

CITY OF LEAD

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2024**

DRAFT

CITY OF LEAD

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Lead
Lead, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lead (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2024, and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinions

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

Emphasis of Matter Regarding Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The 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. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting as described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated _____, 2025 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2025

CITY OF LEAD

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2024**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments	\$ 820,199	\$ 6,238	\$ 826,437
TOTAL ASSETS	\$ 820,199	\$ 6,238	\$ 826,437
Net Position			
Restricted for:			
Promoting the City	\$ 338,130	\$ -	\$ 338,130
Permanently Restricted Purposes:			
Expendable	53,421	-	53,421
Nonexpendable	50,000	-	50,000
Unrestricted	378,648	6,238	384,886
TOTAL NET POSITION	\$ 820,199	\$ 6,238	\$ 826,437

The accompanying notes are an integral part of this statement.

CITY OF LEAD

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

	Program ---Revenues---				Net (Expense) Revenue and -----Changes in Net Position-----		
	Charges for	Capital	Operating		Governmental	Primary Government	
	Expenses	Grants and	Grants and		Activities	Business-Type	Total
		Contributions	Contributions			Activities	
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government	\$ 655,520	\$ 386,276	\$ -	1,905	\$ (267,339)	\$ -	\$ (267,339)
Public Safety	752,206	53,832	-	22,804	(675,570)	-	(675,570)
Public Works	1,250,189	151,146	203,587	-	(895,456)	-	(895,456)
Health and Welfare	181,432	1,953	-	-	(179,479)	-	(179,479)
Culture and Recreation	695,732	36,199	-	97,866	(561,667)	-	(561,667)
Conservation and Development	142,823	-	-	-	(142,823)	-	(142,823)
Long-Term Debt	12,375	-	-	-	(12,375)	-	(12,375)
Capital Outlay	360,885	-	-	-	(360,885)	-	(360,885)
Total Governmental Activities	4,051,162	629,406	203,587	122,575	(3,095,594)	-	(3,095,594)
Business-Type Activities:							
Water	903,782	890,754	-	-	-	(13,028)	(13,028)
Sewer	231,252	200,040	-	-	-	(31,212)	(31,212)
Solid Waste	344,187	344,084	-	-	-	(103)	(103)
Total Business-Type Activities	1,479,221	1,434,878	-	-	-	(44,343)	(44,343)
Total Primary Government	\$ 5,530,383	\$ 2,064,284	\$ 203,587	\$ 122,575	(3,095,594)	(44,343)	(3,139,937)
General Revenues:							
Taxes:							
Property Taxes					1,350,304	-	1,350,304
Sales Taxes					1,738,504	-	1,738,504
State Shared Revenues					32,291	-	32,291
Unrestricted Investment Earnings					27,704	-	27,704
Miscellaneous Revenue					187,088	1,785	188,873
Transfers					5,201	(5,201)	-
Total General Revenues					3,341,092	(3,416)	3,337,676
Change in Net Position					245,498	(47,759)	197,739
Net Position - December 31, 2023					574,701	53,997	628,698
Net Position - December 31, 2024					\$ 820,199	\$ 6,238	\$ 826,437

The accompanying notes are an integral part of this statement.

CITY OF LEAD

BALANCE SHEET

GOVERNMENTAL FUND - MODIFIED CASH BASIS

DECEMBER 31, 2024

		General Fund	Library Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Cemetery Perpetual Care Fund	Totals Governmental Funds
Assets						
101	Cash	\$ 228,699	\$ 145,650	\$ 338,130	\$ 103,421	\$ 815,900
151	Investments	4,299	-	-	-	4,299
TOTAL ASSETS		\$ 232,998	\$ 145,650	\$ 338,130	\$ 103,421	\$ 820,199
Fund Balance						
<i>263 Nonspendable</i>						
263.51	Perpetual Care Cemetery	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
<i>264 Restricted</i>						
264.03	Perpetual Care Cemetery	-	-	-	53,421	53,421
264.04	Promoting the City	-	-	338,130	-	338,130
<i>265 Committed</i>						
265.99	Library Purposes	-	145,650	-	-	145,650
265.99	Medical Buydown Purposes	19,754	-	-	-	19,754
265.99	Development Purposes	37,771	-	-	-	37,771
265.99	Preservation Reserve	30,000	-	-	-	30,000
265.99	Parks Improvement Reserve	111,099	-	-	-	111,099
<i>266 Assigned</i>						
267	Unassigned	34,374	-	-	-	34,374
Total Fund Balance		232,998	145,650	338,130	103,421	820,199
TOTAL LIABILITIES AND FUND						
BALANCE		\$ 232,998	\$ 145,650	\$ 338,130	\$ 103,421	\$ 820,199

