

CITY OF LEAD

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

CITY OF LEAD

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor’s Report	3-5
<i>Government-wide Financial Statements:</i>	
Statement of Net Position – Modified Cash Basis	6
Statement of Activities – Modified Cash Basis	7
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Fund – Modified Cash Basis	8
Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit) – Governmental Funds - Modified Cash Basis.....	9-10
Statement of Net Position – Proprietary Funds – Modified Cash Basis	11
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis.....	12
Statement of Net Position – Fiduciary Fund – Modified Cash Basis	13
Statement of Changes in Fund Net Position - Fiduciary – Modified Cash Basis	14
Notes to Financial Statements	15-26
<i>Single Audit Section:</i>	
Schedule of Expenditures of Federal Awards.....	28
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 <i>Government Auditing Standards</i>	29-30
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance	31-33
Schedule of Findings	34-37
<i>Management Response:</i>	
Summary Schedule of Prior Year Audit Findings	39
Corrective Action Plan	40



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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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, 2023, 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.

Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2024 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 28, 2024

CITY OF LEAD

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Investments	\$ 574,701	\$ 53,997	\$ 628,698
TOTAL ASSETS	\$ 574,701	\$ 53,997	\$ 628,698
Net Position			
Restricted for:			
Promoting the City	\$ 316,624	\$ -	\$ 316,624
Permanently Restricted Purposes:			
Expendable	49,521	-	49,521
Nonexpendable	50,000	-	50,000
Unrestricted	158,556	53,997	212,553
TOTAL NET POSITION	\$ 574,701	\$ 53,997	\$ 628,698

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, 2023**

Functions/Programs	Expenses	Charges for Services	Program Revenues		Net (Expense) Revenue and Changes in Net Position		
			Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 678,518	\$ 89,748	\$ -	\$ 1,580	\$ (587,190)	\$ -	\$ (587,190)
Public Safety	820,533	127,752	-	15,970	(676,811)	-	(676,811)
Public Works	1,546,830	148,339	181,610	-	(1,216,881)	-	(1,216,881)
Health and Welfare	158,008	-	-	-	(158,008)	-	(158,008)
Culture and Recreation	583,558	36,608	-	97,866	(449,084)	-	(449,084)
Conservation and Development	135,489	-	-	-	(135,489)	-	(135,489)
Long-Term Debt	-	-	-	-	-	-	-
Capital Outlay	680,898	-	-	-	(680,898)	-	(680,898)
Total Governmental Activities	4,603,834	402,447	181,610	115,416	(3,904,361)	-	(3,904,361)
Business-Type Activities:							
Water	1,801,241	894,410	339,337	-	-	(567,494)	(567,494)
Sewer	744,686	198,752	280,288	-	-	(265,646)	(265,646)
Solid Waste	332,604	328,612	-	-	-	(3,992)	(3,992)
Total Business-Type Activities	2,878,531	1,421,774	619,625	-	-	(837,132)	(837,132)
Total Primary Government	\$ 7,482,365	\$ 1,824,221	\$ 801,235	\$ 115,416	(3,904,361)	(837,132)	(4,741,493)
General Revenues:							
Taxes:							
Property Taxes					1,275,535	-	1,275,535
Sales Taxes					1,913,412	-	1,913,412
State Shared Revenues					30,324	-	30,324
Unrestricted Investment Earnings					18,822	-	18,822
Miscellaneous Revenue					120,965	-	120,965
Transfers					(55,370)	55,370	-
Total General Revenues					3,303,688	55,370	3,359,058
Change in Net Position					(600,673)	(781,762)	(1,382,435)
Net Position - December 31, 2022					1,175,374	835,759	2,011,133
Net Position - December 31, 2023					\$ 574,701	\$ 53,997	\$ 628,698

