

**BLACK HILLS WORKS, INC.**

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT  
JUNE 30, 2023 AND 2022



**BLACK HILLS WORKS, INC.**

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810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [info@ktllp.com](mailto:info@ktllp.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Black Hills Works, Inc.  
Rapid City, South Dakota

### **Report on the Consolidated Financial Statements**

#### ***Opinion***

We have audited the accompanying consolidated financial statements of Black Hills Works, Inc. (the Organization), which comprise the consolidated statements of financial position as of June 30, 2023 and 2022, and the related consolidated statement of activities and changes in net assets, cash flows, and functional expenses, for the year ended June 30, 2023, and the related notes to the consolidated financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Black Hills Works, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the year ended June 30, 2023 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 Organization 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.

#### ***Emphasis of Matter - Effect of Adopting New Accounting Standard***

As discussed in Note 1 to the financial statements, the Financial Accounting Standards Board issued Accounting Standards Update 2016-02, *Leases*, which was adopted by the Organization as of July 1, 2022, and supersedes prior lease guidance. The effects of implementing this standard, include reflecting right-of-use assets and lease liabilities for long-term noncancelable leases. Leases are classified as operating or financing leases, which determines whether lease expense is recognized on an effective interest method or on a straight-line basis over the term of the lease, respectively. Our opinion is not modified with respect to this matter.

#### ***Responsibilities of Management for the Consolidated 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 Organization's ability to continue as a going concern for within one year after the date that the financial statements were available.

Board of Directors

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***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 Organization'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 Organization'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.

***Supplementary Information***

Our audit was conducted for the purpose of forming an opinion on the Organization's consolidated financial statements. The accompanying cost report and 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*, are presented for purposes of additional analysis and are not a required part of the consolidated 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the cost report and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the financial statements as a whole.

Board of Directors

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**Report on Other Legal and Regulatory Requirements**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2023 on our consideration of the Organization'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 Organization'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 Organization's internal control over financial reporting and compliance.



KETEL THORSTENSON, LLP  
Certified Public Accountants

November 27, 2023

**BLACK HILLS WORKS, INC.**

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2023 AND 2022**

<b>ASSETS</b>	<b>2023</b>	<b>2022</b>
<b>Current Assets</b>		
Cash and Cash Equivalents	\$ 4,022,769	\$ 9,709,312
Accounts Receivable	4,761,480	2,803,071
Inventory	712,691	49,573
Prepaid Expenses	62,475	7,427
<b>Total Current Assets</b>	<b>9,559,415</b>	<b>12,569,383</b>
<b>Investments</b>	<b>3,277,091</b>	<b>1,389,088</b>
<b>Property and Equipment</b>	<b>22,267,647</b>	<b>21,753,250</b>
Less Accumulated Depreciation	12,115,346	12,510,584
	<b>10,152,301</b>	<b>9,242,666</b>
<b>Other Assets</b>		
Cash Held for Persons Served	438,374	544,106
Restricted Cash	480,314	352,338
Other	-	4,241
Operating Lease Right-of-Use Asset	306,347	-
<b>Total Other Assets</b>	<b>1,225,035</b>	<b>900,685</b>
<b>TOTAL ASSETS</b>	<b>\$ 24,213,842</b>	<b>\$ 24,101,822</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Current Maturities of Long-Term Obligations	\$ 44,304	\$ 42,850
Accounts Payable	689,004	803,628
Accrued Payroll	941,394	647,212
Accrued Vacation Payable	1,606,763	1,319,933
Other Accrued Liabilities	441,900	308,722
Deferred Revenue	3,287,395	7,500,387
Current Portion of Operating Lease Liabilities	118,452	-
<b>Total Current Liabilities</b>	<b>7,129,212</b>	<b>10,622,732</b>
<b>Long-Term Liabilities</b>		
Long-Term Obligations, Net of Current Maturities	2,303,313	2,149,916
Operating Lease Liabilities, Net of Current Portion	187,895	-
<b>Total Long Term Liabilities</b>	<b>2,491,208</b>	<b>2,149,916</b>
<b>Other Liabilities</b>		
Persons Served Trust Deposits	438,374	544,106
<b>Net Assets</b>		
Undesignated Net Assets Without Donor Restrictions	12,885,048	9,515,068
Board Designated -- Property and Equipment Without Donor Restrictions	1,270,000	1,270,000
<b>Total Net Assets</b>	<b>14,155,048</b>	<b>10,785,068</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 24,213,842</b>	<b>\$ 24,101,822</b>

The accompanying notes are an integral part of these statements.

**BLACK HILLS WORKS, INC.**

**CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2023**

**Net Assets Without Donor Restrictions**

*Revenues and Other Support*

Tuition Revenue	\$ 31,573,186
Production Contracts	4,944,864
Excess of Assets Acquired over Liabilities Assumed in the Contribution of BH Services, Inc.	3,815,719
Housing Projects Rental Income	1,219,146
Room, Board, and Transportation	760,928
Administrative Fee Revenue - BHW Foundation	514,350
Miscellaneous	396,973
Grant Income	405,621
Contributions	173,558
Administrative Fee Revenue - BH Services, Inc.	254,640
Investment Return, Net	141,288
In-Kind Contributions	289,754
Gain on Sale of Property and Equipment	32,164
<b>Revenues and Other Support Without Donor Restrictions</b>	<b>44,522,191</b>

*Retail Supply Store*

Sales - Retail Supply Store	714,746
Less - Cost of Goods Sold	646,756
	<b>67,990</b>

*Seatbelts*

Sales - Seatbelts	89,742
Cost of Goods Sold	72,213
	<b>17,529</b>

**Total Revenues and Other Support Without Donor Restrictions 44,607,710**

*Expenses*

Personnel Services	25,576,862
Personnel Benefits and Taxes	6,191,554
Professional Fees/Contract Services	2,077,846
Travel/Transportation	683,692
Supplies	1,268,595
Occupancy	2,190,738
Equipment	1,873,337
Depreciation and Amortization	1,223,059
Miscellaneous	152,047
<b>Total Expenses Without Donor Restrictions</b>	<b>41,237,730</b>

**Change in Net Assets 3,369,980**

**Net Assets -- Beginning of Year 10,785,068**

**Net Assets -- End of Year \$ 14,155,048**

The accompanying notes are an integral part of this statement.

**BLACK HILLS WORKS INC.**

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2023**

**Cash Flows From Operating Activities**

Change in Net Assets	\$ 3,369,980
<i>Adjustments to Reconcile Change in Net Assets to Net Cash Flows Used in Operating Activities:</i>	
Excess of Assets Acquired over Liabilities Assumed in the Contribution of BH Services, Inc.	(2,263,452)
Depreciation	1,223,059
Gain on Sale of Property and Equipment	(32,164)
Unrealized Gain on Investments	(57,234)
<i>Working Capital Changes Increasing (Decreasing) Cash:</i>	
Accounts Receivable	(213,552)
Inventory	(151,621)
Prepaid Expenses	(52,048)
Accounts Payable	(199,764)
Accrued Expenses	397,521
Deferred Revenue	(4,212,992)
<b>Net Cash Flows Used in Operating Activities</b>	<b>(2,192,267)</b>

**Cash Flows From Investing Activities**

Purchase of Investments	(1,524,965)
Proceeds from Sale of Property and Equipment	81,400
Change in Other Asset	4,241
Purchases of Property and Equipment	(2,081,827)
<b>Net Cash Flows Used in Investing Activities</b>	<b>(3,521,151)</b>

**Cash Flows From Financing Activities**

Proceeds from Long-Term Obligation	199,200
Principal Repayments of Long-Term Obligations	(44,349)
<b>Net Cash Flows Provided by Financing Activities</b>	<b>154,851</b>

**Change in Cash, Cash Equivalents and Restricted Cash** **(5,558,567)**

**Cash, Cash Equivalents and Restricted Cash -- Beginning of Year** **10,061,650**

**Cash, Cash Equivalents and Restricted Cash -- End of Year** **\$ 4,503,083**

**Supplemental Disclosures of Cash Flow Information**

Cash Paid for Amounts Included in Measurement of Lease Liabilities	
Operating Cash Flows from Operating Leases	\$ 74,475

**Supplemental Disclosure of Non-Cash Investing and Financing Activities**

Right of Use Assets Obtained in Exchange for Lease Liabilities	
Operating Leases	\$ 212,674
Excess of Assets Acquired over Liabilities Assumed in the Contribution of BH Services, Inc.	2,263,452

See Note 2 for Cash and Restricted Cash Reconciliation

The accompanying notes are an integral part of this statement.

