CITY OF ESTELLINE

ESTELLINE, SOUTH DAKOTA

FINANCIAL REPORT

FOR THE ONE YEAR ENDING DECEMBER 31, 2025

WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

CITY OF ESTELLINE
ESTELLINE, SOUTH DAKOTA

TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

NOTE: All figures shown in this financial report are in U.S. dollars. For space considerations, the "$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC
Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042
605.270.3020

Governing Board
City of Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

Financial Statement Audit Engagement:

I was engaged to audit the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota as of December 31, 2025, and for the year ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Disclaimer of Opinions:

I do not express an opinion on the financial statements referred to above. Because of the significance of matters described in the Basis for Disclaimer of Opinions section of my report I have not been able to obtain sufficient appropriate audit evidence to provide a basis for audit opinions on the financial statements of the City of Estelline as of December 31, 2025, and the respective changes in its financial position and, where applicable, cash flows thereof for the year then ended.

Basis for Disclaimer of Opinions:

I was engaged to conducted my audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standard applicable to financial audits contained in Government Auditing Standards (*Government Auditing Standards*), issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of the City of Estelline and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit.

Matter Giving Rise to Disclaimer of Opinions:

> The City began using new software in the second half of 2025 which created some unexplained "conversion balance" accounts.
> The new software did not include "Net Position" or "Fund balance" accounts, or its activity, for any of the City's funds.
> The new software did not include several balance sheet accounts such as receivables, inventory, accruals, capital assets and related accumulated depreciation.
> The new software uses new "Claims Clearing" and "Payroll Clearing" funds which were not cleared out at year-end and the balances allocated to appropriate funds.
> The new software's check register did not indicate what accounts were charged for the checks being paid.
> The new software did not include separate cash account activity kept by the fire department, the nursing home's memorial trust, residential trust, activity and pop cash, the City's Flex One and Insurance custodial funds, and petty cash.

Management's Responsibilities for the Financial Statements:

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

In preparing these financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City'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 Responsibility for the Audit of the Financial Statements:

My 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 my opinions.

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 (GAAS) 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 one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements 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 GAAS and *Government Auditing Standards*, I:

> 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 audit 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 City'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

I am 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 internal control related matters that I identified during the audit.

Required Supplementary Information (no opinion):

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules (page 31 and 32), the City's Proportionate Share of Net Pension (Asset)/Liability (page 33), and the Schedule of the City's Contribution (page 33) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

The City has omitted the Management's Discussion and Analysis (MD&A) 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 consider it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards:

In accordance with *Government Auditing Standards*, I have also issued my report dated July 9, 2026 (page 38) on my consideration of the City of Estelline's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, and contracts and other matters. The purpose of that report is solely to describe the scope of my 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 City of Estelline'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 City of Estelline's internal control over financial reporting and compliance.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

Benjamin Elliott

July 9, 2026

CITY OF ESTELLINE

GOVERNMENT-WIDE
STATEMENT OF NET POSITION
AS OF DECEMBER 31, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	1,774,348	4,897,056	6,671,404
Certificate of deposit	0	3,105,657	3,105,657
Taxes receivable - delinquent	7,244		7,244
Accounts receivable	0	481,154	481,154
Inventory of supplies	30,907	62,844	93,751
Prepaid expenses	0	41,408	41,408
Capital assets:			
Land	434,475	96,930	531,405
Other capital assets, net of accumulated depreciation	1,681,913	4,099,376	5,781,289
Other assets:			
Cash - restricted		9,766	9,766
Net pension assets	297	7,015	7,312
Total assets	3,929,184	12,801,206	16,730,390
DEFERRED OUTFLOW OF RESOURCES:			
Pension related deferred outflows	28,573	673,359	701,932
Total deferred outflow of resources	28,573	673,359	701,932
LIABILITIES:			
Current liabilities:			
Accounts payable	25,608	224,288	249,896
Accrued payroll deductions	2,757	79,236	81,993
Customer deposits		6,056	6,056
Resident deposits (ENCC)		9,766	9,766
Leave liability	8,179	157,901	166,080
Noncurrent liabilities:			
None	0	0	0
Total liabilities	36,544	477,247	513,791
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows	15,799	372,370	388,169
Total deferred inflows of resources	15,799	372,370	388,169
NET POSITION:			
Net investment in capital assets	2,116,388	4,196,195	6,312,583
Restricted for:			
SDRS pension purposes	13,072	308,004	321,076
Unrestricted	1,775,954	8,120,749	9,896,703
Total net position	3,905,414	12,624,948	16,530,362

See accompanying notes.

CITY OF ESTELLINE
GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDING DECEMBER 31, 2025

Functions/Programs:	Expenses	Program Revenues: Charges for Services and Reimbursements	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities	Net (Expenses) Revenues and Changes in Net Position: Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	305,487	53,158			-252,329		-252,329
Public safety	188,362	212,679			24,317		24,317
Public works	465,044	7,397	53,465	393,075	-11,107		-11,107
Health and welfare	7,703				-7,703		-7,703
Culture and recreation	8,133	11,921			3,788		3,788
Economic development	4,587				-4,587		-4,587
Total governmental activities	979,316	285,155	53,465	393,075	-247,621	0	-247,621
Business-type activities:							
Water	299,792	175,660				-124,132	-124,132
Electric	694,815	769,919				75,104	75,104
Sewer	132,137	121,642				-10,495	-10,495
Solid waste	72,138	72,771				633	633
Pool	47,229	9,669				-37,560	-37,560
Nursing home (ENCC)	4,728,281	5,584,761				856,480	856,480
Ambulance	43,278	71,042	6,722			34,486	34,486
Total business-type activities	6,017,670	6,805,464	6,722	0	0	794,516	794,516
Total primary government	6,996,986	7,090,619	60,187	393,075	-247,621	794,516	546,895
General revenues:							
Taxes:							
Property taxes					334,713		334,713
Sales taxes					266,328		266,328
State shared revenue					48,593		48,593
County shared revenue					1,955		1,955
Interest earnings					96,924	204,311	301,235
Rents and franchise fees					44,504		44,504
Miscellaneous revenue					12,665		12,665
Sale of surplus property					23,369	3,000	26,369
Transfers in (out)					0	0	0
New software variances					-84,282	-25,939	-110,221
Total general revenue and transfers					744,769	181,372	926,141
Change in net position					497,148	975,888	1,473,036
Net position:							
January 1, 2025					3,408,266	11,649,060	15,057,326
December 31, 2025					3,905,414	12,624,948	16,530,362

See accompanying notes.