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	General Fund	Library Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Cemetery Perpetual Care Fund	Totals Governmental Funds
Assets					
101 Cash	\$ -	\$ 154,459	\$ 316,624	\$ 99,521	\$ 570,604
151 Investments	4,097	-	-	-	4,097
TOTAL ASSETS	\$ 4,097	\$ 154,459	\$ 316,624	\$ 99,521	\$ 574,701
Fund Balance					
<i>263 Nonspendable</i>					
263.51 Perpetual Care Cemetery	\$ -	\$ -	\$ -	\$ 50,000	\$ 50,000
<i>264 Restricted</i>					
264.03 Perpetual Care Cemetery	-	-	-	49,521	49,521
264.04 Promoting the City	-	-	316,624	-	316,624
<i>265 Committed</i>					
265.99 Library Purposes	-	154,459	-	-	154,459
265.99 Preservation Reserve	30,000	-	-	-	30,000
265.99 Parks Improvement Reserve	25,250	-	-	-	25,250
267 Unassigned	(51,153)	-	-	-	(51,153)
Total Fund Balance (Deficit)	4,097	154,459	316,624	99,521	574,701
TOTAL LIABILITIES AND FUND BALANCE (DEFICIT)					
	\$ 4,097	\$ 154,459	\$ 316,624	\$ 99,521	\$ 574,701

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	General Fund	Library Fund	Liquor, Lodging, and Dining Gross Receipts Tax Fund	Cemetery Perpetual Care Fund	Total Governmental Funds
Revenue:					
<i>Taxes:</i>					
311	\$ 1,220,304	\$ -	\$ -	\$ -	\$ 1,220,304
313	1,784,831	-	128,581	-	1,913,412
315	52,195	-	-	-	52,195
319	3,036	-	-	-	3,036
320	77,825	-	-	-	77,825
<i>Intergovernmental Revenue:</i>					
331	199,160	-	-	-	199,160
<i>State Shared Revenue:</i>					
335.01	9,827	-	-	-	9,827
335.03	20,497	-	-	-	20,497
335.04	46,830	-	-	-	46,830
335.08	79,014	-	-	-	79,014
<i>County Shared Revenue:</i>					
338.99	-	97,866	-	-	97,866
339	2,265	-	-	-	2,265
<i>Charges for Goods and Services:</i>					
341	11,923	-	-	-	11,923
342	124,034	-	-	-	124,034
343	13,581	-	-	-	13,581
344	6,294	-	-	-	6,294
346	370	1,875	-	-	2,245
348	1,845	-	-	775	2,620
350	3,718	-	-	-	3,718
<i>Miscellaneous Revenue:</i>					
361	18,822	-	-	-	18,822
362	34,363	-	-	-	34,363
367	45,932	7,437	-	-	53,369
Total Revenue	3,756,666	107,178	128,581	775	3,993,200

CITY OF LEAD

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (DEFICIT)
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	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	122,408	-	-	-	122,408
414 Financial Administration	333,952	-	-	-	333,952
419 Other	222,158	-	-	-	222,158
<i>Public Safety:</i>					
421 Police	820,533	-	-	-	820,533
<i>Public Works:</i>					
431 Highway and Streets	1,498,010	-	-	-	1,498,010
437 Cemeteries	48,820	-	-	-	48,820
<i>Health and Welfare:</i>					
441 Health	154,102	-	-	-	154,102
444 Humane Society	3,906	-	-	-	3,906
<i>Culture and Recreation:</i>					
451 Recreation	105,000	-	-	-	105,000
452 Parks	214,847	-	-	-	214,847
455 Library	-	254,495	-	-	254,495
457 Historic Preservation	9,216	-	-	-	9,216
<i>Conservation and Development:</i>					
465 Economic Development and Assistance	-	-	135,489	-	135,489
485 Capital Outlay	680,898	-	-	-	680,898
Total Expenditures	4,213,850	254,495	135,489	-	4,603,834
Other Financing Sources (Uses)					
391.01 Transfers In	-	178,094	-	-	178,094
391.03 Sale of Municipal Property	65,331	-	-	-	65,331
511 Transfers Out	(233,464)	-	-	-	(233,464)
Total Other Financing Sources (Uses)	(168,133)	178,094	-	-	9,961
Net Change in Fund Balance	(625,317)	30,777	(6,908)	775	(600,673)
Fund Balance, December 31, 2022	629,414	123,682	323,532	98,746	1,175,374
Fund Balance (Deficit), December 31, 2023	\$ 4,097	\$ 154,459	\$ 316,624	\$ 99,521	\$ 574,701

