

COLONIAL PINE HILLS SANITARY DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2023 AND 2022



COLONIAL PINE HILLS SANITARY DISTRICT

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Colonial Pine Hills Sanitary District
Rapid City, South Dakota

Opinion

We have audited the accompanying financial statements of Colonial Pine Hills Sanitary District (the District), as of and for the years ended December 31, 2023 and 2022, 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 financial position of Colonial Pine Hills Sanitary District, as of December 31, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 opinion.

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

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 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

September 17, 2024

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF NET POSITION
DECEMBER 31, 2023 AND 2022**

ASSETS	2023	2022
Current Assets		
Cash and Cash Equivalents	\$ 211,227	\$ 188,244
Accounts Receivable and Unbilled Receivables	33,560	31,390
Investments	183,134	121,381
Well Supplies	1,647	1,647
Total Current Assets	429,568	342,662
Capital Assets Being Depreciated		
Buildings	400,740	400,740
Machinery and Equipment	227,596	273,942
Well Systems	4,774,755	4,774,755
	5,403,091	5,449,437
Less Accumulated Depreciation	2,450,602	2,376,193
Net Capital Assets Being Depreciated	2,952,489	3,073,244
Capital Assets Not Being Depreciated		
Land	111,982	111,982
Total Capital Assets Not Being Depreciated	111,982	111,982
TOTAL ASSETS	\$ 3,494,039	\$ 3,527,888
LIABILITIES AND NET POSITION		
Current Liabilities		
Current Maturities of Long-Term Debt	\$ 93,249	\$ 93,431
Accounts Payable	7,147	10,704
Accrued Expenses	10,226	9,310
Meter Deposits	41,313	40,202
Total Current Liabilities	151,935	153,647
Long-Term Debt, Net of Current Maturities	944,280	1,037,529
Net Position		
Net Investment in Capital Assets	2,026,942	2,054,266
Unrestricted	370,882	282,446
	2,397,824	2,336,712
TOTAL LIABILITIES AND NET POSITION	\$ 3,494,039	\$ 3,527,888

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
Revenue		
Water Sales	\$ 386,091	\$ 401,856
State Revolving Fund IV Surcharge	29,130	29,148
Fees and Miscellaneous Income	6,611	6,765
Septic Fees	1,471	1,456
Total Revenue	423,303	439,225
Operating Expenses		
Depreciation	120,594	121,147
Repairs and Maintenance	112,965	112,244
Salaries	101,160	105,657
Electric Charges	37,803	67,060
Insurance	17,492	14,910
Office Expenses	12,958	13,318
Chemicals	12,152	12,657
Payroll Taxes	8,329	8,785
Telephone	7,677	7,659
Professional Fees	6,972	21,705
Travel and Transportation	4,918	4,799
Dues and Subscriptions	4,153	1,636
Trustee Fees	2,775	3,710
Tools and Equipment	2,681	1,707
Miscellaneous	1,621	1,958
Water Testing	1,390	1,215
Printing and Publications	978	1,395
Total Operating Expenses	456,618	501,562
Operating Loss	(33,315)	(62,337)
Non-Operating Revenue (Expense)		
Property Taxes	121,806	121,383
Interest Income	5,799	1,645
Loss on Sale of Property and Equipment	(161)	-
Interest Expense	(33,017)	(36,717)
Total Non-Operating Revenue	94,427	86,311
Change in Net Position	61,112	23,974
Net Position -- Beginning of Year	2,336,712	2,312,738
Net Position -- End of Year	\$ 2,397,824	\$ 2,336,712