The accompanying notes are an integral part of this statement.

CITY OF LEAD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

		General Fund	Library Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Revenue:						
	<i>Taxes:</i>					
311	General Property Taxes	\$ 1,291,463	\$ -	\$ -	\$ -	\$ 1,291,463
313	General Sales and Use Taxes	1,574,175	-	164,329	-	1,738,504
315	Amusement Taxes	55,608	-	-	-	55,608
319	Penalties and Interest on Delinquent Taxes	3,233	-	-	-	3,233
320	Licenses and Permits	385,231	-	-	-	385,231
	<i>Intergovernmental Revenue:</i>					
331	Federal Grant	228,296	-	-	-	228,296
	State Shared Revenue:					
335.01	Bank Franchise Tax	11,896	-	-	-	11,896
335.03	Liquor Tax Reversion	20,395	-	-	-	20,395
335.04	Motor Vehicle Licenses (5%)	46,596	-	-	-	46,596
335.08	Local Government Highway and Bridge Fund	79,299	-	-	-	79,299
	County Shared Revenue:					
338.99	Library Allocation	-	97,866	-	-	97,866
339	Other Intergovernmental Revenue	4,875	-	-	-	4,875
	<i>Charges for Goods and Services:</i>					
341	General Government	1,045	-	-	-	1,045
342	Public Safety	51,180	-	-	-	51,180
343	Highways and Streets	10,140	-	-	-	10,140
344	Sanitation	3,271	-	-	-	3,271
345	Health	1,953	-	-	-	1,953
346	Culture and Recreation	345	3,412	-	-	3,757
348	Cemetery	8,040	-	-	3,800	11,840
350	Fines and Forfeitures	2,652	-	-	-	2,652
	<i>Miscellaneous Revenue:</i>					
361	Earnings on Deposits and Investments	27,704	-	-	-	27,704
362	Rentals	32,442	-	-	-	32,442
367	Contributions and Donations from Private Sources	171,149	9,813	-	100	181,062
Total Revenue		4,010,988	111,091	164,329	3,900	4,290,308

CITY OF LEAD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

	General Fund	Library Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Expenditures:					
<i>General Government:</i>					
411 Legislative	121,788	-	-	-	121,788
414 Financial Administration	384,741	-	-	-	384,741
419 Other	148,991	-	-	-	148,991
<i>Public Safety:</i>					
421 Police	752,206	-	-	-	752,206
<i>Public Works:</i>					
431 Highway and Streets	1,227,165	-	-	-	1,227,165
437 Cemeteries	23,024	-	-	-	23,024
<i>Health and Welfare:</i>					
441 Health	174,680	-	-	-	174,680
444 Humane Society	6,752	-	-	-	6,752
<i>Culture and Recreation:</i>					
451 Recreation	130,465	-	-	-	130,465
452 Parks	287,130	-	-	-	287,130
455 Library	-	269,900	-	-	269,900
457 Historic Preservation	8,237	-	-	-	8,237
<i>Conservation and Development:</i>					
465 Economic Development and Assistance	-	-	142,823	-	142,823
470 Debt Service	12,375	-	-	-	12,375
485 Capital Outlay	360,885	-	-	-	360,885
Total Expenditures	3,638,439	269,900	142,823	-	4,051,162
Other Financing Sources (Uses)					
391.01 Transfers In	37,792	150,000	-	-	187,792
391.03 Sale of Municipal Property	1,151	-	-	-	1,151
511 Transfers Out	(182,591)	-	-	-	(182,591)
Total Other Financing Sources (Uses)	(143,648)	150,000	-	-	6,352
Net Change in Fund Balance	228,901	(8,809)	21,506	3,900	245,498
Fund Balance, December 31, 2023	4,097	154,459	316,624	99,521	574,701
Fund Balance, December 31, 2024	\$ 232,998	\$ 145,650	\$ 338,130	\$ 103,421	\$ 820,199

