

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2024

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
Powder House Pass Community
Improvement District
Lead, South Dakota

Report on Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Powder House Pass Community Improvement District (the District), as of and for the year ended December 31, 2024, 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 the governmental activities, the business-type activities, and each major fund of the District, as of December 31, 2024, 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 audit. 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, budgetary comparison information, and pension disclosure information 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 are 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 11, 2025 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 11, 2025

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF NET POSITION
DECEMBER 31, 2024**

	GOVERNMENTAL <u>ACTIVITIES</u>	BUSINESS-TYPE <u>ACTIVITIES</u>	<u>TOTAL</u>
Assets:			
Cash	\$ 42,621	\$ 1,119,164	\$ 1,161,785
Accounts Receivables	1,164	12,475,773	12,476,937
Net Pension Asset	148	-	148
Capital Assets:			
Land and Construction Work in Progress	-	7,718,187	7,718,187
Capital Assets, Net of Depreciation	4,356,486	6,902,536	11,259,022
TOTAL ASSETS	4,400,419	28,215,660	32,616,079
Deferred Outflows of Resources			
Pension Related Deferred Outflows of Resources	25,093	-	25,093
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 4,425,512	\$ 28,215,660	\$ 32,641,172
Liabilities:			
Accounts Payable	\$ 162,709	\$ 240,957	\$ 403,666
Other Current Liabilities	-	48,380	48,380
Noncurrent Liabilities:			
Due Within One Year	22,774	114,903	137,677
Due in More Than One Year	45,553	10,816,271	10,861,824
TOTAL LIABILITIES	231,036	11,220,511	11,451,547
Deferred Inflows of Resources:			
Pension Related Deferred Inflows of Resources	18,558	-	18,558
TOTAL DEFERRED INFLOWS OF RESOURCES	18,558	-	18,558
Net Position:			
Net Investment in Capital Assets	4,288,159	3,689,549	7,977,708
Restricted for:			
Pension-SDRS	6,683	-	6,683
Unrestricted	(118,924)	13,305,600	13,186,676
TOTAL NET POSITION	4,175,918	16,995,149	21,171,067
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION	\$ 4,425,512	\$ 28,215,660	\$ 32,641,172

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2024**

<u>Functions/Programs</u>	<u>Expenses</u>	--- Program Revenues ---			Net (Expense) Revenue and		<u>Total</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	----- Changes in Net Position -----		
					<u>Governmental Activities</u>	<u>Business-Type Activities</u>	
Primary Government							
Governmental Activities:							
General Government	\$ 265,894	\$ 232,286	\$ -	\$ -	\$ (33,608)	\$ -	\$ (33,608)
Public Works	384,172	-	-	-	(384,172)	-	(384,172)
Community Building	71,967	4,140	-	-	(67,827)	-	(67,827)
Total Governmental Activities	722,033	236,426	-	-	(485,607)	-	(485,607)
Business-Type Activities:							
Water and Wastewater	808,220	421,784	-	2,522,368	-	2,135,932	2,135,932
Total Business-Type Activities	808,220	421,784	-	2,522,368	-	2,135,932	2,135,932
Total Primary Government	\$ 1,530,253	\$ 658,210	\$ -	\$ 2,522,368	(485,607)	2,135,932	1,650,325
General Revenues:							
Taxes:							
Property Taxes					203,554	-	203,554
Miscellaneous Revenue					3,694	31,666	35,360
Transfers					(260,796)	260,796	-
Total General Revenue					(53,548)	292,462	238,914
Change in Net Position					(539,155)	2,428,394	1,889,239
Net Position, Beginning, as Previously Stated					4,715,073	14,566,755	19,281,828
Net Position, Ending					\$ 4,175,918	\$ 16,995,149	\$ 21,171,067

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2024**

	<u>General Fund</u>
Assets	
101 Cash	\$ 42,621
115 Accounts Receivable	1,164
Total Assets	\$ 43,785
Liabilities and Fund Balances	
<i>Liabilities</i>	
202 Accounts Payable	\$ 162,709
Total Liabilities	162,709
<i>Fund Balances:</i>	
267.00 Unassigned Fund Balances	(118,924)
Total Fund Balances	(118,924)
Total Liabilities and Fund Balances	\$ 43,785

