BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

FINANCIAL STATEMENT AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2025

KETEL THORSTENSON
CPAs · ADVISORS

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Black Hills Council of Local Governments
Rapid City, South Dakota

Report on the Financial Statements

Opinion
We have audited the financial statements of Black Hills Council of Local Governments (the Council), which comprise the Statement of Net Position - Modified Cash Basis as of December 31, 2025, and the related Statement of Revenues, Expenses, and Changes in Net Position - Modified Cash Basis for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the Council as of December 31, 2025, and the respective changes in modified cash basis financial position for the year then ended in accordance with the modified cash basis of accounting as described in Note 1.

Basis for Opinion
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 Council and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified audit opinions.

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.

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

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council'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 Council's ability to continue as a going concern for a reasonable period of time.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2026 on our consideration of the Council'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 Council'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 Council's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 10, 2026

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

STATEMENT OF NET POSITION
DECEMBER 31, 2025

Assets		
Cash and Cash Equivalents	$	452,966
Certificates of Deposit		433,350
TOTAL ASSETS	$	886,316
Net Position		
Restricted- Black Hills Forest Plan Revision	$	45,079
Unrestricted		841,237
TOTAL NET POSITION	$	886,316

The accompanying notes are an integral part of this statement.

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS FOR THE YEAR ENDED DECEMBER 31, 2025

Revenue		
Contracts	$	267,798
Member Assessments		174,225
Grants		100,000
Black Hills Forest Plan Revision Funds		45,079
Interest Income		10,711
Total Revenue		597,813
Expenses		
Salaries		312,521
Health Insurance		29,923
Rent		25,607
FICA/Medicare		23,430
SD Retirement		18,170
Travel		6,841
Administrative Fee		5,400
Memberships, Dues and Subscriptions		3,976
Insurance		3,602
Supplies		2,095
Training		1,871
Vehicle Maintenance		1,444
Life Insurance		969
Equipment		856
Professional Services		600
Workers Compensation		500
Postage		150
Total Expenses		437,955
Net Change in Net Position		159,858
Net Position, December 31, 2024		726,458
Net Position, December 31, 2025	$	886,316

The accompanying notes are an integral part of this statement.

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2025

(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.

Financial Reporting Entity

Black Hills Council of Local Governments (the Council) was created pursuant to Chapter 1-24 of the South Dakota Codified Laws of 1967, for the purpose of providing joint exercise of governmental powers. The Council serves local government units in western South Dakota and is funded by contributions from those member local government units, as well as by grants and contracts from various local, state, and federal agencies. In addition, the Council has the authority to contract with the private sector.

Fund Accounting

The accounts of the Council are organized into funds and account groups. The Council is considered to be a proprietary fund type.

Basis of Accounting

The financial statements of the Council have been 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 (GAAP). The modified cash basis of accounting involves the measurement of cash and changes in cash resulting from cash receipt and disbursement transactions. Revenues are recognized when received and expenses are recognized when paid. The acceptable modification to the cash basis of accounting implemented by the Council in these financial statements is recording of certificates of deposit.

Under GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. As a result of reporting on 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, accrued expenses and liabilities, and capital assets) are not recorded in these financial statements.

Cash, Cash Equivalents, and Certificates of Deposit

The Council considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2025, the Council's cash and cash equivalents consisted only of checking and a sweep account.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

Equity Classifications

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.

Federal Income Taxes

The Council qualifies as a political subdivision incorporated under the laws of South Dakota and is not subject to Federal Income Taxes.

Subsequent Events

The Council has assessed subsequent events through September 10, 2026, the date the financial statements were available to be issued.

(2) Deposits and Investments Credit Risk, Concentrations of Credit Risk and Interest Rate Risk

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits - The Council'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 Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (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 Council funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent. As of December 31, 2025, the Council’s investments consist of only certificates of deposit.

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

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

As of December 31, 2025, the Council's deposits in financial institutions were exposed to custodial credit risk as follows:

	Bank Balance
Insured - FDIC - First National Bank	$ 250,000
Insured - FDIC - Bank West	203,883
Uninsured, collateralized in accordance with South Dakota Statutes	435,514
Total Deposits	$ 889,397

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

Interest Rate Risk - The Council 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.