**BLACK HILLS WORKS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2023**

<u>Account Number and Title</u>	<u>Administrative and Support</u>	<u>Fund Raising</u>	<u>Program</u>	<u>Total</u>
<i>1000 PERSONNEL SERVICES:</i>				
1010 Administrative	\$ 800,434	\$ 144,942	\$ 611,333	\$ 1,556,709
1020 Professional/Program Staff	551,987	-	17,083,228	17,635,215
1040 Support Staff	2,618,083	256,458	1,411,260	4,285,801
1050 Client Wages	30,722	-	2,068,415	2,099,137
<b>TOTAL PERSONNEL SERVICES</b>	<b>4,001,226</b>	<b>401,400</b>	<b>21,174,236</b>	<b>25,576,862</b>
<i>1100 PERSONNEL BENEFITS AND TAXES:</i>				
1110 Retirement Plans	149,641	16,224	485,949	651,814
1120 Insurance Benefits	467,438	67,760	2,640,311	3,175,509
1140 FICA Taxes	279,706	28,966	1,539,985	1,848,657
1150 Unemployment Insurance	12,046	-	8,849	20,895
1160 Worker's Compensation Insurance	106,095	-	368,546	474,641
1170 Prof. Liability Insurance	20,038	-	-	20,038
<b>TOTAL PERSONNEL BENEFITS AND TAXES</b>	<b>1,034,964</b>	<b>112,950</b>	<b>5,043,640</b>	<b>6,191,554</b>
<i>1200 PROFESSIONAL FEES /CONTRACT SERVICES:</i>				
1230 Medical				
1231 Other Medical (Dental, Dietary, OT, PT, Optometric, Pharmacy, Speech Pathology, and Audiology)	-	-	14,896	14,896
1290 Other	395,677	-	1,667,273	2,062,950
<b>TOTAL PROFESSIONAL FEES/CONTRACT SERVIC</b>	<b>395,677</b>	<b>-</b>	<b>1,682,169</b>	<b>2,077,846</b>
<i>1300 TRAVEL/TRANSPORTATION:</i>				
1390 Other	74,893	-	608,799	683,692
<b>TOTAL TRAVEL/TRANSPORTATION</b>	<b>74,893</b>	<b>-</b>	<b>608,799</b>	<b>683,692</b>

**BLACK HILLS WORKS, INC.**

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2023**

<u>Account Number and Title</u>	<u>Administrative and Support</u>	<u>Fund Raising</u>	<u>Program</u>	<u>Total</u>
<i>1400 SUPPLIES:</i>				
1440 Food	102	-	540,602	<b>540,704</b>
1490 Other	168,976	-	1,277,884	<b>1,446,860</b>
<b>TOTAL SUPPLIES</b>	<b>169,078</b>	<b>-</b>	<b>1,818,486</b>	<b>1,987,564</b>
<i>1500 OCCUPANCY:</i>				
1510 Rent of Space, Including BHW Foundation	-	-	931,306	<b>931,306</b>
1520 Utilities and Telephone	95,464	-	650,142	<b>745,606</b>
1590 Other	92,992	-	420,834	<b>513,826</b>
<b>TOTAL OCCUPANCY</b>	<b>188,456</b>	<b>-</b>	<b>2,002,282</b>	<b>2,190,738</b>
<i>1600 EQUIPMENT</i>	<b>700,885</b>	<b>-</b>	<b>1,172,452</b>	<b>1,873,337</b>
<i>1700 DEPRECIATION:</i>				
1710 Building	262,394	-	428,979	<b>691,373</b>
1720 Equipment	501,595	-	30,091	<b>531,686</b>
<b>TOTAL DEPRECIATION</b>	<b>763,989</b>	<b>-</b>	<b>459,070</b>	<b>1,223,059</b>
<i>1800 MISCELLANEOUS:</i>				
1860 Bad Debt	-	-	566	<b>566</b>
1890 Other	89,784	-	61,697	<b>151,481</b>
<b>TOTAL MISCELLANEOUS</b>	<b>89,784</b>	<b>-</b>	<b>62,263</b>	<b>152,047</b>
<b>TOTAL EXPENSES</b>	<b>7,418,952</b>	<b>514,350</b>	<b>34,023,397</b>	<b>41,956,699</b>
<b>Less Cost of Goods Sold</b>				
<b>Included With Revenues on the Statement of Activities</b>	<b>718,969</b>	<b>-</b>	<b>-</b>	<b>718,969</b>
<b>Total Expenses Included in the Expense Section in the Statement of Activities</b>	<b>\$ 6,699,983</b>	<b>\$ 514,350</b>	<b>\$ 34,023,397</b>	<b>41,237,730</b>

The accompanying notes are an integral part of this statement.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(1) Organization, Nature of Business, and Summary of Significant Accounting Policies**

**Organization**

Black Hills Works, Inc. (the Organization) is incorporated as a nonprofit organization under the laws of the State of South Dakota.

**Nature of Business**

The Organization provides quality services for people with disabilities, as well as those individuals who require similar specialized services. These services may include evaluation, training, education, habilitation and rehabilitation, which are provided within day programs and/or residential settings in Rapid City, South Dakota. The Organization's primary support comes from tuition payments from the State of South Dakota and from Section 8 Rent Subsidies from the U.S. Department of Housing and Urban Development (HUD).

Effective January 1, 2023 the Organization acquired all assets and liabilities of BH Services, Inc (see acquisition in Note 12). BH Services, Inc. (BH Services) was a nonprofit corporation whose purpose is to provide education, training, support, and vocational related services to disadvantaged or disabled individuals in Rapid City, South Dakota and Omaha, Nebraska areas. Contracts for services with the federal government was the primary activity.

**Summary of Significant Accounting Policies**

**Consolidated Statements**

The accompanying financial statements present the consolidation of the financial statements of the following entities: Black Hills Works, Inc. (including divisions); BHW Residential Services, Inc. d/b/a South Ridge Homes; BHW Residential Services II, Inc. d/b/a Prairies Edge; and BHW Residential III, Inc. d/b/a Centennial Apartments (collectively, the Organization). The consolidated financial statements include all assets, liabilities, support, revenue, expenses and changes in cash flows for all organizations. All significant inter-company transactions and accounts have been eliminated.

**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 effect the amounts and disclosures reported. Actual results could differ from those estimates.