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION
DECEMBER 31, 2024**

Total Fund Balances - Governmental Funds	\$ (118,924)
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	4,356,486
Pension related deferred outflows are components of pension liability and therefore are not reported in the funds.	25,093
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(68,327)
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	148
Pension related deferred inflows are components of pension asset and therefore are not reported in the funds.	(18,558)
Total Net Position - Governmental Funds	\$ 4,175,918

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	<u>General Fund</u>
Revenue	
<i>Taxes:</i>	
311 General Property Taxes	\$ 203,554
<i>Charges for Goods and Services:</i>	
341 General Government	232,286
346 Community Building	4,140
369 Miscellaneous Revenue	3,694
Total Revenue	443,674
Expenditures	
410 General Government	203,820
430 Public Works	198,876
450 Culture and Recreation - Community Building	46,835
470 Debt Service	21,305
485 Capital Outlay	20,117
Total Expenditures	490,953
Other Financing Sources	
391 Transfers In	173,653
511 Transfers Out	(434,449)
Total Other Financing Sources	(260,796)
Net Change in Fund Balance	(308,075)
Fund Balance - December 31, 2023	189,151
Fund Balance - December 31, 2024	\$ (118,924)

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED DECEMBER 31, 2024

Net change in fund balances - total governmental funds \$ (308,075)

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

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

Capital Assets Purchases Capitalized	20,117
Depreciation Expense	(271,040)
	<hr/>
	(250,923)

Changes in the pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds. (1,462)

Repayment of note payable principal are expenditures in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. 21,305

Change in Net Position of Governmental Activities \$ **(539,155)**

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
DECEMBER 31, 2024**

		Utilities Fund
Assets		
Current Assets		
101	Cash	\$ 1,119,164
115	Accounts Receivable	103,892
121	Special Assessment Receivable - Current	296,485
Total Current Assets		1,519,541
Noncurrent Assets		
123	Special Assessment Receivable - Noncurrent	12,075,396
Capital Assets:		
164	Improvements Other Than Buildings	7,860,688
165	Accumulated Depreciation - Improvements Other than Buildings	(1,308,982)
166	Machinery and Equipment	415,426
167	Accumulated Depreciation - Machinery and Equipment	(64,596)
168	Construction in Progress	7,718,187
Total Noncurrent Assets		26,696,119
Total Assets		\$ 28,215,660
Liabilities and Net Position		
Current Liabilities		
202	Accounts Payable	\$ 240,957
205	Current Portion of Long-Term Debt	114,903
215	Accrued Interest Payable	48,380
Total Current Liabilities		404,240
Long-Term Liabilities		
237	Long-Term Debt, Net of Current Portion	10,816,271
Total Liabilities		11,220,511
Net Position		
253.1	Net Investment in Capital Assets	3,689,549
252	Unrestricted	13,305,600
Total Net Position		16,995,149
Total Liabilities and Net Position		\$ 28,215,660

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	Utilities Fund
Operating Revenue	
380 Charges for Goods and Services	\$ 421,784
Total Operating Revenue	421,784
Operating Expenses	
420 Other Current Expense	464,255
457 Depreciation	243,480
Total Operating Expenses	707,735
Operating Loss	(285,951)
Non-Operating Income (Expense)	
361 Gain on Deposits and Investments	31,666
363 Special Assessments	2,392,368
391 Contributions and Donations	130,000
442 Interest Expense and Fiscal Charges	(100,485)
Total Non-Operating Income (Expense)	2,453,549
Income before Transfers	2,167,598
Other Financing Sources (Uses)	
391.01 Transfers In	434,449
511 Transfers Out	(173,653)
Total Transfers	260,796
Change in Net Position	2,428,394
Net Position - December 31, 2023	14,566,755
Net Position - December 31, 2024	\$ 16,995,149

