

CITY OF DEADWOOD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2021

CITY OF DEADWOOD

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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Deadwood
Deadwood, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Deadwood (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2021, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Unmodified 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 unmodified audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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.

Required Supplementary Information

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 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 5, 2024

CITY OF DEADWOOD

**STATEMENT OF NET POSITION
DECEMBER 31, 2021**

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
ASSETS			
Cash and Investments	\$ 20,902,948	\$ 3,638,422	\$ 24,541,370
Accounts Receivable, Net	968,029	69,603	1,037,632
Notes Receivable	3,383,619	-	3,383,619
Restricted Cash and Cash Equivalents	1,949,537	-	1,949,537
Net Pension Asset	980,616	142,434	1,123,050
Capital Assets:			
Land	4,601,643	290,740	4,892,383
Other Capital Assets, Net of Depreciation	47,435,328	18,072,060	65,507,388
TOTAL ASSETS	\$ 80,221,720	\$ 22,213,259	\$ 102,434,979
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows of Resources	1,261,510	183,234	1,444,744
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 81,483,230	\$ 22,396,493	\$ 103,879,723
LIABILITIES			
Accounts Payable	\$ 753,137	\$ 107,663	\$ 860,800
Other Current Liabilities	262,495	9,838	272,333
Long-Term Liabilities:			
Due Within One Year	1,625,015	114,098	1,739,113
Due in More Than One Year	6,128,829	9,941	6,138,770
TOTAL LIABILITIES	8,769,476	241,540	9,011,016
DEFERRED INFLOWS OF RESOURCES			
Pension Related Deferred Inflows of Resources	1,894,478	275,172	2,169,650
NET POSITION			
Net Investment in Capital Assets	44,480,451	18,264,094	62,744,545
Restricted for:			
Rubble Site Purposes	92,554	-	92,554
Revolving Loan and Grant	4,205,513	-	4,205,513
Debt Service	894,467	-	894,467
Library	240,222	-	240,222
SDRS Pension	347,648	50,496	398,144
Historic Preservation Purposes	7,517,112	-	7,517,112
Recreational and Promotional Purposes	1,595,516	-	1,595,516
Business Improvement Purposes	840,998	-	840,998
Perpetual Care Cemetery:			
Expendable	28,644	-	28,644
Nonexpendable	50,000	-	50,000
Unrestricted	10,526,151	3,565,191	14,091,342
TOTAL NET POSITION	70,819,276	21,879,781	92,699,057
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 81,483,230	\$ 22,396,493	\$ 103,879,723

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

CITY OF DEADWOOD

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2021

Functions/Programs	Expenses	--- Program Revenues ---			Net (Expense) Revenue and ----- Changes in Net Position -----		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General Government	\$ 3,259,275	\$ 365,569	\$ -	\$ -	\$ (2,893,706)	\$ -	\$ (2,893,706)
Public Safety	1,582,596	145,024	115,611	-	(1,321,961)	-	(1,321,961)
Public Works	1,582,146	168,649	41,988	-	(1,371,509)	-	(1,371,509)
Health and Welfare	2,941	-	-	-	(2,941)	-	(2,941)
Culture and Recreation	3,631,522	585,001	-	454,399	(2,592,122)	-	(2,592,122)
Conservation and Development	2,426,882	-	-	-	(2,426,882)	-	(2,426,882)
Miscellaneous	-	-	-	-	-	-	-
Interest on Long-Term Debt*	329,977	-	-	-	(329,977)	-	(329,977)
Total Governmental Activities	12,815,339	1,264,243	157,599	454,399	(10,939,098)	-	(10,939,098)
Business-Type Activities:							
Water	1,018,919	900,318	-	-	-	(118,601)	(118,601)
Sewer	98,846	79,966	-	-	-	(18,880)	(18,880)
Historic Cemeteries	215,839	201,401	-	-	-	(14,438)	(14,438)
Parking and Transportation	1,654,652	1,570,758	-	-	-	(83,894)	(83,894)
Total Business-Type Activities	2,988,256	2,752,443	-	-	-	(235,813)	(235,813)
Total Primary Government	\$ 15,803,595	\$ 4,016,686	\$ 157,599	\$ 454,399	(10,939,098)	(235,813)	(11,174,911)
General Revenues:							
Taxes:							
Property Taxes					2,227,286	-	2,227,286
Sales Taxes					5,298,261	-	5,298,261
Business Occupation Taxes					1,924,075	-	1,924,075
State Shared Revenue					7,186,786	-	7,186,786
Unrestricted Investment Earnings					191,729	15,831	207,560
Miscellaneous Revenue					106,620	388,323	494,943
Transfers					(194,983)	194,983	-
Total General Revenue					16,739,774	599,137	17,338,911
Change in Net Position					5,800,676	363,324	6,164,000
Net Position, Beginning					65,018,600	21,516,457	86,535,057
Net Position, Ending					\$ 70,819,276	\$ 21,879,781	\$ 92,699,057

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

*The City does not have interest expense related to the functions presented above. This amount includes indirect interest expense on the general long-term debt.