**Financial Statement Presentation**

The financial statements of the Organization are prepared using the accrual method of accounting. The accounts of the Organization are reported in the following net asset categories:

*Net Assets with Donor Restrictions* – The part of net assets of the Organization that is subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants). Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. The Organization chooses to show restricted contributions whose donor restrictions are met in the same reporting period as without donor restricted support. At both June 30, 2023 and 2022, the Organization has net assets with donor restrictions of \$0.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(1) Organization, Nature of Business, and Summary of Significant Accounting Policies**

**Summary of Significant Accounting Policies**

**Financial Statement Presentation**

*Net Assets without Donor Restrictions* – Net assets of the Organization that are not subject to donor-imposed restrictions and are available for general operations. In addition, the Board of Directors may designate net assets without donor restrictions for specific purposes. The Board of Directors has designated \$1,270,000 at June 30, 2023 and 2022, of net assets without donor restrictions for specific use in building expansion and renovation, and equipment purchase and replacement.

**Cash and Cash Equivalents**

The Organization considers all highly liquid investments with original maturities of three months or less as cash and cash equivalents. Any restricted or reserve cash funds are excluded. The Organization maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**Inventory**

Inventory purchased for resale is valued at the lower of cost or net realizable value. Cost is determined using a weighted average method.

**Investments**

The Organization accounts for investments at fair value, with changes in fair value accounted for in the Consolidated Statement of Activities and Changes in Net Assets. Investments are presented in the financial statements at the quoted market value of the securities. Investment return, net, includes interest, dividends, realized and unrealized gains and losses, net of investment fees. Realized gains and losses are determined on a specific identity basis. Realized and unrealized gains and losses are recognized in the Consolidated Statement of Activities and Changes in Net Assets as earnings without donor restrictions.

**Property and Equipment**

Property and equipment are recorded at cost. Granting agencies retain a reversionary interest in assets purchased with grant funds, as well as the right to determine the use of any proceeds from the sale of such assets. Contributed property and equipment are recorded at fair value at the time received. The Organization capitalizes property and equipment over \$5,000. Depreciation is recorded using the straight-line method with the following useful lives:

	<u>Years</u>
Buildings	8-40
Furniture and Equipment	3-15
Vehicles	4-5

**Leases**

Due to the transition from Accounting Standards Codification (ASC) Topic 840 to Topic 842, the Organization followed two different accounting policies during the years ended June 30, 2022 and 2023. See Adopted Accounting Standard paragraph below for additional information.

*Prior to July 1, 2022*

The Organization analyzes all leases for operating or capital treatment under ASC 840. Operating leases are recognized as expense over the term of the lease. Capital leases are recognized at the present value of future minimum lease payments and result in a capital asset and corresponding liability.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(1) Organization, Nature of Business, and Summary of Significant Accounting Policies**

**Summary of Significant Accounting Policies**

**Leases**

*Effective July 1, 2022*

The Organization analyzes all leases under ASC Topic 842. Accordingly, the Organization determines if an arrangement is or contains a lease at inception or modification of the agreement. An election has been made for all asset classes to treat any non-lease components as part of the lease contract. The right-of-use assets and lease liabilities primarily relate to facilities and office equipment. The exercise of lease renewal, termination and purchase options is at management's discretion, and these options are included in the expected lease term if they are reasonably certain of being exercised. None of the Organization's lease agreements contain material residual value guarantees, restrictions or covenants. A portfolio approach is used for leases with similar characteristics.

For leases with terms greater than 12 months or that contain a purchase option that is reasonably certain to be exercised, a right-of-use (ROU) asset and lease liability is recognized based on the present value of the future minimum lease payments over the lease term. Leases with ROU assets below \$5,000 or lease liabilities below \$5,000 are not deemed material and are recognized consistent with short-term leases below. The Organization has elected to use the risk-free interest rate for all asset classes to determine the lease present value when the implicit rate is not readily determinable. The initial measurement of the ROU asset also includes any initial direct costs and lease prepayments, net of lease incentives received. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively.

Leases with terms of 12 months or less or that are cancelable by the lessee and lessor without significant penalties, are not capitalized as right-of-use assets and lease liabilities, but are expensed on a straight-line basis over the lease term. The majority of the Organization's short-term leases relate to facility rentals. These leases are entered into at periodic rental rates for an unspecified duration and typically have a termination for convenience provision.

**Federal Income Tax**

The Organizations consolidated in these statements are exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Internal Revenue Service has determined that the Organizations are not private foundations. At June 30, 2023 and 2022, the Organization believes no significant uncertain tax positions or liabilities exist. No federal income tax is paid unless net income is derived from activities that are unrelated to its exempt activities. No such activities are conducted.

**Accounts and Grants Receivable, Support, and Revenue Recognition**

Revenue from administrative fees, tuition, room, board, and transportation are earned as the services are provided. Tuition revenue is based on fee for service rates set by the State of South Dakota. Room, board, transportation revenue and administrative fees are based on rates for each unit of service established by the Organization.

All production contract services, excluding seatbelt contracts, are written agreements to perform services such as cleaning, food preparation, shelf stocking, etc. The contract lengths vary but all have similar contract terms. The fees charged in the contracts can be either based on number of units or number of hours worked. Revenue is recognized as the customers receive the benefit from the services provided.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(1) Organization, Nature of Business, and Summary of Significant Accounting Policies**

**Summary of Significant Accounting Policies**

**Accounts and Grants Receivable, Support, and Revenue Recognition**

Seatbelt contracts are written agreements to manufacture seatbelts for the federal government. The contract terms vary but all have similar characteristics. The fees charged in the contracts are generally fixed prices. Revenue is recognized when orders are ready for shipment.

Retail supply store and auto detailing are recognized at the point of sale, with revenue reported net of cost of sales. Revenue is recognized net of sales tax collected.

Rental and lease income is recognized prorata over the term of the tenant rental agreements.

Accounts receivable are billed to customers at least monthly and are due when billed. Fixed fee contracts are prorated based on the terms of the contracts. Contracts receivable from fixed fee and unit-based contracts are billed monthly and revenue is recorded at that time. Any receivables not paid by the end of the month following the billing month are considered past due, but no interest is assessed. Management has not recorded an allowance for doubtful accounts based on their knowledge of current environmental conditions and historical losses. Receivables will be charged off as uncollectible when management feels they have exhausted all reasonable collection efforts. The beginning of July 1, 2021 accounts receivable balance totaled \$2,780,548.

Contributions of cash and other assets are recognized as support in the period received at their fair values. Unconditional promises to give are recognized as revenues in the period pledged. Conditional promises to give – that is those with a measurable performance or other barrier and a right of return – are not recognized until the conditions on which they depend have been met. The Organization records contributions, including grants, received as net assets with or without donor restrictions. The Organization received no contributions with perpetual donor restrictions during the years ended June 30, 2023 or 2022. Grants are received from both federal and private sources. Each grant is analyzed to determine whether it is deemed an exchange transaction (where both the grantee and grantor receive commensurate benefits) or a contribution. Grants recognized as exchange transactions were not material for the year ended June 30, 2023 and 2022.

The Organization typically does not sell contributed in-kind contributions; however, any contributions received that are deemed impractical for use in program activities are sold, with any resulting proceeds used in program services.

**Deferred Revenue**

State Fees for Service – Title XIX received in advance is deferred and recognized when specific costs are incurred to enhance, expand and strengthen respective services. The Organization periodically borrows funds under agreements which may be forgiven upon meeting certain criteria. These funds are accounted for as long-term debt until forgiveness is formally granted. The beginning July 1, 2021 deferred revenue balance was \$-0-.

