

CITY OF LEAD

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2019



Ketel Thorstenson, LLP

Certified Public Accountants/Business & Personal Consultants

ktllp.com

CITY OF LEAD

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditor’s Report | 3-4 |
| <i>Government-wide Financial Statements:</i> | |
| Statement of Net Position – Modified Cash Basis | 5 |
| Statement of Activities – Modified Cash Basis | 6 |
| <i>Fund Financial Statements:</i> | |
| Balance Sheet – Governmental Fund – Modified Cash Basis | 7 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds - Modified Cash Basis..... | 8-9 |
| Statement of Net Position – Proprietary Funds – Modified Cash Basis | 10 |
| Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Modified Cash Basis..... | 11 |
| Statement of Net Position – Fiduciary Fund – Modified Cash Basis | 12 |
| Statement of Changes in Fund Net Position - Fiduciary – Modified Cash Basis | 13 |
| Notes to Financial Statements | 14-26 |
| <i>Other Reports:</i> | |
| Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 28-29 |
| Schedule of Findings | 30-31 |
| <i>Management Response:</i> | |
| Summary Schedule of Prior Audit Findings | 33 |
| Corrective Action Plan | 34 |



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INDEPENDENT AUDITOR'S REPORT

City Commission
City of Lead
Lead, South Dakota

Report on the Financial Statements

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 LEAD** (the City), Lawrence County, South Dakota, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Unmodified Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2019, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting described in Note 1.

Emphasis of Matter Regarding Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 16, 2021 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 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 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

February 16, 2021

CITY OF LEAD

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2019**

| | Governmental Activities | Business-Type Activities | Total |
|----------------------------------|------------------------------------|-------------------------------------|---------------------|
| Assets | | | |
| Cash and Investments (Note 2) | \$ 1,049,182 | \$ 616,491 | \$ 1,665,673 |
| TOTAL ASSETS | \$ 1,049,182 | \$ 616,491 | \$ 1,665,673 |
| Net Position | | | |
| Restricted for: | | | |
| Promoting the City | \$ 167,620 | \$ - | \$ 167,620 |
| Permanently Restricted Purposes: | | | |
| Expendable | 46,644 | - | 46,644 |
| Nonexpendable | 50,000 | - | 50,000 |
| Unrestricted | 784,918 | 616,491 | 1,401,409 |
| TOTAL NET POSITION | \$ 1,049,182 | \$ 616,491 | \$ 1,665,673 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019

| | Expenses | Charges for Services | Program Revenues | | Net (Expense) Revenue and Changes in Net Position | | |
|---|---------------------|----------------------|----------------------------------|------------------------------------|---|---|---------------------|
| | | | Capital Grants and Contributions | Operating Grants and Contributions | Governmental Activities | Primary Government Business-Type Activities | Total |
| Functions/Programs | | | | | | | |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | \$ 536,229 | \$ 129,675 | \$ - | \$ - | \$ (406,554) | \$ - | \$ (406,554) |
| Public Safety | 600,382 | 20,515 | - | - | (579,867) | - | (579,867) |
| Public Works | 744,183 | 116,783 | 469,349 | - | (158,051) | - | (158,051) |
| Health and Welfare | 107,670 | - | - | - | (107,670) | - | (107,670) |
| Culture and Recreation | 461,364 | 13,149 | - | 108,740 | (339,475) | - | (339,475) |
| Conservation and Development | 62,876 | - | 19,362 | - | (43,514) | - | (43,514) |
| Long-Term Debt | 77,645 | - | - | - | (77,645) | - | (77,645) |
| Capital Outlay | 607,780 | - | - | - | (607,780) | - | (607,780) |
| Total Governmental Activities | 3,198,129 | 280,122 | 488,711 | 108,740 | (2,320,556) | - | (2,320,556) |
| Business-Type Activities: | | | | | | | |
| Water | 1,049,588 | 839,277 | 169,091 | - | - | (41,220) | (41,220) |
| Sewer | 246,447 | 192,060 | 32,094 | - | - | (22,293) | (22,293) |
| Solid Waste | 193,106 | 200,042 | - | - | - | 6,936 | 6,936 |
| Total Business-Type Activities | 1,489,141 | 1,231,379 | 201,185 | - | - | (56,577) | (56,577) |
| Total Primary Government | \$ 4,687,270 | \$ 1,511,501 | \$ 689,896 | \$ 108,740 | (2,320,556) | (56,577) | (2,377,133) |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes | | | | | 1,208,694 | - | 1,208,694 |
| Sales Taxes | | | | | 1,109,572 | - | 1,109,572 |
| State Shared Revenues | | | | | 28,693 | - | 28,693 |
| Unrestricted Investment Earnings | | | | | 15,877 | - | 15,877 |
| Debt Proceeds | | | | | - | 10,721 | 10,721 |
| Miscellaneous Revenue | | | | | 229,063 | 37,758 | 266,821 |
| Total General Revenues | | | | | 2,591,899 | 48,479 | 2,640,378 |
| Change in Net Position | | | | | 271,343 | (8,098) | 263,245 |
| Net Position - December 31, 2018 | | | | | 777,839 | 624,589 | 1,402,428 |
| Net Position - December 31, 2019 | | | | | \$ 1,049,182 | \$ 616,491 | \$ 1,665,673 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2019**

