
January 1, 2018	1,710,401	406,330	0	0	2,116,731
December 31, 2018	2,098,631	426,926	90,332	0	2,615,889

** 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, 2018

	Water Fund	Sewer Fund	Total Enterprise Funds
	-----	-----	-----
Assets:			
Current assets:			
Checking	685	252	937
Money market	464,276	318,633	782,909
Certificates of deposit		307,584	307,584
	-----	-----	-----
Total assets	464,961	626,469	1,091,430
	=====	=====	=====
Net Position:			
Restricted:			
Meter deposits	23,428	10,550	33,978
Unrestricted	441,533	615,919	1,057,452
	-----	-----	-----
Total net position	464,961	626,469	1,091,430
	=====	=====	=====

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2018

	Water Fund	Sewer Fund	Total
	-----	-----	-----
Operating receipts:			
Charges for goods and services	285,243	373,440	658,683
	-----	-----	-----
Total operating receipts	285,243	373,440	658,683
	-----	-----	-----
Operating disbursements:			
Personal services	98,031	154,250	252,281
Other current services	63,845	167,832	231,677
Equipment		20,728	20,728
	-----	-----	-----
Total operating disbursements	161,876	342,810	504,686
	-----	-----	-----
Excess operating receipts (disbursements)	123,367	30,630	153,997
Nonoperating receipts (disbursements):			
Interest received	3,189	7,152	10,341
	-----	-----	-----
Total nonoperating receipts (disbursements)	3,189	7,152	10,341
Transfers - none			0
	-----	-----	-----
Change in net position	126,556	37,782	164,338
Net position:			
January 1, 2018	338,405	588,687	927,092
	-----	-----	-----
December 31, 2018	464,961	626,469	1,091,430
	=====	=====	=====

See accompanying notes.

CITY OF HILL CITY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE ONE YEAR ENDING DECEMBER 31, 2018

	Water Fund	Sewer Fund	Total
	-----	-----	-----
Cash flows from:			
Operating activities:			
Receipts from customers	285,243	373,440	658,683
Payments to employees	(98,031)	(154,250)	(252,281)
Payments to suppliers	(63,845)	(167,832)	(231,677)
Payments for equipment		(20,728)	(20,728)
Net cash provided (used) by operating activities	----- 123,367	----- 30,630	----- 153,997
Noncapital financing activities:			
None			0
Capital financing activities:			
None			0
Investing activities:			
Interest received	3,189	7,152	10,341
Purchase certificates of deposit		(3,963)	(3,963)
Net increase (decrease) in cash and cash equivalents	----- 126,556	----- 33,819	----- 160,375
Cash:			
January 1, 2018	338,405	285,066	623,471
December 31, 2018	----- 464,961	----- 318,885	----- 783,846
	=====	=====	=====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	123,367	30,630	153,997
Net cash provided (used) by operating activities	----- 123,367	----- 30,630	----- 153,997
	=====	=====	=====
Noncash investing, capital and financing activities: None			
See accompanying notes.			

CITY OF HILL CITY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018

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, 2018 are:

Mayor:	City Administrator:
Julie Wickware-Klein	Brett McMacken
Alderspersons:	Finance Officer
Kathy Skorzewski, President	Carla Sheldon
Jason Gillaspie	
John Johnson	Attorney:
Jim Peterson	Frank Bettmann

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 organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The 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.

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 US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, transactions are recorded when cash is received or disbursed.

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is used, applied within the limitations of the modified cash basis of accounting.

Basis of Accounting:

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

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the 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) are not recorded 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 financials would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

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) (except for agency funds, which have no fund equity) is reported as "Net Position Held in Agency Capacity."

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 fund cash balance classifications are made up of:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	Library	Statute	8,577
	3rd Cent	Statute	426,926
	Business Imp. Dist.	Statute	90,332
	Debt service	Covenant	0
Committed	Street improvements	Ordinance	122,436
Assigned	Emergencies	Resolution	750,000
	Sidewalk replacement	Finance officer	75,000
	Parks	Finance officer	90,000
Unassigned	General		1,052,618

			2,615,889

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 19 above and the revenue source is:

Special Revenue Fund:	Revenue Source: (see page 13)
* 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. The 3rd Cent fund went over its 2018 subsidy budget by \$3,387. However, this is not considered significant overdraft of departmental expenditures compared to appropriations. See page 31 for more information.