**Expense Allocation**

The consolidated Statement of Functional Expenses presents the natural classification detail of expenses by function. Certain expenses can be directly allocated to program or supporting functions. Other categories of expenses are attributable to more than one program or supporting function and require allocation in a reasonable basis that is consistently applied. Specifically, wages are allocated based on estimates of time spent on each function, and occupancy expenses are allocated based on estimated square footage. The major program of the Organization is to provide quality services for people with disabilities.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(1) Organization, Nature of Business, and Summary of Significant Accounting Policies**

**Summary of Significant Accounting Policies**

**Employees' Health Insurance**

The Organization has elected to self-insure for employees' medical coverage up to \$110,000 and \$50,000 in claims per employee for the years ended June 30, 2023 and 2022, respectively. Claims in excess of these amounts are covered by an outside insurance carrier. Costs resulting from claims and administrative fees are charged to operations when incurred.

**Subsequent Events**

Management has evaluated subsequent events through November 27, 2023, the date which the financial statements were available to be issued.

**Adopted Accounting Standard**

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases*, which provides principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of classification. If the available accounting election is made, leases with a term of 12 months or less can be accounted for similar to existing guidance for operating leases.

The Organization adopted this standard as of July 1, 2022, the beginning of the adoption period. As part of the implementation, the Organization elected the permitted package of practical expedients. Accordingly, existing and expired leases have been accounted for under the new guidance without reassessing (a) whether the contract contains a lease, (b) whether lease classification needs revised, or (c) whether previously capitalized initial direct costs qualify as such. An election has also been made to base the initial discount rate on the remaining term of the lease. In addition, the Company has elected to use hindsight in determining the likelihood that options (including lease extension, lease termination, or asset purchase) will be exercised or that right-of-use assets are impaired. Comparative disclosures for 2022 are presented in accordance with legacy standards in effect prior to July 1, 2022.

As a result of adoption, on July 1, 2022, the Organization recognized an operating lease liability and right-of-use asset of \$161,641. Adoption did not materially impact the Organization's Consolidated Statements of Activities and Changes in Net Assets or Cash Flows. See above for lease accounting policies and Note 9 for additional disclosures.

**(2) Restricted Cash**

Restricted cash funds, which are comprised of savings and certificates of deposit at financial institutions, include the following at June 30:

	<u>2023</u>	<u>2022</u>
Tenant Security and Pet Deposits	\$ 24,234	\$ 27,839
Reserve for Replacement and Residual Receipts	456,080	324,499
	<u>\$ 480,314</u>	<u>\$ 352,338</u>

The Organization's use agreement with HUD requires reserves for replacements and residual receipts accounts. Accordingly, monthly additions to the reserve for replacement and annual additions to the residual receipts are made. Disbursements from these reserves must be authorized by HUD.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(2) Restricted Cash**

Reconciliation of Cash and Restricted Cash at June 30:

	<u>2023</u>	<u>2022</u>
Cash	\$ 4,022,769	\$ 9,709,312
Restricted Cash	480,314	352,338
<b>Total Cash and Restricted Cash shown in the Statement of Cash Flows</b>	<b>\$ 4,503,083</b>	<b>\$ 10,061,650</b>

**(3) Accounts Receivable**

Included in accounts receivable are the following at June 30:

	<u>2023</u>	<u>2022</u>
Tuition, Fees, and State Payments	\$ 2,830,627	\$ 2,339,187
Production and Contracts	1,474,788	71,192
Black Hills Works Persons Served	391,347	334,731
BH Works Foundation	55,908	49,558
Other	5,086	5,085
Employee Advances	3,724	3,318
	<b>\$ 4,761,480</b>	<b>\$ 2,803,071</b>

**(4) Fair Value and Investments**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are framed in a three-level hierarchy.

- *Level 1* – Quoted prices in active markets for identical assets or liabilities. The types of assets included in Level 1 are highly liquid and actively traded instruments with quoted market prices.
- *Level 2* – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The type of assets included in Level 2 are typically either comparable to actively traded securities or contracts or priced with models using observable inputs.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. The type of assets included in Level 3 are those with inputs requiring significant management judgment or estimation.

In accordance with the fair value hierarchy, the following table shows the fair value as of June 30, 2023 and 2022, of those financial assets that are measured at fair value on a recurring basis, according to the valuation techniques the Organization used to determine their fair market value. No other financial assets or liabilities are measured at fair value on a recurring or nonrecurring basis at June 30, 2023 or 2022.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(4) Fair Value and Investments**

Investments at fair market value at June 30 are detailed as follows:

**June 30, 2023**

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>	<b>Total</b>
Taxable Fixed Income	\$ 1,063,174	\$ 1,507,798	\$ -	\$ 2,570,972
Equities	618,062	-	-	618,062
Other Assets	88,057	-	-	88,057
	<b>\$ 1,769,293</b>	<b>\$ 1,507,798</b>	<b>\$ -</b>	<b>\$ 3,277,091</b>

**June 30, 2022**

	<b>Level One</b>	<b>Level Two</b>	<b>Level Three</b>	<b>Total</b>
Taxable Fixed Income	\$ 945,867	\$ -	\$ -	\$ 945,867
Equities	212,501	-	-	212,501
Other Assets	73,725	57,028	-	130,753
International Equities	99,967	-	-	99,967
	<b>\$ 1,332,060</b>	<b>\$ 57,028</b>	<b>\$ -</b>	<b>\$ 1,389,088</b>

*Taxable Fixed Income:* These are valued at either the yields currently available on comparable securities of issuers with similar credit ratings or valued under a discounted cash flow approach that maximizes observable inputs such as current yields of similar instruments, but includes adjustments for certain risks that may not be observable such as credit and liquidity risks.

**(5) Property and Equipment**

Property and equipment consist of the following at June 30:

	<b>2023</b>	<b>2022</b>
<i>Black Hills Works</i>		
Land and Buildings	<b>\$ 7,141,902</b>	\$ 7,094,280
Furniture, Equipment and Vehicles	<b>4,624,870</b>	5,089,775
Construction in Progress	<b>523,191</b>	1,147,987
	<b>12,289,963</b>	13,332,042
<i>Housing Projects</i>		
Land and Buildings	<b>9,719,302</b>	7,804,840
Construction in Progress	<b>160,789</b>	501,942
Furniture and Equipment	<b>97,593</b>	114,426
	<b>9,977,684</b>	8,421,208
<b>Totals</b>	<b>\$ 22,267,647</b>	\$ 21,753,250

As of June 30, 2023, the Organization has commitments of approximately **\$1,900,000** related to construction in progress.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(6) Long-Term Obligations**

Following is a summary of long-term obligations at June 30:

	<u>2023</u>	<u>2022</u>
Non-interest bearing mortgage note payable to Housing Trust Fund. The forty year loan requires no annual payments and will be forgiven after the forty year term if the Organization complies with program requirements. The note is secured by property and matures in March 2061.	\$ 775,000	\$ 775,000
Mortgage note payable due to credit union, with monthly payments of \$3,335, through June 2027 when remaining balance is due includes interest at 4.25 percent, secured by building. (a)	516,979	535,000
Non-interest bearing note payable to the South Dakota (SD) Housing Development Authority (under the HOME Investment Partnership Program); due in monthly installments of \$1,284 through 2038; secured by Choice Apartments real property.	238,504	253,912
Non-interest bearing mortgage note payable to Housing Trust Fund. The thirty year loan requires no annual payments and will be forgiven after the thirty year term, if the Organization complies with program requirements. The note is secured by property and matures thirty years after completion.	449,100	249,900
Non-interest bearing note payable to the SD Housing Development Authority (under the HOME Rental Program); due in equal monthly installments of \$909 through 2034; secured by a second mortgage on Quincy Apartments real property.	125,579	136,499
Non-interest bearing mortgage note payable to SD Housing Development Authority. The fifteen year loan requires no annual payments and will be forgiven after the fifteen year term if the Organization complies with program requirements. The note is secured by property and matures in October 2037.	98,650	98,650
Non-interest bearing mortgage note payable to SD Housing Development Authority. The ten year loan requires no annual payments and will be forgiven after the ten year term if the Organization complies with program requirements. The note is secured by property and matures in December 2027.	91,000	91,000
Non-interest bearing mortgage note payable to SD Housing Development Authority. The fifteen year loan requires no annual payments and will be forgiven after the fifteen year term if the Organization complies with program requirements. The note is secured by property and matures in April 2034.	52,805	52,805
	<b>2,347,617</b>	2,192,766
Less Current Maturities	<b>44,304</b>	42,850
	<b>\$ 2,303,313</b>	<b>\$ 2,149,916</b>

(a) This note contains a due on demand clause. The Organization has presented the maturities as if the demand clause is not exercised. This note also contains a covenant relating to debt service coverage. The Organization is not in compliance with this debt covenant at June 30, 2023 and has obtained a waiver for non-compliance from the credit union.