| | General Fund | Library Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Cemetery Perpetual Care Fund | Totals Governmental Funds |
|---|-------------------------|-------------------------|--|---|--|
| Assets | | | | | |
| 101 Cash (Note 2) | \$ 686,976 | \$ 94,093 | \$ 167,620 | \$ 96,644 | \$ 1,045,333 |
| 151 Investments (Note 2) | 3,849 | - | - | - | 3,849 |
| TOTAL ASSETS | \$ 690,825 | \$ 94,093 | \$ 167,620 | \$ 96,644 | \$ 1,049,182 |
| Fund Balance | | | | | |
| <i>263 Nonspendable</i> | | | | | |
| 263.51 Perpetual Care Cemetery | \$ - | \$ - | \$ - | \$ 50,000 | \$ 50,000 |
| <i>264 Restricted</i> | | | | | |
| 264.03 Perpetual Care Cemetery | - | - | - | 46,644 | 46,644 |
| 264.04 Promoting the City | - | - | 167,620 | - | 167,620 |
| <i>266 Assigned</i> | | | | | |
| 266.01 Subsequent Year's Budget | 284,878 | - | - | - | 284,878 |
| 266.99 Library Purposes | - | 94,093 | - | - | 94,093 |
| 266.99 Insurance Purposes | 197,031 | - | - | - | 197,031 |
| 266.99 Preservation Reserve | 30,000 | - | - | - | 30,000 |
| 266.99 Capital Outlay Accumulation | 130,841 | - | - | - | 130,841 |
| 266.99 Parks Improvement Reserve | 10,000 | - | - | - | 10,000 |
| 267 Unassigned | 38,075 | - | - | - | 38,075 |
| Total Fund Balance | 690,825 | 94,093 | 167,620 | 96,644 | 1,049,182 |
| TOTAL LIABILITIES AND FUND BALANCE | | | | | |
| | \$ 690,825 | \$ 94,093 | \$ 167,620 | \$ 96,644 | \$ 1,049,182 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2019