CITY OF DEADWOOD

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2021

	General Fund	Historic Restoration and Preservation Fund	Revolving Loan and Grant Fund
Assets			
101 Cash and Cash Equivalents	\$ 7,745,770	\$ 7,798,239	\$ 238,764
105 Investments	1,891,161	-	769,246
108 Property Taxes Receivable	5,852	-	-
110 Sales Taxes Receivable	305,467	-	-
115 Accounts Receivable	21,094	18,349	3,987
131 Notes Receivable	-	-	3,383,619
132 Due from Other Governments	148,924	351,083	-
135 Interest Receivable	-	-	1,536
107 Restricted Cash and Cash Equivalents	665,509	738,532	-
Total Assets	\$ 10,783,777	\$ 8,906,203	\$ 4,397,152
Liabilities, Deferred Inflows of Resources and Fund Balances			
<i>Liabilities</i>			
202 Accounts Payable	\$ 189,199	\$ 294,338	\$ 191,639
216 Accrued Wages Payable	49,077	5,231	-
209 Due to Other Governments	-	29,829	-
220 Customer Deposits	8,857	-	-
Total Liabilities	247,133	329,398	191,639
<i>Deferred Inflows of Resources</i>			
244 Unavailable Revenue - Gaming Revenue	-	321,161	-
245 Unavailable Revenue - Property Taxes	140,331	-	-
Total Deferred Inflows of Resources	140,331	321,161	-
<i>Fund Balances</i>			
263 <i>Nonspendable:</i>			
263.51 Perpetual Care Cemetery	-	-	-
264 <i>Restricted:</i>			
264 Debt Service	-	738,532	-
264.01 Library	-	-	-
264.02 Rubble Site Purposes	-	-	-
264.03 Cemetery Perpetual Care Purposes	-	-	-
264.04 Recreational and Promotional Purposes	-	-	-
264.05 Business Improvement Purposes	-	-	-
264.06 Historic Preservation	-	7,517,112	-
264.07 Revolving Loan and Grant Purposes	-	-	4,205,513
266 <i>Assigned:</i>			
266.01 Subsequent Year's Budget	1,268,722	-	-
Capital Outlay Accumulation	665,509	-	-
267 Unassigned	8,462,082	-	-
Total Fund Balances	10,396,313	8,255,644	4,205,513
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 10,783,777	\$ 8,906,203	\$ 4,397,152

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

Outlaw Square Fund	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 2,124,138	\$ 17,906,911
-	335,630	2,996,037
-	-	5,852
-	69,076	374,543
-	15,583	59,013
-	-	3,383,619
-	27,078	527,085
-	-	1,536
-	545,496	1,949,537
\$ -	\$ 3,117,001	\$ 27,204,133

\$ -	\$ 77,961	\$ 753,137
-	8,093	62,401
-	-	29,829
-	-	8,857
-	86,054	854,224

-	-	321,161
-	27,078	167,409
-	27,078	488,570

-	50,000	50,000
-	155,935	894,467
-	240,222	240,222
-	92,554	92,554
-	28,644	28,644
-	1,595,516	1,595,516
-	840,998	840,998
-	-	7,517,112
-	-	4,205,513
-	-	1,268,722
-	-	665,509
-	-	8,462,082
-	3,003,869	25,861,339

\$ -	\$ 3,117,001	\$ 27,204,133
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CITY OF DEADWOOD

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2021**

Total Fund Balances - Governmental Funds \$ 25,861,339

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	52,036,971
Long-term liabilities are not due and payable in the current period and therefore not reported in the funds.	(7,753,844)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	980,616
Pension related deferred outflows are components of pension assets and therefore are not reported in the funds.	1,261,510
Pension related deferred inflows are components of pension assets and therefore are not reported in the funds.	(1,894,478)
Accrued interest is not due and payable in the current period and therefore is not reported in the funds.	(161,408)
Assets such as delinquent taxes receivable and grants receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	488,570
Total Net Position - Governmental Funds	\$ 70,819,276

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

CITY OF DEADWOOD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021

Revenue	General Fund	Historic Restoration and Preservation Fund	Revolving Loan and Grant Fund	Outlaw Square Fund
<i>Taxes:</i>				
311 General Property Taxes	\$ 1,176,211	\$ -	\$ -	\$ -
313 General Sales and Use Taxes	4,234,630	-	-	-
314 Business Occupation Taxes	-	-	-	-
319 Penalties and Interest on Delinquent Taxes	1,943	-	-	-
320 Licenses and Permits	205,737	-	-	-
<i>Intergovernmental Revenue:</i>				
331 Federal Grants	115,611	-	-	-
334 State Grants	35,410	-	-	-
<i>State Shared Revenue:</i>				
335.01 Bank Franchise Tax	11,051	-	-	-
335.03 Liquor Tax Reversion	9,087	-	-	-
335.04 Motor Vehicle Licenses (5%)	25,028	-	-	-
335.08 Local Government Highway and Bridge Fund	41,629	-	-	-
338.99 Gaming Proceeds	-	7,086,017	-	-
<i>County Shared Revenue:</i>				
339 Other Intergovernmental Revenue	5,241	-	-	-
<i>Charges for Goods and Services:</i>				
341 General Government	4,847	-	-	-
342 Public Safety	1,865	-	-	-
344 Sanitation	142,707	-	-	-
346 Culture and Recreation	35,694	438,771	-	-
348 Cemeteries	3,300	-	-	-
350 Fines and Forfeits	80	-	-	-
<i>Miscellaneous Revenue:</i>				
361 Earnings on Deposits and Investments	69,495	9,272	103,835	-
362 Rentals	103,746	-	-	-
367 Contributions and Donations	21,900	-	-	-
369 Other	83,279	5,543	-	-
Total Revenue	6,328,491	7,539,603	103,835	-

Other Governmental Funds	Total Governmental Funds
\$ 882,363	\$ 2,058,574
1,063,631	5,298,261
1,924,075	1,924,075
-	1,943
-	205,737
-	115,611
6,578	41,988
-	11,051
-	9,087
-	25,028
-	41,629
-	7,086,017
91,801	97,042
-	4,847
-	1,865
-	142,707
110,536	585,001
1,650	4,950
372	452
9,127	191,729
-	103,746
29,339	51,239
111	88,933
<u>4,119,583</u>	<u>18,091,512</u>