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2024**

	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Assets				
101 Cash	\$ 6,238	\$ -	\$ -	\$ 6,238
TOTAL ASSETS	\$ 6,238	\$ -	\$ -	\$ 6,238
Net Position				
253.9 Unrestricted Net Position	\$ 6,238	\$ -	\$ -	\$ 6,238
TOTAL NET POSITION	\$ 6,238	\$ -	\$ -	\$ 6,238

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Operating Revenue:				
380 Charges for Goods and Services	\$ 890,754	\$ 200,040	\$ 344,084	\$ 1,434,878
Operating Expenses:				
480 Personal Services	139,446	116,924	-	256,370
480.5 Other Current Expense	198,376	16,767	344,187	559,330
426.2 Materials (Cost of Goods Sold)	505,920	-	-	505,920
Total Operating Expenses	843,742	133,691	344,187	1,321,620
Operating Income (Loss)	47,012	66,349	(103)	113,258
Nonoperating Revenue (Expense):				
470 Debt Service	(60,040)	(96,702)	-	(156,742)
369 Other	1,785	-	-	1,785
485 Capital Assets	-	(859)	-	(859)
Total Nonoperating Expense	(58,255)	(97,561)	-	(155,816)
Loss before Transfers	(11,243)	(31,212)	(103)	(42,558)
391.01 Transfers In	32,591	6,962	1,387	40,940
511 Transfers Out	(46,141)	-	-	(46,141)
Total Transfers	(13,550)	6,962	1,387	(5,201)
Change in Net Position	(24,793)	(24,250)	1,284	(47,759)
Net Position (Deficit) - December 31, 2023	31,031	24,250	(1,284)	53,997
NET POSITION - DECEMBER 31, 2024	\$ 6,238	\$ -	\$ -	\$ 6,238

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF NET POSITION
FIDUCIARY FUND - MODIFIED CASH BASIS
DECEMBER 31, 2024**

		Private-Purpose Trust Fund
Assets		
101	Cash	\$ 185,347
151	Investments	67,624
TOTAL ASSETS		\$ 252,971
Net Position		
264	Restricted for Firemen's Pension Purposes	\$ 252,971

The accompanying notes are an integral part of this statement.

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CITY OF LEAD

**STATEMENT OF CHANGES IN FUND NET POSITION
FIDUCIARY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	Private-Purpose Trust Fund
ADDITIONS	
Earnings on Deposits and Investments	\$ 1,038
DEDUCTIONS	
Trust Deductions for Firemen's Pension	14,551
Change in Net Position	(13,513)
Net Position - December 31, 2023	266,484
Net Position - December 31, 2024	\$ 252,971

The accompanying notes are an integral part of this statement.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

As discussed further below, 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). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Reporting Entity

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

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

Governmental Funds:

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

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

Library Fund – to account for fines and similar charges, deposited in a library board bank account subject to checks by the librarian for library purposes (SDCL 14-2-42 and AGR 82-33). This fund is also used to account for library operations and is subsidized by General Fund and property taxes from the county. This fund is a major fund.

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

Permanent Funds – permanent funds are used to account for assets that are permanently set aside and from which only the income from its investments can be used for its stated legal purpose. The City has the following permanent fund:

Cemetery Perpetual Care Fund – A fund allowed by SDCL 9-31-18 to account for payments received for perpetual care of cemeteries. The payments are permanently set aside and only the income from the investments can be used for the care and maintenance of the cemetery. This fund is a major fund.

