

Financial Statements
December 31, 2025
City of Waubay

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Mayor	Brienne Soldier
Governing Board	Doug Herold Mark Birney Robin Brown Charlotte Andres Cody Rerick
Finance Officer	Katie Rencountre
Attorney	Tom Sannes



Independent Auditor's Report

The City Council
City of Waubay
Waubay, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of Waubay (the City) as of December 31, 2025, and for the year then 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.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, and each major fund of the City of Waubay, as of December 31, 2025, and the respective changes in modified cash basis financial position, and, where applicable, cash flows, thereof for year then ended in accordance with the modified cash basis of accounting described in Note 1.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 1, and for determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with 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 for 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*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform 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 our 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.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and pension contributions, schedule of long-term debt, and the budgetary comparison schedule (collectively, the "supplementary information") are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Other Information

Management is responsible for the other information. The other information comprises the listing of municipal officials but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 Waubay's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
August 26, 2026

City of Waubay
Statement of Net Position—Modified Cash Basis
December 31, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets			
Cash and cash equivalents	\$ 827,029	\$ 478,853	\$ 1,305,882
Total current assets	827,029	478,853	1,305,882
Noncurrent assets			
Restricted cash and cash equivalents	19,539	131,421	150,960
Total noncurrent assets	19,539	131,421	150,960
	<u>\$ 846,568</u>	<u>\$ 610,274</u>	<u>\$ 1,456,842</u>
Net Position			
Restricted for			
Library	\$ 19,539	\$ -	\$ 19,539
Debt service	-	63,996	63,996
Equipment repair or replacement	-	34,299	34,299
Operations or other capital projects	939	33,126	34,065
Unrestricted	826,090	478,853	1,304,943
	<u>\$ 846,568</u>	<u>\$ 610,274</u>	<u>\$ 1,456,842</u>

City of Waubay
Statement of Activities—Modified Cash Basis
Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary Government							
Governmental activities							
General government	\$ 127,118	\$ 18,855	\$ -	\$ -	\$ (108,263)	\$ -	\$ (108,263)
Public safety	26,633	111	-	27,271	749	-	749
Public works	187,158	-	73,327	-	(113,831)	-	(113,831)
Health and welfare	6,233	-	-	-	(6,233)	-	(6,233)
Culture and recreation	33,590	-	-	-	(33,590)	-	(33,590)
Conservation and development	1,825	-	-	-	(1,825)	-	(1,825)
Debt service	4,344	-	-	-	(4,344)	-	(4,344)
Total governmental activities	<u>386,901</u>	<u>18,966</u>	<u>73,327</u>	<u>27,271</u>	<u>(267,337)</u>	<u>-</u>	<u>(267,337)</u>
Business-type activities							
Water	186,001	136,572	-	-	-	(49,429)	(49,429)
Sewer	165,427	154,673	-	-	-	(10,754)	(10,754)
Total business-type activities	<u>351,428</u>	<u>291,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(60,183)</u>	<u>(60,183)</u>
	<u>\$ 738,329</u>	<u>\$ 310,211</u>	<u>\$ 73,327</u>	<u>\$ 27,271</u>	<u>(267,337)</u>	<u>(60,183)</u>	<u>(327,520)</u>
General Revenues							
Taxes							
Property taxes					169,471	-	169,471
Sales taxes					234,815	-	234,815
State shared revenues					3,963	-	3,963
Unrestricted investing earnings					9,542	2,633	12,175
Miscellaneous revenue					36,929	-	36,929
Transfers					(139,995)	139,995	-
Total general revenues and transfers					<u>314,725</u>	<u>142,628</u>	<u>457,353</u>
Change in Net Position					47,388	82,445	129,833
Net Position, Beginning					799,180	527,829	1,327,009
Net Position, Ending					<u>\$ 846,568</u>	<u>\$ 610,274</u>	<u>\$ 1,456,842</u>

See Notes to Financial Statements

City of Waubay
Balance Sheets—Modified Cash Basis—Governmental Funds
December 31, 2025