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
Cash Flows From Operating Activities		
Receipts from Customers	\$ 422,244	\$ 438,881
Payments to Suppliers	(238,421)	(265,424)
Payments to Employees	(100,244)	(105,205)
Net Cash Flows Provided by Operating Activities	83,579	68,252
Cash Flows Provided by Noncapital Financing Activities		
Property Taxes	121,806	121,383
Cash Flows From Capital and Related Financing Activities		
Purchases of Capital Assets	-	(10,307)
Repayments on Long-Term Debt	(93,431)	(134,012)
Interest Expense	(33,017)	(36,717)
Net Cash Flows Used in Capital and Related Financing Activities	(126,448)	(181,036)
Cash Flows Provided by Investing Activities		
Interest Received	5,799	1,645
Net Increase in Cash and Investments	84,736	10,244
Cash and Investments -- Beginning of Year	309,625	299,381
Cash and Investments -- End of Year	\$ 394,361	\$ 309,625
Reconciliation of Operating Loss to Net Cash Flows Provided by Operating Activities		
Operating Loss	\$ (33,315)	\$ (62,337)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:</i>		
Depreciation	120,594	121,147
<i>Changes to Working Capital Increasing (Decreasing) Cash:</i>		
Accounts Receivable and Unbilled Receivables	(2,170)	(604)
Accounts Payable	(3,557)	9,334
Accrued Expenses	916	452
Meter Deposits	1,111	260
Net Cash Flows Provided by Operating Activities	\$ 83,579	\$ 68,252
Noncash Investing, Capital and Financing Activities:		
Loss from Capital Asset Disposal	\$ 161	\$ -

The accompanying notes are an integral part of these statements.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Financial Reporting Entity

Colonial Pine Hills Sanitary District (the District) was chartered by Pennington County to provide water to the residents of the Countryside South (CSS) and Whispering Pines (WP) subdivisions in Rapid City, South Dakota. The District collects monthly water payments and maintains the water systems. The District also charges a monthly septic administration fee for maintenance of the sewer system. These operations are accounted for and reported as an enterprise fund.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts and disclosures reported in the financial statements. Actual results could differ from those estimates.

Basis of Presentation

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

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

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:

All activities 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. In the Statements of Revenues, Expenses, and Changes in Net Position, revenue and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are reported as components of operating revenues or expenses.

COLONIAL PINE HILLS SANITARY DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023 AND 2022

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

Federal Income Tax

Under South Dakota Codified Law, the District is considered to be a sanitary district form of local government, and therefore is not obligated to pay federal income tax.

Cash and Cash Equivalents

The District considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. As of December 31, 2023 and 2022, the District's cash and cash equivalents consisted only of checking, savings, and money market accounts.

Deposits and Investments

All of the District's accounts are insured or collateralized in the District's name. The District does not have an investment policy that would limit credit risk, custodial credit risk, and interest rate risk. Investments consist of certificates of deposit. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

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 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) 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 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, 2023, the District's cash consisted only of checking and savings with bank balances as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 396,277
Uninsured, collateralized in accordance with SDCL 4-6A-3	-
Uninsured	-
<u>Total Deposits</u>	<u>\$ 396,277</u>

Accounts Receivable

Accounts receivable are recorded at the time revenue is earned and are billed monthly. No interest is accrued on accounts receivable. Receivables older than 30 days are considered delinquent. Management considers all receivables to be fully collectible. Accordingly, no allowance for doubtful accounts is recorded at December 31, 2023 or 2022.

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Well Supplies

Well supplies consist of sleeves, pipes, extensions, and wires. The well supplies are stated at the lower of cost or market value.

Capital Assets

Capital assets are recorded at historical cost. Donated property and equipment (Countryside South Water System) is stated at the acquisition value at the date of the donation. 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. The District capitalizes assets purchased over \$500 and expenses all others. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	15-39 Years
Machinery and Equipment	5 Years
Well Systems	20-75 Years

Equity Classifications

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation. The District has no restricted net position at December 31, 2023 or 2022.
3. Unrestricted Net Position – All other net positions that do not meet the definition of restricted or invested in capital assets, net of related debt.

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.

Subsequent Events

Subsequent events have been evaluated through September 17, 2024, the date which the financial statements were available to be issued.

Emerging Accounting Standards

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.

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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

Emerging Accounting Standards

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 these statements will have on the financial statements.

(2) Investments

The District’s investments consist of certificates of deposit with a local financial institution, with an original maturity greater than three months, which is recorded at cost plus accrued interest.

(3) 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. The District manages its risks by purchasing from a commercial insurance carrier liability and property insurance for risks related to torts; theft, damage, or destruction of property; and errors and omissions of public officials, as well as liability insurance for workmen’s compensation. The District provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the state of South Dakota.

