

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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



LEAD-DEADWOOD SANITARY DISTRICT NO. 1

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	3-4
<i>Proprietary Funds Financial Statements:</i>	
Proprietary Funds Balance Sheet	5-6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-19
<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>	21-22
Schedule of Findings	23
Schedule of Prior Findings	24
Corrective Action Plan	25



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

To the Board of Trustees
Lead-Deadwood Sanitary District No. 1
Deadwood, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of each major fund of Lead-Deadwood Sanitary District No. 1 (the District), as of December 31, 2023, and the related notes to the financial statements, which collectively comprise the District'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 each major fund of the District, as of December 31, 2023, 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 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our 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 District'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 District'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 District'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, 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 opinions 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 13, 2024 on our consideration of the District'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 District'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 District's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

August 13, 2024

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

PROPRIETARY FUNDS BALANCE SHEET

DECEMBER 31, 2023

ASSETS	Sewer Fund	Water Fund	Total Proprietary
Current Assets			
Cash and Cash Equivalents	\$ 3,867,586	\$ 5,853,522	\$ 9,721,108
Accounts Receivable	95,624	107,043	202,667
Interest Receivable	11,672	17,509	29,181
Property Tax Receivable	352,179	-	352,179
Prepaid Expenses	12,114	9,825	21,939
Total Current Assets	4,339,175	5,987,899	10,327,074
Noncurrent Assets			
Net Pension Asset	1,296	1,295	2,591
Capital Assets being Depreciated			
Buildings	8,331,066	5,526,287	13,857,353
Improvements Other Than Buildings	60,654	10,892,462	10,953,116
Equipment and Furniture	1,367,674	503,179	1,870,853
Less: Accumulated Depreciation	(8,094,156)	(7,683,859)	(15,778,015)
	1,665,238	9,238,069	10,903,307
Capital Assets not being Depreciated			
Land	210,758	768,813	979,571
Water Rights	-	1,500,000	1,500,000
Construction in Progress	150,451	211,424	361,875
Easements	5,000	-	5,000
	366,209	2,480,237	2,846,446
Total Noncurrent Assets	2,032,743	11,719,601	13,752,344
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related Deferred Outflows	100,323	100,225	200,548
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 6,472,241	\$ 17,807,725	\$ 24,279,966

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION	Sewer Fund	Water Fund	Total Proprietary
Current Liabilities			
Accounts Payable	\$ 37,396	\$ 30,155	\$ 67,551
Accrued Expenses	34,327	16,857	51,184
Accrued Leave Payable	38,890	36,271	75,161
Total Current Liabilities	110,613	83,283	193,896

DEFERRED INFLOWS OF RESOURCES

Pension Related Deferred Inflows	64,766	64,703	129,469
----------------------------------	--------	--------	---------

Net Position

Net Investment in Capital Assets	2,031,447	11,718,306	13,749,753
Restricted for Pension	36,853	36,817	73,670
Unrestricted	4,228,562	5,904,616	10,133,178
Total Net Position	6,296,862	17,659,739	23,956,601

**TOTAL LIABILITIES, DEFERRED INFLOWS
OF RESOURCES AND NET POSITION**

	\$ 6,472,241	\$ 17,807,725	\$ 24,279,966
--	--------------	---------------	---------------

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2023**

	Sewer Fund	Water Fund	Total Proprietary
Operating Revenues			
Charges for Services and Fees	\$ 1,130,172	\$ 856,025	\$ 1,986,197
Miscellaneous	5,353	5,150	10,503
Total Revenues	1,135,525	861,175	1,996,700
Operating Expenses			
Other Current Expense	495,328	202,858	698,186
Personnel	583,413	479,465	1,062,878
Depreciation	222,799	353,030	575,829
Total Operating Expenses	1,301,540	1,035,353	2,336,893
Operating Loss	(166,015)	(174,178)	(340,193)
Non-Operating Income			
Property Taxes	361,616	-	361,616
Interest Income	117,573	180,487	298,060
Gain on Sale of Capital Assets	-	28,813	28,813
Total Non-Operating Income	479,189	209,300	688,489
Change in Net Position	313,174	35,122	348,296
Net Position -- Beginning of Year	5,983,688	17,624,617	23,608,305
Net Position -- End of Year	\$ 6,296,862	\$ 17,659,739	\$ 23,956,601