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2024**

	Utilities Fund
Cash Flows from Operating Activities:	
Receipts from Customers	\$ 329,563
Payments to Suppliers	(718,825)
Net Cash Flows Used in Operating Activities	(389,262)
Cash Flows from Noncapital Financing Activities:	
Net Transfers	260,796
Net Cash Flows Provided by Noncapital Financing Activities	260,796
Cash Flows from Capital and Related Financing Activities:	
Purchase of Capital Assets	(4,521,607)
Principal Paid on Capital Debt	(111,597)
Borrowing on Long-Term Debt	4,557,862
Special Assessment Receipts	743,661
Interest Paid	(111,814)
Net Cash Flows Provided by Capital and Related Financing Activities	556,505
Cash Flows Provided by Investing Activities:	
Gain on Deposit and Investments	31,666
Change in Cash	459,705
Cash - December 31, 2023	659,459
Cash - December 31, 2024	\$ 1,119,164
Reconciliation of Operating Loss to Net Cash Flows Used in Operating Activities	
Operating Loss	\$ (285,951)
<i>Adjustments to Reconcile Operating Loss to Net Cash Flows Used in Operating Activities:</i>	
Depreciation Expense	243,480
<i>Change in Assets and Liabilities:</i>	
Accounts Receivable	(92,221)
Accounts Payable	(254,570)
Net Cash Flows Used in Operating Activities	\$ (389,262)
Noncash Investing, Capital and Related Financing Activities	
Donated Capital Assets from Developers	\$ 130,000
Special Assessment Receivable Recognized	2,055,351

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of Powder House Pass Community Improvement District (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); 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 District does not include any component units within its reporting entity.

Basis of Presentation

Government-wide Financial Statements:

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

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

Fund Financial Statements:

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

1. Total assets, liabilities, deferred inflows and outflows, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

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

Governmental Funds:

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

Proprietary Funds:

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

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

The District maintains the following proprietary fund:

Utilities Fund – financed primarily by user charges. This fund accounts for the construction and operation of the District waterworks system and related facilities (SDCL 9-47-1). This fund is a major fund.

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the “economic resources” measurement focus, applied on the accrual basis of accounting.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

Fund Financial Statements:

All governmental funds are accounted for using the modified-accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the District, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2024, are property tax.

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

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

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

Capital Assets

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

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(1) Summary of Significant Accounting Policies

Capital Assets

Government-wide Financial Statements:

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated acquisition value on the donation date. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

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

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

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land	\$ -0-	----N/A----	----N/A----
Improvements Other Than Buildings	\$ 10,000	Straight-line	15-75 years
Buildings	\$ -0-	Straight-line	50 years
Machinery and Equipment	\$ 2,500	Straight-line	5-20 years

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements:

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

Long-Term Liabilities

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

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of special assessment bonds and notes payable.

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

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Program Revenues

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

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

Deferred Inflows and Outflows of Resources

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

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period. Deferred inflows consist of pension activity.

Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's 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, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

Cash and Cash Equivalents

The District pools the cash resources of its funds for cash management purposes. The proprietary fund essentially has access to the entire amount of the cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

Special Assessment Receivables

Special assessment receivable represents the uncollected amounts levied against benefited property for the cost of local improvements. Assessments are payable over a period of 30 years and bear interest of 2.5 to 3.25 percent. Recognition of the revenues from these assessments are reported as revenues in the period they are levied. Once received, the monies will be used to meet the annual debt service requirements on related bonds payable.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Equity Classifications

Government-wide Financial Statements:

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

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

Fund Financial Statements:

The District classifies governmental fund balances as follows:

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

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

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

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund Balance may be assigned by the Board of Supervisors.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Equity Classifications

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

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

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

Inventory

The District maintains no significant amounts of inventory at December 31, 2024.

Pensions

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

Adopted Accounting Standard

As of January 1, 2024, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. This statement 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. Implementation of this standard had no effect on the financial statements.

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.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(1) 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.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, Disclosure of Certain Capital Assets, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. 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.

Subsequent Events

The District has assessed subsequent events through September 11, 2025, 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:

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

As of December 31, 2024, the District’s cash consisted only of checking and savings with bank balances as follows:

	<u>Bank Balance</u>
Insured - FDIC	\$ 228,537
Uninsured, collateralized in accordance with SDCL 4-6A-3	-
Total Deposits	\$ 228,537

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(3) Property Taxes

Property taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The District is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable real property in the District.