(4) Changes in Capital Assets

Changes in capital assets were as follows during the year ended December 31, 2022:

	Balance December 31, 2021	Additions	Transfers/ Disposals	Balance December 31, 2022
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 400,740	\$ -	\$ -	\$ 400,740
Machinery and Equipment	263,635	10,307	-	273,942
Well Systems	4,774,755	-	-	4,774,755
	<u>5,439,130</u>	<u>10,307</u>	<u>-</u>	<u>5,449,437</u>
<i>Less Accumulated Depreciation</i>	<u>2,255,046</u>	<u>121,147</u>	<u>-</u>	<u>2,376,193</u>
Net Capital Assets Being Depreciated	<u>\$ 3,184,084</u>	<u>\$ (110,840)</u>	<u>\$ -</u>	<u>\$ 3,073,244</u>
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Total Capital Assets Not Being Depreciated	<u>\$ 111,982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,982</u>

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

(4) Changes in Capital Assets

Changes in capital assets were as follows during the year ended December 31, 2023:

	Balance December 31, 2022	Additions	Transfers/ Disposals	Balance December 31, 2023
<i>Capital Assets Being Depreciated</i>				
Buildings	\$ 400,740	\$ -	\$ -	\$ 400,740
Machinery and Equipment	273,942	-	(46,346)	227,596
Well Systems	4,774,755	-	-	4,774,755
	<u>5,449,437</u>	<u>-</u>	<u>(46,346)</u>	<u>5,403,091</u>
<i>Less Accumulated Depreciation</i>	2,376,193	120,594	(46,185)	2,450,602
Net Capital Assets Being Depreciated	\$ 3,073,244	\$ (120,594)	\$ (161)	\$ 2,952,489
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 111,982	\$ -	\$ -	\$ 111,982
Total Capital Assets Not Being Depreciated	\$ 111,982	\$ -	\$ -	\$ 111,982

(5) Long-Term Debt

The following is a summary of the changes in long term debt:

Balance -- December 31, 2021	\$ 1,264,972
Principal Repayments	134,012
Balance -- December 31, 2022	1,130,960
Principal Repayments	93,431
Balance -- December 31, 2023	\$ 1,037,529

Long-term debt consists of the following at December 31:

	2023	2022
State Revolving Fund Loan, due in quarterly installments of \$12,561 including interest accruing at 3.0 percent, maturing in 2031, secured by a pledge of net water revenue.	\$ 326,291	\$ 366,000
State Revolving Fund Loan, due in semi annual installments of \$24,766 including interest accruing at 3.0 percent, maturing in 2034, secured by a pledge of property tax revenue.	443,315	478,748
State Revolving Fund Loan, due in quarterly installments of \$6,667 including interest accruing at 3.0 percent, maturing in 2036, secured by a monthly surcharge.	267,923	286,212
	1,037,529	1,130,960
Less: Current Portion	93,249	93,431
	\$ 944,280	\$ 1,037,529

COLONIAL PINE HILLS SANITARY DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

(5) Long-Term Debt

The annual requirements to amortize all debt outstanding are as follows:

	Principal	Interest
2024	\$ 93,249	\$ 30,675
2025	98,676	27,771
2026	101,668	24,778
2027	104,752	21,694
2028	107,929	18,518
2029-2033	452,078	45,721
2034-2036	79,177	2,556
	<u>\$ 1,037,529</u>	<u>\$ 171,713</u>

The District has pledged future revenues associated with its debt agreements. The debt 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. Pledged revenues associated with the debt issue have been pledged through the maturity dates listed above. The 2023 principal and interest on the debt was **\$126,448** while the pledged revenue totaled **\$545,109**. The debt agreements require certain financial ratios to be met. At December 31, 2023, the District was in compliance with these debt covenants.

(6) Property Tax

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 are payable in two installments on or before April 30 and October 31 of the following year. The County bills and collects the District's taxes and remits them to the District. State statute allows the tax rates to be raised by special election of the voters.

Property taxes are recorded as receivables in the year that the enforceable legal claim to property taxes arises or when the resources are received, whichever occurs first. Property tax revenue is recognized in the year for which the taxes are levied. Accordingly, taxes levied in October 2022 and October 2023, have not been recorded as a receivable or revenue in the accompanying Statements of Net Position and Statements of Revenue, Expenses and Changes in Net Position as the legal claim to the assets and resources were not received until the 2023 and 2024 calendar years, respectively.