	General Fund	Capital Project Fund	Total
	<u> </u>	<u> </u>	<u> </u>
Assets			
Cash and cash equivalents	\$ 826,090	\$ 939	\$ 827,029
Restricted cash	19,539	-	19,539
	<u> </u>	<u> </u>	<u> </u>
	<u>\$ 845,629</u>	<u>\$ 939</u>	<u>\$ 846,568</u>
Fund Balances			
264 Restricted for			
Library	\$ 19,539	\$ -	\$ 19,539
Capital projects	-	939	939
267 Unassigned	826,090	-	826,090
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>845,629</u>	<u>939</u>	<u>846,568</u>
	<u>\$ 845,629</u>	<u>\$ 939</u>	<u>\$ 846,568</u>

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2025

	General Fund	Capital Project Fund	Total
Revenues			
310 Taxes			
311 General property taxes	\$ 169,150	\$ -	\$ 169,150
313 General sales and use taxes	234,815	-	234,815
319 Penalties and interest on delinquent taxes	321	-	321
Total taxes	404,286	-	404,286
320 Licenses and permits	17,645	-	17,645
330 Intergovernmental revenue			
331 Federal grants	27,271	-	27,271
335 State shared revenue			
335.01 Bank franchise tax	804	-	804
335.02 Motor vehicle commercial prorata	3,804	-	3,804
335.03 Liquor tax reversion	3,159	-	3,159
335.04 Motor vehicle licenses (5%)	15,611	-	15,611
335.08 Local government highway and bridge fund	40,059	-	40,059
338 County shared revenue			
338.01 County road tax (25%)	1,066	-	1,066
338.02 County HBR tax (25%)	8,041	-	8,041
338.03 County wheel tax	4,746	-	4,746
Total intergovernmental revenue	104,561	-	104,561
340 Charges for goods and services			
348 Cemetery	1,210	-	1,210
Total charges for goods and services	1,210	-	1,210
350 Fines and forfeits			
354 Library	111	-	111
Total fines and forfeits	111	-	111
360 Miscellaneous revenue			
361 Investment earnings	9,542	-	9,542
367 Contributions and donations from private sources	5,000	-	5,000
368 Liquor operating agreement income	25,887	-	25,887
369 Other	6,042	-	6,042
Total miscellaneous revenue	46,471	-	46,471
Total revenues	574,284	-	574,284

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2025

	General Fund	Capital Project Fund	Total
Expenditures			
410 General government			
414 Financial administration	127,118	-	127,118
Total general government	127,118	-	127,118
420 Public safety			
421 Police	12,000	-	12,000
422 Fire	14,633	-	14,633
Total public safety	26,633	-	26,633
430 Public works			
431 Highway and streets	180,854	-	180,854
437 Cemetery	6,304	-	6,304
Total public works	187,158	-	187,158
440 Health and welfare			
449 Other	6,233	-	6,233
Total health and welfare	6,233	-	6,233
450 Culture and recreation			
451 Recreation	1,770	-	1,770
452 Parks	13,670	-	13,670
455 Libraries	18,150	-	18,150
Total culture and recreation	33,590	-	33,590
460 Conservation and development			
465 Economic development and assistance (industrial development)	1,825	-	1,825
Total conservation and development	1,825	-	1,825
470 Debt service			
Principal	2,288	-	2,288
Interest	2,056	-	2,056
Total debt service	4,344	-	4,344

City of Waubay

Statement of Revenues, Expenditures and Changes in Fund Balances—Modified Cash Basis—Governmental Funds
Year Ended December 31, 2025

	General Fund	Capital Project Fund	Total
Total expenditures	386,901	-	386,901
Other Financing Source (Use)			
511 Transfers Out	(139,995)	-	(139,995)
Total other financing source (use)	(139,995)	-	(139,995)
Net Change in Fund Balance	47,388	-	47,388
Fund Balance, Beginning	798,241	939	799,180
Fund Balance, Ending	\$ 845,629	\$ 939	\$ 846,568

City of Waubay
Balance Sheet—Modified Cash Basis—Proprietary Funds
December 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Assets			
Current assets			
Cash and cash equivalents	\$ 196,457	\$ 282,396	\$ 478,853
Total current assets	196,457	282,396	478,853
Noncurrent assets			
Restricted cash and cash equivalents	37,475	93,946	131,421
Total noncurrent assets	37,475	93,946	131,421
Total assets	<u>\$ 233,932</u>	<u>\$ 376,342</u>	<u>\$ 610,274</u>
Net Position			
253.20 Restricted for			
253.21 Debt service	\$ 15,408	\$ 48,588	\$ 63,996
253.26 Equipment repair or replacement	5,504	28,795	34,299
253.29 Operations and future projects	16,563	16,563	33,126
253.90 Unrestricted	196,457	282,396	478,853
Total net position	233,932	376,342	610,274
	<u>\$ 233,932</u>	<u>\$ 376,342</u>	<u>\$ 610,274</u>