CITY OF DEADWOOD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021

	General Fund	Historic Restoration and Preservation Fund	Revolving Loan and Grant Fund	Outlaw Square Fund
Expenditures				
<i>General Government:</i>				
411 Legislative	434,426	-	-	-
413 Elections	10	-	-	-
414 Financial Administration	362,823	-	-	-
419 Other	1,211,344	437,500	-	-
<i>Public Safety:</i>				
421 Police	1,374,214	-	-	-
422 Fire	167,561	-	-	-
423 Protective Inspection	84,338	-	-	-
<i>Public Works:</i>				
431 Highways and Streets	839,162	-	-	-
432 Sanitation	154,589	-	-	-
437 Cemeteries	9,062	-	-	-
<i>Health and Welfare:</i>				
441 Health	2,941	-	-	-
<i>Culture and Recreation:</i>				
452 Parks	818,607	-	-	-
455 Libraries	-	-	-	-
457 Historical Preservation	-	2,450,517	-	-
<i>Conservation and Development:</i>				
465 Economic Development and Assistance	104,548	-	211,796	-
470 Debt Service	177,170	757,658	-	-
485 Capital Outlay	527,933	172,740	-	-
Total Expenditures	6,268,728	3,818,415	211,796	-
Excess of Revenue Over (Under) Expenditures	59,763	3,721,188	(107,961)	-
Other Financing Sources (Uses)				
391 Transfers In	1,443,976	157,149	1,000,000	-
391 Sale of Muncial Property	17,687	-	-	-
391.3 Lease Proceeds	339,981	-	-	-
511 Transfers Out	(62,174)	(2,542,379)	(16,704)	(157,149)
Total Other Financing Sources (Uses)	1,739,470	(2,385,230)	983,296	(157,149)
Net Change in Fund Balances	1,799,233	1,335,958	875,335	(157,149)
Fund Balances - December 31, 2020	8,597,080	6,919,686	3,330,178	157,149
Fund Balances - December 31, 2021	\$ 10,396,313	\$ 8,255,644	\$ 4,205,513	\$ -

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

Other Governmental Funds	Total Governmental Funds
-	434,426
-	10
-	362,823
373,082	2,021,926
-	1,374,214
-	167,561
-	84,338
-	839,162
-	154,589
13,210	22,272
-	2,941
-	818,607
123,750	123,750
-	2,450,517
2,116,247	2,432,591
882,363	1,817,191
6,550	707,223
<u>3,515,202</u>	<u>13,814,141</u>
604,381	4,277,371
62,174	2,663,299
-	17,687
-	339,981
<u>(79,876)</u>	<u>(2,858,282)</u>
<u>(17,702)</u>	<u>162,685</u>
586,679	4,440,056
<u>2,417,190</u>	<u>21,421,283</u>
<u>\$ 3,003,869</u>	<u>\$ 25,861,339</u>

CITY OF DEADWOOD

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2021

Net Change in Fund Balances - Total Government Funds \$ 4,440,056

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; however, in the Statement of Activities the cost of those assets is allocated over their estimated lives and reported as depreciation expense.

Capital Asset Purchases Capitalized	707,223
Depreciation Expense	(1,287,056)
	<u>(579,833)</u>

Capital assets contributed to the City are included in the Statement of Activities as capital outlay expenditures and capitalized in the Statement of Net Position. 454,399

In the Statement of Activities, losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a loss is recognized. (6,725)

The governmental fund financial statement property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available." 247,400

Payment of principal on long-term debt is an expenditure in the governmental funds but the payment reduces long-term liabilities in the Statement of Net Position. 1,471,717

The issuance of long-term debt is an other financing source in the fund statements but an increase to long-term liabilities on the Statement of Net Position. (339,981)

Governmental funds do not reflect the change in accrued leave, but the Statement of Activities reflects the change in accrued leave through expenditures. (12,461)

Governmental funds do not reflect the change in accrued interest, but the Statement of Activities reflects the change in accrued interest through expenditures. 15,497

Prepaid expenses are an expenditure on the fund statements when paid but are expensed on the statement of activities when consumed. This amount represents the change in prepaid expenses. (181,442)

Changes in the pension related deferred outflows/inflows and related pension revenue/expense are direct components of pension asset and are not reflected in the governmental funds. 292,049

Change in Net Position of Governmental Activities \$ 5,800,676

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

CITY OF DEADWOOD

STATEMENT OF NET POSITION
 PROPRIETARY FUNDS
 DECEMBER 31, 2021

	Water Fund	Sewer Fund	Historic Cemeteries Fund	Parking and Transportation Fund	Total Proprietary Funds
Assets					
Current Assets					
101 Cash and Cash Equivalents	\$ 1,031,542	\$ 185,990	\$ 530,766	\$ 1,375,502	\$ 3,123,800
105 Investments	-	-	514,622	-	514,622
115 Accounts Receivable	59,849	6,714	-	3,040	69,603
Total Current Assets	1,091,391	192,704	1,045,388	1,378,542	3,708,025
Noncurrent Assets					
189 Net Pension Asset	64,360	-	-	78,074	142,434
Capital Assets					
160 Land	-	-	65,740	225,000	290,740
162 Buildings	-	-	120,808	-	120,808
163 Accumulated Depreciation (AD) - Buildings	-	-	(13,222)	-	(13,222)
164 Improvements Other Than Buildings	8,458,312	3,908,448	6,165,919	12,133,345	30,666,024
165 AD - Improvements Other Than Buildings	(3,405,123)	(1,483,521)	(924,305)	(7,541,951)	(13,354,900)
166 Machinery and Equipment	542,517	41,983	-	1,137,000	1,721,500
167 AD - Machinery and Equipment	(430,393)	(18,368)	-	(619,389)	(1,068,150)
Total Noncurrent Assets	5,229,673	2,448,542	5,414,940	5,412,079	18,505,234
Deferred Outflows of Resources					
248 Pension Related Deferred Outflows	82,795	-	-	100,439	183,234
Total Assets and Deferred Outflows of Resources	\$ 6,403,859	\$ 2,641,246	\$ 6,460,328	\$ 6,891,060	\$ 22,396,493
Liabilities and Net Position					
Current Liabilities					
202 Accounts Payable	\$ 27,266	\$ 20	\$ 192	\$ 80,185	\$ 107,663
205 Current Portion of Long-Term Debt	-	-	-	98,706	98,706
216 Accrued Wages	4,499	-	-	5,339	9,838
233 Accrued Leave Payable	13,425	-	-	11,908	25,333
Total Current Liabilities	45,190	20	192	196,138	241,540
Deferred Inflows of Resources					
248 Pension Related Deferred Inflows	124,338	-	-	150,834	275,172
Net Position					
253.1 Net Investment in Capital Assets	5,165,313	2,448,542	5,414,940	5,235,299	18,264,094
235.29 Restricted for SDRS Pension	22,817	-	-	27,679	50,496
262.0 Unrestricted	1,046,201	192,684	1,045,196	1,281,110	3,565,191
Total Net Position	6,234,331	2,641,226	6,460,136	6,544,088	21,879,781
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 6,403,859	\$ 2,641,246	\$ 6,460,328	\$ 6,891,060	\$ 22,396,493