The accompanying notes are an integral part of these statements.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

	Sewer Fund	Water Fund	Total Proprietary
Cash Flows From Operating Activities			
Receipts from Customers	\$ 1,187,482	\$ 945,193	\$ 2,132,675
Payments to Suppliers	(470,387)	(190,316)	(660,703)
Payments to Employees	(570,994)	(475,011)	(1,046,005)
Net Cash Flows Provided by Operating Activities	146,101	279,866	425,967
Cash Flows From Noncapital Financing Activities			
Property Taxes	339,726	-	339,726
Net Cash Flows Provided by Noncapital Financing Activities	339,726	-	339,726
Cash Flows From Capital and Related Financing Activities			
Purchases of Capital Assets	(256,798)	(87,618)	(344,416)
Proceeds from Sale of Capital Assets	-	120,000	120,000
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	(256,798)	32,382	(224,416)
Cash Flows From Investing Activities			
Interest Received	105,901	162,978	268,879
Net Cash Flows Provided by Investing Activities	105,901	162,978	268,879
Net Increase in Cash and Cash Equivalents	334,930	475,226	810,156
Cash and Cash Equivalents -- Beginning of Year	3,532,656	5,378,296	8,910,952
Cash and Cash Equivalents -- End of Year	\$ 3,867,586	\$ 5,853,522	\$ 9,721,108
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities:			
Operating Loss	\$ (166,015)	\$ (174,178)	\$ (340,193)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:</i>			
Depreciation	222,799	353,030	575,829
<i>Changes in Assets and Liabilities:</i>			
Accounts Receivable	51,957	84,018	135,975
Prepaid Expenses	(1,836)	(1,472)	(3,308)
Pension Asset	78	(154)	(76)
Pension Related Deferred Outflows	24,011	3,001	27,012
Pension Related Deferred Inflows	(15,131)	(1,630)	(16,761)
Accounts Payable	24,941	12,542	37,483
Accrued Expenses	5,297	4,709	10,006
Net Cash Flows Provided by Operating Activities	\$ 146,101	\$ 279,866	\$ 425,967

The accompanying notes are an integral part of these statements.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Nature of Activities and Summary of Significant Accounting Policies

Financial Reporting Entity

The reporting entity of the Lead-Deadwood Sanitary District No. 1 (the District), 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.

The Funds included in this report are controlled by or dependent upon the District's Governing Board.

Operations

The District was created in 1979 under the authority of South Dakota Codified Law (SDCL) 34A-5 to provide water and sewer service to the municipalities of Lead and Deadwood.

Basis of Presentation

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, revenue and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. The District has only proprietary funds. 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 District or if 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 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.

The funds of the District financial reporting entity are described below within their respective fund types:

Proprietary Funds:

Enterprise Fund Types – Enterprise Funds may be used to report any activity for which a fee is charged to external users for goods or services.

Enterprise Funds of the District include the following:

Water Fund - A fund financed primarily by user charges used to account for the construction and operation of the District's waterworks system and related facilities. This is a major fund.

Sewer Fund - A fund financed primarily by user charges used to account for the construction and operation of the District's sanitary sewer system and related facilities. This is a major fund.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

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:

The fund financial statements are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Basis of Accounting:

The District uses the accrual method 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). The accounting policies of the District conform to generally accepted accounting principles applicable to enterprise funds of a government entity.

Cash and Cash Equivalents

The District has access to its cash resources on demand. Accordingly, all reported deposit balances are considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Accounts Receivable

As of December 31, 2023, unbilled receivables included in accounts receivable totaled **\$147,458**.

Pensions

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

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. Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated acquisition value on the date donated. 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.

Depreciation of all exhaustible capital assets is recorded as an operating expense in the financial statements, with net capital assets and accumulated depreciation reported on each proprietary fund's Balance Sheet.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(1) Summary of Significant Accounting Policies

Capital Assets

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 financial statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	\$5,000	----N/A----	----N/A----
Improvements Other Than Buildings	\$25,000	Straight-line	50 yrs.
Buildings	\$5,000	Straight-line	10-50 yrs.
Machinery and Equipment	\$5,000	Straight-line	10-40 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Deferred Inflows and Outflows of Resources

In addition to assets, the Balance Sheet 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 until the applicable future period. Deferred outflows of resources consist of pension activity.