City of Waubay

Statement of Revenues, Expenditures and Changes in Net Position—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
380 Charges for goods and services	\$ 136,572	\$ 154,673	\$ 291,245
Total operating revenue	136,572	154,673	291,245
Operating Expenses			
410 Personal services	22,806	20,791	43,597
420 Other current expenses	21,237	16,542	37,779
426 Supplies and materials	92,661	27,219	119,880
Total operating expenses	136,704	64,552	201,256
Operating Income (Loss)	(132)	90,121	89,989
Nonoperating Revenue (Expense)			
361 Investment earnings	528	2,105	2,633
440 Debt service principal	(33,108)	(45,290)	(78,398)
441 Interest expense	(16,189)	(55,585)	(71,774)
Total nonoperating expense	(48,769)	(98,770)	(147,539)
Income (Loss) Before Transfers	(48,901)	(8,649)	(57,550)
391.1 Transfers in	68,742	71,253	139,995
Change in Net Position	19,841	62,604	82,445
Net Position, Beginning	214,091	313,738	527,829

City of Waubay
Statement of Cash Flows—Modified Cash Basis—Proprietary Funds
Year Ended December 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from (used for) Operating Activities			
Receipts from customers	\$ 136,572	\$ 154,673	\$ 291,245
Payments to suppliers	(113,898)	(43,761)	(157,659)
Payments to employees	(22,806)	(20,791)	(43,597)
Net Cash from (used for) Operating Activities	(132)	90,121	89,989
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	68,742	71,253	139,995
Net Cash from Noncapital Financing Activities	68,742	71,253	139,995
Cash Flows used for Capital and Related Financing Activities			
Principal paid on capital debt	(33,108)	(45,290)	(78,398)
Interest paid on capital debt	(16,189)	(55,585)	(71,774)
Net Cash used for Capital and Related Financing Activities	(49,297)	(100,875)	(150,172)
Cash Flows from Investing Activities			
Cash received for interest	528	2,105	2,633
Net Cash from Investing Activities	528	2,105	2,633
Net Change in Cash and Cash Equivalents	19,841	62,604	82,445
Cash and Cash Equivalents, Beginning	214,091	313,738	527,829
Cash and Cash Equivalents, Ending	\$ 233,932	\$ 376,342	\$ 610,274
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	\$ 196,457	\$ 282,396	\$ 478,853
Restricted cash and cash equivalents	37,475	93,946	131,421
	\$ 233,932	\$ 376,342	\$ 610,274
Reconciliation of Operating Income (Loss) to			
Net Cash from (used for) Operating Activities			
Operating income (loss)	\$ (132)	\$ 90,121	\$ 89,989
Net Cash from (used for) Operating Activities	\$ (132)	\$ 90,121	\$ 89,989

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C., the financial statements are presented in accordance with the modified cash basis of accounting. The modified cash basis of accounting is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Financial Reporting Entity

The reporting entity of the City of Waubay (the City) consists of 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); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete. The reporting entity is comprised of the primary government, the City of Waubay.

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 (primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City.

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

B. Basis of Presentation

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

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

The funds of the City are described below:

Governmental Funds

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

Capital Project Fund – Capital projects 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 or trust funds for individuals, private organizations, or other governments).

- **Capital Project Fund** – To account for financial resources to be used for the construction of the Storm Shelter. This is a major fund.

Proprietary Funds

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

- **Water Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.
- **Sewer Fund** – Financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, and administrative expenses including capital asset expenses specific to the systems used to deliver the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide statements of net position and statements of activities, both governmental and business-type activities are presented using the "economic resources" measurement focus, applied within the limitations of the modified cash basis of accounting as defined below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus is applied within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented in accordance with a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position or balance sheets cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such report balances include investments in certificates of deposit (those with maturities more than 90 days (three months) from the date of acquisition) acquired with cash assets at cost and interfund advances and borrowings arising from the use of a pooled cash account.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and other accrued revenue and receivables) and certain liabilities and their related expenses or expenditures (such as accounts payable and expenses for goods or services received but not yet paid, and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not arise from a cash transaction or event that would be reported in GAAP basis financial statements (such as donated assets) are not reported in this modified cash basis presentation, and the measurement of reported assets and liabilities does not involve adjustments to fair value.