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(6) Long-Term Obligations**

The following are maturities of long-term debt as of June 30:

2024	\$	44,304
2025		45,154
2026		45,982
2027		486,852
2028		26,328
Thereafter		1,698,997
	\$	<u>2,347,617</u>

**(7) Retirement Plan**

The Organization offers a 401(k) retirement plan to all employees meeting the plan's eligibility requirements. Under the plan, the Organization may make a discretionary match of up to 5 percent of employees' salary. The Organization's matching cost was **\$651,814** for the year ended June 30, 2023.

**(8) Persons Served Trust Deposits**

The Organization is a payee representative of a majority of the persons served for social security payments. Therefore, the persons' served social security payments are remitted to an Organization bank account. The Organization then transfers the money to the beneficiaries for housing, food, medical and other needs. Accordingly, these transactions are recorded as trust deposits and a related trust liability. There is no effect on revenue and expenses or net assets of the Organization.

**(9) Leases**

The Organization leases certain facilities and office equipment under various terms. The leases expire at various dates through 2026. Additionally, the agreements generally require the Company to pay real estate taxes, insurance, and repairs.

Total lease costs for the year ended June 30, 2023 were as follows:

Operating Lease Cost	\$	74,475
Variable Lease Cost		62,786
Short-term Lease Cost		457,008

The weighted-average remaining lease term and weighted-average discount rate for the year ended June 30, 2023 is 2.5 years and 4.04 percent, respectively.

The future minimum lease payments under noncancelable operating leases with terms greater than one year are as follows as of June 30, 2023:

2024	\$	128,699
2025		128,699
2026		66,274
Total Lease Payments		<u>323,672</u>
Less Interest		17,325
Present Value of Lease Liabilities	\$	<u>306,347</u>

**BLACK HILLS WORKS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
JUNE 30, 2023 AND 2022**

**(10) Liquidity and Availability**

The Organization receives tuition payments on a monthly basis and production contracts that are considered essential to meeting cash needs for general expenditures. The Organization focuses on budgeting controls and maintains cash reserves for capital improvements. In the event of unanticipated liquidity needs, rate increases could be requested from contract agencies, key donors could be contacted for assistance, the board could undesignate funds or the Organization could borrow additional funds. At June 30, 2023 and 2022, the Organization has the following financial assets available for general use within one year of the Statement of Financial Position date:

	<u>2023</u>	<u>2022</u>
Cash and Cash Equivalents	\$ 4,022,769	\$ 9,709,312
Accounts Receivable	4,761,480	2,803,071
Investments	3,277,091	1,389,088
<b>Total Financial Assets</b>	<b>12,061,340</b>	<b>13,901,471</b>
Less Board Designated Funds	(1,270,000)	(1,270,000)
<b>Financial Assets Available for General Use Within One Year</b>	<b>\$ 10,791,340</b>	<b>\$ 12,631,471</b>

**(11) In-Kind Contributions**

The Organization receives donated space in several locations which are used for program activities. In the year ended June 30, 2023, the Organization recorded the estimated fair market value of these donated facilities based on the rental rates of similar properties in the areas of **\$197,100**. Amounts are not donor restricted.

Contributed lunch supplies totaling **\$57,481** at June 30, 2023 are valued using estimated U.S. wholesale prices (principal market) of identical or similar products using pricing data under a “like-kind” methodology considering the goods’ condition and utility for use at the time of the contribution. Amounts are not donor restricted and are used in program activities.

The Organization receives other in-kind contributions which are used for program activities. In the year ended June 30, 2023, the Organization recorded **\$35,173** for these donations. Amounts are not donor restricted.

**(12) Acquisition**

On January 1, 2023, the Organization acquired all net assets of BH Services, Inc. The boards of each entity agreed to combine resources as the objectives of the two entities were so closely aligned. The transaction has been accounted for under acquisition accounting, whereby the assets and liabilities have been adjusted to their fair value and resulted in a contribution from BH Services, Inc. to the Organization. Accordingly, no consideration was transferred. Included on the Statement of Activities is a contribution of net assets from BH Services, Inc. The accompanying financial statements include all activity of BH Services, Inc. after the date of the acquisition. The following is a summary of the fair value of the assets and liabilities acquired:

Cash and Cash Equivalents	\$ 1,552,267
Accounts Receivable	1,744,857
Inventory	511,497
Prepaid Expenses	3,000
Investments	305,804
Property and Equipment	100,103
Accounts Payable	(85,140)
Accrued Payroll	(174,315)
Accrued Vacation Payable	(141,596)
Other Accrued Liabilities	(758)
	<b>\$ 3,815,719</b>

SUPPLEMENTARY INFORMATION

BLACK HILLS WORKS, INC.

COST REPORT (EXPENSES AND UNITS)  
FOR THE YEAR ENDED JUNE 30, 2023

-----DHS Services-----  
--Division of Developmental Disabilities (DDD)-----

Account Number and Title	Total	Adjustments	Administrative and Support	Fund Raising	Choices Residential	Choices Day Habilitation	Choices	Choices
							Individual Supported Employment	Group Supported Employment
<b>1000 PERSONNEL SERVICES:</b>								
1010 Administrative	\$ 1,556,709	\$ -	\$ 800,434	\$ 144,942	\$ -	\$ -	\$ -	\$ -
1020 Professional/Program Staff	17,635,215	2,037,821	551,987	-	10,164,767	1,368,763	258,944	1,242,562
1040 Support Staff	4,285,801	-	2,618,083	256,458	280,924	105,437	9,083	593,137
1050 Client Wages	2,099,137	-	30,722	-	25,049	-	-	1,571,330
<b>TOTAL PERSONNEL SERVICES</b>	<b>25,576,862</b>	<b>2,037,821</b>	<b>4,001,226</b>	<b>401,400</b>	<b>10,470,740</b>	<b>1,474,200</b>	<b>268,027</b>	<b>3,407,029</b>
<b>1100 PERSONNEL BENEFITS AND TAXES:</b>								
1110 Retirement Plans	651,814	39,319	149,641	16,224	277,471	25,330	10,691	53,486
1120 Insurance Benefits	3,175,509	70,800	467,438	67,760	1,360,625	190,673	34,858	436,916
1140 FICA Taxes	1,848,657	147,622	279,706	28,966	760,975	105,876	19,884	245,859
1150 Unemployment Insurance	20,895	-	12,046	-	79	-	-	2,439
1160 Worker's Compensation Insurance	474,641	3,480	106,095	-	165,276	57,860	17,687	43,527
1170 Prof. Liability Insurance	20,038	-	20,038	-	-	-	-	-
<b>TOTAL PERSONNEL BENEFITS AND TAXES</b>	<b>6,191,554</b>	<b>261,221</b>	<b>1,034,964</b>	<b>112,950</b>	<b>2,564,426</b>	<b>379,739</b>	<b>83,120</b>	<b>782,227</b>
<b>1200 PROFESSIONAL FEES/CONTRACT SERVICES:</b>								
1231 Other Medical (Dental, Dietary, OT, PT, Optometric, Pharmacy, Speech Pathology and Audiology)	14,896	-	-	-	13,472	79	-	-
1290 Other	2,062,950	88,441	395,677	-	1,244,705	3,614	347	100,593
<b>TOTAL PROFESSIONAL FEES/CONTRACT SERVICES</b>	<b>2,077,846</b>	<b>88,441</b>	<b>395,677</b>	<b>-</b>	<b>1,258,177</b>	<b>3,693</b>	<b>347</b>	<b>100,593</b>

The accompanying cost report is presented in accordance with the requirements of the South Dakota Department of Human Services Cost Report Instructions.