| | General Fund | Library Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Cemetery Perpetual Care Fund | Total Governmental Funds |
|--|------------------|----------------|---|------------------------------|--------------------------|
| Revenue: | | | | | |
| <i>Taxes:</i> | | | | | |
| 311 | \$ 1,156,703 | \$ - | \$ - | \$ - | \$ 1,156,703 |
| 313 | 1,017,992 | - | 91,580 | - | 1,109,572 |
| 315 | 41,002 | - | - | - | 41,002 |
| 319 | 10,989 | - | - | - | 10,989 |
| 320 | 127,256 | - | - | - | 127,256 |
| <i>Intergovernmental Revenue:</i> | | | | | |
| 331 | 243,525 | - | - | - | 243,525 |
| 334 | 245,186 | - | - | - | 245,186 |
| <i>State Shared Revenue:</i> | | | | | |
| 335.01 | 8,334 | - | - | - | 8,334 |
| 335.03 | 20,359 | - | - | - | 20,359 |
| 335.04 | 36,859 | - | - | - | 36,859 |
| 335.08 | 72,396 | - | - | - | 72,396 |
| <i>County Shared Revenue:</i> | | | | | |
| 338.99 | - | 108,740 | - | - | 108,740 |
| <i>Charges for Goods and Services:</i> | | | | | |
| 341 | 2,419 | - | - | - | 2,419 |
| 342 | 16,990 | - | - | - | 16,990 |
| 344 | 2,918 | - | - | - | 2,918 |
| 346 | 656 | 4,653 | - | - | 5,309 |
| 348 | 3,235 | - | - | 1,375 | 4,610 |
| 350 | 3,525 | - | - | - | 3,525 |
| <i>Miscellaneous Revenue:</i> | | | | | |
| 361 | 15,877 | - | - | - | 15,877 |
| 362 | 7,840 | - | - | - | 7,840 |
| 367 | 2,000 | 5,053 | - | - | 7,053 |
| 369 | 76 | - | - | - | 76 |
| Total Revenue | 3,036,137 | 118,446 | 91,580 | 1,375 | 3,247,538 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (CONTINUED)
 GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2019

| | General Fund | Library Fund | Liquor, Lodging, and Dining Gross Receipts Tax Fund | Cemetery Perpetual Care Fund | Total Governmental Funds |
|---|-------------------|------------------|---|------------------------------|--------------------------|
| Expenditures: | | | | | |
| <i>General Government:</i> | | | | | |
| 411 Legislative | 154,053 | - | - | - | 154,053 |
| 414 Financial Administration | 212,029 | - | - | - | 212,029 |
| 419 Other | 170,147 | - | - | - | 170,147 |
| <i>Public Safety:</i> | | | | | |
| 421 Police | 600,382 | - | - | - | 600,382 |
| <i>Public Works:</i> | | | | | |
| 431 Highway and Streets | 715,690 | - | - | - | 715,690 |
| 437 Cemeteries | 28,493 | - | - | - | 28,493 |
| <i>Health and Welfare:</i> | | | | | |
| 441 Health | 100,286 | - | - | - | 100,286 |
| 444 Humane Society | 7,384 | - | - | - | 7,384 |
| <i>Culture and Recreation:</i> | | | | | |
| 451 Recreation | 85,000 | - | - | - | 85,000 |
| 452 Parks | 122,445 | - | - | - | 122,445 |
| 455 Library | - | 224,179 | - | - | 224,179 |
| 457 Historic Preservation | 29,740 | - | - | - | 29,740 |
| <i>Conservation and Development:</i> | | | | | |
| 465 Economic Development and Assistance | - | - | 62,876 | - | 62,876 |
| 470 Debt Service | 77,645 | - | - | - | 77,645 |
| 485 Capital Outlay | 604,900 | - | - | 2,880 | 607,780 |
| Total Expenditures | 2,908,194 | 224,179 | 62,876 | 2,880 | 3,198,129 |
| Other Financing Sources (Uses) | | | | | |
| 391.01 Transfers In (Note 5) | - | 109,127 | - | - | 109,127 |
| 511 Transfers Out (Note 5) | (109,127) | - | - | - | (109,127) |
| 391.03 Sale of Municipal Property | 26,036 | - | - | - | 26,036 |
| 391.04 Compensation for Loss/Damage to Capital Assets | 195,898 | - | - | - | 195,898 |
| Total Other Financing Sources | 112,807 | 109,127 | - | - | 221,934 |
| Net Change in Fund Balance | 240,750 | 3,394 | 28,704 | (1,505) | 271,343 |
| Fund Balance, December 31, 2018 | 450,075 | 90,699 | 138,916 | 98,149 | 777,839 |
| Fund Balance, December 31, 2019 | \$ 690,825 | \$ 94,093 | \$ 167,620 | \$ 96,644 | \$ 1,049,182 |