In addition to liabilities, the Balance Sheet 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 pension activity.

Accrued Leave

Accrued leave to be repaid from business-type resources are reported as liabilities in the fund financial statements.

	Balance 12/31/2022	Earned	Used	Balance 12/31/2023	Due Within One Year
Compensated Absences	\$ 72,022	\$ 48,483	\$ (45,344)	\$ 75,161	\$ 75,161

Equity Classifications

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

1. Investment in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and related debt.
2. Restricted net position – Consists of net assets 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.
3. Unrestricted net position – All other net assets that do not meet the definition of “restricted” or “invested in capital assets.”

It is the District’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.

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Use of Estimates

The preparation of the financial statements in accordance with Generally Accepted Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of certain financial statement balances. Actual results could vary from the estimates used.

Revenue and Expense Classifications

In the Statement of Revenues, Expenses and Changes in 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, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Emerging Accounting Standards

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 District's year ending December 31, 2024. The District 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 District's year ending December 31, 2025. The District 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 District's year ending December 31, 2026. The District is currently evaluating the impact this statement will have on the financial statements.

Subsequent Events

Subsequent events were evaluated through August 13, 2024, which is the date which the financial statements were available to be issued.

(2) Deposits and Investments

The District 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:

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(2) Deposits and Investments

Deposits – The District’s deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 13-16-15, 13-16-15.1, and 13-16-18.1. 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 authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits district 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 deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

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

As of December 31, 2023, the District’s cash and investments consisted of checking, savings, and money market accounts.

Custodial Credit Risk – The risk that, in the event of a depository failure, the District’s deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk.

The bank balances at December 31, 2023 are as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 500,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	9,209,469
Total Deposits	\$ 9,709,469

Credit Risk – State law limits eligible investments for the District. The District has no investment policy that would further limit its investment choices or limit maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Interest Rate Risk – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Assignment of Investment Income – The District’s policy is to credit all income from deposits and investments to the fund making the investment.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

(3) Property Taxes

Property taxes are levied on or before each October 1, attached as an enforceable lien on property, become due and payable as of the following January 1, and are payable in two installments on or before the following April 30 and October 31. The counties bill and collect the District's taxes and remit them to the District.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(4) Changes in Capital Assets

A summary of changes in capital assets for the year ended December 31, 2023, is as follows:

	Balance December 31, 2022	Additions	Transfers/ Dispositions	Balance December 31, 2023
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 13,857,353	\$ -	\$ -	\$ 13,857,353
Improvements Other Than Buildings	10,953,116	-	-	10,953,116
Machinery and Equipment	1,708,622	162,231	-	1,870,853
	26,519,091	162,231	-	26,681,322
<i>Less Accumulated Depreciation</i>	15,202,186	575,829	-	15,778,015
Net Capital Assets being Depreciated	\$ 11,316,905	\$ (413,598)	\$ -	\$ 10,903,307
<i>Capital Assets not being Depreciated</i>				
Land	\$ 1,070,758	\$ -	\$ (91,187)	\$ 979,571
Water Rights	1,500,000	-	-	1,500,000
Construction in Progress	179,690	182,185	-	361,875
Easements	5,000	-	-	5,000
Net Capital Assets not being Depreciated	\$ 2,755,448	\$ 182,185	\$ (91,187)	\$ 2,846,446
Capital Assets, Net	\$ 14,072,353	\$ (231,413)	\$ (91,187)	\$ 13,749,753

Depreciation Expense was charged as follows:

Sewer Fund	\$ 222,799
Water Fund	353,030
Total Depreciation Expense	\$ 575,829

Construction in Progress at December 31, 2023, is composed of the costs related to the Hanna Pump restoration project, Aeration System Improvement project, Raw Water Transmission Line project, and HVAC/Boiler System Project. As of December 31, 2023, construction commitments related to these projects total approximately \$2,679,000. Construction in progress includes \$37,310 of an overpayment to a contractor included in accounts receivable. As of year-end, the District is actively pursuing recovery of the funds.