					-----Other Services-----				
Choices	Food	Housing	Other	Flutter	OAFB-NE	BHBH	Special		
Nursing	Services	Services	ITS	Other	Other	Other	Olympics	Housing	
				Programs	Programs	Programs	Programs	Projects	
\$ 611,333	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	1,235,984	9,323	514,335	237,760	12,969	-	-
32,723	-	-	58,605	55,144	240,124	36,083	-	-	-
-	-	-	-	-	472,036	-	-	-	-
644,056	-	-	1,294,589	64,467	1,226,495	273,843	12,969	-	-
16,092	-	-	35,134	2,944	17,465	7,642	375	-	-
89,513	-	-	143,353	6,691	266,600	39,523	759	-	-
46,642	-	-	95,595	4,755	90,188	21,652	937	-	-
-	-	-	6,331	-	-	-	-	-	-
21,716	-	-	13,991	206	34,799	9,876	128	-	-
-	-	-	-	-	-	-	-	-	-
173,963	-	-	294,404	14,596	409,052	78,693	2,199	-	-
412	-	-	933	-	-	-	-	-	-
-	-	-	8,286	33,245	56,568	26,282	-	105,192	-
412	-	-	9,219	33,245	56,568	26,282	-	105,192	-

BLACK HILLS WORKS, INC.

COST REPORT (EXPENSES AND UNITS)

FOR THE YEAR ENDED JUNE 30, 2023

-----DHS Services-----

--Division of Developmental Disabilities (DDD)-----

Account Number and Title	Total	Adjustments	Administrative and Support	Fund Raising	Choices Residential	Choices Day Habilitation	Choices	Choices
							Individual Supported Employment	Group Supported Employment
<b>1300 TRAVEL/TRANSPORTATION:</b>								
1390 Other	683,692	14,924	74,893	-	469,018	5,265	51,944	22,377
<b>TOTAL TRAVEL/TRANSPORTATION</b>	<b>683,692</b>	<b>14,924</b>	<b>74,893</b>	<b>-</b>	<b>469,018</b>	<b>5,265</b>	<b>51,944</b>	<b>22,377</b>
<b>1400 SUPPLIES:</b>								
1440 Food	540,704	-	102	-	-	552	-	-
1490 Other	1,446,860	199,820	168,976	-	244,243	45,476	899	679,551
<b>TOTAL SUPPLIES</b>	<b>1,987,564</b>	<b>199,820</b>	<b>169,078</b>	<b>-</b>	<b>244,243</b>	<b>46,028</b>	<b>899</b>	<b>679,551</b>
<b>1500 OCCUPANCY:</b>								
1510 Rent of Space	931,306	-	-	-	-	144,000	-	162,048
1520 Utilities and Telephone	745,606	14,066	95,464	-	-	92,955	5,372	52,493
1590 Other	513,826	62,970	92,992	-	-	171,086	11,036	30,634
<b>TOTAL OCCUPANCY</b>	<b>2,190,738</b>	<b>77,036</b>	<b>188,456</b>	<b>-</b>	<b>-</b>	<b>408,041</b>	<b>16,408</b>	<b>245,175</b>
<b>1600 EQUIPMENT</b>	<b>1,873,337</b>	<b>1,129,136</b>	<b>700,885</b>	<b>-</b>	<b>21,611</b>	<b>1,540</b>	<b>80</b>	<b>7,092</b>
<b>1700 DEPRECIATION:</b>								
1710 Building	691,373	-	262,394	-	-	43,965	5,416	-
1720 Equipment	531,686	-	501,595	-	7,407	9,294	-	10,869
<b>TOTAL DEPRECIATION</b>	<b>1,223,059</b>	<b>-</b>	<b>763,989</b>	<b>-</b>	<b>7,407</b>	<b>53,259</b>	<b>5,416</b>	<b>10,869</b>
<b>1800 MISCELLANEOUS:</b>								
1860 Bad Debt	566	566	-	-	-	-	-	-
1890 Other	151,481	13	89,784	-	5,529	-	17,215	34,731
<b>TOTAL MISCELLANEOUS</b>	<b>152,047</b>	<b>579</b>	<b>89,784</b>	<b>-</b>	<b>5,529</b>	<b>-</b>	<b>17,215</b>	<b>34,731</b>
Expenditure Subtotal	41,956,699	3,808,978	7,418,952	514,350	15,041,151	2,371,765	443,456	5,289,644
Admin. and Support Allocation	-	-	(7,418,952)	127,365	3,724,535	587,304	109,810	1,309,838
<b>TOTAL EXPENDITURES</b>	<b>\$ 41,956,699</b>	<b>\$ 3,808,978</b>	<b>\$ -</b>	<b>\$ 641,715</b>	<b>\$ 18,765,686</b>	<b>\$ 2,959,069</b>	<b>\$ 553,266</b>	<b>\$ 6,599,482</b>

									-----Other Services-----
									Special
Choices	Food	Housing	Other	Flutter	OAFB-NE	BHBH	Olympics	Housing	
Nursing	Services	Services	ITS	Other	Other	Other	Other	Services	
				Programs	Programs	Programs	Programs		
24,147	-	-	13,766	-	3,794	3,564	-	-	
24,147	-	-	13,766	-	3,794	3,564	-	-	
-	514,530	-	16,403	-	-	9,117	-	-	
14,916	-	-	6,841	10,342	37,002	19,513	19,281	-	
14,916	514,530	-	23,244	10,342	37,002	28,630	19,281	-	
-	-	514,712	29,770	3,597	-	77,179	-	-	
5,017	-	142,875	12,106	13,236	6,569	23,159	-	282,294	
7,201	-	48,863	270	22,679	8,474	1,321	-	56,300	
12,218	-	706,450	42,146	39,512	15,043	101,659	-	338,594	
-	-	-	219	1,874	9,229	1,671	-	-	
-	-	45,337	-	9,949	-	-	-	324,312	
-	-	-	-	-	2,490	31	-	-	
-	-	45,337	-	9,949	2,490	31	-	324,312	
-	-	-	-	-	-	-	-	-	
645	-	-	276	3,196	-	92	-	-	
645	-	-	276	3,196	-	92	-	-	
870,357	514,530	751,787	1,677,863	177,181	1,759,673	514,465	34,449	768,098	
215,520	127,409	186,160	415,478	43,874	435,736	127,393	8,530	-	
<b>\$ 1,085,877</b>	<b>\$ 641,939</b>	<b>\$ 937,947</b>	<b>\$ 2,093,341</b>	<b>\$ 221,055</b>	<b>\$ 2,195,409</b>	<b>\$ 641,858</b>	<b>\$ 42,979</b>	<b>\$ 768,098</b>	

BLACK HILLS WORKS, INC.