Proprietary Funds:

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Proprietary Funds include:

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

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Basis of Presentation

Proprietary Funds:

Sewer Fund – Financed primarily by user charges; this fund accounts for the construction and operation of the City’s sanitary sewer system and related facilities (SDCL 9-48-2). This fund is a major fund.

Solid Waste Fund – A fund established by SDCL 9-32-11 and 34A-6 to account for the City’s collection and disposal of solid waste and is financed primarily by user charges. This fund is a major fund.

Fiduciary Fund:

Fiduciary fund types are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, or other governmental units. Fiduciary funds are never considered major funds. The City has the following Fiduciary Fund:

Firemen’s Pension Fund - Pension and other employee benefit trust funds are used to account for resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution pension plans, other post-employment benefit plans, or other employee benefit plans. The City manages a Firemen’s Pension Trust, which was offered to its City Firemen. The City no longer operates a City fire department. There is one remaining former Firemen who is receiving benefits from this plan.

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 are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

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 defined below.

Fund Financial Statements:

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

Basis of Accounting:

All financial statements are presented using the modified cash basis of accounting. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the 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 that cash has been received or disbursed.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Fund Financial Statements:

Basis of Accounting:

The acceptable modification to the cash basis of accounting implemented by the City in these financial statements is recording of investments arising from cash transactions.

As a result of the use of the 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 or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and fund financial statements for proprietary fund types would use the accrual basis of accounting.

Capital Assets

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

As discussed in above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate, so any capital assets owned by the City and the related depreciation/amortization are not reported on the financial statements of the City.

Long-Term Liabilities

Long-term liabilities include but are not limited to Revenue Bonds.

As discussed in above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using a modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the City. The City reports the principal and interest payments on long-term debt as Debt Service expenditures.

Program Revenues

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

1. Charges for services – 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 contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Program Revenues

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

Proprietary Funds Revenue and Expense Classification

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand.

Equity Classifications

Government-wide Financial Statements:

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

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of restricted.

Fund Financial Statements:

The City classifies governmental fund balance as follows:

1. Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. Restricted – Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
3. Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Commission and does not lapse at year-end.
4. Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the City Commission, Mayor, or Finance Officer.
5. Unassigned – Includes positive and negative fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

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

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

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

Emerging Accounting Standards

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

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

Subsequent Events

The City has assessed subsequent events through _____, 2025, the date which the financial statements were available to be issued.

(2) Deposits and Investments

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

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

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(2) Deposits and Investments

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

As of December 31, 2024, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
U.S. Government Securities:			
U.S. Government Securities Fund - Class A	AAF	N/A	\$ 67,624
External Investment Pools:			
SDFIT	Unrated	N/A	4,299
Total Investments			\$ 71,923

The South Dakota Public Fund Investment Trust (SDFIT) is an external investment pool created for South Dakota local government investing. It is regulated by a nine-member board with representation from municipalities, school districts and counties. The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis. SDFIT, as well as the U.S. Government Securities, are measured as level 2 recurring fair value measurements according to the fair value hierarchy.

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.

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.

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has a policy to follow state law depository requirements. As of December 31, 2024, none of the City's deposits were exposed to custodial credit risk. The bank balances at December 31, 2024 are as follows, excluding SDFIT:

	Bank Balance
Insured - FDIC	\$ 1,015,768
Uninsured, collateralized in accordance with SDCL 4-6A-3	-
Total Deposits	\$ 1,015,768

Concentration of Credit Risk:

The City has no investment policy that limits the amount that may be invested in any one issuer.