CITY OF ESTELLINE
BALANCE SHEET - GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2025

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Cash and cash equivalents	1,774,348		1,774,348
Property taxes receivable	7,244		7,244
Inventory of supplies	30,907		30,907
Total assets	1,812,499	0	1,812,499
LIABILITIES:			
Accounts payable	25,608		25,608
Accrued payroll deductions	2,757		2,757
Total liabilities	28,365	0	28,365
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	7,244		7,244
Total deferred inflows of resources	7,244	0	7,244
FUND BALANCE:			
Nonspendable	30,907		30,907
Restricted			0
Committed			0
Assigned to:			
City Celebration	1,262		1,262
Fire department (cash)	107,155		107,155
Unassigned	1,637,566		1,637,566
Total fund balance	1,776,890	0	1,776,890
Total liabilities, deferred inflows of resources and fund balance	1,812,499	0	1,812,499
		CLOSED	

Reconciliation of the above balance sheet - governmental funds to the government-wide statement of net position

Total fund balance - governmental funds (above)	1,776,890
Amounts reported in the government-wide statement of net assets are different because:	
Capital assets and other assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Capital assets are:	2,819,365
Less: accumulated depreciation	-702,978
These pension related amounts are not an available financial resource and therefore are not reported in the funds.	
Net pension asset	297
Deferred outflow of resources	28,573
Deferred inflow of resources	-15,799
Assets such as taxes receivable (delinquent) are not available to pay for current period expenditures and therefore are deferred in the funds.	7,245
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long term liabilities at year end consist of:	
Accrued leave payable	-8,179
Total net position on government-wide statement of net position	3,905,414

See accompanying notes.

CITY OF ESTELLINE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES -- GOVERNMENTAL FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	General Fund	Capital Projects Fund	Total Governmental Funds
Revenue from local sources:			
Taxes:			
Ad valorem taxes	332,808		332,808
General sales and use taxes	266,328		266,328
Licenses and permits:	38,140		38,140
Intergovernmental revenue:			
Federal grant: Hazard Mitigation grant	93,075		93,075
Federal grant: Emergency Management grant	53,465		53,465
State shared revenue:			
Housing Infrastructure Financing Program grant	300,000		300,000
Bank franchise tax	1,867		1,867
Commercial prorate	2,672		2,672
Liquor tax reversion	5,002		5,002
Motor vehicle licenses (5%)	18,142		18,142
Highway and bridge	20,910		20,910
County shared revenue: road taxes	1,955		1,955
Charges for goods and services:			
Fire	212,679		212,679
Landfill and refuse collection	7,397		7,397
Health and welfare	15,000		15,000
Recreation	11,921		11,921
Fines and forfeits:	18		18
Miscellaneous revenue:			
Interest earned	96,924		96,924
Rental and franchise	44,504		44,504
Other	12,666		12,666
Total revenues	1,535,473	0	1,535,473
Expenditures:			
General government:			
Mayor and Council	24,771		24,771
Financial administration	156,028		156,028
Other	57,647		57,647
Public safety:			
Police	48,905		48,905
Fire	105,513		105,513
Public works:			
Highways and streets	526,081		526,081
Sanitation	11,405		11,405
Health and welfare:			
West Nile	212		212
Ambulance	2,750		2,750
Culture and recreation:			
Parks	7,157		7,157
Economic development	4,587		4,587
Capital outlay	366,558	992,513	1,359,071
Total expenditures	1,311,614	992,513	2,304,127
Excess of revenues over (under) expenditures	223,859	-992,513	-768,654
Other financing sources (uses):			
Sale of surplus property	23,369		23,369
Transfer in (out)	-992,513	992,513	0
New software variances	-84,282		-84,282
Net change in fund balance	-829,567	0	-829,567
Fund balance:			
January 1, 2025	2,606,457	0	2,606,457
December 31, 2025	1,776,890	0	1,776,890
		CLOSED	

Reconciliation of the above statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities.

Amounts reported in the government-wide statement of net position are different because:

Net change in fund balances - total governmental funds (above)	-829,567
Governmental funds report capitalized cost as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation. 2025 capitalized cost are	1,359,071
2025 depreciation is	-49,406
Revenues and expenses related to pensions do not provide current financial resources or uses and, therefore, are not reported in the funds.	5,797
Some property taxes will not be collected for several months after the City's year-end. Therefore, they are not considered "available" revenues and are deferred in the governmental funds statement.	1,905
Governmental funds do not reflect the change in "accrued leave", but the statement of activities reflects the change in "accrued leave" through expenditures.	9,348
Change in net position on government-wide statement of activities	497,148

See accompanying notes.

CITY OF ESTELLINE
STATEMENT OF NET POSITION - ENTERPRISE FUNDS
AS OF DECEMBER 31, 2025

	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
ASSETS:						
Current assets:						
Cash and cash equivalents	356,527	1,305,168	571,415	2,032,644	631,302	4,897,056
Certificate of deposit				3,105,657		3,105,657
Accounts receivable	28,419	150,024	23,088	246,822	32,801	481,154
Inventory of supplies	8,361	5,931	5,822	42,730		62,844
Prepaid expense				41,408		41,408
Total current assets	393,307	1,461,123	600,325	5,469,261	664,103	8,588,119
Capital assets:						
Land	2,000	1,500	66,500	26,930		96,930
Buildings	198,160	115,524	30,524	1,181,389	27,118	1,552,715
Improvements	3,123,039	1,479,701	1,339,003	449,349	155,530	6,546,622
Equipment	155,662	379,946	171,994	959,595	164,417	1,831,614
Accumulated depreciation	-1,197,436	-1,282,967	-933,287	-2,093,193	-324,692	-5,831,575
Total capital assets	2,281,425	693,704	674,734	524,070	22,373	4,196,306
Other assets:						
Cash - restricted				9,766		9,766
Net pension assets	66	85	58	6,806		7,015
Total assets	2,674,798	2,154,912	1,275,117	6,009,903	686,476	12,801,206
DEFERRED OUTFLOW OF RESOURCES						
Pension related deferred out	6,317	8,211	5,546	653,285		673,359
Total outflow of resources	6,317	8,211	5,546	653,285	0	673,359
LIABILITIES:						
Current liabilities:						
Accounts payable	4,462	186,517	208	26,977	6,124	224,288
Accrued payroll deductions	289	388	-686	79,134	111	79,236
Customer deposits		6,056				6,056
Customer deposits - ENCC				9,766		9,766
Leave liability	2,197	1,010	1,010	153,684		157,901
Total current liabilities	6,948	193,971	532	269,561	6,235	477,247
Noncurrent liabilities:						
None						0
Total noncurrent liabilities	0	0	0	0	0	0
Total liabilities	6,948	193,971	532	269,561	6,235	477,247
DEFERRED INFLOW OF RESOURCES						
Pension related deferred inf	3,494	4,542	3,067	361,267		372,370
Total inflow of resources	3,494	4,542	3,067	361,267	0	372,370
NET POSITON						
Net investment in capital asse	2,281,425	693,704	674,734	524,070	22,262	4,196,195
Restricted:						
SDRS pension purposes	2,889	3,755	2,537	298,823		308,004
Unrestricted	386,359	1,267,151	599,793	5,209,467	657,979	8,120,749
Total net position	2,670,673	1,964,610	1,277,064	6,032,360	680,241	12,624,948

