

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE
FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025 AND 2024



RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Rapid Valley Sanitary District/Water Service
Rapid City, South Dakota

Report on the Financial Statements

Opinion

We have audited the accompanying financial statements of Rapid Valley Sanitary District/Water Service (the District), as of and for the years ended December 31, 2025 and 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 financial position of the District as of December 31, 2025 and 2024, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated May 11, 2026 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

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF NET POSITION
DECEMBER 31, 2025 AND 2024**

ASSETS	2025	2024
Current Assets		
Cash and Cash Equivalents	\$ 7,122,425	\$ 5,471,748
Investments	738,386	715,976
Accounts Receivable	199,064	194,114
Grants Receivable	222,703	409,316
Unbilled Accounts Receivable	334,071	299,353
Prepaid Expenses	135,319	126,444
Total Current Assets	8,751,968	7,216,951
Capital Assets being Depreciated		
Buildings	1,168,538	1,168,538
Water and Sewer Systems	42,187,701	38,424,536
Equipment and Vehicles	605,643	602,680
	43,961,882	40,195,754
Less Accumulated Depreciation	13,302,971	12,702,345
	30,658,911	27,493,409
Capital Assets not being Depreciated		
Land	1,237,700	1,060,942
Water Rights	1,740,339	1,243,173
Construction in Progress	4,900,087	5,703,494
	7,878,126	8,007,609
Other Assets		
Restricted Cash Equivalents	471,626	440,928
Utility Investment	163,318	150,900
	634,944	591,828
TOTAL ASSETS	\$ 47,923,949	\$ 43,309,797

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION	2025	2024
Current Liabilities		
Current Portion of Long-Term Debt	\$ 323,626	\$ 312,926
Accrued Expenses	346,439	609,495
Compensated Absences	106,469	97,340
Meter Deposits	133,002	126,965
Total Current Liabilities	909,536	1,146,726
Long-Term Liabilities		
Long-Term Debt	6,810,013	6,775,159
	6,810,013	6,775,159
Net Position		
Net Investment in Capital Assets	31,403,398	28,412,933
Restricted for Debt Service	405,150	405,150
Unrestricted	8,395,852	6,569,829
Total Net Position	40,204,400	35,387,912
TOTAL LIABILITIES AND NET POSITION	\$ 47,923,949	\$ 43,309,797

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024**

	2025	2024
Revenues		
Water Charges	\$ 2,936,081	\$ 2,818,187
Sewer Charges	2,736,142	2,503,565
Connection and Late Fees	1,017,763	380,327
Total Revenues	6,689,986	5,702,079
Costs of Sales		
Water Purchases	23,846	39,457
Sewer Treatment Expense	1,095,425	1,505,012
Total Cost of Sales	1,119,271	1,544,469
Gross Margin	5,570,715	4,157,610
Operating Expenses		
Operating	1,966,992	1,809,659
Personnel	1,017,351	925,766
Depreciation	643,354	521,505
Total Operating Expenses	3,627,697	3,256,930
Operating Income	1,943,018	900,680
Non-Operating Income (Expense)		
Donated Systems	278,493	1,740,211
Federal Grants	2,175,019	5,985,944
Property Taxes	367,394	344,819
Lease Income	28,697	26,306
Miscellaneous Income	16,519	2,164
Investment Income	220,471	129,451
Interest Expense	(213,123)	(199,016)
Total Non-Operating Income	2,873,470	8,029,879
Change in Net Position	4,816,488	8,930,559
Beginning Net Position	35,387,912	26,457,353
Ending Net Position	\$ 40,204,400	\$ 35,387,912