Assignment of Investment Income:

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(3) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

(4) Long-Term Debt

A summary of the changes in long-term debt for the year ending December 31, 2024, is as follows:

	Balance 12/31/2023	Additions	Repayments	Balance 12/31/2024	Due Within One Year
Primary Government:					
Governmental Activities:					
2024 Ford F-350 Truck	\$ -	\$ 49,510	\$ 9,865	\$ 39,645	\$ 6,172
2023 CAT Roller Compactor	-	39,246	-	39,246	4,606
2023 CAT Skid Steer	-	74,951	-	74,951	8,922
2023 CAT Mini Excavator	-	98,993	-	98,993	10,754
Total Governmental Activities	-	262,700	9,865	252,835	30,454
Business-Type Activities:					
2015 Drinking Water SRF #4	634,169	-	41,479	592,690	42,683
2005 Clean Water SRF #5	28,941	-	14,236	14,705	14,705
2007 Clean Water SRF #6	85,939	-	13,821	72,118	14,275
2011 Clean Water SRF #7	72,000	-	7,552	64,448	7,782
2015 Clean Water SRF #8	587,517	-	38,428	549,089	39,543
Total Business-Type Activities	1,408,566	-	115,516	1,293,050	118,988
Total Primary Government	\$ 1,408,566	\$ 262,700	\$ 125,381	\$ 1,545,885	\$ 149,442

Interest cost paid and charged to interest expense in the current period totaled \$43,736.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(4) Long-Term Debt

Long-term debt at December 31, 2024, is comprised of the following:

Notes Payable

Note payable due in monthly installments of \$728, including interest at 6.20 percent through January 2031. Financed through the General Fund. \$ 39,645

Note payable due in annual installments of \$7,153, including interest at 6.29 percent through January 2031. Financed through the General Fund. 39,246

Note payable due in monthly installments of \$13,637, including interest at 6.29 percent through January 2029 with a balloon payment of \$38,000 due at maturity. Financed through the General Fund. 74,951

Note payable due in monthly installments of \$16,981, including interest at 6.29 percent through January 2029 with a balloon payment of \$55,000 due at maturity. Financed through the General Fund. 98,993

Revenue Bonds

Series 2015 Drinking Water SRF #4, matures July 2036, interest at 3.00 percent, due in quarterly installments of \$15,010. Financed through the Water Fund. 592,690

Series 2005 Clean Water SRF #5, matures October 2025, interest at 3.25 percent, due in quarterly installments of \$3,751. Financed through the Sewer Fund. 14,705

Series 2007 Clean Water SRF #6, matures July 2029, interest at 3.25 percent, due in quarterly installments of \$4,112. Financed through the Sewer Fund. 72,118

Series 2011 Clean Water SRF #7, matures April 2032, interest at 3.00 percent, due in quarterly installments of \$2,407. Financed through the Sewer Fund. 64,448

Series 2015 Clean Water SRF #8, matures July 2036, interest at 3.00 percent, due in quarterly installments of \$13,906. Financed through the Sewer Fund. 549,089

Total Long-Term Debt \$ 1,545,885

The annual requirements to amortize long-term debt outstanding at December 31, 2024, are as follows:

	Revenue Bonds		Notes Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2025	\$ 37,756	\$ 118,988	\$ 2,566	\$ 30,454	\$ 40,322	\$ 149,442
2026	34,249	107,489	2,172	32,384	36,421	139,873
2027	30,943	110,794	1,753	34,437	32,696	145,231
2028	27,536	114,202	1,312	36,616	28,848	150,818
2029	24,025	113,602	834	101,323	24,859	214,925
2030-2034	71,760	530,629	333	17,621	72,093	548,250
2035-2036	6,037	197,346	-	-	6,037	197,346
Total	\$ 232,306	\$ 1,293,050	\$ 8,970	\$ 252,835	\$ 241,276	\$ 1,545,885

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(4) Long-Term Debt

Business-type Activities

The City has pledged future revenues of the Water and Sewer Funds for the retirement of debt issues associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged.

Below is a comparison by fund of principal and interest payments and total pledged revenue for the current year:

	<u>Water Fund</u>	<u>Sewer Fund</u>
Current Year Principal and Interest	\$ 60,040	\$ 96,702
Pledged Revenue	890,754	200,040

The City is required to comply with various debt covenants on both SRF Drinking Water and Clean Water debt. At December 31, 2024, the City was not in compliance with the debt coverage ratio requirement for the Drinking Water debt, and a formal waiver has not been obtained. The applicable state agency is aware of the deficiency and has no intention to call the debt due before its original maturity date. As such, balances are reported based on original agreements.