(4) Changes in Capital Assets

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

<i>Governmental Activities:</i>	<u>Balance</u> <u>12/31/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2024</u>
Capital Assets, being Depreciated:				
Buildings	\$ 1,223,922	\$ 4,845	\$ -	\$ 1,228,767
Improvements Other Than Buildings	3,745,201	-	-	3,745,201
Machinery and Equipment	398,595	15,272	-	413,867
Total Capital Assets, being Depreciated	5,367,718	20,117	-	5,387,835
Less Accumulated Depreciation for:				
Buildings	122,391	24,882	-	147,273
Improvements Other Than Buildings	542,789	191,686	-	734,475
Machinery and Equipment	95,129	54,472	-	149,601
Total Accumulated Depreciation	760,309	271,040	-	1,031,349
Total Governmental Activities Capital Assets, being Depreciated, Net	4,607,409	(250,923)	-	4,356,486
Total Governmental Capital Assets, Net	\$ 4,607,409	\$ (250,923)	\$ -	\$ 4,356,486

Depreciation expense was charged to functions as follows:

Culture and Recreation	\$ 25,132
General Government	62,074
Public Works	183,834
Total Depreciation Expense - Governmental	\$ 271,040

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(4) Changes in Capital Assets

	<u>Balance</u> <u>12/31/2023</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/2024</u>
<i>Business-type Activities:</i>				
Capital Assets, not being Depreciated:				
Land	\$ 120,000	\$ -	\$ 120,000	\$ -
Construction Work in Progress	3,358,922	4,359,265	-	7,718,187
Total Capital Assets, not being Depreciated	3,478,922	4,359,265	120,000	7,718,187
Capital Assets, being Depreciated:				
Improvements Other Than Buildings	7,568,346	292,342	-	7,860,688
Machinery and Equipment	415,426	-	-	415,426
Total Capital Assets, being Depreciated	7,983,772	292,342	-	8,276,114
Less Accumulated Depreciation for:				
Improvements Other Than Buildings	1,084,852	224,130	-	1,308,982
Machinery and Equipment	45,246	19,350	-	64,596
Total Accumulated Depreciation	1,130,098	243,480	-	1,373,578
Total Business-type Activities Capital Assets, being Depreciated, Net	6,853,674	48,862	-	6,902,536
Total Business-type Capital Assets, Net	\$ 10,332,596	\$ 4,408,127	\$ 120,000	\$ 14,620,723

Depreciation expense was charged to functions as follows:

Utilities Fund	\$ 243,480
Total Depreciation Expense - Business-type	\$ 243,480

Construction in progress consists of a water resource recovery facility expansion with commitments of approximately \$2,600,000 to be funded by the Utilities Fund and State Revolving Loan Fund Program.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(5) Long-Term Debt

	Balance 12/31/2023	Borrowings	Repayments	Balance 12/31/2024	Due Within One Year
Primary Government:					
Governmental Activities:					
Note Payable	\$ 89,632	\$ -	\$ 21,305	\$ 68,327	\$ 22,774
Total Governmental Activities	89,632	-	21,305	68,327	22,774
Business-Type Activities:					
State Revolving Fund Loans	6,484,909	4,557,862	111,597	10,931,174	114,903
Total Business-Type Activities	6,484,909	4,557,862	111,597	10,931,174	114,903
Total Primary Government	\$ 6,574,541	\$ 4,557,862	\$ 132,902	\$ 10,999,501	\$ 137,677

The District has pledged revenues of the Utilities Fund for the retirement of debt issues associated with the fund through the maturity dates below. All debt is secured by pledged revenues, funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Below is a comparison of principal and interest payments and total pledged revenue for the current year.

Funds	Utilities Fund
Current Year Principal and Interest	\$ 212,082
Pledged Revenue - Special Assessments*	602,000

* Based on anticipated annual cash collections.

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

Note Payable:

Note Payable to CAT Financial; bears interest at 3.39 percent; due in annual installments of \$24,344 through December 2027. Financed through the General Fund. \$ 68,327

State Revolving Loan Fund Revenue Bonds:

State Revolving Fund Revenue Bond, Series 2014; bears interest at 3.25 percent; due in annual installments of \$138,984 through July 2045. Financed through the Utilities Fund. 2,091,734

State Revolving Fund Revenue Bond, Series 2018; bears interest at 2.50 percent; due in annual installments of \$81,389 through July 2049. Financed through the Utilities Fund. 1,499,545