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET POSITION - ENTERPRISE FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	Water Fund	Electri(Fund	Sewer Fund	Nursin(Home Fund	Other Enterpris(Funds	Total Enterprise Funds
Operating revenue:						
Charges for goods and servi	175,660	769,919	121,642	5,584,761	153,482	6,805,464
Total operating revenue	175,660	769,919	121,642	5,584,761	153,482	6,805,464
Operating expenses:						
Personal services	31,869	40,534	28,805	4,232,102	18,236	4,351,546
Other current services	190,810	110,315	68,346	578,204	69,032	1,016,707
Cost of goods sold		489,753			72,138	561,891
Depreciation	78,184	56,148	36,033	67,200	3,239	240,804
Pension expense/(reduct:	-1,071	-1,935	-1,047	-149,225		-153,278
Total operating expenses	299,792	694,815	132,137	4,728,281	162,645	6,017,670
Total operating income (l(	-124,132	75,104	-10,495	856,480	-9,163	787,794
Nonoperating revenue (expense):						
Interest earnings	5,186	11,634	2,546	169,168	15,777	204,311
Donations					6,722	6,722
Sale of surplus property				3,000		3,000
Total nonoperating revenue (expense)	5,186	11,634	2,546	172,168	22,499	214,033
Income (loss) before transfers and capital contributions	-118,946	86,738	-7,949	1,028,648	13,336	1,001,827
Transfers in					37,312	37,312
Transfers (out)		-37,312				-37,312
New software variances	-1,407	-3,305	-4,067	-14,753	-2,407	-25,939
Change in net position	-120,353	46,121	-12,016	1,013,895	48,241	975,888
Net position:						
January 1, 2025	2,791,026	1,918,489	1,289,080	5,018,465	632,000	11,649,060
December 31, 2025	2,670,673	1,964,610	1,277,064	6,032,360	680,241	12,624,948

See accompanying notes.

CITY OF ESTELLINE

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

Cash flows from:	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
Operating activities:						
Receipts from customers	178,038	749,375	120,477	5,610,714	153,236	6,811,840
Payments to employees	-33,039	-41,625	-29,896	-4,270,695	-18,236	-4,393,491
Payments to suppliers	-192,249	-453,533	-68,346	-675,223	-141,120	-1,530,471
Net cash provided (used) by operating activities	-47,250	254,217	22,235	664,796	-6,120	887,878
Noncapital financing activities:						
Transfers in					37,312	37,312
Transfers (out)		-37,312				-37,312
Donations/grants					6,722	6,722
New software variances	-1,407	-3,305	-4,067	-14,753	-2,407	-25,939
Capital financing activities:						
Sale of surplus property				3,000		3,000
Cash paid for improvements		-123,500		-6,768		-130,268
Cash paid for equipment	-13,168	-11,361	-43,524	-82,150	0	-150,203
Investing activities:						
Interest earnings	5,186	11,634	2,546	169,168	15,777	204,311
Purchase certificate of deposit				-2,105,657	0	-2,105,657
Net increase (decrease) in cash	-56,639	90,373	-22,810	-1,372,364	51,284	-1,310,156
Cash:						
January 1, 2025	413,166	1,214,795	594,225	3,414,774	580,018	6,216,978
December 31, 2025	356,527	1,305,168	571,415	2,042,410	631,302	4,906,822

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	Water Fund	Electric Fund	Sewer Fund	Nursing Home Fund	Other Enterprise Funds	Total Enterprise Funds
Operating income (loss)	-124,132	75,104	-10,495	856,480	-9,163	787,794
Depreciation	78,184	56,148	36,033	67,200	3,239	240,804
Pension related	-1,071	-1,935	-1,047	-149,225		-153,278
(Increase) decrease in:						
Receivables	2,378	-20,164	-1,165	25,530	-246	6,333
Inventory				14,569		14,569
Increase (decrease) in:						
Accounts payable	-1,439	146,535		-111,588	50	33,558
Payroll deductions	-38			75,272		75,234
Customer deposits		-380	-1,091	423		-1,048
Leave liability	-1,132	-1,091		-113,865		-116,088
Net cash provided (used) by operating activities	-47,250	254,217	22,235	664,796	-6,120	887,878

Noncash investing, capital and financing activities:
None

See accompanying notes.

CITY OF ESTELLINE
STATEMENT OF FIDUCIARY NET POSITION - CUSTODIAL FUNDS
AS OF DECEMBER 31, 2025

	Total Custodial Funds	Flex-One Fund	Insurance Fund
Assets:			
Cash	59,532	13,040	46,492
Total assets	59,532	13,040	46,492
Liabilities:			
None	0	0	0
Total liabilities	0	0	0
Net Position - Restricted:			
Restricted for individuals, organizations and other governments:	59,532	13,040	46,492
Total Net Position - Restricted:	59,532	13,040	46,492

See accompanying notes.

CITY OF ESTELLINE
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - CUSTODIAL FUNDS
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	Total Custodial Funds	Flex-One Fund	Insurance Fund
Additions:			
Contributions and donations	27,650	8,150	19,500
New software variances	4,753	564	4,189
Total additions	32,403	8,714	23,689
Deductions:			
Payment of:			
IRS Section 125 amounts	8,133	8,133	
Individual insurance amounts	23,838		23,838
Total deductions	31,971	8,133	23,838
Change in net position	432	581	-149
Net position - Restricted:			
January 1, 2025	59,100	12,459	46,641
December 31, 2025	59,532	13,040	46,492

See accompanying notes.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Estelline conform to generally accepted accounting principles applicable to government entities in the United States of America.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Estelline's (City) Governing Board.

The City's officials at December 31, 2025 are:

Governing Board:
- Renee Axtell, Mayor
- Josh Cokens, President
- Mike Gunderson
- Ryan Miller
- Juliann Rieckman
- Cheryl Squires
- Austin Suther

Finance Officer:
- Lesley Winter

ENCC Administrator:
- Jason Hanssen

Attorney:
- Todd Wilkinson

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - The City of Estelline
Component Unit: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Estelline consists of (1) the primary government, which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity; (2) those organizations for which the primary government is financially accountable; and (3) other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money.

Based upon the application of these criteria, the City of Estelline does not have any component units.

b. <u>Basis of Presentation</u>:

Government-wide Financial Statements:

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

The Statement of Net Position reports all financial and capital resources, in a net position form (assets minus liabilities equal net position). Net position is displayed in three components, as applicable: net investment in capital assets, restricted (distinguishing between major categories of restrictions), and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, enterprise, and fiduciary. An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (assets, liabilities, revenues, or expenditures/ expenses) for all funds of that category (that is, total governmental or total enterprise), <u>and</u>

b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.

c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

Funds of the City are described below within their respective fund type:

Governmental Funds

<u>General Fund</u> - a fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

<u>Capital Project Fund</u> - capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds for individuals, private organizations, or other governments). The City has the following capital project fund:

Capital Project Fund - the City uses this capital project fund to account for revenue and expenditures related to the construction of property development. The capital project fund is a major fund.