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2023**

	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Assets				
101 Cash	\$ 31,031	\$ 24,250	\$ (1,284)	\$ 53,997
TOTAL ASSETS	\$ 31,031	\$ 24,250	\$ (1,284)	\$ 53,997
Net Position				
253.9 Unrestricted Net Position (Deficit)	\$ 31,031	\$ 24,250	\$ (1,284)	\$ 53,997
TOTAL NET POSITION (DEFICIT)	\$ 31,031	\$ 24,250	\$ (1,284)	\$ 53,997

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, 2023**

	Water Fund	Sewer Fund	Solid Waste Fund	Totals
Operating Revenue:				
380 Charges for Goods and Services	\$ 894,410	\$ 198,752	\$ 328,612	\$ 1,421,774
Operating Expenses:				
480 Personal Services	210,024	30,763	-	240,787
480.5 Other Current Expense	215,732	67,614	332,604	615,950
426.2 Materials (Cost of Goods Sold)	533,125	-	-	533,125
Total Operating Expenses	958,881	98,377	332,604	1,389,862
Operating Income (Loss)	(64,471)	100,375	(3,992)	31,912
Nonoperating Revenue (Expense):				
331 Federal Grants	270,256	209,719	-	479,975
332 State Grants	69,081	70,569	-	139,650
470 Debt Service	(292,753)	(96,702)	-	(389,455)
485 Capital Assets	(549,607)	(549,607)	-	(1,099,214)
Total Nonoperating Revenue	(503,023)	(366,021)	-	(869,044)
Loss before Transfers	(567,494)	(265,646)	(3,992)	(837,132)
391.01 Transfers In	55,370	-	-	55,370
Change in Net Position	(512,124)	(265,646)	(3,992)	(781,762)
Net Position - December 31, 2022	543,155	289,896	2,708	835,759
NET POSITION (DEFICIT) - DECEMBER 31, 2023	\$ 31,031	\$ 24,250	\$ (1,284)	\$ 53,997

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF NET POSITION
FIDUCIARY FUND - MODIFIED CASH BASIS
DECEMBER 31, 2023**

		<u>Private-Purpose Trust Fund</u>
Assets		
101	Cash	\$ 199,898
151	Investments	66,586
TOTAL ASSETS		\$ 266,484
Net Position		
264	Restricted for Firemen's Pension Purposes	\$ 266,484

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF CHANGES IN FUND NET POSITION
FIDUCIARY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	<u>Private-Purpose Trust Fund</u>
ADDITIONS	
Earnings on Deposits and Investments	\$ 1,991
DEDUCTIONS	
Trust Deductions for Firemen's Pension	14,551
Change in Net Position	(12,560)
Net Position - December 31, 2022	279,044
Net Position - December 31, 2023	\$ 266,484

The accompanying notes are an integral part of this statement.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(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, 2023**

(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 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 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 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 is a major fund.

CITY OF LEAD

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

(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 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 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, 2023

(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 Note 1 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 Note 1 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, 2023**

(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, 2023

(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 Standard

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

Subsequent Events

The City has assessed subsequent events through August 28, 2024, the date which the financial statements were available to be issued.

(2) Deposits and Investments

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

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.

CITY OF LEAD

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

(2) Deposits and Investments

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

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

As of December 31, 2023, 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	\$ 66,586
External Investment Pools:			
SDFIT	Unrated	N/A	4,097
Total Investments			\$ 70,683

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, 2023, none of the City’s deposits were exposed to custodial credit risk. The bank balances at December 31, 2023 are as follows, excluding SDFIT:

	Bank Balance
Insured - FDIC	\$ 830,029
Uninsured, collateralized in accordance with SDCL 4-6A-3	-
Total Deposits	\$ 830,029

Concentration of Credit Risk:

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

CITY OF LEAD

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

(2) Deposits and Investments

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.