COST REPORT (REVENUES)  
FOR THE YEAR ENDED JUNE 30, 2023

-----DHS Services-----  
Division of Developmental Disabilities (DDD)-----

<u>Account Number and Title</u>	<u>Total</u>	<u>Adjustments</u>	<u>Administrative and Support</u>	<u>Fund Raising</u>	<u>Choices Residential</u>	<u>Choices Day Habilitation</u>	<u>Choices Individual Supported Employment</u>	<u>Choices Group Supported Employment</u>
<b>2000 FEES:</b>								
2020 Title XIX	\$ 25,279,421	\$ -	\$ -	\$ -	\$ 18,339,510	\$ 3,212,105	\$ 318,860	\$ 616,502
2055 Client Pay	700,596	-	-	-	241,481	103,201	57,243	35,053
2065 Other States	357,107	-	-	-	-	-	-	-
2070 Room and Board	1,980,075	-	7,181	-	-	-	-	-
2090 Other-Specify	5,236,061	4,212,992	-	-	150	42,625	562,756	233,213
<b>TOTAL FEES</b>	<b>33,553,260</b>	<b>4,212,992</b>	<b>7,181</b>	<b>-</b>	<b>18,581,141</b>	<b>3,357,931</b>	<b>938,859</b>	<b>884,768</b>
<b>2100 GRANTS:</b>								
2110 Grants (Used for Capital Expenditures)	90,000	-	-	-	-	-	-	90,000
2120 Grants (Used for Non-Capital Expenditures)	315,621	-	34,725	-	-	8,629	-	124,049
<b>TOTAL GRANTS</b>	<b>405,621</b>	<b>-</b>	<b>34,725</b>	<b>-</b>	<b>-</b>	<b>8,629</b>	<b>-</b>	<b>214,049</b>
<b>2200 CONTRIBUTIONS:</b>								
2210 Contributions (Used for Capital Expenditures)	12,313	-	-	-	-	-	-	-
2220 Contributions (Used for Non-Capital Expenditures)	4,209,237	197,100	3,817,407	-	34,310	404	-	42,021
<b>TOTAL CONTRIBUTIONS</b>	<b>4,221,550</b>	<b>197,100</b>	<b>3,817,407</b>	<b>-</b>	<b>34,310</b>	<b>404</b>	<b>-</b>	<b>42,021</b>
<b>2300 OTHER INCOME:</b>								
2310 Commodities, Food Stamps, National School Lunch	57,481	-	-	-	-	-	-	-
2350 Transportation	136,409	-	109,203	-	-	-	-	-
2360 Production	5,749,352	-	2,268	-	5,900	-	-	4,234,195
2370 Investment Income/Interest	141,288	-	133,924	-	-	-	-	-
2390 Other-Specify	1,061,718	-	454,985	514,350	51,177	4,655	-	6,057
<b>TOTAL OTHER INCOME</b>	<b>7,146,248</b>	<b>-</b>	<b>700,380</b>	<b>514,350</b>	<b>57,077</b>	<b>4,655</b>	<b>-</b>	<b>4,240,252</b>
<b>TOTAL REVENUES</b>	<b>\$ 45,326,679</b>	<b>\$ 4,410,092</b>	<b>\$ 4,559,693</b>	<b>\$ 514,350</b>	<b>\$ 18,672,528</b>	<b>\$ 3,371,619</b>	<b>\$ 938,859</b>	<b>\$ 5,381,090</b>

-----Other Services-----									
Choices Nursing	Food Services	Housing Services	Other ITS	Flutter Other Programs	OAFB-NE Other Programs	BHBH Other Programs	Special Olympics Other Programs	Housing Projects	
\$ 66,578	\$ -	\$ -	\$ 2,519,939	\$ -	\$ -	\$ 205,927	\$ -	\$ -	
13,015	-	-	15,171	4,990	-	230,442	-	-	
-	-	-	-	-	357,107	-	-	-	
-	452,417	301,331	-	-	-	-	-	-	1,219,146
-	-	-	-	-	-	184,325	-	-	
<b>79,593</b>	<b>452,417</b>	<b>301,331</b>	<b>2,535,110</b>	<b>4,990</b>	<b>357,107</b>	<b>620,694</b>	<b>-</b>	<b>-</b>	<b>1,219,146</b>
-	-	-	-	-	-	-	-	-	-
-	-	-	-	11,350	122,887	12,631	-	-	1,350
-	-	-	-	11,350	122,887	12,631	-	-	1,350
-	-	-	-	-	-	-	-	-	12,313
-	-	-	320	70,043	-	493	47,139	-	-
-	-	-	320	70,043	-	493	47,139	-	12,313
-	57,481	-	-	-	-	-	-	-	-
-	-	-	-	-	27,206	-	-	-	-
-	-	-	-	-	1,506,989	-	-	-	-
-	-	-	-	-	-	-	-	-	7,364
150	-	-	-	-	28,472	610	-	-	1,262
150	57,481	-	-	-	1,562,667	610	-	-	8,626
<b>\$ 79,743</b>	<b>\$ 509,898</b>	<b>\$ 301,331</b>	<b>\$ 2,535,430</b>	<b>\$ 86,383</b>	<b>\$ 2,042,661</b>	<b>\$ 634,428</b>	<b>\$ 47,139</b>	<b>\$ -</b>	<b>\$ 1,241,435</b>

SINGLE AUDIT SECTION

**BLACK HILLS WORKS, INC.**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2023**

	Assistance Listing <u>Numbers</u>	Grant Identifying <u>Number</u>	<u>AMOUNT</u>
<b>U.S. Department of Housing and Urban Development</b>			
<i>Supportive Housing for Persons with Disabilities:</i>			
Section 8 Subsidy	14.181	SD99H001106	\$ 470,250
<i>South Dakota Housing Development Authority:</i>			
Housing Trust Funds (Note 4)	14.275	N/A	161,742
			<b>631,992</b>
<b>U.S. Department of Transportation</b>			
<i>Passed Through South Dakota Department of Transportation:</i>			
Transportation Grant	20.513	2021 Grant 812065	70,974
Transportation Grant	20.513	2021 Grant 812066	19,026
<i>Passed Through Nebraska Department of Transportation:</i>			
Transportation Improvement Program	20.513	NE2020-011-02	201,069
Transportation Improvement Program	20.513	NE2022-011-02	54,602
			<b>345,671</b>
<b>U.S. Department of Health and Human Services</b>			
<i>Passed Through South Dakota Department of Human Services:</i>			
Activities to Support State, Tribal, Local and Territorial (STLT) Health Department Response to Public Health or Healthcare Crisis (COVID-19)	93.391	N/A	12,631
			<b>12,631</b>
<b>U.S. Department of Agriculture</b>			
<i>Passed Through South Dakota Department of Social Services:</i>			
Supplemental Nutrition Assistance Program (SNAP) (Note 2)	10.551	N/A	57,481
			<b>57,481</b>
<b>National Endowment for the Humanities</b>			
<i>Passed Through South Dakota Department of Tourism:</i>			
South Dakota Arts Council	45.025	1856001-61-19	10,000
			<b>10,000</b>
<b>Total Assistance</b>			<b>\$ 1,057,775</b>

Note 1: The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Organization under programs of the federal government for the year ended June 30, 2023. 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows as of June 30, 2023.

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: These amounts reflect cash received. Federal reimbursements are based on approved rates for services provided rather than reimbursement for specific expenditures.

Note 3: The Organization has not elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 4: Loan draws during the year are included in the federal expenditures presented in the Schedule.



810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [info@ktllp.com](mailto:info@ktllp.com)

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors  
Black Hills Works, Inc.  
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 Black Hills Works, Inc. (the Organization), which comprise the consolidated statement of financial position as of June 30, 2023, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 27, 2023.