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

CITY OF DEADWOOD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021

	Water Fund	Sewer Fund	Historic Cemeteries Fund	Parking and Transportation Fund	Total Proprietary Funds
Operating Revenue					
380 Charges for Goods and Services	\$ 900,318	\$ 79,966	\$ 201,401	\$ 1,570,758	\$ 2,752,443
Operating Expenses					
410 Personal Services	280,842	-	17,991	427,056	725,889
420 Other Current Expenses	543,804	12,409	134,527	613,834	1,304,574
457 Depreciation	194,273	86,437	63,321	603,411	947,442
Total Operating Expenses	1,018,919	98,846	215,839	1,644,301	2,977,905
Operating Income (Loss)	(118,601)	(18,880)	(14,438)	(73,543)	(225,462)
Non-Operating Income (Expense)					
361 Earnings on Deposits and Investments	142	20	15,501	168	15,831
367 Contributions and Donations	388,323	-	-	-	388,323
470 Interest Expense	-	-	-	(10,351)	(10,351)
Total Non-Operating Income (Expense)	388,465	20	15,501	(10,183)	393,803
Income (Loss) before Transfers	269,864	(18,860)	1,063	(83,726)	168,341
511 Transfers Out	(142)	(20)	(15,501)	(168)	(15,831)
391.01 Transfers In	160,814	-	-	50,000	210,814
	160,672	(20)	(15,501)	49,832	194,983
Change in Net Position	430,536	(18,880)	(14,438)	(33,894)	363,324
Net Position - December 31, 2020	5,803,795	2,660,106	6,474,574	6,577,982	21,516,457
Net Position - December 31, 2021	\$ 6,234,331	\$ 2,641,226	\$ 6,460,136	\$ 6,544,088	\$ 21,879,781

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

CITY OF DEADWOOD

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2021

	Water Fund	Sewer Fund	Historic Cemeteries Fund	Parking and Transportation Fund	Total Proprietary Funds
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 891,208	\$ 79,519	\$ 201,401	\$ 1,570,274	\$ 2,742,402
Payments to Suppliers	(606,529)	(22,288)	(134,335)	(568,732)	(1,331,884)
Payments to Employees	(292,113)	-	(17,991)	(442,488)	(752,592)
Net Cash Flows Provided by (Used in) Operating Activities	(7,434)	57,231	49,075	559,054	657,926
Cash Flows from Noncapital Financing Activities:					
Transfers In	160,814	-	-	50,000	210,814
Transfers Out	(142)	(20)	(15,501)	(168)	(15,831)
Net Cash Flows Provided by (Used in) Noncapital Financing Activities	160,672	(20)	(15,501)	49,832	194,983
Cash Flows from Capital and Related Financing Activities:					
Purchase of Capital Assets	-	-	-	(264,836)	(264,836)
Principal Paid on Capital Debt	-	-	-	(102,460)	(102,460)
Interest Paid	-	-	-	(10,351)	(10,351)
Net Cash Flows Used in Capital and Related Financing Activities	-	-	-	(377,647)	(377,647)
Cash Flows Provided by Investing Activities:					
Interest Received/Gain on Investment	142	20	15,501	168	15,831
Change in Cash and Investments	153,380	57,231	49,075	231,407	491,093
Cash and Investments - December 31, 2020	878,162	128,759	996,313	1,144,095	3,147,329
Cash and Investments - December 31, 2021	\$ 1,031,542	\$ 185,990	\$ 1,045,388	\$ 1,375,502	\$ 3,638,422
Reconciliation of Operating Income to Net Cash Flows Provided by Operating Activities					
Operating Loss	\$ (118,601)	\$ (18,880)	\$ (14,438)	\$ (73,543)	\$ (225,462)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by (Used in) Operating Activities:</i>					
Depreciation Expense	194,273	86,437	63,321	603,411	947,442
Change in Assets and Liabilities:					
Receivables	(9,110)	(447)	-	(484)	(10,041)
Net Pension Asset	(63,966)	-	-	(77,653)	(141,619)
Pension Related Deferred Outflows	(21,237)	-	-	(29,988)	(51,225)
Accounts Payable	(62,725)	(9,879)	192	45,102	(27,310)
Accrued Wages	(307)	-	-	(4,600)	(4,907)
Accrued Leave Payable	2,025	-	-	2,723	4,748
Pension Related Deferred Inflows	72,214	-	-	94,086	166,300
Net Cash Flows Provided by (Used in) Operating Activities	\$ (7,434)	\$ 57,231	\$ 49,075	\$ 559,054	\$ 657,926
Noncash Capital and Related Financing Activities:					
Capital Contributions	\$ 388,323	\$ -	\$ -	\$ -	\$ 388,323

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Reporting Entity

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, 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 10 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 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(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:

Historic Restoration and Preservation Fund – to account for a special fund within the City, financed from appropriations to be expended for loans, grants, and purchases for historical restoration and preservation (SDCL 42-7B-46). This is a major fund.