(5) Risk Management

The District 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 period ended December 31, 2023, the District managed its risks as follows:

Property/Liability Insurance:

The District 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 District'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 District. The District pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under an occurrence-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(5) Risk Management

The District carries additional insurance to cover claims in excess of the upper limit up to \$5 million. Settled claims resulting from these risks have not exceeded liability coverage during the past three years.

Unemployment Benefits:

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

During the year ended December 31, 2023, no claims for unemployment benefits were filed.

Workmen's Compensation:

The District 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 District'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 District pays an annual premium to provide worker's compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The District 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.

Health Insurance:

The District 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.

(6) Pension Plan

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

Benefits Provided:

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

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(6) Pension Plan

Benefits Provided:

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

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

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0 percent of salary; Class B Judicial Members, 9.0 percent of salary; and Class B Public Safety Members, 8.0 percent of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal year ended December 31, 2023 and 2022 were **\$42,351** and \$39,316, respectively.

Pension Assets/(Liabilities), Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2023, SDRS is 100.10 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of SDRS, for the District as of this measurement period ending June 30, 2023 and reported by the District as of December 31, 2023 are as follows:

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(6) Pension Plan

Pension Assets/(Liabilities), Pension Revenue, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

	Sewer Fund	Water Fund	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 1,925,299	\$ 1,923,411	\$ 3,848,710
Less: Proportionate Share of Total Pension Asset	(1,924,003)	(1,922,116)	(3,846,119)
Proportionate Share of Net Pension Asset	\$ 1,296	\$ 1,295	\$ 2,591

At December 31, 2023, the District reported an asset of \$2,591 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2023 and the total pension liability used to calculate the net pension asset was based on a projection of the District’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2023, the District’s proportion was 0.0265420 percent.

For the year ended December 31, 2023, the District recognized pension expense of \$52,649. At December 31, 2023, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 73,432	\$ -
Changes in Assumption	88,571	129,469
Net Difference between Projected and Actual Earnings on Pension Plan Investments	17,247	-
City Contributions Subsequent to the Measurement Date	21,298	-
Total	\$ 200,548	\$ 129,469

Deferred outflow of resources includes \$21,298 resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ending December 31, 2024. 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:

2024	\$ 35,280
2025	(39,284)
2026	50,141
2027	3,644
	\$ 49,781

Actuarial Assumptions:

The total pension asset in the June 30, 2023 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%
Future COLAs	1.91%

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(6) Pension Plan

Actuarial Assumptions:

Mortality Rates:

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2023 valuation were based on the results of an actuarial experience study for the period of July 1, 2017, to June 30, 2022.

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, 2023 (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>
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	1.7%
High Yield Debt	7.0%	2.7%
Real Estate	12.0%	3.5%
Cash	1.9%	0.8%
	100.0%	

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 plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on 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 liability (asset).

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

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

(6) Pension Plan

Sensitivity of Asset to Changes in the Discount Rate:

The following presents the District's proportionate share of net pension (asset)/liability, 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:

	1% Decrease	Current Discount Rate	1% Increase
City's Proportionate Share of the Net Pension Liability/(Asset)	\$ 530,986	\$ (2,591)	\$ (438,954)

Pension Plan Fiduciary Net Position:

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

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*

To the Board of Trustees
Lead-Deadwood Sanitary District No. 1
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 each major fund of Lead-Deadwood Sanitary District No. 1 (the District) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 13, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District'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 #2023-001, #2023-002 and #2023-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 resulted no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The District'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.

Board of Trustees

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by SD 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 13, 2024

LEAD-DEADWOOD SANITARY DISTRICT NO. 1

**SCHEDULE OF FINDINGS
DECEMBER 31, 2023**

SCHEDULE OF FINDINGS

Material Weaknesses in Internal Control

2023-001 Finding: Audit Adjustments

Condition and Cause: We were requested to make adjusting entries to adjust net position, prepaid insurance, capital assets and related depreciation balances, tax and accounts receivable, unbilled receivables, accounts payable, accrued wages, accrued vacation, interest earned, and pension activity. Total adjustments resulted in a \$305,830 increase in reported change in net position.