<u>Enterprise Funds</u> - Enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Estelline. The water fund is a major fund.

Electric Fund - A fund established by SDCL 9-39-1 and 26 to provide electric services to customers within the City of Estelline. The electric fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Estelline. The sewer fund is a major fund.

Solid Waste Fund - A fund established by SDCL 9-32-11 and 34A-6 to account for the collection and disposal of solid waste from the municipality. The solid waste fund is not a major fund.

Swimming pool fund - A fund established by SDCL 9-28-60 and 69 to operate a municipal swimming pool. The swimming pool fund is not a major fund.

Health Care Funds:

Estelline Nursing & Care Center fund - A fund established by SDCL 28-18-7 to provide operation of a nursing facility in the City of Estelline. The Estelline Nursing & Care Center fund is a major fund.

Ambulance fund - A fund established by SDCL 34-9-11 and 28-18-7 to provide ambulance services. The ambulance fund is not a major fund.

Fiduciary Funds

Fiduciary funds are never considered to be major funds.

Custodial funds: Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are used to account for the accumulation and distribution of property tax revenues and various pass-through funds. The City maintains a custodial fund (Flex One) to account for employee withholding's for medical and daycare spending under IRS code section 125 and a custodial fund for employee insurance deductibles.

c. <u>Measurement Focus and Basis of Accounting</u>:

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

Measurement Focus

Government-wide Financial Statements:

Both governmental and business-type activities are presented using the "economic resources" measurement focus, applied on the accrual basis of accounting.

The "economic resources" measurement focus includes all assets and liabilities (whether current or non-current, financial, or non-financial) on the balance sheet. Operating statements use the flow of all economic resources to present operating income, changes in net position, and cash flows during the accounting period. This measurement focus uses the term "net position" to describe its equity at the end of the accounting period.

Fund Financial Statements:

All governmental funds are presented using the "current financial resources" measurement focus and the modified accrual basis of accounting.

The "current financial resources" measurement focus includes only current financial assets and liabilities on the balance sheet. Operating statements present sources and uses of available spendable financial resources during the accounting period. This measurement focus uses the term "fund balance" to describe its equity at the end of the accounting period. It is a measure of available spendable financial resources.

Enterprise and fiduciary funds are presented using the "economic resources" measurement focus (described above) and the accrual basis of accounting.

Basis of Accounting

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, all governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, generally are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The City's availability period for accruing and recording revenues is 30 days. The revenues which are accrued at December 31, 2025 are state shared revenue and other accounts receivable.

Under the modified accrual basis of accounting, receivables may be measurable but "not available". Not available means not collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred inflow of resources are those where the asset recognition criteria has been met but for which the revenue recognition criteria has not been met because the receivable is not available.

Expenditures generally are recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due. However, the City of Estelline budgets for, and makes payment of, debt obligations due on January 1st as of December 31st, the end of the City's fiscal year.

All enterprise funds and fiduciary funds are accounted for using the accrual basis of accounting, the same as in the government-wide financial statements. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

d. <u>Inter-fund Eliminations and Reclassifications</u>:

Government-wide Financial Statements:

In the process of aggregating data for the government-wide financial statements, some amounts reported as inter-fund activity and balances in the fund financial statements have been eliminated or reclassified as follows:

> In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type activities columns of the primary government, amounts reported as inter-fund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net residual amounts due between governmental and business-type activities, which are presented as "Internal Balances" (if any).

Fund Financial Statements:

In the fund financial statements, non-current portions of long-term inter-fund receivables (reported in "Advance to" asset accounts) are equally offset by a non-spendable fund balance which indicates that they do not constitute "available spendable resources" since they are not a component of net current assets. Current portions of inter-fund receivables (reported in "Due from" asset accounts) are considered "available spendable resources."

e. <u>Inter-fund Transactions</u>:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other inter-fund transactions are reported as transfers.

f. <u>Cash and Cash Equivalents</u>:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

For the year ending December 31, 2025, all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow, except for $3,105,657 of certificates of deposit which have an initial term of 5 months.

g. <u>Capital Assets and Infrastructure assets</u>:

Capital assets include land, buildings, improvements, and equipment, and all other tangible or intangible assets that are used in operations, which have initial useful lives extending beyond a single reporting period. *Infrastructure* assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. Infrastructure assets, if any, are classified as "Improvements Other then Buildings."

Government-wide Financial Statements:

In the government-wide financial statements, capital assets are accounted for on the accrual basis of accounting. Capital asset purchases are capitalized and not expensed. Instead, capital purchases are expensed over the life of the asset as depreciation or amortization.

Capital assets are valued at historical cost, or estimated historical cost, if actual historical cost is not available. Donated capital assets are valued at their acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. After an item has been capitalized, subsequent improvements or betterments that are significant, and which extend the useful life of the item, are also capitalized.

The total December 31, 2025 balance of capital assets for governmental activities include approximately 20% for which the costs were determined by estimates of the original costs. The total December 31, 2025 balance of capital assets for business-type activities includes approximately 10% for which the costs were determined by estimates of the original costs. Estimated original costs were established by basing the estimates on a comparison to historical costs of similar items.

Interest cost incurred during construction of general capital assets are not capitalized with other capital asset cost. Interest cost incurred during construction of enterprise capital assets also are not capitalized with other capital asset cost.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide statement of activities and the enterprise fund statement of revenue, expenses and changes in net position. Accumulated depreciation is reported on the government-wide statement of net position and on the enterprise fund's statement of net position. See also page 29.

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

	Capitalization Threshold	Depreciation Method	Estimated Life in Years
Land	All		NA
Buildings	All	Straight-line	33-50
Improvements	5,000	Straight-line	10-50
Equipment	1,000	Straight-line	3-30

Land is an inexhaustible capital asset and is not depreciated.

There is construction-in-progress at December 31, 2025.

Fund Financial Statements:

Capital assets and related depreciation expenses are not recorded in governmental funds of the fund financial statements because these funds have a "current financial resources" measurement focus. Instead, these funds report capital asset acquisitions as capital outlay expenditures.

Capital assets and related depreciation expenses are recorded on the accrual basis of accounting in the enterprise funds of the fund financial statements, the same as in the government-wide statements.

h. <u>Long-term Liabilities</u>:

Government-wide Financial Statements:

In the government-wide financial statement, all long-term liabilities to be repaid from governmental or business-type resources are reported as liabilities. The City has no long-term liabilities other than accrued leave.

Fund Financial Statements:

In the fund financial statements, governmental debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. Enterprise fund long-term debt is reported as a liability, the same as in the government-wide statements.

i. Program Revenues and General Revenues and Deferred Inflows and Deferred Outflows of Resources:

Program Revenue

In the government-wide Statement of Activities, reported program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

General Revenue

General revenues include all revenues not specifically earmarked for a specific program. General revenues include all taxes, interest earnings, unrestricted receipts from federal, state, or county governments, and miscellaneous revenues not related to a program. These revenues are not restricted and can be used for the regular operation of the City.