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2025 AND 2024

	2025	2024
Cash Flows From Operating Activities		
Receipts from Customers	\$ 6,656,355	\$ 5,701,613
Payments to Suppliers	(3,580,897)	(2,927,232)
Payments to Employees	(1,008,222)	(928,752)
Net Cash Flows Provided by Operating Activities	2,067,236	1,845,629
Cash Flows From Noncapital Financing Activities		
Miscellaneous Income	16,519	2,164
Lease Income	28,697	26,306
Property Taxes	367,394	344,819
Net Cash Flows Provided by Noncapital Financing Activities	412,610	373,289
Cash Flows From Capital and Related Financing Activities		
Repayments of Long-Term Debt	(320,212)	(302,469)
Borrowings of Long-Term Debt	365,766	-
Purchases of Capital Assets	(3,178,177)	(6,280,910)
Federal Grants	2,361,632	5,576,628
Interest Paid	(213,123)	(199,016)
Net Cash Flows Used in Capital and Related Financing Activities	(984,114)	(1,205,767)
Cash Flows From Investing Activities		
Interest Received	220,471	129,451
Purchases of Investments	(22,410)	(13,820)
Change in Utility Investment	(12,418)	(13,866)
Net Cash Flows Provided by Investing Activities	185,643	101,765
Net Increase in Cash and Cash Equivalents	1,681,375	1,114,916
Cash and Cash Equivalents and Restricted Cash -- Beginning of Year	5,912,676	4,797,760
Cash and Cash Equivalents and Restricted Cash -- End of Year	\$ 7,594,051	\$ 5,912,676
Reconciliation of Operating Income to Net Cash Flows		
Provided by Operating Activities:		
Operating Income	\$ 1,943,018	\$ 900,680
<i>Adjustments to Reconcile Operating Income to Net Cash Flows</i>		
<i>Provided by Operating Activities:</i>		
Depreciation	643,354	521,505
<i>Changes in Assets and Liabilities:</i>		
Accounts Receivable	(39,668)	(10,137)
Compensated Absences	9,129	(2,986)
Prepaid Expenses	(8,875)	(22,171)
Accrued Expenses	(485,759)	449,067
Meter Deposits	6,037	9,671
Net Cash Flows Provided by Operating Activities	\$ 2,067,236	\$ 1,845,629
Supplemental Disclosures of Noncash Activities		
Capital Assets Donated	\$ 278,493	\$ 1,740,211
Capital Assets Purchased in Accounts Payable	222,703	51,031
Capital Assets Purchased through Long-Term Debt	-	533,729

The accompanying notes are an integral part of these statements.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

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

Operations

Rapid Valley Sanitary District/Water Service (the District) provides water and sewer services to the residents of the Rapid Valley subdivisions in Rapid City, South Dakota. The District collects monthly water and sewer payments and maintains the water and sewer systems. The District obtains its water primarily from its water treatment plant.

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.

Method 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, revenues and expenses are classified in a manner consistent with how they are classified in the Statements 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

For the purposes of the Statements of Cash Flows, the District considers cash in the bank, including restricted cash, and all temporary investments with original maturities of three months or less to be cash equivalents.

Capital Assets

Property and equipment purchases over \$5,000 are capitalized at cost. Donated water and sewer systems are recorded as contributions and capitalized at the developer's cost. Depreciation expense is computed using the straight-line method over the following estimated useful lives:

Buildings	60 Years
Water and Sewer Systems	10-100 Years
Office Furniture	7 Years
Equipment and Vehicles	5-15 Years

The District has purchased water rights for use in operating its water treatment facility. The water rights are considered to have an indefinite life; therefore, amortization is not being recorded. The assets are instead subject to an annual impairment test. At December 31, 2025, the District does not consider the assets to be impaired.

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.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

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

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.
3. Unrestricted Net Position – All other net position 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. The District has a minimum fund balance policy of \$1,800,000 in addition to funds that are restricted by loan or other agreements for emergency and/or unexpected projects.

Adopted Accounting Standard

As of January 1, 2025, the District adopted GASB 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 implementation of this standard did not have a material impact on the District's year ending December 31, 2025.

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 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 year ending December 31, 2026.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

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

Emerging Accounting Standards

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, *Subsequent Events*, which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the District's year ending December 31, 2027.

Subsequent Events

The District has assessed subsequent events through May 11, 2026, the date which the financial statements were available to be issued.

(2) Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omission; injuries to employees; and natural disasters. The District manages its risks by purchasing from a commercial insurance carrier health insurance for its employees, liability and property insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials, and 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.

(3) Deposits and Investments

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, NCUA, and SIPC. 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 must be "AA" or better, or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits District funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly 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 described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The District's cash and cash equivalents consist of checking and savings accounts, nonnegotiable certificates of deposit, and money market accounts. The District's investments consist of nonnegotiable certificates of deposit. All of these accounts are insured or collateralized in the District's name.

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

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(3) Deposits and Investments

As of December 31, 2025, the District's cash consisted only of checking and savings with bank balances as follows:

	Bank Balance
Insured - FDIC	\$ 1,229,078
Uninsured, collateralized in accordance with SDCL 4-6A-3	6,363,998
Total Deposits	\$ 7,593,076

Interest Rate, Credit, Concentration, and Custodial Risk:

The District has a formal investment policy that limits investments to meet South Dakota codified law as stipulated above, and limits investment balances to be insured directly or indirectly by the federal government.