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

To the Board of Directors
Colonial Pine Hills Sanitary District
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 the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Colonial Pine Hills Sanitary District (the District) as of and for the years ended December 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 17, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audits 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 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 disclosed 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 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 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 17, 2024

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2023 AND 2022**

Material Weaknesses in Internal Control

2023-001: Financial Statement Preparation

Condition and Cause: As in prior years, 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 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 us to do this with organizations of your size.

Criteria and Effect: This deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by the District’s management.

Repeat Finding from Prior Year: Yes, prior year finding 2021-001.

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 District’s statements. We are satisfied that the appropriate steps have been taken to provide the District with the completed financial statements. It is the responsibility of management and those charged with governance 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 District’s Corrective Action Plan

2023-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed material audit adjustments that resulted in a **\$115,865** and \$129,675 decrease in reported change in net position for 2023 and 2022, respectively. Adjustments included recording accrued payroll, accounts payable, capital asset activity, current portion of debt, roll-forward of net position, and recording receivables and sales in the correct period.

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

Repeat Finding from Prior Year: Yes, prior year finding 2021-002.

Recommendation: We recommend management review the entries for accuracy.

Views of Responsible Officials: See District’s Corrective Action Plan

COLONIAL PINE HILLS SANITARY DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2023 AND 2022**

Material Weaknesses in Internal Control

2023-003: Lack of Segregation of Duties

Condition and Cause: The District has a general lack of segregation of duties due to the limited number of staff.

Criteria and Effect: As a result of the inadequate segregation of duties a material misstatement to the financial statements may not be prevented or detected by the District's management.

Repeat Finding from Prior Year: Yes, prior year finding 2021-003.

Recommendation: This is not an uncommon problem in an organization of this size. A proper system of segregation of duties and functions assures adequate internal control over the safeguarding of assets and the reliability of financial records and reporting. Without proper segregation of duties, the likelihood of detection is reduced. We recommend the board designate an individual, the President or the Treasurer, to review the general ledger detail and bank statements, to include the cancelled check images, on a monthly basis. We recommend the District strive for as much segregation of duties as possible with the limited number of personnel.

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

MANAGEMENT RESPONSE



Colonial Pine Hills Sanitary District

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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS DECEMBER 31, 2023 AND 2022

Colonial Pine Hills Sanitary District respectfully submits the following summary schedule of prior audit findings from the December 31, 2021 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2021 Schedule of Findings.

2021-001: 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 a 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 2005.

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the auditor's preparation of the financial statements, it will be repeated in 2021. See Corrective Action Plan.

2021-002: Audit Adjustments

Status: The District operates on a cash basis throughout the year. The District provides supporting documentation for accounts receivable, accounts payable, and accrued payroll to adjust accrual balances. The District reviews the audit adjustments for propriety.

Initial Year Report: Originally issued in 2005.

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

2021-003: Lack of Segregation of Duties

Status: The District has a general lack of segregation of duties due to the continued limited number of staff.

Initial Year Report: Originally issued in 2005.

Reasons for Recurrence and Corrective Action Plan: The District has accepted the risk associated with this deficiency and has implemented internal control measures, as best suited, for an organization of their size. See Corrective Action Plan.



Colonial Pine Hills Sanitary District

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CORRECTIVE ACTION PLAN DECEMBER 31, 2023 AND 2022

Colonial Pine Hills Sanitary District 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: Financial Statement Preparation

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District will accept the degree of risk that is associated with this condition. For future audits, we will continue to monitor the financial statement preparation and determine if any modification can be done to the procedure.

Anticipated Completion Date: Ongoing

2023-002: Audit Adjustments

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District will accept the degree of risk that is associated with this condition. The District maintains its records on a cash basis throughout the year for budgetary comparison reasons. The District reviews the year-end adjustments provided by the auditors and posts the entries to the general ledger.

Anticipated Completion Date: Ongoing

2023-003: Lack of Segregation of Duties

Responsible Individuals: Jim Martin, District Manager

Corrective Action Plan: At this time, the District is aware of the segregation of duties limitations and will evaluate internal controls from time to time as changes in personnel or procedures occur.

Anticipated Completion Date: Ongoing