D. Deposits

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts, including restricted cash, and certificates of deposit. Investments in open-end mutual fund shares or similar investments in external investment pools are also considered to be cash equivalents.

E. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, amounts reported as interfund activity and balances in the fund financial statements are eliminated or reclassified.

- The City did not have any interfund receivables and payables that required elimination as of December 31, 2025.
- The City did not have any internal service fund activity which required elimination as of December 31, 2025.

F. Capital Assets

Under the modified cash basis of accounting, capital assets are expensed when the cash transaction occurs.

G. Long-Term Liabilities

Under the modified cash basis of accounting, cash proceeds from long-term debt issuances are recorded as a receipt, while payments to creditors to reduce long-term debts are recorded as a cost of the program which benefits from the financing. Allocations are made where appropriate. Interest costs are not allocated, but are reported as a separate program cost category.

Long-term debts arising from cash transactions of governmental funds are not reported as liabilities in the fund financial statements. Instead, the debt proceeds are reported as other financing sources and payments of principal and interest are reported as expenditures. Under the modified cash basis of accounting, the accounting for long-term debts of proprietary funds is the same in the fund financial statements as it is in the government-wide financial statements.

H. Program Revenues

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 Contributions – 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 Contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations or individuals that are restricted for the acquisition of capital assets for use in a particular program.

I. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's statements of revenues, expenses and changes in fund net position, revenues and expenses are classified in a manner consistent with how they are classified in the statements of cash flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

J. Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The Water and Sewer Funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents.

K. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is comprised of two components: restricted net position and unrestricted net position. Because capital assets are not reported by the City under the modified cash basis of accounting, only the following components are displayed:

1. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
2. Unrestricted Net Position – All other net position that do not meet the definition of "restricted."

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between nonspendable, restricted, committed, assigned, and unassigned components. Proprietary fund equity is classified the same as in the government-wide financial statements.

L. Application of Net Position and Fund Balance

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

M. Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints placed on the government's fund balances:

- **Nonspendable Fund Balance** – Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- **Restricted Fund Balance** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government) through constitutional provisions or by enabling legislation.
- **Committed Fund Balance** – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint. The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance.
- **Assigned Fund Balance** – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. An assigned fund balance is established by the City Council through adoption of a resolution designating a fund balance is intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).
- **Unassigned Fund Balance** – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

Note 2 - Deposits and Investments

The City follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2025, the City's deposits were maintained in in-state financial institutions which were properly collateralized.

The actual bank balances at December 31, 2025, are as follows:

	<u>Bank Balance</u>
Insured (FDIC/NCUA)	\$ 815,181
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	<u>643,602</u>
Total deposits	<u>\$ 1,458,783</u>

The City's carrying amount of deposits at December 31, 2025, was \$1,456,842.

Investments

As of December 31, 2025, the City did not hold any investments. The City also does not have a formal investment policy that addresses custodial credit risk, interest rate risk or credit risk. Under the modified cash basis of accounting, investments are stated at cost.

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.

Note 3 - Property Taxes

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

The 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.

Note 4 - Restricted Cash

Assets restricted to use for a specific purpose through segregation of balances are as follows at December 31, 2025:

- \$63,996 for debt service reserves, required by loan agreements.
- \$34,299 for equipment repair or replacement, required by loan agreements.
- \$33,126 for water and sewer operations and future projects, required by loan agreements.
- \$19,539 for library operations.

Note 5 - Restricted Net Position

The following table shows the net position restricted for other purposes as shown on the statements of net position:

<u>Fund</u>	<u>Restricted By</u>	<u>2025 Amount</u>
General Fund	Statute	\$ 19,539
Capital Project Fund	Contractual	939
Sewer Fund	Contractual	93,946
Water Fund	Contractual	37,475

Note 6 - Retirement Plan

All employees working more than 20 hours per week during the year participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid, defined-benefit plan designed with several defined contribution plan-type provisions, and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <https://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098, or by calling (605) 773-3731.