(4) Changes in Capital Assets

Changes in capital assets were as follows during the years ended December 31, 2025 and 2024:

	Balance December 31, 2024	Additions	Transfers/ Dispositions	Balance December 31, 2025
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 1,168,538	\$ -	\$ -	\$ 1,168,538
Water and Sewer Systems	38,424,536	278,493	3,484,672	42,187,701
Equipment and Vehicles	602,680	45,691	(42,728)	605,643
	40,195,754	324,184	3,441,944	43,961,882
<i>Less Accumulated Depreciation</i>	12,702,345	643,354	(42,728)	13,302,971
Net Capital Assets being Depreciated	\$ 27,493,409	\$ (319,170)	\$ 3,484,672	\$ 30,658,911

Capital Assets not being Depreciated

Land	\$ 1,060,942	\$ 176,758	\$ -	\$ 1,237,700
Water Rights	1,243,173	497,166	-	1,740,339
Construction in Progress	5,703,494	2,681,265	(3,484,672)	4,900,087
Net Capital Assets not being Depreciated	\$ 8,007,609	\$ 3,355,189	\$ (3,484,672)	\$ 7,878,126

	Balance December 31, 2023	Additions	Transfers/ Dispositions	Balance December 31, 2024
<i>Capital Assets being Depreciated</i>				
Buildings	\$ 923,177	\$ -	\$ 245,361	\$ 1,168,538
Water and Sewer Systems	35,278,069	1,740,211	1,406,256	38,424,536
Equipment and Vehicles	461,047	141,633	-	602,680
	36,662,293	1,881,844	1,651,617	40,195,754
<i>Less Accumulated Depreciation</i>	12,180,840	521,505	-	12,702,345
Net Capital Assets being Depreciated	\$ 24,481,453	\$ 1,360,339	\$ 1,651,617	\$ 27,493,409

Capital Assets not being Depreciated

Land	\$ 1,060,942	\$ -	\$ -	\$ 1,060,942
Water Rights	1,243,173	-	-	1,243,173
Construction in Progress	631,074	6,724,037	(1,651,617)	5,703,494
Net Capital Assets not being Depreciated	\$ 2,935,189	\$ 6,724,037	\$ (1,651,617)	\$ 8,007,609

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(4) Changes in Capital Assets

The construction in progress includes costs for construction for Madison Well and Wellhouse which will be covered by grant funds. Construction in progress related to engineering costs will not be covered by grant funds. At December 31, 2025, commitments related to the projects totaled approximately \$2,500,000.

(5) Long-Term Debt

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

	Revenue Bonds	Note Payable	State Revolving Loan	Compensated Absences	Total
Balance - December 31, 2023	\$ 6,357,454	\$ 236,409	\$ 262,962	\$ 100,326	\$ 6,957,151
Principal Repayments	(212,967)	(69,540)	(19,962)	-	(302,469)
Principal Borrowings	533,729	-	-	-	533,729
Net Change	-	-	-	(2,986)	(2,986)
Balance - December 31, 2024	6,678,216	166,869	243,000	97,340	7,185,425
Principal Repayments	(227,254)	(72,391)	(20,567)	-	(320,212)
Principal Borrowings	365,766	-	-	-	365,766
Net Change	-	-	-	10,077	10,077
Balance - December 31, 2025	\$ 6,816,728	\$ 94,478	\$ 222,433	\$ 107,417	\$ 7,241,056

Long-term debt other than compensated absences, consists of the following at December 31:

	2025	2024
2019 Revenue bonds, due in variable annual installments including interest at 3.00 percent, maturing November 2041, secured by the water system and a pledge of water revenues. The debt is paid out of the water department.	\$ 3,195,000	\$ 3,350,000
Revenue bond, due in monthly installments of \$11,615, including interest at 3.75 percent, maturing in January 2049, secured by the water system and pledge of water revenues. The debt is paid out of the water department.	2,198,595	2,254,377
Note payable due in monthly installments of \$6,479, including interest at 4.00 percent, maturing in March 2027, secured by a pledge of water revenues, all deposit accounts, and all equipment. This debt is paid out of the water department.	94,478	166,869
State Revolving Fund Loan, due in quarterly installments of \$6,907, including interest at 3.00 percent, maturing February 2035, secured by the water system and pledge of water revenues. The debt is paid out of the water department.	222,433	243,000
Series 2023 SRF Water Surcharge Revenue Bond, up to \$1,679,000, matures 30 years after initial loan amortization date, interest at 1.625 percent, due in quarterly installments. The debt is paid out of the water department.	1,275,569	917,053
Unamortized Revenue bond premium	147,564	156,786
	7,133,639	7,088,085
Less Current Portion	323,626	312,926
	\$ 6,810,013	\$ 6,775,159