(5) Interfund Transfers

Fund	Transfers In	Transfers Out
General Fund	\$ 37,792	\$ 182,591
Library Fund	150,000	-
Water Fund	32,591	46,141
Sewer Fund	6,962	-
Solid Waste Fund	1,387	-
Total Transfers	\$ 228,732	\$ 228,732

The General Fund transfers a subsidy to the Library Fund for operational purposes each year. During 2024, the Water Fund transferred funds to the General Fund to reimburse for operating transfers in a prior year. Additional transfers were made to cover cash deficits.

(6) Retirement Plan – South Dakota Retirement System

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor benefits. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(6) Retirement Plan – South Dakota Retirement System

Benefits Provided:

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2024, 2023, and 2022 were \$105,377, \$91,053, and \$81,241, respectively, equal to the required contributions each year.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(6) Retirement Plan – South Dakota Retirement System

Contributions:

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2024, SDRS is 100.0 percent funded and accordingly has a net pension asset. The City's share of the net pension asset at June 30, 2024 was .062602 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity.

(7) Firemen's Pension Plan

Plan Description:

The City also sponsored and administers the Firemen Pension Trust Fund (the Plan). The City no longer maintains a city fire department as they became members of the Lead Fire Protection District, Inc. in April of 2008. The Plan is being maintained for the last remaining member of the disbanded city fire department. The Plan is a single employer; defined benefit pension plan established under the authority of SDCL 9-16-20 and 9-16-3. The membership of the Plan included all full-time firemen employed by the City. A firemen's pension board of three members is in charge of the administration, management, and operation of the Plan. The Plan is supposed to be reviewed biennially by an actuary firm; however, with only one remaining member receiving benefits, it is not practical, nor cost beneficial to perform an actuarial study. The City Commission established and can make changes to the Plan through ordinances of the City.

Funding Policy:

Pursuant to City ordinances, the members were to contribute 6 percent of compensation. The members' contributions earn interest at 6 percent. The members' contributions and earned interest may be withdrawn upon termination of employment. The Plan is considered to be part of the City and is included in the City's financial statements as a Firemen's Pension Trust Fund. No contributions have been made to the Plan by the City or members since 2008.

As of December 31, 2024, the Plan had Cash Equivalents and Investments in the amount of \$252,971. Based on the modified-cash basis reporting of the City, a liability for future benefits is not recorded.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2024 the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(8) Risk Management

Liability Insurance:

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 Worker's Compensation Fund (the 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 the Fund to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The Fund pays the first \$650,000 of any claim per individual. The Fund has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident. The City does not carry additional insurance 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.

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 ended December 31, 2024, no claims for unemployment benefits were paid. At December 31, 2024, no claims had been filed for unemployment benefits, and none are anticipated in the next year.

OTHER REPORTS

DRAFT



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

City Commission
City of Lead
Lead, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the City of Lead (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated _____, 2025.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as #2024-001 and #2024-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as #2024-003 and #2024-004 to be significant deficiencies.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings as #2024-002.

City's Response to Findings

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

Purpose of this Report

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

KETEL THORSTENSON, LLP
Certified Public Accountants

_____, 2025

CITY OF LEAD

SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2024

Material Weaknesses

#2024-001 FINDING: Financial Statement Preparation

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

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

Repeat Finding from Prior Year: Yes, revised prior year finding 2023-001.

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

Views of Responsible Officials: See City's Corrective Action Plan.

#2024-002 FINDING: Segregation of Duties/Internal Controls

Condition and Cause: The City has a general lack of segregation of duties in the finance office. Specifically:

- The Finance Officer has access to the general ledger, processes disbursements, and has check signing authority.
- There is an overall lack of segregation of duties at the library. The Director receives and opens mail, makes deposits, and processes disbursements. Library activity is maintained in an excel spreadsheet and not recorded in the City's general ledger throughout the year.
- At December 31, 2024, the City was not in compliance with the debt coverage ratio requirement for its SRF Drinking Water and Clean Water debts, and a formal waiver has not been obtained.