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 corporate 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, 2018 were as follows: Insured \$553,888, Collateralized ** \$3,186,429 for a total of \$3,740,317.

** 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, 2018 was \$3,707,319 held as follows.

First Interstate Bank (Hill City, SD):	
Checking	\$ 20,388
Money Market	3,174,710
Black Hills Community Bank (Rapid City, SD):	
Certificates of deposit	511,721
Petty cash	500

	\$ 3,707,319
	=====

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, 2018 the City's cash deposits in financial institutions were not exposed to custodial deposit risk.

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, 2018 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, 2018 net position restricted for specific purposes as shown on the statement of net position

Purpose:	Restricted By:	Governmental	Business-Type
Library	Statute	8,577	
3rd cent	Statute	426,926	
Business improv. dist.	Statute	90,332	
Debt service	Covenant	0	
Water: Meter deposits	Contracts		23,428
Sewer: Meter deposits	Contracts		10,550
		-----↑	-----
Total Restricted Net Position		525,835	33,978

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 \$0.0025 per gallon for sewer. At December 31, 2018 the water fund's capital improvement balance is determined to be \$229,601, which is included in the water fund's unrestricted net position. At December 31, 2018 the sewer fund's capital improvement balance is determined to be \$136,683, 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 2007 bonds were paid by the general fund. The Series 2015 bonds are paid by a debt service fund.

7. 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 liability (assets), 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 defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. 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. 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 three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of the employee's final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 thereafter of the employee's final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefit are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more - 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
 - > 90.0% to 99.9% funded - 2.1% minimum and 2.8% maximum COLA
 - > 80.0% to 89.9% funded - 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% - 2.1% COLA

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

Contributions:

Per SDRS 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. State statute also requires the employer to make an additional contribution in the amount of 6.2% for any compensation exceeding the maximum taxable amount for social security for general employees only. The City's share of contributions to the SDRS for the years ending December 31, 2018, 2017, and 2016 were \$32,662, \$26,946 and \$28,368 (employer's share) respectively, equal to the required contribution each year.

Pension Liabilities (Assets):

At June 30, 2018, SDRS is 100.02% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of the South Dakota Retirement System, for the City as of June 30, 2018 are as follows:

Proportionate share of total pension liability	\$ 2,909,907
Less: Proportionate share of SDRS net position restricted for pension benefits	(2,910,462)

Proportionate share of net pension liability (asset)	\$ (555)
	=====

The net pension liability (asset) was measured as of June 30, 2018 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, 2018 the City's proportion was .0237866%, which is an increase of .0011465% from its proportion on June 30, 2017.

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2018 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary increases	Graded by years of service, from 6.50% at entry to 3.00% after 25 years of service
Discount rate	6.50% net of pension plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flow 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 to 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 liability (asset).

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

The following presents the City's proportionate share of SDRS's net pension (asset)/liability, 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 that is 1% lower (5.50%) or 1% higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
City's share of SDRS			
net pension (asset) liability	\$ 418,998 liability	\$ (555) asset	\$ (341,838) asset

Investments:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (ie: the Council should use the same degree of care as a prudent man).

Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real

estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2018 (see discussion of the pension plan's investment policy above) are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%

	100.0%	

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued South Dakota Retirement System financial report.

8. 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.

9. LITIGATION

At December 31, 2018 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.

10. 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 year ending December 31, 2018 the City managed its risks as follows:

Employee Health Insurance:

The City is a member of the South Dakota Municipal League's 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 governmental 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 coverage provides a deductible of \$500 per person up to \$1,000 per family. The plan also provides for coinsurance of 80/20 W/PPO Network (up to \$2,000 single, \$4,000 family) or 60/40 outside of PPO Network (up to \$2,750 single, \$5,500 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 is a member of 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 City pays an annual premium to the pool to provide coverage for general liability, officials liability, automobile liability and damage, property damage, boiler and machinery insurance.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$3,000,000 limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. The City carries a \$500 deductible for property damage and zero deductible for liability coverage.