State Revolving Fund Revenue Bond, Series 2022; borrowings up to \$7,163,500; bears interest at 2.125 percent; due in annual installments, matures 30 years after the initial loan amortization date. Financed through the Utilities Fund. 7,163,500

State Revolving Fund Revenue Bond, Series 2024; borrowings up to \$2,075,000; bears interest at 3.75 percent; due in annual installments, matures 30 years after the initial loan amortization date. Financed through the Utilities Fund. 176,395

Total Long-Term Debt **\$ 10,999,501**

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(5) Long-Term Debt

The annual requirements to amortize long-term debt outstanding as of December 31, 2024 are as follows:

	State Revolving		Note Payable		Total	
	Interest	Principal	Interest	Principal	Interest	Principal
2025	\$ 105,470	\$ 114,903	\$ 1,570	\$ 22,774	\$ 107,040	\$ 137,677
2026	102,065	118,308	798	23,546	102,863	141,854
2027	98,557	121,815	-	22,007	98,557	143,822
2028	94,944	125,429	-	-	94,944	125,429
2029	91,222	126,610	-	-	91,222	126,610
2030-2034	396,239	705,625	-	-	396,239	705,625
2035-2039	284,842	817,023	-	-	284,842	817,023
2040-2044	155,568	946,296	-	-	155,568	946,296
2045-2049	33,201	515,269	-	-	33,201	515,269
SRF 2022*	-	7,163,500	-	-	-	7,163,500
SRF 2024*	-	176,396	-	-	-	176,396
Total	\$ 1,362,108	\$ 10,931,174	\$ 2,368	\$ 68,327	\$ 1,364,476	\$ 10,999,501

*Loan amortization schedule to be determined when financed project is complete.

(6) Pension Plan

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 provide 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 members: 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.

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 retirement benefits 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.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(6) Pension Plan

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, 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 make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District’s share of contributions to the SDRS for the fiscal years ended December 31, 2024, 2023, and 2022 were \$7,765, \$4,051, and \$5,584 respectively, equal to the required contributions each year.

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

At June 30, 2024, SDRS is 100.00 percent funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the District as of June 30, 2024 are as follows:

	Governmental Activities	Business-Type Activities	Total
Proportionate Share of Net Position Restricted for Pension Benefits	\$ 544,366	\$ -	\$ 544,366
Less: Proportionate Share of Total Pension Asset	(544,218)	-	(544,218)
<u>Proportionate Share of Net Pension Asset</u>	<u>\$ 148</u>	<u>\$ -</u>	<u>\$ 148</u>

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2024

(6) Pension Plan

At December 31, 2024, the District reported an asset of \$148 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2024 and the total pension asset 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, 2024, the District's proportion was 0.003648 percent, which is an increase of 0.000676 percent from its proportion measured as of June 30, 2023.

For the year ended December 31, 2024, the District recognized pension revenue of \$8,744. At December 31, 2024, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between Expected and Actual Experience	\$ 13,674	\$ -
Changes in Assumption	2,435	18,558
Net Difference between Projected and Actual Earnings on Pension Plan Investments	5,562	-
District Contributions Subsequent to the Measurement Date	3,422	-
Total	\$ 25,093	\$ 18,558

Deferred outflow of resources includes \$3,422 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, 2025. 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:

2025	\$ (5,174)
2026	7,117
2027	726
2028	444
	<u>\$ 3,113</u>

Actuarial Assumptions:

The total pension asset in the June 30, 2024 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 percent at entry to 3.15 percent after 25 years of service
Discount Rate	6.50 percent, net of pension plan investment expense. This is comprised of an average inflation rate of 2.50 percent and real returns of 4.00 percent.
Future COLAs	1.71 percent

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(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, 2024 valuation were based on the results of an actuarial experience study for the period July 1, 2016 to June 30, 2021.

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, 2024 (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%	3.6%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.8%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
	<u>100.0%</u>	

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(6) Pension Plan

Discount Rate:

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

Sensitivity of Liability/(Asset) to Changes in the Discount Rate:

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

	1% Decrease	Current Discount Rate	1% Increase
District’s Proportionate Share of the Net Pension (Asset)/Liability	\$ 75,038	\$ (148)	\$ (61,673)

Pension Plan Fiduciary Net Position:

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

(7) 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, 2024, the District managed its risks as follows:

Employee 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.