CITY OF LEAD

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2019**

| | Water Fund | Sewer Fund | Solid Waste Fund | Totals |
|---------------------------------|-----------------------|-----------------------|-----------------------------|-------------------|
| Assets | | | | |
| 101 Cash | \$ 292,958 | \$ 302,838 | \$ 20,695 | \$ 616,491 |
| TOTAL ASSETS | \$ 292,958 | \$ 302,838 | \$ 20,695 | \$ 616,491 |
| Net Position | | | | |
| 253.9 Unrestricted Net Position | \$ 292,958 | \$ 302,838 | \$ 20,695 | \$ 616,491 |
| TOTAL NET POSITION | \$ 292,958 | \$ 302,838 | \$ 20,695 | \$ 616,491 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Water Fund | Sewer Fund | Solid Waste Fund | Totals |
|---|-----------------------|-----------------------|-----------------------------|-------------------|
| Operating Revenue: | | | | |
| 380 Charges for Goods and Services | \$ 839,277 | \$ 192,060 | \$ 200,042 | \$ 1,231,379 |
| Operating Expenses: | | | | |
| 480 Personal Services | 124,181 | 66,268 | - | 190,449 |
| 480.5 Other Current Expense | 99,091 | 13,824 | 193,106 | 306,021 |
| 426.2 Materials (Cost of Goods Sold) | 465,623 | - | - | 465,623 |
| 485 Capital Assets | 237,146 | 55,962 | - | 293,108 |
| Total Operating Expenses | 926,041 | 136,054 | 193,106 | 1,255,201 |
| Operating Income (Loss) | (86,764) | 56,006 | 6,936 | (23,822) |
| Nonoperating Revenue (Expense): | | | | |
| 331 Federal Grants | 169,091 | 32,094 | - | 201,185 |
| 470 Debt Service | (123,547) | (110,393) | - | (233,940) |
| 391.2 Long-Term Debt Issued | 10,721 | - | - | 10,721 |
| 369 Other | 37,758 | - | - | 37,758 |
| Total Nonoperating Revenue (Expense) | 94,023 | (78,299) | - | 15,724 |
| Change in Net Position | 7,259 | (22,293) | 6,936 | (8,098) |
| Net Position - December 31, 2018 | 285,699 | 325,131 | 13,759 | 624,589 |
| NET POSITION - DECEMBER 31, 2019 | \$ 292,958 | \$ 302,838 | \$ 20,695 | \$ 616,491 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF NET POSITION
FIDUCIARY FUND - MODIFIED CASH BASIS
DECEMBER 31, 2019**

| | | <u>Private-Purpose Trust Fund</u> |
|---------------------|---|---------------------------------------|
| Assets | | |
| 101 | Cash | \$ 255,172 |
| 151 | Investments | 68,931 |
| TOTAL ASSETS | | \$ 324,103 |
| Net Position | | |
| 264 | Restricted for Firemen's Pension Purposes | \$ 324,103 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

**STATEMENT OF CHANGES IN FUND NET POSITION
FIDUCIARY - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2019**

| | Private-Purpose Trust Fund |
|---|---------------------------------------|
| ADDITIONS | |
| Earnings on Deposits and Investments | \$ 1,374 |
| Total Additions | 1,374 |
| DEDUCTIONS | |
| Trust Deductions for Firemen's Pension | 14,551 |
| Change in Net Position | (13,177) |
| Net Position - December 31, 2018 | 337,280 |
| Net Position - December 31, 2019 | \$ 324,103 |

The accompanying notes are an integral part of this statement.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2019

(1) Summary of Significant Accounting Policies

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

Reporting Entity

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

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

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

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Continued)

Fund Financial Statements: (Continued)

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

Governmental Funds:

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

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

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

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

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

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

Proprietary Funds:

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

Proprietary Funds include:

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

Basis of Presentation (Concluded)

Proprietary Funds (Continued):

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

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

Fiduciary Fund:

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

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

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

All financial statements are presented using the modified cash basis of accounting. Under the cash basis of accounting, the statement of financial position reports only cash and cash equivalents. Under the cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

Measurement Focus and Basis of Accounting (Continued)