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources (if any). Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources (if any). Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

j. Enterprise Fund Revenue and Expense Classifications:

In the government-wide and fund financial statements, enterprise revenues and expenses are classified in a manner consistent with how they are classified in the statement of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

k. Equity Classifications:

Government-wide Financial Statements:

Equity is classified as "Net Position" and is displayed in three components:

1. Net Investment in Capital Assets - Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any capital outlay certificate payable, capitalized leases payable, 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 its use either by (a) external groups such as creditor, grantor, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.

3. Unrestricted Net Position - Other net position that does not meet the criteria of 1 or 2 above.

Fund Financial Statements:

Governmental fund equity is classified as "Fund Balance", and may distinguish between "Non-spendable", "Restricted", "Committed, "Assigned", and "Unassigned" components. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity is reported as "Net Position - Restricted".

1. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the City classifies governmental fund balances as follows:

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

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

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

* Assigned - includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund balance may be assigned by the Council or Finance Officer.

* Unassigned - includes positive fund balance within the general fund which has not been classified within the above categories and negative fund balances in other governmental funds.

The City of Estelline fund balance classifications are made up of:

Fund Balance Classifications	Account or Fund	Authority or Action	Amount
Non-spendable	Inventory		30,907
Restricted	None		0
Committed	None		0
Assigned	Capital projects	Finance Officer	0
	General:		
	City Celebration	Finance Officer	1,262
	Fire department (cash)	Resolution	107,155
Unassigned	Capital projects	Finance Officer	0
	General		1,637,566

			1,776,890

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

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

The City does not have any special revenue funds.

m. Application of Net Position:

It is the City's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred which can be charged to either restricted or unrestricted net position.

n. Allowance for Doubtful Accounts:

Because write-off of uncollected taxes and/or utility billings is minimal, is it not considered necessary to establish an estimated allowance for doubtful accounts.

o. Accounting Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual amounts could differ from these estimates. Following are the estimates made by management during the year:

* Allowance for doubtful accounts - estimated uncollectables
* Inventory - estimated fair market value
* Depreciation - estimated service lives
* Cash Flows - inter-fund utility usage
* SDRS Pension - actuarial assumptions

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget:
The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. The following are overdrafts of departmental expenditures compared to appropriations:

2025:	General fund/public safety/fire	$ 223,107
	health and welfare/ambulance	2,750

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

The City follows the practice of aggregating deposits of its various funds for cash management efficiency and returns, except for restricted cash held by 3rd parties and certificates of deposits purchased for an individual fund.

The City's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2. 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 FDIC and NCUA.

In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2025 were as follows: Insured $500,000, Collateralized ** $9,250,628 for a total of $9,750,628.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits, including $180 in petty cash, at December 31, 2025 was $9,846,359.

Reconciliation of deposits to government-wide statement of net position is:

Statement of Net Position:		
Unrestricted:	Petty cash	$ 180
	Checking/savings	6,671,224
	Certificates of deposits	3,105,657
Restricted:	Checking	9,766
Fiduciary funds: (custodial) Checking		59,532
		$ 9,846,359

Investments - In general, SDCL 4-5-6 permits City money to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly or (b) repurchase agreements fully collateralized by securities described in (a) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

The City had no investments during 2025.

Certificates of deposit, with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits. During 2025 the City purchased $3,105,657 certificates of deposit with an initial term of 5 months.

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

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. All City deposits are in Reliabank.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2025, the City's deposits in financial institutions were not exposed to custodial deposit risk.

Custodial Risk (Investments) - The risk that, in the event of a default by the counter-party to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counter-party. At December 31, 2025, the City was not exposed to custodial investment risk.

State law allows income from deposits and investments to be credited to either the general fund or the fund making the investment. The City's policy is to credit all income from deposits and investments to the fund making the investment.

4. RECEIVABLES AND PAYABLES:

Receivables and payables are not aggregated in the financial statements. The City expects all receivables to be collected within one year. Allowances for estimated uncollectible accounts in the enterprise funds are not material to these financial statements.

5. INVENTORY OF SUPPLIES AND SMALL TOOLS:

Government-wide Statements: (consumption method)

In the government-wide financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expense when they are consumed. Inventory of supplies and small tools are valued at the lower of cost or market. Donated items are valued at estimated market value at the date of receipt. The cost valuation method is first-in first-out.

Fund Financial Statements: (consumption method)

In the fund financial statements inventory of supplies and small tools are recorded as assets when purchased and charged to expenditure/expense when they are consumed. Reported governmental inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

Inventory of supplies and small tools are valued at the lower of cost or market. Donated items are valued at their acquisition value on the date donated. The cost valuation method is first-in first-out.

6. CHANGES IN CAPITAL ASSETS (see schedule one on page 29)

A summary of the changes in capital assets is presented in schedule one at the end of these notes. It is the City's policy to expense asphalt overlay street improvements. There is construction-in-progress at the end of 2025.

7. CHANGES IN LONG-TERM LIABILITIES (see schedule two on page 30)

A summary of changes in long-term liabilities is presented in schedule two at the end of these notes. The City did not have any long-term liabilities during 2024 except accrued leave payable.

8. INTER-FUND TRANSFERS

Net transfers "in" and "(out)" between funds are:

	Governmental	Enterprise	
General	(992,513)		Capital project
Capital project	992,513		Capital project
Electric		(37,312)	Operations
Swimming pool		37,312	Operations
	-------	-------	
	0	0	

9. RESTRICTED NET POSITION

The following table shows the net position restricted for specific purposes as shown on the statement of net position:

Purpose:	Restricted By:	Government-Wide	Business-Type
Pension	GASB-68	13,072	308,004

10. PENSION PLAN

Summary of Significant Accounting Policies:

For purpose of measuring the net pension (assets), liabilities, deferred out-flows of resources and deferred inflows of resources related to pensions, and pension expense (or expense reduction), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. City contributions and net pension (asset)/liability are recognized on an accrual basis of accounting.

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit lan designed with several defined contribution plan type provisions and is administered by SDFRS 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 South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supple-mentary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or 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 retire-ment benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80.

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

Members that were hired on or 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 Generaltional 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 equal to or greater 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 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 .05 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.

Contributions:

Per SDCL 3-12, contributions 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 City's share of contributions to the SDRS for the calendar years ending December 31, 2025, 2024 and 2023 were $182,031, $164,137, and $143,298 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflow of Resources to Pensions:

At June 30, 2025 SDRS is 100.1% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2025 and reported by the City as of December 31, 2025 are as follows:

Proportionate share of total pension liability	$ 13,123,138
Less: Proportionate share of net position restricted for pension benefits	(13,130,450)
Proportionate share of net pension (asset)/liability	$ (7,312)

At December 31, 2025 the City reported a (asset)/liability of $(7,312) for its proportionate share of the net pension (asset)/liability. The net pension (asset) was measured as of June 30, 2025 and the total pension liability used to calculate the net pension (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City's proportion was .0008598 which is an decrease of .00006139 over its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the City recognized net pension expense reduction of $159,075. At December 31, 2025 the City reported deferred outflows of resources and deferred inflows of resources related to the pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 250,367	$ 0
Change in assumptions	356,298	388,167
Net difference between projected and actual earnings on pension plan investments	0	0
Changes in proportion and difference between City contribution and proportionate share of contributions	4,250	
City contributions subsequent to the measurement date	91,016	
Totals	$ 701,931	$ 388,167
	(91,016)	
	(388,167)	
To be amortized over 4 years	$ 222,748	

The $91,016 reported as deferred outflow of resources related to the pension, results from the City's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026.