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 cost 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 an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve on the following formula:

End of the City's:

First Full Year (50%), Second Full Year (60%), Third Full Year (70%)
Fourth Full Year (80%), Fifth Full Year (90%), Sixth Full Year (100%)

As of December 31, 2018, the City has a vested balance in the cumulative reserve fund of \$7,739.

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.

Workers' Compensation:

The City is a member of the South Dakota Municipal League Workers' Compensation 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 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.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ending December 31, 2018 the City did not make any unemployment insurance payments and none are expected in 2019.

11. TAX ABATEMENTS

As of December 31, 2018 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

12. 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".

In 2018 the City established a Business Improvement District and on June 1, 2018 began collecting a \$2.00 lodging establishment occupancy tax.

The City's 2019 budget authorized a loan of \$175,000 from the City's emergency fund to the Business Improvement District (BID) fund at 2% to cover BID's 2019 projects.

The 2018 tax levy payable in 2019 does not include an opt out.

In March 2019 the downtown sidewalk improvement project was let for bids.

CITY OF HILL CITY

SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS

FOR THE YEAR ENDING DECEMBER 31, 2018

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers Supplemental:	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	522,000		522,000	513,755	(8,245)
Sales and use tax	880,957		880,957	938,556	57,599
Amusement tax	100		100	120	20
Licenses and permits:	53,841		53,841	69,490	15,649
Intergovernmental receipts:					
State shared revenue:					
Bank franchise tax	4,000		4,000	5,509	1,509
Motor vehicles - commercial	750		750	1,216	466
Liquor tax reversion	6,000		6,000	5,962	(38)
Motor vehicle licenses (5%)	10,000		10,000	12,139	2,139
Highway and bridge	8,000		8,000	7,632	(368)
County shared revenue: library	27,631		27,631	27,631	0
Charges for goods and services:					
General government	2,000		2,000	3,904	1,904
Cemetery	2,750		2,750	8,250	5,500
Library			0	2,659	2,659
Miscellaneous receipts:					
Interest received	1,700		1,700	9,073	7,373
Rent and franchise fees	11,000		11,000	11,000	0
Liquor operating agreement	21,600		21,600	26,400	4,800
Total receipts	1,552,329	0	1,552,329	1,643,296	90,967
Disbursements:					
General government:					
Mayor and Council	41,277		41,277	37,773	3,504
Contingency	50,000		50,000		50,000
Amount transferred		(572)	(572)		(572)
City administration	109,497	297	109,794	102,396	7,398
Elections	0		0		0
Financial administration	205,837		205,837	184,734	21,103
Planning Commission	15,063		15,063	7,608	7,455
Other	112,592		112,592	111,923	669
Public safety:					
Police	118,809		118,809	118,809	0
Fire	600		600	570	30
Inspection services	66,994		66,994	66,725	269
Public works:					
Streets	308,467		308,467	237,021	71,446
Cemetery	16,858		16,858	14,506	2,352
Health and welfare:					
Ambulance	16,000		16,000	16,000	0
Culture and recreation:					
Recreation	15,000		15,000	15,000	0
Parks	152,002		152,002	44,593	107,409
Library	125,389		125,389	99,189	26,200
Miscellaneous:	2,500	275	2,775	2,775	0
Total disbursements	1,356,885	0	1,356,885	1,059,622	297,263
Excess of receipts over (under) disbursements	195,444	0	195,444	583,674	388,230
Other financing sources (uses):					
Transfer out			0	(195,444)	(195,444)
Change in fund balance	195,444	0	195,444	388,230	192,786
Fund balance:					
January 1, 2018	1,710,401		1,710,401	1,710,401	0
December 31, 2018	1,905,845	0	1,905,845	2,098,631	192,786