Fund Financial Statements (Continued):

Basis of Accounting (Continued):

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are:

1. Recording of investments arising from cash transactions.

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

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

Program Revenues

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

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

Proprietary Funds Revenue and Expense Classification

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

Cash and Cash Equivalents

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(1) Summary of Significant Accounting Policies (Continued)

Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The City classifies governmental fund balance as follows:

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

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

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

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

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019

(1) Summary of Significant Accounting Policies (Concluded)

Subsequent Events

The City has assessed subsequent events through February 16, 2021, the date which the financial statements were available to be issued. Subsequent to year-end, the City has been negatively impacted by the effects of the world-wide coronavirus pandemic. The City is closely monitoring its operations, liquidity, and capital resources and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of the issuance of these financial statements, the full impact to the City's financial position is not known.

(2) Deposits and Investments

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

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

Investments – In General, SDCL 4-5-6 permits City funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly including, without limitation, United States treasury bills, notes, bonds, and other obligations issued or directly or indirectly guaranteed by the United States government, or otherwise directly or indirectly backed by the full faith and credit of the United States government; provided that, for other than permanent, trust, retirement, building, and depreciation reserve funds, such securities shall either mature within eighteen months from the date of purchase or be redeemable at the option of the holder within eighteen months from the date of purchase; or (b) repurchase agreements fully collateralized by securities described in (a) and meeting the requirements of § 4-5-9, if the repurchase agreements are entered into only with those primary reporting dealers that report to the Federal Reserve Bank of New York and with the one hundred largest United States commercial banks, as measured by domestic deposits; or (c) in shares of an open-end, no-load fund administered by an investment company registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and whose only investments are in securities described in (a) and repurchase agreements described in (b).

Also, SDCL 4-5-9 requires investments to be in the physical custody of the City or deposited with any bank or trust account designated by the City as its fiscal agent.

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

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.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(2) Deposits and Investments (Continued)

As of December 31, 2019, the City had the following investments:

| Investment | Credit Rating | Maturity | Fair Value |
|---|---------------|----------|------------------|
| U.S. Government Securities: | | | |
| U.S. Government Securities Fund - Class A | AAF | N/A | \$ 68,931 |
| External Investment Pools: | | | |
| SDFIT | Unrated | N/A | 3,849 |
| Total Investments | | | \$ 72,780 |

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

Interest Rate Risk:

The City has no investment policy to 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.

Credit Risk:

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

Custodial Credit Risk:

The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has a policy to follow state law depository requirements. As of December 31, 2019, none of the City's deposits were exposed to custodial credit risk. The bank balances at December 31, 2019 are as follows, excluding SDFIT:

| | Bank Balance |
|--|---------------------|
| Insured - FDIC | \$ 404,913 |
| Uninsured, collateralized in accordance with SDCL 4-6A-3 | 1,434,665 |
| Total Deposits | \$ 1,839,578 |

Concentration of Credit Risk:

The City has no investment policy that limits the amount that may be invested in any one issuer. Investments issued or explicitly guaranteed by the U.S Government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

(3) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. The City is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the City.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(4) Long-Term Debt

A summary of the changes in long-term debt for the years ending December 31, 2019, is as follows:

| | Balance 12/31/2018 | Additions | Repayments | Balance 12/31/2019 | Due Within One Year |
|--------------------------------------|-----------------------|------------------|-------------------|-----------------------|------------------------|
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| FIB Loan Hearst Project | \$ 142,126 | \$ - | \$ 34,100 | \$ 108,026 | \$ 34,970 |
| 2015 Grader Blade | 60,502 | - | 29,952 | 30,550 | 30,550 |
| 2015 CAT 420F Backhoe (50% Govt'l) | 30,760 | - | 7,420 | 23,340 | 7,585 |
| Total Governmental Activities | 233,388 | - | 71,472 | 161,916 | 73,105 |
| Business-Type Activities: | | | | | |
| 2015 CAT 420F Backhoe (25% Water) | 15,380 | - | 3,710 | 11,670 | 3,793 |
| 2015 CAT 420F Backhoe (25% Sewer) | 15,380 | - | 3,710 | 11,670 | 3,793 |
| 2005 Drinking Water SRF #2 | 131,153 | - | 5,881 | 125,272 | 6,074 |
| 2010 Drinking Water SRF #3 | 354,138 | - | 22,112 | 332,026 | 22,783 |
| 2015 Drinking Water SRF #4 | 823,947 | - | 35,721 | 788,226 | 36,744 |
| 2018 Drinking Water SRF #9 | 331,659 | 10,721 | 15,356 | 327,024 | 31,222 |
| 2005 Clean Water SRF #5 | 93,604 | - | 12,109 | 81,495 | 12,508 |
| 2007 Clean Water SRF #6 | 148,712 | - | 11,755 | 136,957 | 12,142 |
| 2011 Clean Water SRF #7 | 106,554 | - | 6,504 | 100,050 | 6,701 |
| 2015 Clean Water SRF #8 | 763,333 | - | 33,093 | 730,240 | 34,041 |
| Total Governmental Activities | 2,783,860 | 10,721 | 149,951 | 2,644,630 | 169,801 |
| Total Primary Government | \$ 3,017,248 | \$ 10,721 | \$ 221,423 | \$ 2,806,546 | \$ 242,906 |

Interest cost paid and charged to interest expense in the current period totaled **\$90,700**.

Long-term debt at December 31, 2019, is comprised of the following:

Revenue Bonds

| | |
|---|------------|
| Series 2005 Drinking Water SRF #2, matures October 2035, interest at 3.25 percent, due in quarterly installments of \$2,518. Financed through the Water Fund. | \$ 125,272 |
| Series 2010 Drinking Water SRF #3, matures January 2032, interest at 3.00 percent, due in quarterly installments of \$8,122. Financed through the Water Fund. | 332,026 |
| Series 2015 Drinking Water SRF #4, matures July 2036, interest at 3.00 percent, due in quarterly installments of \$15,010. Financed through the Water Fund. | 788,226 |
| Series 2018 Drinking Water SRF #9, matures April 2029, interest at 2.25 percent, due in quarterly installments of \$9,582. Financed through the Water Fund. | 327,024 |
| Series 2005 Clean Water SRF #5, matures October 2025, interest at 3.25 percent, due in quarterly installments of \$3,751. Financed through the Sewer Fund. | 81,495 |

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(4) Long-Term Debt (Continued)

| | |
|--|------------------|
| Series 2007 Clean Water SRF #6, matures July 2029, interest at 3.25 percent, due in quarterly installments of \$4,112. Financed through the Sewer Fund. | 136,957 |
| Series 2011 Clean Water SRF #7, matures April 2032, interest at 3.00 percent, due in quarterly installments of \$2,407. Financed through the Sewer Fund. | 100,050 |
| Series 2015 Clean Water SRF #8, matures July 2036, interest at 3.00 percent, due in quarterly installments of \$13,906. Financed through the Sewer Fund. | 730,240 |
| Total Revenue Bonds | 2,621,290 |

Notes Payable

| | |
|--|----------------|
| Note payable to First Interstate Bank for Hearst Avenue for \$175,000, matures July 2022, interest at 3.04 percent, due in annual installments of \$38,267. Financed through the General Fund. | 108,026 |
| Note payable to Butler Machine for 420F Backhoe for \$92,336, matures August 2022, interest at 2.70 percent, due in annual installments of \$16,432. Financed through the General Fund, Water Fund and Sewer Fund. | 46,680 |
| Total Notes Payable | 154,706 |

Capital Lease

| | |
|--|--------|
| Capital lease for 2015 grader blade, matures June 2020, interest at 2.85 percent, due in annual installments of \$31,162. Financed through the General Fund. | 30,550 |
|--|--------|