The other amounts reported as deferred outflows of resources and deferred inflow of resources related to the pension will be recognized in pension expense (reduction of expense) as follows:

Year Ending December 31, 2026	$ 172,229
December 31, 2027	18,688
December 31, 2028	11,917
December 31, 2029	19,914
	$ 222,748

Actuarial Assumptions:

The total pension (asset) in the June 30, 2024 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation 2.50%

Salary Increases Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service

Discount Rate 6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real return of 4.00%

Future COLAs 1.56%

Mortality rates: All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:
Teachers, Certified Regents, and Judicial: Pub T-2010
Other Class A Members: Pub G-2010
Public Safety Members: Pub S-2010

Retired Members:
Teachers, Certified Regents, and Judicial Retirees:
Pub T-2010, 108% of rates above age 65

Other Class A Retirees: Pub G-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above

Public Safety Retirees: Pub S-2010, 102% of rate at all ages

Beneficiaries:

Pub G-2010 contingent survivor mortality table

Disabled Members:

Public Safety: Pub S-2010 disabled member mortality table

Others: Pub G-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were adopted by the SDRS Board of Trustees based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2021.

Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which my utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (ie: the Council should use the same degree of care as a prudent man.) Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2024 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Public Equity	56.3%	3.8%
Investment grade debt	22.8%	2.3%
High Yield debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9	0.8%
	100.0%	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

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

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	$1,792,194	$(7,312)	$(1,481,539)

Pension Plan Fiduciary Net Position:

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

11. EMPLOYEE BENEFIT PLAN

The city offers eligible employees a "Flexible Benefits Plan" (also known as "Flex One" or a "cafeteria plan") under IRC Sec.125. The Plan allows eligible employees to use money provided by the City through employee salary redirection, to choose (and pay for) one or more benefits offered through the Plan. The Plan is accounted for in a custodial fund.

12. PROPERTY TAX

Taxes are levied on or before October 1, of the year preceding the start of the fiscal year. They attach as an enforceable lien on property and become due and payable as of the following January 1, the first day of the fiscal year. Taxes are payable in two installment on or before April 30 and October 31 of the fiscal year. The county bills and collects the City's taxes and remits them to the City.

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

Property taxes are recognized to the extent they are used to finance each year's appropriations. Revenue related to current year property taxes receivable which is intended to be used to finance the current year's appropriations, but which will not be collected during the current fiscal year or within the "availability period" of 30 days has been deferred in the fund financial statements. Property tax revenues intended to finance the current year's appropriations, and therefor susceptible to accrual, has been reported as revenue in the government-wide financial statements, even though collection will occur in a future year.

Delinquent property taxes, from prior year tax levies, are included in "net position" in the government-wide statement of activities but are deferred in the fund financial statements. See reconciliations on page 7.

13. INSURANCE

The City is exposed to various risks of loss related to torts; theft, damage, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ending December 31, 2025, the City of Estelline managed its risks as follows:

Health:
The City purchases health insurance for its employees from a commercial insurance carrier.

The City does not carry additional health insurance coverage to pay claims in excess of an upper limit. Settled claims resulting from these risks have not exceeded coverage during the past three years.

Liability Insurance:
The City purchases liability insurance for risks related to torts; theft or damage to property; errors and omissions of public officials from a commercial insurance carrier.

The City does not carry additional liability insurance to cover claims in excess of an upper limit. Settled claims resulting from these risks have not exceeded coverage during the past three years.

Worker's Compensation:
The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first $650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of $2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:
The city has elected to be self-insured and retain all risk for liabilities resulting from claims for unemployment benefits. During the year ending December 31, 2025 unemployment benefits claims of $0 were paid and an undetermined amount is expected to be paid in 2026.

14. TAX ABATEMENTS

As of December 31, 2021 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

15. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of such matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

16. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

The City has a rubble site. It does not have a landfill with any associated closure costs or liabilities. There is no material unallowed related party activity and the City does not offer any Other Post Employment Benefits.

The City has contracted with Sioux Rural Water System, Inc. to purchase potable, treated water for the City's residents. The construction of a meter building and related improvements cost $130,000.

The City was awarded a $300,000 South Dakota Housing Development Authority grant for the City's "Eastside Addition" housing development project which cost $1,119,535 million. Local funds covered the balance of this project and it was completed in October 2025.

In 2025 the City received a $93,075 hazard mitigation grant, which was used by the Estelline School District.

The City has no Subscription-Based Information Technology Arrangements to report.

CITY OF ESTELLINE
NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE ONE
CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDING DECEMBER 31, 2025

	Beginning 12-31-24	Adjustments	Additions	Deletions	Ending 12-31-25	Accumulated Depreciation 12-31-24	Adjustments	Depreciatio (Additions	Depreciatio Deletions	Accumulated Depreciation 12-31-25	Remaining Cost 12-31-25
Non-depreciable:											
Land	434,475				434,475	0				0	434,475
Construction-in-progr	127,022		992,513	-1,119,535	0	0				0	0
Total	561,497	0	992,513	-1,119,535	434,475	0	0	0	0	0	434,475
Depreciable:											
Buildings	425,380		77,194		502,574	-348,275		-7,082		-355,357	147,217
Improvements	81,426		1,119,535		1,200,961	-28,755		-4,772		-33,527	1,167,434
Equipment	400,991		289,364	-9,000	681,355	-285,541		-37,552	9,000	-314,093	367,262
Totals	907,797	0	1,486,093	-9,000	2,384,890	-662,571	0	-49,406	9,000	-702,977	1,681,913

New roof	38,525
Flooring	38,669
Fire truck	276,000
Bunker gear	13,364
Eastside Addition	1,119,535
	1,486,093

Allocation of Depreciation:

General government	963
Public safety	33,944
Public works	8,782
Health and welfare	4,741
Culture and recreation	976
	49,406

Business-type activity:

	Beginning 12-31-24	Adjustments	Additions	Deletions	Ending 12-31-25	Accumulated Depreciation 12-31-24	Adjustments	Depreciatio (Additions	Depreciatio Deletions	Accumulated Depreciation 12-31-25	Remaining Cost 12-31-25
Non-depreciable:											
Land	96,930				96,930	0				0	96,930
Total	96,930	0	0	0	96,930	0	0	0	0	0	96,930
Depreciable:											
Buildings	1,552,715		0		1,552,715	-1,171,612		-20,015		-1,191,627	361,088
Improvements	6,416,354		130,268		6,546,622	-3,261,187		-129,580		-3,390,767	3,155,855
Equipment	1,681,411		145,741		1,827,152	-1,157,973	1	-91,209		-1,249,181	577,971
Construction-in-pro	0	0	4,462	0	4,462	0		0		0	4,462
Totals	9,650,480	0	280,471	0	9,930,951	-5,590,772	1	-240,804	0	-5,831,575	4,099,376