Criteria and Effect: The District maintains its books on a cash basis of accounting throughout the year and has processes in place to review monthly financial statements in this format, which is consistent with the budgeting process. Material audit adjustments were necessary to prepare the financial statements according to accounting principles generally accepted in the United States of America.

Recommendation: We recommend management continue to provide information necessary to prepare accrual-based financial statements at year end as part of the audit and to review all audit adjustments posted for propriety.

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

2023-002 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 District's statements and footnotes, and the responsibility of the auditor to determine the fairness of the presentation of those statements. From a practical standpoint, we do both for the District at the same time in connection with our audit. This is not unusual for districts of your size.

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

Recommendation: We have instructed management to review a draft of the auditor-prepared financial statements 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 District's statements. We are satisfied the appropriate steps have been taken to provide the District with complete financial statements. It is the District's responsibility to make the ultimate decision to accept the degree of risk associated with this condition because of cost or other considerations.

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

#2023-003 Finding: Segregation of Duties

Condition and Cause: The District lacks adequate segregation of duties over the cash receipts and disbursements processes. This is not uncommon for an entity of your size.

Criteria and Effect: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Recommendation: We recommend that someone other than Julie should open the mail and fill out a deposit register. Someone other than Julie should mail the checks.

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

Lead-Deadwood Sanitary District No. 1

P.O. Box 413, Deadwood, South Dakota 57732
Telephone: (605) 578-1835 Fax: (605) 578-1287 Web: www.ldsd1.com

LEAD DEADWOOD SANITARY DISTRICT NO. 1

SCHEDULE OF PRIOR FINDINGS DECEMBER 31, 2023

Lead Deadwood Sanitary District No. 1 respectfully submits the following summary of prior audit findings from the December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2022 Schedule of Findings.

2022-001 Finding: Audit Adjustments:

Status: The District maintains its records on a cash basis throughout the year for budgetary comparison reasons. The District annually reviews the year-end adjustments provided by the auditors and posts the entries to the general ledger. The General Manager is responsible for the annual review of these adjustments.

Initial Year Report: Originally issued in 2022.

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.

2022-002 Finding: Financial Statement Preparation:

Status: It is more cost effective for the District to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as part of the annual audit process. The District 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 2022.

Reasons for Recurrence and Corrective Action Plan: The District has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2023, see Corrective Action Plan.

2022-003 Finding: Segregation of Duties:

Status: The District has implemented recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the staff available to the District.

Initial Year Report: Originally issued in 2022.

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the segregation of duties finding, it will be repeated in 2023. See Corrective Action Plan.

Lead-Deadwood Sanitary District No. 1

P.O. Box 413, Deadwood, South Dakota 57732
Telephone: (605) 578-1835 Fax: (605) 578-1287 Web: www.ldsd1.com

LEAD DEADWOOD SANITARY DISTRICT NO. 1

CORRECTIVE ACTION PLAN DECEMBER 31, 2023

Lead-Deadwood Sanitary District No. 1 respectfully submits the following corrective action plan regarding findings from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2023-001 Finding: Audit Adjustments:

Responsible Individual: Terry Wolterstorff, General Manager

Corrective Action Plan: The District maintains its records on a cash basis throughout the year for budgetary comparison reasons. The District annually reviews the year-end adjustments provided by the auditors and posts the entries to the general ledger.

Anticipated Completion Date: Ongoing

2023-002 Finding: Financial Statement Preparation:

Responsible Individual: Terry Wolterstorff, General Manager

Corrective Action Plan: At this time, the District will accept the degree of risk associated with this condition. For future audits, we will continue to review the financial statements in detail and agree to internal records and expectations.

Anticipated Completion Date: Ongoing

2023-003 Finding: Segregation of Duties:

Responsible Individual: Terry Wolterstorff, General Manager

Corrective Action Plan: At this time, the District will accept the degree of risk associated with this condition. The District attempts to maintain proper segregation of duties with the staff who are available. The District will continue to segregate duties to the best of their ability.

Anticipated Completion Date: Ongoing