Total Long-Term Debt **\$ 2,806,546**

The annual requirements to amortize long-term debt outstanding at December 31, 2019, are as follows:

| | Revenue Bonds | | Notes Payable | | Capital Lease | | Total | |
|--------------|-------------------|---------------------|-----------------|-------------------|---------------|------------------|-------------------|---------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| 2020 | \$ 75,417 | \$ 162,216 | \$ 4,559 | \$ 50,140 | \$ 864 | \$ 30,550 | \$ 80,840 | \$ 242,906 |
| 2021 | 70,639 | 166,994 | 1,077 | 51,622 | - | - | 71,716 | 218,616 |
| 2022 | 65,730 | 171,903 | 1,561 | 52,944 | - | - | 67,291 | 224,847 |
| 2023 | 60,675 | 176,958 | - | - | - | - | 60,675 | 176,958 |
| 2024 | 55,469 | 182,164 | - | - | - | - | 55,469 | 182,164 |
| 2025-2029 | 197,515 | 907,376 | - | - | - | - | 197,515 | 907,376 |
| 2030-2034 | 72,557 | 645,894 | - | - | - | - | 72,557 | 645,894 |
| 2035-2036 | 6,239 | 207,785 | - | - | - | - | 6,239 | 207,785 |
| Total | \$ 604,241 | \$ 2,621,290 | \$ 7,197 | \$ 154,706 | \$ 864 | \$ 30,550 | \$ 612,302 | \$ 2,806,546 |

Business-type Activities

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

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(4) Long-Term Debt (Concluded)

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

| | <u>Water Fund</u> | <u>Sewer Fund</u> |
|-------------------------------------|-------------------|-------------------|
| Current Year Principal and Interest | \$ 123,547 | \$ 110,393 |
| Pledged Revenue | 839,277 | 192,060 |

(5) Interfund Transfers

| Fund | Transfers In | Transfers Out |
|------------------------|-------------------|-------------------|
| General Fund | \$ - | \$ 109,127 |
| Library Fund | 109,127 | - |
| Total Transfers | \$ 109,127 | \$ 109,127 |

The general fund transfers a subsidy to the library for operational purposes each year.

(6) Retirement Plan – South Dakota Retirement System

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

Benefits Provided:

SDRS has 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.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2019**

(6) Retirement Plan – South Dakota Retirement System (Continued)

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2019, 2018, and 2017 were **\$71,996**, \$70,840, and \$65,081, respectively, equal to the required contributions each year.

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2019, SDRS is 100.09 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The City's share of the net pension asset at June 30, 2019 was .055 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity.

CITY OF LEAD

NOTES TO FINANCIAL STATEMENTS (CONTINUED) DECEMBER 31, 2019

(7) Firemen's Pension Plan

Plan Description:

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

Funding Policy:

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

As of December 31, 2019, the Plan had Cash Equivalents and Investments in the amount of \$324,103. Based on the modified-cash basis reporting of the City, a liability for future benefits is not recorded.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2019, 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.

CITY OF LEAD

**NOTES TO FINANCIAL STATEMENTS (CONCLUDED)
DECEMBER 31, 2019**

(8) Risk Management (Continued)

Liability Insurance: (Continued)

Effective January 1, 2018, the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days of withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool’s total contributions, along with the member’s total contributions, current losses, unpaid losses, and loss expenses, the member’s loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

| <u>Years</u> | <u>Percentage</u> |
|--------------|-------------------|
| 1 | 55% |
| 2 | 50% |
| 3 | 40% |
| 4 | 35% |
| 5 | 30% |
| 6+ | 20% |

All refunds shall be paid to the withdrawing Member over a five-year term.

As of December 31, 2019, the City’s balance available to be refunded per the SDPAA was \$142,233, which was an increase of \$16,317 from the previous year. Based on the modified-cash basis reporting of the City, the City does not record the SDPAA deposit.

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 three years.

Worker’s Compensation:

The City joined the South Dakota Municipal League Worker’s Compensation Fund (the Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker’s compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City’s responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker’s compensation claims. The City pays an annual premium to the Fund to provide worker’s compensation coverage for its employees. Coverage limits are set by state statute. The Fund pays the first \$650,000 of any claim per individual. The Fund has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

The City has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits.

OTHER REPORTS



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

City Commission
City of Lead
Lead, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the **CITY OF LEAD** (the City) as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 16, 2021.