CITY OF ESTELLINE

NOTES TO THE FINANCIAL STATEMENTS -- SCHEDULE TWO
CHANGES IN LONG-TERM LIABILITIES
FOR THE YEAR ENDING DECEMBER 31, 2025

	Beginning Balance 12-31-24	Additions	(Deletions)	Government Ending Balance 12-31-25	Business-type Ending Balance 12-31-25	Principal Due in 2026
GOVERNMENTAL - OTHER LIABILITIES						
Accrued leave payable:						
Paid by the general fund	17,528	8,179	-17,528	8,179		8,179
BUSINESS-TYPE - OTHER LIABILITIES						
Accrued leave payable:						
Paid by enterprise funds	275,080	157,901	-275,080		157,901	157,901

CITY OF ESTELLINE
REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

GENERAL FUND	Budgeted Amounts					Variance
Revenue:	Original	Contingency Transfers	Supplemental:	Final	Actual	Positive (Negative)
Revenue from local sources:						
Taxes:						
Ad valorem taxes	347,500			347,500	331,942	-15,558
Sales and use tax	200,000			200,000	266,328	66,328
Penalties and interest				0	866	866
Licenses and permits:	4,940			4,940	38,140	33,200
Intergovernmental revenue:						
Federal hazard mitigation grar	0			0	93,075	93,075
Federal emergency management grant	0			0	53,465	53,465
State shared revenue:						
HIFP grant				0	300,000	300,000
Bank franchise tax	3,500			3,500	1,867	-1,633
Commercial prorate				0	2,672	2,672
Liquor tax reversion	5,085			5,085	5,002	-83
Motor vehicle licenses (5%)	20,000			20,000	18,142	-1,858
Highway and bridge	20,000			20,000	20,910	910
County shared revenue	1,800			1,800	1,955	155
Charges for goods and services:						
Fire department	40,000			40,000	212,678	172,678
Landfill and refuse collection				0	7,398	7,398
Health and welfare				0	15,000	15,000
Recreation				0	11,921	11,921
Fines and forfeits				0	18	18
Miscellaneous revenue:						
Interest and dividends	74,000			74,000	96,924	22,924
Rentals and franchise				0	44,504	44,504
Other	862,600			862,600	12,666	-849,934
Total revenues	1,579,425	0	0	1,579,425	1,535,473	-43,952
Expenditures:						
General government:						
Mayor and Council	30,200			30,200	24,771	5,429
Contingency	75,000			75,000		75,000
Amount transferred		-75,000		-75,000		-75,000
Elections	900			900		900
Financial administration	171,546			171,546	156,028	15,518
Other	46,580	75,000	100,000	221,580	134,841	86,739
Public safety:						
Police	53,440			53,440	48,905	4,535
Fire	77,770		94,000	171,770	394,877	-223,107
Civil defense	100			100		100
Public works:						
Highways and streets	2,064,495			2,064,495	526,081	1,538,414
Sanitation	14,107			14,107	11,405	2,702
Health and welfare:						
West Niles	3,500			3,500	212	3,288
Ambulance				0	2,750	-2,750
Culture and recreation: Parks	11,279			11,279	7,157	4,122
Conservation and development:						
Economic development	85,000			85,000	4,587	80,413
Total expenditures	2,633,917	0	194,000	2,827,917	1,311,614	1,516,303
Excess of revenues over (under) expenditures	-1,054,492	0	-194,000	-1,248,492	223,859	1,472,351
Other financing sources (uses):						
Sale of surplus property				0	23,369	23,369
Transfer out			-992,513	-992,513	-992,513	0
New software variances				0	-84,282	-84,282
Net change in fund balance	-1,054,492	0	-1,186,513	-2,241,005	-829,567	1,411,438
Fund balance:						
January 1, 2025	2,606,457			2,606,457	2,606,457	0
December 31, 2025	1,551,965	0	-1,186,513	365,452	1,776,890	1,411,438

CITY OF ESTELLINE

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGET

SCHEDULE OF BUDGETARY COMPARISON FOR THE
GENERAL FUND FOR THE ONE YEAR ENDING DECEMBER 31, 2025

Note 1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the required supplementary information:

1. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.

2. After adoption by the governing board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.

3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. During 2025 there was one supplemental appropriation to increase the general fund's budget. See page 31.

5. Unexpended appropriations lapse at year end unless encumbered by resolution of the governing board. The City did not encumber any budget amounts at December 31, 2025.

6. Formal budgetary integration is employed as a management control device for the general fund.

7. The budget for the general fund is adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 2. <u>GAAP and Budgetary Accounting Basis Difference</u>:

The financial statements prepared in conformity with U.S.GAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances. However, in the budgetary RSI schedule, the purchase of a road grader would be reported as an expenditure in the public works function of general fund, along with all other current public works expenditures.

CITY OF ESTELLINE

FOR THE TEN YEARS ENDING DECEMBER 31, 2025

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE SOUTH DAKOTA RETIREMENT SYSTEM'S NET PENSION (ASSET)/LIABILITY

SDRS Measurement Date Year Ended (1)	City's Pension Allocation Percentage	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for a June 30th Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2025	0.0859800%	-7,313	2,558,150	(00.28%)	100.10%
June 30, 2024	0.0921190%	-3,729	2,584,383	(00.15%)	100.00%
June 30, 2023	0.09055440%	-8,837	2,335,450	(00.38%)	100.10%
June 30, 2022	0.0931880%	-8,807	2,225,183	(00.40%)	100.10%
June 30, 2021	0.0979270%	-749,953	2,222,283	(33.75%)	105.52%
June 30, 2020	0.0922940%	-4,008	2,025,583	(00.20%)	100.04%
June 30, 2019	0.0924761%	-9,800	1,966,233	(00.50%)	100.09%
June 30, 2018	0.1019608%	-2,378	2,119,667	(00.11%)	100.02%
June 30, 2017	0.1002751%	-9,100	2,037,383	(00.45%)	100.10%
June 30, 2016	0.1029248%	347,670	1,957,117	17.76%	96.89%

(1) The amounts presented for each fiscal year were determined as of the collective net pension liability (asset) which is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years.