Criteria and Effect: Internal controls should be in place to provide reasonable assurance that all financial transactions are reviewed and approved before payments are made and reports are generated. Controls also need to be in place to ensure all revenue is processed and recorded correctly. Proper segregation of duties and functions assures adequate control over safeguarding of assets and the reliability of financial records and reporting. The effectiveness of the internal control system relies on enforcement by management.

Repeat Finding from Prior Year: Yes, revised prior year finding 2023-002.

CITY OF LEAD

SCHEDULE OF FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2024

Material Weaknesses

#2024-002 FINDING: Segregation of Duties/Internal Controls

Recommendations:

- The Finance Officer should not have access to the general ledger, processing disbursements, and check signing authority without additional safeguards.
- Library internal controls and segregation of duties should be established and monitored, no different than any other department of the City. Where possible, the same individual should not open the mail, make deposits, and process disbursements. Additionally, all library transactions should be recorded in the general ledger.
- The City should monitor debt covenants to ensure compliance.

Views of Responsible Officials: See City's Corrective Action Plan.

Significant Deficiencies

#2024-003 FINDING: Audit Adjustments

Condition and Cause: During the course of the engagement, we posted audit adjustments that were approved and recorded.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls. The adjustments were not material to the financial statements as a whole, but still warrant the attention of governance.

Repeat Finding from Prior Year: Yes, revised prior year finding 2023-003.

Recommendation: We recommend the following:

- Water purchases should be recorded to cost of sales.
- In accordance with the modified-cash basis of accounting, no payables or receivables should be recorded.
- Interest income should be recorded to the account earning interest.
- Entries should not be posted directly to the fund balance or net position accounts.
- Interfund transfers should be posted to Transfers In/Out accounts.

Views of Responsible Officials: See City's Corrective Action Plan.

#2023-004 FINDING: Written Uniform Guidance Policies

Condition and Cause: The City does not have written policies required under Uniform Guidance.

Criteria and Effect: Uniform Guidance specifically requires entities to maintain written policies. Not properly maintaining such policies may lead to noncompliance.

Repeat Finding from Prior Year: Yes, revised prior year finding 2023-004.

Recommendation: The City should create written policies in accordance with Uniform Guidance.

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

MANAGEMENT RESPONSE

DRAFT

CITY OF LEAD

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED DECEMBER 31, 2024



The City respectfully submits the following summary schedule of prior audit findings from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

2023-001 FINDING: Financial Statement and SEFA Preparation

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

Initial Year Report: Originally issued in 2018.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements; it is repeated in 2024, see Corrective Action Plan.

2023-002 FINDING: Segregation of Duties/Internal Controls

Status: The City has a general lack of segregation of duties in the finance office.

Initial Year Report: Originally issued in 2018.

Reasons for Recurrence and Corrective Action Plan: The finding is altered based on specific lack of segregation of duties in the finance office; it is repeated in 2024, see Corrective Action Plan.

2023-003 FINDING: Audit Adjustments

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

Initial Year Report: Originally issued in 2018.

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

2023-004 FINDING: Written Uniform Guidance Policies

Status: The City does not have written Uniform Guidance policies.

Initial Year Report: Originally issued in 2023.

Reasons for Recurrence and Corrective Action Plan: The City is working on written Uniform Guidance policies. The finding is repeated in the Schedule of Findings, see Corrective Action Plan.

CITY OF LEAD

CORRECTIVE ACTION PLAN FOR THE YEAR ENDED DECEMBER 31, 2024



The City respectfully submits the following corrective action plan from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding 2024-001: Financial Statement Preparation

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2024-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

Finding 2024-002: Segregation of Duties/ Internal Controls

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff who are available. The City will continually monitor internal control and segregate duties to the best of their ability.

Anticipated Completion Date: Ongoing

Finding 2024-003: Audit Adjustments

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City will make every effort to adjust accounts prior to the annual audit.

Anticipated Completion Date: Ongoing

Finding 2024-004: Written Uniform Guidance Policies

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City is working on developing written Uniform Guidance policies.

Anticipated Completion Date: Ongoing