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) to determine the 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.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2019-001, #2019-002, and #2019-003, that we consider to be material weaknesses.

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 determination of financial statement amounts. 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's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the 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. This report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

February 16, 2021

CITY OF LEAD

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES

#2019-001 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. Auditing standards require auditors to communicate this situation to the City Commission as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness and presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for cities of your size.

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

Repeat Finding from Prior Year: 2018-001

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 have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's financial statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. It is the responsibility of management and the City Council to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

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

#2019-002 FINDING: Audit Adjustments

Condition and Cause: During the course of the engagement, we posted material audit adjustments that were approved and recorded. We also reclassified a transaction that had no effect on net income.

Criteria and Effect: These adjustments were not identified as a result of the City's existing internal controls, and therefore, could have resulted in a misstatement of the City's financial statements.

Repeat Finding from Prior Year: 2018-002

Recommendation: We recommend the following:

- Activity should not be posted to fund balance/net position.
- Any asset/liability accounts other than cash/investments should be removed and recorded in appropriate revenue/expenditure accounts.
- All investment activity should agree to year-end statements.
- Cash balances should agree to the bank reconciliation each month. The reconciliation differed from the general ledger by \$5,039.72.

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

CITY OF LEAD

**SCHEDULE OF FINDINGS (CONTINUED)
FOR THE YEAR ENDED DECEMBER 31, 2019**

MATERIAL WEAKNESSES (Continued)

#2019-003 FINDING: Segregation of Duties

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

- The Finance Officer has access to the general ledger, processes disbursements, mails the signed checks, and has check signing authority.
- Bank reconciliations are prepared, but not verified against the general ledger during the review process. Additionally, cancelled check images are not reviewed for propriety of vendors and/or amounts.
- Journal entries are posted by the Finance Officer, but not reviewed.
- There is an overall lack of segregation of duties at the library. The Director receives and opens mail, makes deposits, and processes disbursements. Library activity is maintained in an excel spreadsheet and not recorded in the City's general ledger throughout the year.

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

Repeat Finding from Prior Year: 2018-003

Recommendations:

- Disbursements should not be returned to the Finance Officer for mailing.
- When reviewing the bank reconciliations, both the bank statement and general ledger balances should be verified.
- All journal entries should be reviewed before posting to the system.
- Library internal controls and segregation of duties should be established and monitored, no different than any other department of the City. Where possible, the same individual should not open the mail, make deposits, and process disbursements. Additionally, all library transactions should be recorded in the general ledger monthly.

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

MANAGEMENT RESPONSE



CITY OF LEAD

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2019**

The City respectfully submits the following summary schedule of prior audit findings from December 31, 2018 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2018 Schedule of Findings.

2018-001 FINDING: Financial Statement Preparation

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

Initial Year Report: Originally issued in 2018.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the auditor's preparing of the financial statements; it is repeated in 2019, see Corrective Action Plan.

2018-002 FINDING: Audit Adjustments

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

Initial Year Report: Originally issued in 2018.

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

2018-003 FINDING: Segregation of Duties

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

Initial Year Report: Originally issued in 2018.

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

#2018-004 FINDING: Debt Covenant Compliance

Status: The City has a debt covenant requirement for the water fund's debt service coverage ratio to meet or exceed 110 percent. In the prior year the Drinking Water SRFs #2, #3, and #4 did not meet the required percentage, and a waiver was obtained.

Initial Year Report: Originally issued in 2018.

Reasons for Recurrence and Corrective Action Plan: The finding is not repeated in 2019.



CITY OF LEAD

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2019**

The City respectfully submits the following corrective action plan from the December 31, 2019 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding 2019-001: Financial Statement Preparation

Responsible Official: Billie Jo Inhofer, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2019-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

Finding 2019-002: Audit Adjustments

Responsible Official: Billie Jo Inhofer, Finance Officer

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

Anticipated Completion Date: Ongoing

Finding 2019-003: Segregation of Duties

Responsible Official: Billie Jo Inhofer, Finance Officer

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

Anticipated Completion Date: Ongoing