CITY OF ESTELLINE

FOR THE TEN YEARS ENDING DECEMBER 31, 2025

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2025	182,031	182,031	0	3,033,850	6.00%
December 31, 2024	164,137	164,137	0	2,735,617	6.00%
December 31, 2023	143,298	143,298	0	2,388,300	6.00%
December 31, 2022	132,214	132,214	0	2,203,567	6.00%
December 31, 2021	133,200	133,200	0	2,220,000	6.00%
December 31, 2020	134,209	134,209	0	2,236,817	6.00%
December 31, 2019	119,707	119,707	0	1,995,117	6.00%
December 31, 2018	124,137	124,137	0	2,068,950	6.00%
December 31, 2017	123,933	123,933	0	2,065,550	6.00%
December 31, 2016	120,109	120,109	0	2,001,817	6.00%

Note: This schedule is intended to show information for ten years.

See accompanying notes.

CITY OF ESTELLINE
DECEMBER 31, 2025

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE ONE YEAR ENDING DECEMBER 31, 2025

Changes of Prior Valuation:

Changes of Prior Valuation:

The June 30, 2025 Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2024, Actuarial Valuation.

The details of the changes since the last valuation are a follows:

Benefit Provision Changes:

During the 2025 legislative Session no significant SDRS benefit changes were made.

Actuarial Method Changes:

No changes in actuarial methods were made since the prior valuation.

Actuarial Assumption Changes:

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

AS of June 30, 2024, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2025 SDRS COLA was limited to a restricted maximum of 1.71%. For the June 30, 2024, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.71%

As of June 30, 2025, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, between 0% and 1.56%. For this June 20, 2025, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

CITY OF ESTELLINE
COMBINING STATEMENT OF NET POSITION
- NONMAJOR ENTERPRISE FUNDS
AS OF DECEMBER 31, 2025

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
ASSETS:				
Current assets:				
Cash and cash equivalents	406		630,896	631,302
Accounts receivable	12,709		20,092	32,801
Total current assets	13,115	0	650,988	664,103
Capital assets:				
Land				0
Buildings			27,118	27,118
Improvements		155,530		155,530
Equipment		49,967	114,450	164,417
Accumulated depreciation		-191,445	-133,247	-324,692
Total capital assets	0	14,052	8,321	22,373
Other assets:				
None				0
Total assets	13,115	14,052	659,309	686,476
LIABILITIES:				
Current liabilities:				
Accounts payable	6,124			6,124
Accrued payroll deductions		111		111
Total current liabilities	6,124	111	0	6,235
Noncurrent liabilities:				
None				0
Total noncurrent liabilities	0	0	0	0
Total liabilities	6,124	111	0	6,235
NET POSITON				
Net investment in capital assets		13,941	8,321	22,262
Unrestricted	6,991		650,988	657,979
Total net position	6,991	13,941	659,309	680,241

CITY OF ESTELLINE

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - ENTERPRISE FUNDS FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
Operating revenue:				
Charges for goods and services	72,771	9,669	71,042	153,482
Total operating revenue	72,771	9,669	71,042	153,482
Operating expenses:				
Personal services		18,236		18,236
Other current services		27,432	41,600	69,032
Cost of goods sold	72,138			72,138
Depreciation		1,561	1,678	3,239
Total operating expenses	72,138	47,229	43,278	162,645
Total operating income (loss)	633	-37,560	27,764	-9,163
Nonoperating revenue (expense):				
Interest earnings			15,777	15,777
Donations			6,722	6,722
Total nonoperating revenue (expense)	0	0	22,499	22,499
Income (loss) before transfers	633	-37,560	50,263	13,336
Transfers in		37,312		37,312
New software variances	-1,147	-2,287	1,027	-2,407
Change in net position	-514	-2,535	51,290	48,241
Net position:				
January 1, 2025	7,505	16,476	608,019	632,000
December 31, 2025	6,991	13,941	659,309	680,241

CITY OF ESTELLINE

COMBINING STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS

FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
Operating activities:				
Receipts from customers	72,525	9,669	71,042	153,236
Payments to employees		-18,236		-18,236
Payments to suppliers	-70,991	-27,432	-42,697	-141,120
Net cash provided (used) by operating activities	1,534	-35,999	28,345	-6,120
Noncapital financing activities:				
Transfers in from electric		37,312		37,312
Donations			6,722	6,722
New software variances	-1,147	-2,287	1,027	-2,407
Investing activities:				
Interest earnings			15,777	15,777
Net increase (decrease) in cash	387	-974	51,871	51,284
Cash:				
January 1, 2025	19	974	579,025	580,018
December 31, 2025	406	0	630,896	631,302

	Solid Waste Fund	Pool Fund	Ambulance Funds	Total Enterprise Funds
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	633	-37,560	27,764	-9,163
Depreciation		1,561	1,678	3,239
(Increase) decrease in:				
Receivables	-246			-246
Increase (decrease) in:				
Accounts payable	1,147		-1,097	50
Net cash provided (used) by operating activities	1,534	-35,999	28,345	-6,120

Noncash investing, capital and financing activities:

None

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*

Governing Board
City of Estelline
Estelline, South Dakota

INDEPENDENT AUDITOR'S REPORT

I was engaged to audit, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Estelline (City), Hamlin County, South Dakota, as of December 31, 2025 and for the one year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements.

I have issued my report thereon dated July 9, 2026 which with a disclaimer of opinions:

Report on Internal Control Over Financial Reporting:

In planning and performing my audit of the financial statements, I considered the City'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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exist 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City'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 the attention of those charged with governance.

My 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. However, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did identify a deficiency in internal control that I consider to be a material weakness and is described in finding 2025-01.

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the internal control over financial reporting finding identified in my audit described in the accompanying schedule of findings and responses. The City's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the response.

I did note minor matters involving internal control over financial reporting that I reported to the governing body and management of the City in a separate Letter of Comments dated July 9, 2026.

<u>Report on Compliance and Other Matters</u>:

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests disclosed no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

I did note minor matters involving compliance that I reported to the governing body and management of the City in a separate Letter of Comments dated July 9, 2026.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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 City's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota

July 9, 2026

CITY OF ESTELLINE
DECEMBER 31, 2025

SCHEDULE OF PRIOR AUDIT FINDINGS AND RESPONSES

Prior Federal Compliance Audit finding:
The prior audit report was not subject to federal Single Audit requirements.

Prior Other Audit Findings:
The prior audit report had no written other audit findings.

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Part I - Summary of the Audit:

Financial Statements

Type of auditor's report issued:	Disclaimer of Opinion on: Governmental Activities Business-Type Activities Major Funds Aggregate Remaining Funds
Material noncompliance noted:	None Reported
Internal control over financial reporting: * Material weakness(es) identified?	Finding 2025-01
* Significant deficiency(ies) identified that are not considered to be material weaknesses?	None Reported

Finding 2025-01: General Ledger Condition:

Criteria:
Generally accepted accounting principles requires the maintenance of a complete general ledger with activity for each account during the accounting period.

Condition:
Because of a change in software, the City's general ledger did not have complete activity recorded to support balances is each of the City's accounts.

Effect:
An incomplete general ledger can lead to misappropriation of funds.

Recommendation:
I recommend that the general ledger be improved to show all accounts the City is responsible for and the activity in each of those accounts during the accounting period.

Management Response:
We agree with this recommendation.