**Report on Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Organization'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 Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 Organization'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying Schedule of Findings as 2023-001 and 2023-002 that we consider to be significant deficiencies.

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Organization'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*.

**The Organization's Response to Findings**

*Government Auditing Standards* requires the auditor to perform limited procedures on the Organization's response to the findings identified in our audit and described in the accompanying Schedule of Findings. The Organization'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 Organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



KETEL THORSTENSON, LLP  
Certified Public Accountants

November 27, 2023



810 Quincy Street  
P.O. Box 3140, Rapid City, South Dakota 57709  
Telephone (605) 342-5630 • e-mail: [info@ktllp.com](mailto:info@ktllp.com)

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 Directors  
Black Hills Works, Inc.  
Rapid City, South Dakota

**Report on Compliance for Each Major Federal Program**

***Unmodified Opinion***

We have audited Black Hills Works, Inc.'s (the Organization) 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 the Organization's major federal program for the year ended June 30, 2023. The Organization's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the Organization 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 June 30, 2023.

***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 Organization 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 Organization'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 the Organization'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 the Organization'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 the Organization'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 Organization'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 Organization'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 Organization'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.

#### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings as finding 2023-002. Our opinion on the major federal program is not modified with respect to these matters.

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

#### **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 and significant deficiencies.

*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. 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. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as 2023-002 to be a significant deficiency.

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.

Board of Directors  
Page Three

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*Government Auditing Standards* requires the auditor to perform limited procedures on Organization's response to the internal control over compliance findings identified in our audit described in the accompanying schedule of Findings. The Organization'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.

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.



KETEL THORSTENSON, LLP  
Certified Public Accountants

November 27, 2023

**BLACK HILLS WORKS, INC.**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2023**

**A. SUMMARY OF AUDIT RESULTS**

1. The Independent Auditor's Report expresses an unmodified opinion on the financial statements of the Organization.
2. Significant deficiencies 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 Organization were disclosed during the audit.
4. A significant deficiency is disclosed during the audit of the major federal award program and is reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award program for the Organization expresses an unmodified opinion on the major program listed in #7.
6. Audit findings relative to the major federal program for the Organization are reported in Part C of this schedule.
7. The programs tested as major program include the following:

<b>Major Program</b>	<b>ALN #'s</b>
<i>U.S. Department of Housing and Urban Development</i> Section 8 Subsidy	14.181

8. The threshold for distinguishing type A and B programs was \$750,000.
9. The Organization was not determined to be a low risk auditee.

**BLACK HILLS WORKS, INC.**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2023**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**Significant Deficiencies**

#2023-001 FINDING: Audit Adjustments and Segregation of Duties

*Federal Program Affected:* N/A

*Compliance Requirements:* N/A

*Questioned Costs:* None

*Condition and Cause:* During our engagement, we:

- Posted several audit adjustments with the most significant entries related to recording a lease asset and lease liability and reclassifying grant revenue out of expense.
- Made significant adjustments to the Schedule of Expenditures of Federal Awards (SEFA).
- Noted no formal process to identify obsolete Base Supply Store inventory.
- Identified unreconciled variances between the Base Supply Store inventory subsidiary and several variances during our test counts.

*Criteria and Effect:* The adjustments were not recorded through the Organization's existing internal controls, and therefore, resulted in misstatements of the Organization's financial statements. Segregation of duties requires separating the custody of assets, recording of transactions, and review processes in order to promote accuracy and integrity of information.

*Repeat Finding from Prior Year:* Yes, revision of prior year finding #2022-002.

*Recommendation:* Management and those charged with governance are responsible for ensuring all year end adjusting entries are made and balance sheet accounts are accurate at year end. Management should consider reviewing inventory processes to ensure accurate valuation and quantity are maintained.

*Response/Correction Action Plan:* Management is in agreement with the finding. See Correction Action Plan.

**BLACK HILLS WORKS, INC.**

**SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2023**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**Significant Deficiencies**

#2023-002 FINDING: Residual Receipts Reserves and Tenant Security Deposits

*Federal Programs Affected:* Section 8 Subsidy ALN #14.181

*Compliance Requirements:* Special Tests and Provisions

*Questioned Costs:* None

*Condition and Cause:* During our engagement, we noted deposits of residual receipts reserves were not made within 60 days of year-end as required by U.S. Department of Housing and Urban Development. We also noted a security deposit for a tenant was never collected.

*Criteria and Effect:* U.S. Department of Housing and Urban Development requires the Organization to make deposits to the residual receipts reserves within 60 days of year-end and collect security deposits from tenants.

*Repeat Finding from Prior Year:* Yes

*Recommendation* We recommend the Organization develop an internal control to track compliance with Section 8 compliance requirements including submitting required deposits to the residual receipts reserve accounts.

*Response/Correction Action Plan:* Management is in agreement with the finding. See Correction Action Plan.

**C. FINDING – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Finding #2023-002 listed in Part B relates to major federal program #14.181 as noted in the finding.

*MANAGEMENT RESPONSE*

**BLACK HILLS WORKS, INC.**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2023**

**Status of Prior Year Audit Findings**

Black Hills Works, Inc. respectfully submits the following summary schedule of prior audit findings from the June 30, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the Schedule of Findings.

#2022-001 FINDING: Preparation of Financial Statements and Schedule of Expenditures of Federal Awards (SEFA)

*Status:* It was more cost effective for the Organization to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. For the year ending June 30, 2023, the Organization's management is capable of preparing the financial statements including footnote disclosures, and the Schedule of Expenditures of Federal Awards. This finding is not repeated.

*Initial Year Report:* 2021

#2022-002 FINDING: Audit Adjustments and Segregation of Duties

*Status:* The Organization made efforts to record all year-end entries, but several audit adjustments were made. Additionally, the Organization has implemented internal control recommendations, but had a lack of adequate segregation of duties for certain portions of the Organization's operations.

*Initial Year Report:* 2021

*Reasons for Recurrence and Corrective Action Plan:* The finding is altered based on specific audit adjustments and controls added each year and is revised but repeated in the Schedule of Findings. See Corrective Action Plan.

#2022-003 FINDING: Residual Receipts Reserves

*Status:* For the year ended June 30, 2023, the residual receipts reserves were not made within 60 days of year-end as required by U.S. Department of Housing and Urban Development.

*Initial Year Report:* 2022

*Reasons for Recurrence and Corrective Action Plan:* The Organization has experienced turnover in positions responsible for HUD compliance resulting in certain requirements being overlooked. See the Corrective Action Plan.

**BLACK HILLS WORKS, INC.**

**CORRECTIVE ACTION PLAN  
JUNE 30, 2023**

Black Hills Works, Inc. respectfully submits the following Corrective Action Plan from the June 30, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

Finding #2023-001 – Audit Adjustments and Segregation of Duties

*Responsible Individuals:* Mary R. Duncan, CPA, CGMA, Chief Financial Officer

*Corrective Action Plan:* The Organization has implemented practices relating to inventory. Appropriate adjustments will be made during the fiscal year and the year-end close by the Organization.

*Anticipated Completion Date:* Fiscal year 2024.

Finding #2023-002 – Residual Receipts Reserves and Tenant Security Deposits

*Responsible Individuals:* Mary R. Duncan, CPA, CGMA, Chief Financial Officer

*Corrective Action Plan:* The Organization has implemented practices for deposits of residual receipts reserves to be made within 60 days of year-end and proper collection of security deposits, as required by U.S. Department of Housing and Urban Development.

*Anticipated Completion Date:* Fiscal year 2024, as a new Equipment and Facilities Operations Manager was hired.