Liability Insurance:

The District purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The District 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.

Unemployment Benefits:

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.

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 Supervisors
Powder House Pass
Community Improvement District
Lead, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Powder House Pass Community Improvement District (the District) as of and for the year ended December 31, 2024, 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 11, 2025.

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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as #2024-001 and #2024-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as #2024-003 to be a significant deficiency.

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 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 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 South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

September 11, 2025

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2024**

Material Weaknesses

Finding No. 2024-001: 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 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 districts of your size.

Criteria and Effect: It is our responsibility to inform the Board of Supervisors that 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 #2023-001.

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

Response/Corrective Action Plan: See District's Corrective Action Plan.

Finding No. 2024-002: Audit Adjustments

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included rolling forward fund balances, adjusting capital assets and depreciation expense, recording net pension asset and related activity, recording special assessment receivables, and various reclassification entries.

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

Repeat Finding from Prior Year: Yes, prior year finding #2023-002.

Recommendation: We recommend the District's operations be continually reviewed for potential changes in the accounting processes so the appropriate journal entries can be made throughout the year. Audit adjustments should be posted to the respective year-end, and entries should not be posted directly to the fund balance or net position accounts. The balance sheet accounts should be adjusted to actual at year end.

Response/Corrective Action Plan: See District's Corrective Action Plan.

POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**SCHEDULE OF FINDINGS
DECEMBER 31, 2024**

Significant Deficiency

Finding No. 2024-003: Uniform Guidance Requirements

Condition and Cause: The District does not have written policies for allowable costs/cost principles, cash management and procurement.

Criteria and Effect: Uniform Guidance specifically requires entities to maintain written policies for allowable costs/cost principles, cash management, and procurement. Not properly maintaining such policies leads to noncompliance and potential unallowable costs.

Repeat Finding from Prior Year: 2023-004

Recommendation: The District should create written Uniform Guidance policies.

Response/Corrective Action Plan: See District's Corrective Action Plan.

MANAGEMENT RESPONSE



POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

SCHEDULE OF PRIOR FINDINGS DECEMBER 31, 2024

Powder House Pass Community Improvement District respectfully submits the following summary schedule of prior audit findings from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

Finding No. 2023-001: Financial Statement and SEFA 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 and SEFA 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: December 31, 2021

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the auditor's preparing of the financial statements, it will be repeated in 2024, see Corrective Action Plan.

Finding No. 2023-002: Audit Adjustments

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

Initial Year Report: December 31, 2021

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.

Finding No. 2023-003: Internal Controls

The District has implemented the recommendations as mitigating controls, but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office and has accepted the risk involved.

Initial Year Report: December 31, 2021

Reasons for Recurrence and Corrective Action Plan: As the District has accepted the risk associated with the internal controls finding, it will be repeated in 2024. See Corrective Action Plan.

Finding No. 2023-004: Uniform Guidance Requirements

The District does not have written policies for allowable costs/cost principles, cash management and procurement.

Initial Year Report: December 31, 2023

Reasons for Recurrence and Corrective Action Plan: The District working on developing written Uniform Guidance Policies. See Corrective Action Plan.



POWDER HOUSE PASS COMMUNITY IMPROVEMENT DISTRICT

**CORRECTIVE ACTION PLAN
DECEMBER 31, 2024**

The District respectfully submits the following corrective action plan from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

Finding No. 2024-001: Financial Statement

Responsible Individuals: Jay Headley

Corrective Action Plan: The District has accepted the risk associated with Finding #2024-001 regarding the preparation of the financial statements and SEFA and will continue to have the independent auditor prepare the annual financial statements and SEFA. For future audits, Jay Headley will continue to monitor the financial statement preparation and determine if any modification is necessary.

Anticipated Completion Date: Ongoing

Finding No. 2024-002: Audit Adjustments

Responsible Individuals: Jay Headley

Corrective Action Plan: The District will be diligent in the year end closing process to properly adjust balance sheet accounts in 2025.

Anticipated Completion Date: Ongoing

Finding No. 2024-003: Uniform Guidance Requirements

Responsible Individuals: Jay Headley

Corrective Action Plan: The District will establish written Uniform Guidance policies in 2025.

Anticipated Completion Date: Ongoing