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(5) Long-Term Debt

The annual requirements to amortize debt outstanding, other than compensated absences are as follows:

	Revenue Bonds and SRF		Note Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 248,286	\$ 185,519	\$ 75,340	\$ 2,413	\$ 323,626	\$ 187,932
2027	256,137	177,868	19,138	129	275,275	177,997
2028	258,872	170,183	-	-	258,872	170,183
2029	266,875	161,960	-	-	266,875	161,960
2030	280,318	153,687	-	-	280,318	153,687
2031-2035	1,507,295	679,877	-	-	1,507,295	679,877
2036-2040	1,629,831	347,401	-	-	1,629,831	347,401
2041-2045	806,575	157,360	-	-	806,575	157,360
2046-2050	509,403	39,505	-	-	509,403	39,505
2023 SRF (a)	1,275,569	-	-	-	1,275,569	-
Total	\$ 7,039,161	\$ 2,073,360	\$ 94,478	\$ 2,542	\$ 7,133,639	\$ 2,075,902

(a) Loan amortization schedule to be determined when financed project is complete.

A debt reserve account is maintained with a balance of \$471,626 and \$440,928 at December 31, 2025 and 2024, respectively, which exceeds the current year minimum debt covenant requirement of \$405,150 for both years, required by the related debt agreements, and is reported as Restricted for Debt Service in the accompanying statements of net position.

The District has pledged future revenues associated with various debt agreements. All debt secured by pledged revenues funded capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with each debt issue have been pledged through the maturity date listed above for each debt issue. Below is a comparison, for the water department, of principal and interest payments and total pledged revenues for the years ending December 31:

	2025	2024
Current Year Principal and Interest	\$ 533,335	\$ 501,485
Pledged Revenue	2,936,081	2,818,187

(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 they are budgeted. Accordingly, taxes levied in October 2025, have not been recorded as a receivable in the accompanying statements of net position as the use of such has been budgeted for the 2026 fiscal year.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2025 AND 2024

(7) Retirement 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 pension plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://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 retirements that do not meet the above criteria may be payable at a reduced level.

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 COLA process. At each valuation date:

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

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

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(7) Retirement Plan

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the calendar years ended December 31, 2025, 2024, and 2023, equal to the required contributions each year, were \$39,011, \$38,180, and \$35,909, respectively.

Generally accepted accounting principles require the District to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the District's required retirement contributions, noted above. As of June 30, 2025 (the measurement date), SDRS is 100.10 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors.

The District's share of the net pension asset was .022066 percent and .02196 percent at June 30, 2025 and 2024, respectively. Based on the overall insignificant impact to the financial statements, the District has elected not to record the pension activity. For the year ended December 31, 2025, if the District had recorded the pension activity, a net pension asset totaling approximately \$2,000 would have been recorded along with deferred outflows of resources of approximately \$175,000 and deferred inflows of resources of approximately \$100,000. For the year ended December 31, 2024, if the District had recorded the pension activity, a net pension asset totaling approximately \$1,000 would have been recorded along with deferred outflows of resources of approximately \$150,000 and deferred inflows of resources of approximately \$112,000. In addition, pension expense would have decreased approximately \$60,000 and increased approximately \$8,000 for the years ending December 31, 2025 and 2024, respectively.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(8) Segment Information

Summarized financial information for the water and sewer departments is presented below:

Balance Sheets at December 31:

	Water		Sewer		Total	
	2025	2024	2025	2024	2025	2024
Assets						
Current Assets						
Cash and Cash Equivalents	\$ 2,572,317	\$ 2,043,647	\$ 4,550,108	\$ 3,428,101	\$ 7,122,425	\$ 5,471,748
Investments	-	-	738,386	715,976	738,386	715,976
Other Current Assets	555,006	741,437	336,151	287,790	891,157	1,029,227
Net Capital Assets	30,095,154	27,019,096	8,441,883	8,481,922	38,537,037	35,501,018
Restricted Cash Equivalents	471,626	440,928	-	-	471,626	440,928
Other Assets	81,659	75,450	81,659	75,450	163,318	150,900
Total Assets	\$ 33,775,762	\$ 30,320,558	\$ 14,148,187	\$ 12,989,239	\$ 47,923,949	\$ 43,309,797
Liabilities						
Current Liabilities	\$ 824,562	\$ 1,047,223	\$ 84,974	\$ 99,503	\$ 909,536	\$ 1,146,726
Noncurrent Liabilities	6,810,013	6,775,159	-	-	6,810,013	6,775,159
Total Liabilities	7,634,575	7,822,382	84,974	99,503	7,719,549	7,921,885
Net Position						
Net Investment in Capital						
Assets	22,961,515	19,931,011	8,441,883	8,481,922	31,403,398	28,412,933
Restricted for Debt Service	405,150	405,150	-	-	405,150	405,150
Unrestricted	2,774,522	2,162,015	5,621,330	4,407,814	8,395,852	6,569,829
Total Net Position	26,141,187	22,498,176	14,063,213	12,889,736	40,204,400	35,387,912
Total Liabilities and Net Position	\$ 33,775,762	\$ 30,320,558	\$ 14,148,187	\$ 12,989,239	\$ 47,923,949	\$ 43,309,797

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(8) Segment Information

Statements of Revenues, Expenses and Changes in Net Position for the years ended December 31:

	Water		Sewer		Total	
	2025	2024	2025	2024	2025	2024
Revenues						
User Charges	\$ 2,936,081	\$ 2,818,187	\$ 2,736,142	\$ 2,503,565	\$ 5,672,223	\$ 5,321,752
Connection and Late Fees	692,289	202,007	325,474	178,320	1,017,763	380,327
Total Revenues	3,628,370	3,020,194	3,061,616	2,681,885	6,689,986	5,702,079
Costs of Sales	23,846	39,457	1,095,425	1,505,012	1,119,271	1,544,469
Gross Margin	3,604,524	2,980,737	1,966,191	1,176,873	5,570,715	4,157,610
Operating Expenses						
Operating	1,558,480	1,304,503	408,512	505,156	1,966,992	1,809,659
Personnel	610,410	555,460	406,941	370,306	1,017,351	925,766
Depreciation Expense	496,852	384,363	146,502	137,142	643,354	521,505
Total Operating Expenses	2,665,742	2,244,326	961,955	1,012,604	3,627,697	3,256,930
Operating Income	938,782	736,411	1,004,236	164,269	1,943,018	900,680
Non-Operating Income (Expense)						
Donated Systems	184,086	1,034,311	94,407	705,900	278,493	1,740,211
Federal Grants	2,175,019	5,985,944	-	-	2,175,019	5,985,944
Property Taxes	-	-	367,394	344,819	367,394	344,819
Lease Income	28,697	26,306	-	-	28,697	26,306
Miscellaneous Income	8,259	1,082	8,260	1,082	16,519	2,164
Investment Income	93,180	59,092	127,291	70,359	220,471	129,451
Interest Expense	(213,123)	(199,016)	-	-	(213,123)	(199,016)
Total Non-Operating Income	2,276,118	6,907,719	597,352	1,122,160	2,873,470	8,029,879
Income Before Transfers	3,214,900	7,644,130	1,601,588	1,286,429	4,816,488	8,930,559
Transfers	428,111	(63,433)	(428,111)	63,433	-	-
Change in Net Position	3,643,011	7,580,697	1,173,477	1,349,862	4,816,488	8,930,559
Beginning Net Position	22,498,176	14,917,479	12,889,736	11,539,874	35,387,912	26,457,353
Ending Net Position	\$ 26,141,187	\$ 22,498,176	\$ 14,063,213	\$ 12,889,736	\$ 40,204,400	\$ 35,387,912

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025 AND 2024**

(8) Segment Information

Statements of Cash Flows for the years ended December 31:

	Water		Sewer		Total	
	2025	2024	2025	2024	2025	2024
Net Cash Flows From:						
Operating Activities	\$ 979,387	\$ 1,510,743	\$ 1,087,849	\$ 334,886	\$ 2,067,236	\$ 1,845,629
Noncapital Financing Activities	465,066	(36,045)	(52,456)	409,334	412,610	373,289
Capital and Related						
Financing Activities	(972,056)	(1,061,863)	(12,058)	(143,904)	(984,114)	(1,205,767)
Investing Activities	86,971	52,159	98,672	49,606	185,643	101,765
Net Change	559,368	464,994	1,122,007	649,922	1,681,375	1,114,916
Cash and Cash Equivalents:						
Beginning	2,484,575	2,019,581	3,428,101	2,778,179	5,912,676	4,797,760
Ending	\$ 3,043,943	\$ 2,484,575	\$ 4,550,108	\$ 3,428,101	\$ 7,594,051	\$ 5,912,676