Revolving Loan and Grant Fund – to account for historic restoration and preservation loans and grants made to private individuals and businesses for historic preservation purposes. Loans are to be repaid over a period of years. This is a major fund.

The remaining Special Revenue Funds are reported in the aggregate in the Other Governmental Funds column on the fund financial statements: Library, Bed and Booze, Business Improvement Districts #1-6, Business Improvement District #7 – Occupancy Tax, Business Improvement District #8, Business Improvement District #8, Business Improvement District #9, and Rubble Site. These are not major funds.

Debt Service Funds – debt service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related cost. There are no major debt service funds.

The Tax Increment Financing District #6 (Lodge at Deadwood), Tax Increment Financing District #8 (Stage Run Development), Tax Increment Financing District #9 (Cadillac Jack's-Optima LLC), and Tax Increment Financing District #10 (TRU Hotel). Debt service funds are reported in the aggregate in the Other Governmental Funds column on the fund financial statements. These are not major funds.

Capital Projects Funds – capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Outlaw Square Capital Projects Fund – to account for financial resources to be used for the construction of a multi-function outdoor facility. This fund was closed during the year ended December 31, 2021. This is a major fund.

Permanent Funds – permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the City's programs – that is for the benefit of the City and its citizenry. There are no major permanent funds.

Oak Ridge Cemetery Perpetual Care Fund – to account for the payments received for perpetual care of cemeteries which is permanently set aside and for which only the income from the trust fund investments is used for the care and maintenance of the cemetery. (SDCL 9-32-18) This is not a major fund.

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Basis of Presentation

Proprietary Funds:

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

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

The City has the following enterprise funds:

Water Fund – A fund established by SDCL 9-47-1 to account for the operation of the City's waterworks systems and related facilities and is financed primarily by user charges. This is a major fund.

Sewer Fund – A fund established by SDCL 9-48-2 to account for the operation of the City's sanitary sewer system and related facilities and is financed primarily by user charges. This is a major fund.

Historic Cemeteries Fund – A fund financed primarily by user charges. This fund accounts for operation and maintenance of the Mt. Moriah and St. Ambrose cemeteries. This is a major fund.

Parking and Transportation Fund – A fund financed primarily by user charges. This fund accounts for operation and maintenance of the parking ramp, parking lots, and trolley operation. This is a major fund.

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 on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified-accrual basis of accounting are applied to governmental fund types, while the economic resources measurement focus and the accrual basis of accounting are applied to the proprietary fund types.

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. Available means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the City, the length of that cycle is 45 days. The revenues which are accrued at December 31, 2021, are property and sales tax, and amounts due from other governments.

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

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

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

Cash and Cash Equivalents

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

Capital Assets

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

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Capital Assets

Government-wide Financial Statements:

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

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

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 5,000	Straight-line	10-100 years
Buildings	\$ 5,000	Straight-line	10-50 years
Machinery and Equipment	\$ 5,000	Straight-line	5-25 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of tax increment financing obligations, certificates of participation, financing leases, and compensated absences.

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Long-Term Liabilities

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classifications

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

Pensions

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

Equity Classifications

Government-wide Financial Statements:

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

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.

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

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

With regard to the City’s governmental funds, the City uses restricted amounts first when both restricted and unrestricted 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.

Proprietary fund equity is classified the same as in the government-wide financial statements. With regard to the City’s proprietary funds, it is the City’s policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Receivables and Payables

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(1) Summary of Significant Accounting Policies

Emerging Accounting Standard

In June 2017, the GASB issued Statement No. 87, *Leases*, which requires the recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the terms of the lease. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The City has not yet determined the specific impact of this statement on the financial statements. The standard is effective for the City's year ending December 31, 2022.

In June 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based informational technology arrangements (SBITAs). Under this Statement, a government generally should recognize a right-to-use subscription asset - an intangible asset and a corresponding liability. The statement is effective for the City's year ending December 31, 2023. The City is currently evaluating the impact this statement will have on the financial statements.

In June 2022, the Governmental Accounting Standards Board (GASB) issued Statement No. 101, *Compensated Absences*, which updates the recognition and measurement guidance for compensated absences. Leave that has not been used, is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means should generally be recognized at the employee's pay rate as of the financial statement date. The standard also includes guidance for types of leave other than vacation, requires accrual of salary related payments, and changes the disclosure requirements. The statement is effective for the City's year ending December 31, 2024. The City is currently evaluating the impact this statement will have on the financial statements.

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

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 August 5, 2024, the date which the financial statements were available to be issued.

(2) Deposits and Investments

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(2) Deposits and Investments

Deposits – The City’s cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA.

In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank’s public debt rating which may not be less than “AA”, or a qualified public depository may furnish a corporate surety bond of a corporation duly authorized to do business in South Dakota.

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

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

As of December 31, 2021, the City had the following investments:

Investment	Credit Rating	Maturity	Fair Value
Money Market	Unrated	N/A	\$ 13,409,081
			13,409,081
Nonnegotiable Certificates of Deposit	Unrated	< 2 Years	3,510,659
Total Investments			\$ 16,919,740

The City measures all money market investments at Level 2.

Interest Rate Risk:

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the portfolio to meet the cash requirements of ongoing operations, thereby mitigating the need to liquidate securities at a loss prior to maturity.

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. The bank balances at December 31, 2021 are as follows:

	Bank Balance
Insured - FDIC	\$ 14,315,016
Uninsured, collateralized in accordance with SDCL 4-6A-3	12,259,803
Total Deposits	\$ 26,574,819

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(2) Deposits and Investments

Concentration of Credit Risk:

The City places no limit on the amount that may be invested in any one issuer. The City's certificates of deposit are held in First National Bank.

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 the Oak Ridge Cemetery Perpetual Care Fund income, which is credited to the General Fund as required by SDCL 9-32-18.

The City segregates restricted cash and cash equivalents totaling \$1,949,537 at December 31, 2021, in separate accounts as required by various debt covenant reserve requirements.