(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, 2023, is as follows:

	Balance 12/31/2022	Additions	Repayments	Balance 12/31/2023	Due Within One Year
Primary Government:					
Business-Type Activities:					
2015 Drinking Water SRF #4	674,427	-	40,258	634,169	41,423
2018 Drinking Water SRF #9	231,179	-	231,179	-	-
2005 Clean Water SRF #5	42,424	-	13,483	28,941	14,236
2007 Clean Water SRF #6	99,319	-	13,380	85,939	13,821
2011 Clean Water SRF #7	79,330	-	7,330	72,000	7,552
2015 Clean Water SRF #8	624,813	-	37,296	587,517	38,376
Total Business-Type Activities	1,751,492	-	342,926	1,408,566	115,408
Total Primary Government	\$ 1,751,492	\$ -	\$ 342,926	\$ 1,408,566	\$ 115,408

Interest cost paid and charged to interest expense in the current period totaled \$46,529.

CITY OF LEAD

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

(4) Long-Term Debt

Long-term debt at December 31, 2023, is comprised of the following:

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.	\$ 634,169
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.	28,941
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.	85,939
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.	72,000
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.	587,517
Total Long-Term Debt	\$ 1,408,566

The annual requirements to amortize long-term debt outstanding at December 31, 2023, are as follows:

	Total	
	Interest	Principal
2024	\$ 41,335	\$ 115,408
2025	37,756	118,987
2026	34,249	107,489
2027	30,943	110,794
2028	27,536	114,202
2029-2033	87,797	536,554
2034-2036	14,024	305,132
Total	\$ 273,640	\$ 1,408,566

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	\$ 292,753	\$ 96,702
Pledged Revenue	894,410	198,752

The City is required to comply with various debt covenants on both SRF Drinking Water and Clean Water debt. At December 31, 2023, 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.

CITY OF LEAD

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

(5) Interfund Transfers

Fund	Transfers	
	In	Out
General Fund	\$ -	\$ 233,464
Library Fund	178,094	-
Water Fund	55,370	-
Total Transfers	\$ 233,464	\$ 233,464

The general fund transfers a subsidy to the library for operational purposes each year. During 2023, the general fund transferred a debt service payment to the water fund.

(6) Retirement Plan – South Dakota Retirement System

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

Benefits Provided:

SDRS has four 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.

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

Members that were hired on/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.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(6) Retirement Plan – South Dakota Retirement System

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% 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 contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2023, 2022, and 2021 were **\$91,053**, \$81,241, and \$79,169, respectively, equal to the required contributions each year.

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, 2023, SDRS is 100.1 percent funded and accordingly has a net pension asset. The City's share of the net pension asset at June 30, 2023 was .058834 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.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(7) Firemen's Pension Plan

As of December 31, 2023, the Plan had Cash Equivalents and Investments in the amount of \$266,484. 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, 2023, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

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.

SINGLE AUDIT SECTION

CITY OF LEAD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Federal Contract Number	ALN Numbers	Amount
<i>U.S. Department of Housing and Urban Development:</i>			
Pass-Through the Governor's Office of Economic Development			
Community Development Block Grants (CDBG)	2021-102	14.228	\$ 760,000
Total U.S. Department of Housing and Urban Development			760,000
<i>U.S. Department of Treasury:</i>			
Pass-Through the S.D. Department of Bureau of Finance and Management:			
Coronavirus State and Local Fiscal Recovery Fund (COVID-19)	2022G-ARP-427	21.027	78,154
Coronavirus State and Local Fiscal Recovery Fund (COVID-19)	2022G-ARP-426	21.027	27,019
Coronavirus State and Local Fiscal Recovery Fund (COVID-19)	N/A	21.027	269,086
Coronavirus State and Local Fiscal Recovery Fund (COVID-19)	N/A	21.027	263,144
Total U.S. Department of Treasury			637,403
<i>U.S. Department of Transportation:</i>			
Pass-Through the S.D. Department of Public Safety:			
Highway Safety 402 Funds	N/A	20.600	20,686
Total U.S. Department of Transportation			20,686
<i>U.S. Department of Education:</i>			
Pass-Through the S.D. Department of Education:			
Historic Preservation Fund Grants-In-Aid	P23AS00477	15.904	1,580
Total U.S. Department of Education			1,580
Total			\$ 1,419,669

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

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

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

Note 2 - Indirect Cost Rate

The City has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.