CITY OF HILL CITY

SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2018

3RD CENT (PROMOTION)	Budget Amounts			Actual (Cash Basis)	Variance Positive (Negative)
	Original	Supplemental	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
General sales and use taxes:	210,000		210,000	191,498	(18,502)
Miscellaneous:					
Interest received	525		525	0	(525)
Total receipts	210,525	0	210,525	191,498	(19,027)
Disbursements:					
Economic development:					
Subsidy	165,000		165,000	168,387	(3,387)
Other	79,000		79,000	2,515	76,485
Total disbursements	244,000	0	244,000	170,902	73,098
Excess of receipts over (under) disbursements	(33,475)	0	(33,475)	20,596	54,071
Other financing sources (uses):					
Transfer in	33,475		33,475		(33,475)
Net change in fund balance	0	0	0	20,596	20,596
Fund balance:					
January 1, 2018	406,330		406,330	406,330	0
December 31, 2018	406,330	0	406,330	426,926	20,596

CITY OF HILL CITY

BUDGETARY SUPPLEMENTARY INFORMATION

NOTES TO THE BUDGETARY COMPARISON SCHEDULES FOR THE GENERAL FUND
AND SPECIAL REVENUE FUND FOR THE ONE YEAR ENDING DECEMBER 31, 2018

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 2018 there were no supplemental budgets to the general fund or 3rd cent sales tax fund. See page 30 and 31.
- e. Formal budgetary integration is employed as a management control device for the general fund and the 3rd cent sales tax fund.
- f. Budgets for the general fund and 3rd cent sales tax fund are not adopted on a basis consistent with generally accepted accounting principles (GAAP) because all accounting, and the adoption of all budgets, are on a modified cash basis of accounting.

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

SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE ONE YEAR ENDING DECEMBER 31, 2018

				Governmental Funds	Enterprise Funds	Principal Payments
	Beginning 12-31-17	Additions	(Deletions)	Ending 12-31-18	Ending 12-31-18	Due in 2019
GOVERNMENTAL						
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	1,554,000		(156,000)	1,398,000		160,000
BUSINESS-TYPE						
None						
Totals	1,554,000	0	(156,000)	1,398,000	0	160,000

	Total Payment	Principal	Interest	Balance
2015 General Obligation Bond:				
2019	195,700	160,000	35,700	1,238,000
2020	195,860	164,000	31,860	1,074,000
2021	195,924	168,000	27,924	906,000
2022	195,556	172,000	23,556	734,000
2023	194,904	176,000	18,904	558,000
2024-2026	587,276	558,000	29,276	0
Totals	1,565,220	1,398,000	167,220	

CITY OF HILL CITY
FOR THE FIVE YEARS ENDING DECEMBER 31, 2018

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, 2018	0.0237866%	(555)	494,500	(00.11%)	100.02%
June 30, 2017	0.0226401%	(2,055)	460,000	(00.45%)	100.10%
June 30, 2016	0.0256832%	86,755	488,367	17.76%	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 FIVE YEARS ENDING DECEMBER 31, 2018

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, 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.

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, 2018 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's modified cash basis of accounting financial statements and have issued my report thereon dated June 22, 2019 which was unmodified.

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

I did note minor matters involving compliance that I reported to the governing body and management of the City of Hill City in separate Letters of Comments dated June 22, 2019.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Hill City's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, 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 the 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 of Hill 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.

Report on Compliance and Other Matters and on Internal Control
Page Two

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 and therefore, 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. However, material weaknesses may exist that have not been identified.

Also, I did not identify a deficiency in internal control that I consider to be a significant deficiency.

I did note minor matters involving internal control that I reported to the governing body and management of the City of Hill City in a separate Letter of Comments dated June 22, 2019.

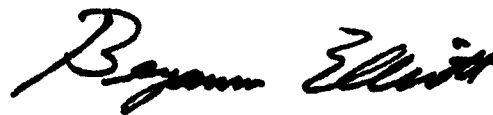
Purpose of this Report

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

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

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

June 22, 2019

A handwritten signature in black ink, reading "Benjamin Elliott". The signature is written in a cursive, flowing style.

CITY OF HILL CITY
SCHEDULES OF FINDINGS
DECEMBER 31, 2018

Schedule of Prior Audit Findings:

Prior Federal Compliance Audit finding:
None

Prior Other Audit Findings:
2013-01: Capital asset records -- Corrected

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Financial Statements

Type of auditor's report issued:

Unqualified on:
Governmental Activities
Business-Type Activities
All Funds

Noncompliance noted:

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?

None Reported