(3) Deferred Inflows and Outflows of Resources

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

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

(4) 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.

(5) Notes Receivable

The City offers various grants and loans to residents through the revolving loan and grant fund for historic restoration and preservation projects. Some loans are forgivable if certain requirements are met. Loan balances are written off in the period forgiveness is granted by the Revolving Loan Board of Directors. \$48,868 of preservation loans were forgiven during the year ended December 31, 2021. The note receivable balances at December 31, 2021 totaling \$3,383,619, include various payment terms and interest rates ranging from 0 percent to 5 percent. The City considers \$509,051 of the note receivable balance to be current and is expected to be collected in the next twelve months. The City has recorded an allowance for uncollectable accounts of approximately \$124,000 based on historical loss experience and future estimates.

As of the date of this report, the note receivable balance totals approximately \$2,235,000 (unaudited). The City continues to issue new loans, grant forgiveness, and collect payments in accordance with the terms of the agreements.

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(6) Changes in Capital Assets

A summary of changes in capital assets for the year ending December 31, 2021, is as follows:

<i>Governmental Activities:</i>	Balance 12/31/2020	Additions	Transfers/ Deletions	Balance 12/31/2021
Capital Assets, not being Depreciated:				
Land	\$ 4,576,264	\$ 25,379	\$ -	\$ 4,601,643
Total Capital Assets, not being Depreciated	4,576,264	25,379	-	4,601,643
Capital Assets, being Depreciated:				
Buildings	35,310,385	132,607	-	35,442,992
Improvements Other Than Buildings	28,810,046	471,599	-	29,281,645
Machinery and Equipment	6,947,342	532,037	(71,816)	7,407,563
Total Capital Assets, being Depreciated	71,067,773	1,136,243	(71,816)	72,132,200
Less Accumulated Depreciation for:				
Buildings	3,732,080	266,359	-	3,998,439
Improvements Other Than Buildings	16,956,852	727,244	-	17,684,096
Machinery and Equipment	2,785,975	293,453	(65,091)	3,014,337
Total Accumulated Depreciation	23,474,907	1,287,056	(65,091)	24,696,872
Total Governmental Activities Capital Assets, being Depreciated, Net	47,592,866	(150,813)	(6,725)	47,435,328
Total Governmental Capital Assets, Net	\$ 52,169,130	\$ (125,434)	\$ (6,725)	\$ 52,036,971

Depreciation expense was charged to functions as follows:

Public Works	\$ 601,278
Culture and Recreation	300,749
General Government	293,945
Public Safety	91,084
Total Depreciation Expense - Governmental	\$ 1,287,056

As of December 31, 2021, there were approximately \$739,000 of commitments associated with construction projects in which work was not yet complete. Subsequent to 2021 and through the date of this report, the City has signed approximately \$9,470,000 and \$1,200,000 of construction contracts funded through the general fund and historic restoration and preservation fund, respectively.

CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(6) Changes in Capital Assets

	Balance 12/31/2020	Additions	Transfers/ Deletions	Balance 12/31/2021
<i>Business-Type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 290,740	\$ -	\$ -	\$ 290,740
Total Capital Assets, not being Depreciated	290,740	-	-	290,740
Capital Assets, being Depreciated:				
Buildings	120,808	-	-	120,808
Improvements Other Than Buildings	30,277,701	388,323	-	30,666,024
Machinery and Equipment	1,456,664	264,836	-	1,721,500
Total Capital Assets, being Depreciated	31,855,173	653,159	-	32,508,332
Less Accumulated Depreciation for:				
Buildings	12,417	805	-	13,222
Improvements Other Than Buildings	12,614,617	740,283	-	13,354,900
Machinery and Equipment	861,796	206,354	-	1,068,150
Total Accumulated Depreciation	13,488,830	947,442	-	14,436,272
Total Business-Type Activities Capital Assets, being Depreciated, Net	18,366,343	(294,283)	-	18,072,060
Total Business-Type Capital Assets, Net	\$ 18,657,083	\$ (294,283)	\$ -	\$ 18,362,800

Depreciation expense was charged to functions as follows:

Parking and Transportation	\$ 603,411
Water	194,273
Sewer	86,437
Historic Cemeteries	63,321
Total Depreciation Expense - Business-Type	\$ 947,442

CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(7) Long-Term Debt

The following is a summary of the long-term debt activity for the year ending December 31, 2021:

	Balance 12/31/2020	Earned/ Borrowings	Used/ Repayments	Balance 12/31/2021	Due Within One Year
Primary Government:					
Governmental Activities:					
Certificates of Participation	\$ 2,810,000	\$ -	\$ 675,000	\$ 2,135,000	\$ 690,000
Financing Leases	1,026,063	339,981	135,704	1,230,340	163,936
Tax Increment Financing	4,852,193	-	661,013	4,191,180	651,643
Compensated Absences	184,863	24,922	12,461	197,324	119,436
Total Governmental Activities	8,873,119	364,903	1,484,178	7,753,844	1,625,015
Business-Type Activities:					
Leases	201,166	-	102,460	98,706	98,706
Compensated Absences	20,585	9,496	4,748	25,333	15,392
	221,751	9,496	107,208	124,039	114,098
Total Primary Government	\$ 9,094,870	\$ 374,399	\$ 1,591,386	\$ 7,877,883	\$ 1,739,113

Tax Increment Financing Obligations

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvements within the established Tax Increment District which were constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such funds shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

During the year ended December 31, 2021, property tax revenues were \$882,363 for TIFs #6, #8, #9 and #10. Interest expenditures, excluding corresponding accruals, related to TIF obligations totaled \$221,349 for the year ended December 31, 2021.

Subsequent to December 31, 2021 through the date of this report, the City has established TIFs #11, #12, #13, and #14.

CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(7) Long-Term Debt

Long-Term debt at December 31, 2021 is comprised of the following:

Governmental Activities:

Certificate of Participation

Certificates of Participation Series 2019A for \$3,435,000, matures October 2024, interest at 2.70 to 3.10 percent, due in semi-annual interest only payments and annual variable principal payments ranging from \$625,000 to \$735,000. Financed through the Historic Preservation Fund.	\$ 2,135,000
Total Certificate of Participation	2,135,000

Tax Increment Financing Obligations

Convention Center Lease/Purchase for \$3,515,000, matures December 2022, interest at 6.00 percent, due in semi-annual variable payments ranging from \$55,469 to \$221,125. Financed through the TIF #6 Debt Service Fund.	388,793
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TIF #8, matures December 2026, variable interest (4.35 percent at December 31, 2021), due in annual variable principal payments. Financed through TIF #8 Debt Service Fund.	651,610
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TIF #9, matures December 2029, including interest at 6.00 percent, due in variable semi-annual installments. Financed through the TIF #9 Debt Service Fund.	779,226
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TIF #10, matures November 2036, interest at 6.00 percent, due in variable semi-annual payments installments. Financed through the TIF #10 Debt Service Fund.	2,371,551
Total Tax Increment Financing Obligations	4,191,180

Financing Leases

Financing arrangement for equipment, matures January 2023, interest at 3.60 percent, due in variable annual payments. Financed through the General Fund.	107,153
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Financing arrangement for equipment, matures September 2024, interest at 3.60 percent, due in annual variable payments. Financed through the General Fund.	346,631
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Financing arrangement for equipment, matures July 2025, interest at 3.50 percent, due in variable annual payments. Financed through the General Fund.	268,974
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Financing arrangement for equipment, matures August 2025, interest at 3.50 percent, due in variable annual payments. Financed through the General Fund.	70,560
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Financing arrangement for equipment, matures January 2025, interest at 3.60 percent, due in variable annual payments. Financed through the General Fund.	35,981
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Financing arrangement for equipment, matures June 2024, interest at 4.44 percent, due in variable annual payments. Financed through the General Fund.	88,629
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Financing arrangement for equipment, matures January 2025, non-interest bearing, due in quarterly payments of \$1,251. Financed through the General Fund.	24,108
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Financing arrangement for equipment, matures May 2026, interest at 4.50 percent, due in variable annual principal payments. Financed through the General Fund.	140,299
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Financing arrangement for equipment, matures September 2027, interest at 3.80 percent, due in variable annual principal payments. Financed through the General Fund.	148,005
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CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(7) Long-Term Debt

Business-type Activities:

Financing Arrangements

Financed purchase of 3 Trolleys, matures March 2022, interest at 6.69 percent, due in variable monthly payments. Financed through the Parking and Transportation Fund.

	98,706
Total Financing (Capital Acquisition) Leases	1,329,046

Compensated Absences

General Fund	197,324
Water Fund	13,425
Parking and Transportation Fund	11,908
Total Compensated Absences	222,657

Total Long-Term Debt **\$ 7,877,883**

The annual requirements to amortize long-term debt outstanding as of December 31, 2021, except for compensated absences are as follows:

	Certificates of Participation		Tax Increment Financing	
	Interest	Principal	Interest	Principal
2022	\$ 64,095	\$ 690,000	\$ 258,645	\$ 651,643
2023	44,085	710,000	209,495	339,570
2024	3,608	735,000	189,961	312,216
2025	-	-	170,292	331,886
2026	-	-	149,568	275,064
2027-2031	-	-	559,724	818,338
2032-2036	-	-	355,438	1,462,463
Total	\$ 111,788	\$ 2,135,000	\$ 1,893,123	\$ 4,191,180

	Capital Lease		Total	
	Interest	Principal	Interest	Principal
2022	\$ 45,292	\$ 262,642	\$ 368,032	\$ 1,604,285
2023	40,657	170,371	294,237	1,219,941
2024	32,154	440,995	225,723	1,488,211
2025	14,038	363,902	184,330	695,788
2026	2,283	62,244	151,851	337,308
2027-2031	1,108	28,892	560,832	847,230
2032-2036	-	-	355,438	1,462,463
Total	\$ 135,532	\$ 1,329,046	\$ 2,140,443	\$ 7,655,226

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(8) Interfund Transfers

Interfund transfers for the year ended December 31, 2021 were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,443,976	\$ 62,174
Historic Restoration and Preservation Fund	157,149	2,542,379
Revolving Loan and Grant Fund	1,000,000	16,704
Outlaw Square Fund	-	157,149
Other Governmental Funds	62,174	79,876
Water Fund	160,814	142
Sewer Fund	-	20
Historic Cemeteries Fund	-	15,501
Parking and Transportation Fund	50,000	168
Total Transfers	\$ 2,874,113	\$ 2,874,113

Transfers between the funds were made to cover general operational costs of the City and the closing of the Outlaw Square Fund.

(9) Pension Plan

All employees, working more than 20 hours per week during the year, participate in the SDRS, a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivors' benefits. The right to receive retirement benefits vests after three years of credited service.

Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://www.sdrs.sd.gov/publications.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 three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement fund 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.

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 DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(9) Pension Plan

Benefits Provided:

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

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

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

Contributions:

Per SDCL 3-12, 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 make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The City’s share of contributions to the SDRS for the fiscal years ended December 31, 2021, 2020, and 2019 were **\$206,596**, \$200,677, and \$183,642, respectively, equal to the required contributions each year.

Pension Assets, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2021, SDRS is 105.52 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the City as of June 30, 2021 and reported by the City as of December 31, 2021, are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 18,735,993	\$ 2,721,395	\$ 21,457,388
Less: Proportionate Share of Total Pension Liability	(17,755,377)	(2,578,961)	(20,334,338)
Proportionate Share of Net Pension Asset	\$ 980,616	\$ 142,434	\$ 1,123,050

At December 31, 2021, the City reported an asset of \$1,123,050 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2021 and the total pension asset used to calculate the net pension asset was based on a projection of the City’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City’s proportion was 0.146645 percent, which is an increase of .0052915 percent from its proportion measured as of June 30, 2020.

CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(9) Pension Plan

Pension Assets, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

For the year ended December 31, 2021, the City recognized pension revenue of \$89,902. At December 31, 2021, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 40,320	\$ -
Changes in Assumption	1,291,496	562,407
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	1,607,243
City Contributions Subsequent to the Measurement Date	112,928	-
Total	\$ 1,444,744	\$ 2,169,650

Deferred outflows of resources includes \$112,928 resulting from City contributions subsequent to the measurement date that will be recognized as a reduction of the net pension asset in the year ending December 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

2022	\$ (206,396)
2023	(140,759)
2024	(39,357)
2025	(451,322)
	<u><u>\$ (837,834)</u></u>

Actuarial Assumptions:

The total pension asset in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	6.50 percent at entry to 3.00 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense
Future COLAs	2.25 percent

Mortality rates were based on 97 percent of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2016.

CITY OF DEADWOOD

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021

(9) Pension Plan

Actuarial Assumptions:

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan’s target asset allocation as of June 30, 2021 (see the discussion of the pension plan’s investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%
	<u>100.0%</u>	

Discount Rate:

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

Sensitivity of Asset to Changes in the Discount Rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City’s Proportionate Share of the Net Pension Liability/(Asset)	\$ 1,818,497	\$ (1,123,050)	\$ (3,510,901)

Pension Plan Fiduciary Net Position:

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

CITY OF DEADWOOD

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

(10) Risk Management

The City is exposed to various risks of loss related to torts; theft; damage or destruction of assets; errors or omissions; injuries to employees; and natural disasters. During the year ending December 31, 2021, the City managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

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

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from the risks have not exceeded the liability coverage during the past four 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 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 pool to provide worker's compensation coverage for its employees, under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability of \$2,000,000 per incident.

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

Unemployment Benefits:

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

OTHER REPORTS



810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

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 Deadwood
Deadwood, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Deadwood (the City) as of and for the year ended December 31, 2021, 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 5, 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 #2021-001 and #2021-002 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 #2021-003 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City Council

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 5, 2024

CITY OF DEADWOOD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021**

MATERIAL WEAKNESSES

#2021-001 FINDING: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. 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 of 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 us to do this with cities of your size.

Criteria and Effect: It is our responsibility to inform the Council that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the City's management.

Repeat Finding from Prior Year: Yes, as part of prior year finding #2020-001.

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

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

#2021-002 FINDING: Audit Adjustments

Condition and Cause: During our engagement, we proposed material audit adjustments that were approved and recorded by management. Adjustments included an entry to adjust beginning fund balance in the general fund, to adjust net pension activity, to adjust governmental capital assets and related accumulated depreciation, to adjust long-term debt, financed leases, and to accrue wages payable at year end. Additionally, we posted reclassification entries with no effect on reported net position or fund balance. Furthermore, entries were proposed as a part of the audit, but were not recorded due to their overall insignificance on the financial statements.

Criteria and Effect: These adjustments would not have been identified because of the City's existing internal controls, and therefore, would have resulted in a material misstatement of the City's financial statements.

Repeat Finding from Prior Year: Yes, as part of prior year finding #2020-001.

Recommendation: We recommend that management consider the following:

- a. Management should continue to review and approve the pension entries.
- b. Capital assets should be reviewed to make sure all additions and disposals are properly reflected, including the activity within TIF Funds. When adjusting these figures, capital contributions, both external and between funds, may need recorded.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

CITY OF DEADWOOD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2021**

SIGNIFICANT DEFICIENCY

#2021-003 FINDING: Monitoring of Notes Receivable

Condition and Cause: The City does not have an internal control to monitor the balance of outstanding notes receivable held by Neighborworks Dakota Home Resources (NDHR). Instead, they rely on information received from NDHR to adjust the general ledger periodically.

Criteria and Effect: The City should understand the composition of the underlying notes receivable. Without understanding the details of the notes receivable, the City is unable to address collectability, write-offs, and lending practices.

Repeat Finding from Prior Year: No.

Recommendation: We recommend the City coordinate with NDHR to receive additional reporting quarterly throughout the year to determine if the loans held by NDHR are performing appropriately.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

MANAGEMENT RESPONSE



CITY OF DEADWOOD

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2021**

The City of Deadwood respectfully submits the following summary schedule of prior audit findings from the December 31, 2020 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2020 Schedule of Findings.

#2020-001 FINDING: Financial Reporting Errors, including Annual Report Preparation and Audit Adjustments

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. The City attempted to make all necessary year-end adjustments, however, some audit adjustments were required in 2021.

Initial Year Report: Originally issued 2019.

Reasons for Recurrence and Corrective Action Plan: The City has accepted the risk associated with the auditor's preparing the financial statements and audit adjustments and considers management's review sufficient. The finding is repeated as Finding #2021-001 in the Schedule of Findings. See Corrective Action Plan.



CITY OF DEADWOOD

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2021**

City of Deadwood respectfully submits the following corrective action plan regarding findings from the December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2021-001 FINDING: Financial Statement Preparation

Responsible Individuals: Jessica McKeown, Finance Officer

Corrective Action Plan: The City Finance Officer reviews the financial statements in detail each year. It is more cost effective and efficient for a public accounting firm to prepare the financial statements during the audit process. The City will continue to have the auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

#2021-002 FINDING: Audit Adjustments

Responsible Individuals: Jessica McKeown, Finance Officer

Corrective Action Plan: Year-end entries will be reviewed to ensure they are posted properly.

Anticipated Completion Date: Ongoing

#2021-003 FINDING: Monitoring of Notes Receivable

Responsible Individuals: Jessica McKeown, Finance Officer

Corrective Action Plan: The City Finance Officer will begin internally tracking all individual outstanding note receivable balances to compare to NDHR reports.

Anticipated Completion Date: December 2024