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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, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated August 28, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 #2023-001 and #2023-002 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 deficiency described in the accompanying Schedule of Findings as #2023-003 to be a significant deficiency.

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 #2023-002.

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

August 28, 2024



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

City Commission
City of Lead
Lead, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the City of Lead's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2023. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2023.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item #2023-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as #2023-004 to be a significant deficiency.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 28, 2024

CITY OF LEAD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor’s Report expresses an unmodified opinion on all of the financial statements of the City of Lead (the City).
2. Material weaknesses and a significant deficiency disclosed during the audit of the financial statements are reported in the Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instance of noncompliance material to the financial statements of the City was disclosed during the audit.
4. A material weakness and a significant deficiency disclosed during the audit of the major federal award program are reported in the Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award program for the City expresses an unmodified opinion on the major program, as listed in #7.
6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.
7. The program tested as a major program include the following:

Major Program	ALN
<i>U.S. Department of Housing and Urban Development:</i>	
Community Development Block Grants (CDBG)	14.228

8. The threshold for distinguishing types A and B programs was \$750,000.
9. The City was not determined to be a low risk auditee.

CITY OF LEAD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

Finding No. 2023-001: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Federal Program Affected: Community Development Block Grants (CDBG) (AL #14.228)

Compliance Requirement: Reporting

Questioned Costs: None.

Condition and Cause: We were requested to draft the audited modified cash basis financial statements, Schedule of Expenditures of Federal Awards, 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 do both for the City at the same time 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 and/or SEFA that would not have been prevented or detected by the City’s management.

Repeat Finding from Prior Year: Yes, revised prior year finding 2022-001.

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.

Finding No. 2023-002: Segregation of Duties/ Internal Controls

Federal Program Affected: None.

Compliance Requirement: Not Applicable.

Questioned Costs: None.

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.
- Assigned cash balances on the Financial Report 12-2023 were missing or exceeding Commission approved maximums.
- 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, 2023, the City was not in compliance with the debt coverage ratio requirement for its SRF Drinking Water debt, and a formal waiver has not been obtained.

CITY OF LEAD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

Material Weaknesses

Finding No. 2023-002: Segregation of Duties/ Internal Controls

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 2022-002

Recommendations:

- The Finance Officer should not have access to the general ledger, processing disbursements, and check signing authority.
- When cash is reconciled each month, assigned balances should be calculated and reviewed to ensure the balances do not exceed maximums per resolutions.
- 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 monthly.
- The City should monitor debt covenants to ensure compliance.

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

Significant Deficiency

Finding No. 2023-003: Audit Adjustments

Federal Program Affected: None.

Compliance Requirement: Not Applicable.

Questioned Costs: None.

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 2022-003.

Recommendation: We recommend the following:

- Firemen's pension interest should not be posted to fund balance/net position.
- Returned water checks should be recorded to revenue.
- 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.

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

CITY OF LEAD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAM AUDIT

Material Weakness

See Finding No. 2023-001

Significant Deficiency

Finding No. 2023-004: Written Uniform Guidance Policies

Federal Program Affected: Community Development Block Grant (AL #14.228)

Compliance Requirement: Allowable Costs/Cost Principles

Questioned Costs: None

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: No.

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

CITY OF LEAD

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**



The City respectfully submits the following summary schedule of prior audit findings from December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2022 Schedule of Findings.

2022-001 FINDING: Financial Statement Preparation

Status: It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as 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 2023, see Corrective Action Plan.

2022-002 FINDING: Segregation of Duties

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 2023, see Corrective Action Plan.

2022-003 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.

CITY OF LEAD

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023**



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

Finding 2023-001: Financial Statement and Schedule of Expenditures of Federal Awards (SEFA) Preparation

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2023-001 regarding the preparation of the financial statements and SEFA and will continue to have the independent auditor prepare the annual financial statements and SEFA.

Anticipated Completion Date: Ongoing

Finding 2023-002: 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 2023-003: 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 2023-004: 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