(3) Black Hills Forest Plan Revision Funds

During 2022, the Council agreed to hold funds for other counties in their joint efforts to participate in the revision of the Black Hills National Forest Land Resource Management Plan. The funds belong to the participating counties, and the counties dictate the use of the funds. The Council will receive no compensation for their contribution to the plan revision and is responsible for reimbursing expenses incurred by the counties related to the plan revision. At December 31, 2025, plan revision funds being held totaled $45,079 and are presented as restricted net position on the statement of net position.

(4) Operating Leases

The Council leases office space under a variable payment operating lease on a month-to-month basis.

(5) Related Party Transactions

The Council was created by member public agencies to provide technical assistance to local governments. The governing board of the Council consists of representatives designated and serving at the pleasure of the governing body of their respective public agency. The majority of local fund revenues received by the Council are from these member public agencies in the form of member contributions and fees on reimbursable contracts.

(6) Retirement Plan – South Dakota Retirement System

Plan Information

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

Benefits Provided

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

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

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2025

(6) Retirement Plan – South Dakota Retirement System

Benefits Provided

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, 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 the 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 Council's share of contributions to the SDRS for the calendar years ended December 31, 2025, 2024, and 2023 were $18,170, $15,849 (unaudited) and $20,357 (unaudited), respectively, equal to the required contributions each year.

Under GAAP, the Council is required to record its share of the SDRS net pension asset or liability, related deferred inflows and outflows and its share of net pension revenue or expense rather than recording the Council's required retirement contributions, noted above. As of June 30, 2025, SDRS is 100.1 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The Council's share of the net pension asset at June 30, 2025 was .019903 percent. Based on the modified-cash basis reporting of the Council, the Council does not record this pension activity.

(7) Risk Management

The Council 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, 2025, the Council managed its risks as follows:

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

NOTES TO FINANCIAL STATEMENTS – MODIFIED CASH BASIS
DECEMBER 31, 2025

(7) Risk Management

Employee Health Insurance
The Council 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 last three years.

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

Workers' Compensation and Unemployment Benefits

Employee benefits are managed by Black Hills Special Services Cooperative (the Cooperative). The Cooperative purchases liability insurance for worker's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

The Council does not carry additional insurance to cover any claims in excess of the upper limit.

During the year ended December 31, 2025, no claims for unemployment benefits were paid. At December 31, 2025, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

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*

Board of Directors
Black Hills Council of Local Governments
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the modified-cash basis financial statements of Black Hills Council of Local Governments (the Council) as of and for the year ended December 31, 2025 and the related notes to the financial statements, and have issued our report thereon dated September 10, 2026.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered the Council'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 opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. Accordingly, we do not express an opinion on the effectiveness of the Council'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 Council'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 identified a certain deficiency in internal control, described in the accompanying Schedule of Findings as 2025-001 that we consider to be a material weakness.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Council'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*.

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

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Council'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 Council's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 10, 2026

BLACK HILLS COUNCIL OF LOCAL GOVERNMENTS

SCHEDULE OF FINDINGS
DECEMBER 31, 2025

Findings – Financial Statement Audit

Material Weaknesses

Finding 2025-001: Preparation of Financial Statements

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the financial statements in both form and content, based on information provided by management during the audit.

Criteria and Effect: Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: No audit was performed in 2024.

Recommendation: Management and if applicable, governance, should review the financial statements for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

Response/Corrective Action Plan: The Council agrees with the above Finding. See Corrective Action Plan.

MANAGEMENT RESPONSE

BLACK HILLS
COUNCIL OF LOCAL GOVERNMENTS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2025

No audit was performed in 2024.

BLACK HILLS
COUNCIL OF LOCAL GOVERNMENTS

CORRECTIVE ACTION PLAN
DECEMBER 31, 2025

Black Hills Council of Local Governments respectfully submits the following corrective action plan regarding findings from the December 31, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding No. 2025-001: Financial Statement Preparation

Responsible Individuals: Jennifer Sietsma, Executive Director

Corrective Action Plan: Management of the Council has reviewed the financial statements prepared by Ketel Thorstenson, LLP. The financial statements have been compared and reconciled to the internal records maintained by the Council. Management and the Board of Directors have been given adequate opportunity to ask questions regarding the modified-cash basis financials statements and note disclosures and have received sufficient responses from the auditors prior to final publication of the audited financial statements. Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements.

Anticipated Completion Date: Ongoing