SINGLE AUDIT SECTION

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2025**

	Identifying Number	Assistance Listing Number	Amount
U.S. Department of Treasury			
Pass-Through the S.D. Board of Water and Natural Resources:			
Coronavirus State and Local Fiscal Recovery Funds (COVID-19)	SLFRP5319	21.027	\$ 2,175,019
Total U.S. Department of Treasury			2,175,019
Total Federal Expenditures			\$ 2,175,019

Note 1 - Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Indirect Cost Rate

The District did not elect to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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 Trustees
Rapid Valley Sanitary District/Water Service
Rapid City, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Rapid Valley Sanitary District/Water Service (the District) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated May 11, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings as #2025-001 and #2025-002 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 other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Board of Trustees

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by SD Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

May 11, 2026



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Rapid Valley Sanitary District/Water Service
Rapid City, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Rapid Valley Sanitary District/Water Service's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as item 2025-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Board of Trustees

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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

May 11, 2026

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

SCHEDULE OF FINDINGS DECEMBER 31, 2025

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of the District.
2. Material weaknesses disclosed during the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. A material weakness disclosed during the audit of the major federal award program is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for the District expresses unmodified opinions on all major programs, as listed in #7.
6. Audit findings relative to the major federal award program for the District are reported in Part C of this schedule.
7. The program tested as a major program was the Coronavirus State and Local Fiscal Recovery Funds (ALN #21.027).
8. The threshold for distinguishing types A and B programs was \$1,000,000.
9. The District was not determined to be a low risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses in Internal Control

2025-001 Finding: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: As in prior years, we were requested to make adjustments to reclassify principal borrowings and repayments of long-term debt, adjust capital assets and related depreciation balances, compensated absences, unbilled receivables, reclassify federal grant revenue, record donated water and sewer systems, and adjust accounts payable and accounts receivable. Total adjustments resulted in a \$2,464,318 net increase in reported change in net position.

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

Repeat Finding from Prior Year: Yes, prior year finding #2024-001.

RAPID VALLEY SANITARY DISTRICT/WATER SERVICE

**SCHEDULE OF FINDINGS
DECEMBER 31, 2024**

2025-001 Finding: Audit Adjustments

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

Management should track capital asset purchases throughout the year, including date of purchase, asset description, total cost, and expense account charged.

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

2025-002 Finding: Preparation of Financial Statement and Schedule of Expenditures of Federal Awards (SEFA)

Federal Program Affected: ALN #21.027

Compliance Requirement: Reporting

Questioned Costs: None

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

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

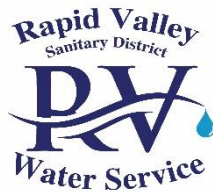
Repeat Finding from Prior Year: Yes, prior year finding #2024-001.

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

Response/Corrective Action Plan: The District agrees with the above finding. See Corrective Action Plan.

C. FINDINGS AND QUESTIONS COSTS – MAJOR FEDERAL PROGRAMS AUDIT

See finding 2025-002.



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**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2025**

Rapid Valley Sanitary District/Water Service respectfully submits the following summary schedule of prior audit findings from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

Finding No. 2024-001: Audit Adjustments

Status: The District maintains its books on a cash basis. However, the District maintains supporting documentation for receivables, capital assets and other accruals. The District reviews the audit adjustments for propriety each year.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: District management and the board of directors prefers to review financial activity throughout the year on a cash basis. Management and the board are comfortable with review of the accrual basis adjustments at the end of each year. Therefore, the finding is repeated in the Schedule of Findings. See Corrective Action Plan.

Finding No. 2024-002: 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 members of management to review the draft financial statements and accompanying notes to the financial statements.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: Management is satisfied that appropriate actions have been taken to allow them to take responsibility for the financial statements prepared by the auditors. The finding will be repeated in 2025, see Corrective Action Plan.



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**CORRECTIVE ACTION PLAN
DECEMBER 31, 2025**

Rapid Valley Sanitary District/Water Service respectfully submits the following corrective action plan regarding findings from the December 31, 2025, Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

2025-001 Finding: Audit Adjustments

Responsible Individuals: Rusty Schmidt, General Manager

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

Anticipated Completion Date: Ongoing

2025-002 Finding: Preparation of Financial Statements and Schedule of Expenditures of Federal Awards (SEFA)

Responsible Individuals: Rusty Schmidt, General Manager

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

Anticipated Completion Date: Ongoing