Benefits Provided

SDRS has four classes of members: Class A general members, Class B public safety and judicial members, Class C Cement Plant Retirement Fund members, and Class D Department of Labor and Regulation members.

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80.

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

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% 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% of compensation funded by part of the employer contribution. The 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 the long-term inflation assumption of 2.25%
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

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, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and, Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions made to the SDRS for the years ended December 31, 2025, 2024 and 2023, were \$8,552, \$7,931 and \$5,787, respectively, equal to the required contributions each year.

Pension Liability (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

At June 30, 2025, SDRS is 100.10% funded, and, accordingly, has a net pension asset. The proportionate share of the components of the net pension asset of SDRS, for the City as of the measurement periods ending June 30, 2025, and disclosed by the City as of December 31, 2025, are as follows:

Proportionate share of total pension liability	\$ 714,462
Less proportionate share of net position restricted for pension benefits	<u>714,860</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (398)</u></u>

At December 31, 2025, the City's proportionate share is a liability (asset) of \$(398) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2025, and the total pension liability (asset) used to calculate the net pension liability (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 0.004681%, which is an increase of 0.000499% from its proportion measured as of June 30, 2024. The City's proportionate share of the net pension liability (asset) is not reported in financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

The total pension liability (asset) in the June 30, 2025, 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 returns 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: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65

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

Public Safety Retirees: PubS-2010, 102% of rates at all ages

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025, valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

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

These ranges are combined to produce the long-term expected rate of return by 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, 2025, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3 %	3.8 %
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
	<u>100.0 %</u>	

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. 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 these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of Liability (Asset) to Change in the Discount Rate

The following presents the City's proportionate share of net pension liability (asset) at June 30, 2025, calculated using the discount rate of 6.5%, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.5%) or one percentage point higher (7.5%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 97,572	\$ (398)	\$ (80,659)

Pension Plan Fiduciary Net Position

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

Note 7 - Risk Management

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

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota in 2017. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes an unlimited lifetime maximum payment per person.

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), 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 SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and to provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to, and cooperate with, the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a members' annual operating contribution, to provide liability coverage detailed below under a claims-made policy, and the premiums are accrued based on the ultimate cost of the experience-to-date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, official's liability and automobile liability.

The City carries a \$0 deductible for the general liability, official's liability and automobile liability coverage indicated above.

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 during the past three years.

Workers' Compensation

The City joined the South Dakota Municipal League Workers' Compensation 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 workers' 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 workers' compensation claims.

The City pays an annual premium to provide workers' 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 the 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 during the past three years.

Unemployment Benefits

The City provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

During the year ended December 31, 2025, no claims for unemployment benefits were paid. At December 31, 2025, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 8 - Commitments and Contingencies

At December 31, 2025, the City was not involved in any litigation that would be material to the financial statements.

Note 9 - Interfund Transfers

Interfund transfers for the year ended December 31, 2025, were as follows:

- Transfer from General Fund to Water Fund in the amount of \$68,742 to supplement the budget.
- Transfer from General Fund to Sewer Fund in the amount of \$71,253 to supplement the budget.

Supplementary Information
December 31, 2025
City of Waubay

City of Waubay

Schedules of Employer's Share of Net Pension Liability (Asset) and Pension Contributions
Year Ended December 31, 2025

Pension Plan	Fiscal Year Ending	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
SDRS	6/30/2025	0.0047%	\$ (398)	\$ 138,256	-0.3%	100.10%
SDRS	6/30/2024	0.0042%	(169)	117,327	-0.1%	100.00%
SDRS	6/30/2023	0.0038%	(369)	97,378	-0.4%	100.10%
SDRS	6/30/2022	0.0048%	(454)	114,720	-0.4%	100.10%
SDRS	6/30/2021	0.0044%	(34,049)	99,300	-34.3%	105.53%
SDRS	6/30/2020	0.0049%	(212)	107,371	-0.2%	100.04%
SDRS	6/30/2019	0.0048%	(504)	101,145	-0.5%	100.09%
SDRS	6/30/2018	0.0036%	(85)	75,371	-0.1%	100.02%
SDRS	6/30/2017	0.0031%	(277)	62,075	-0.4%	100.10%
SDRS	6/30/2016	0.0032%	10,761	60,058	17.9%	96.89%

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2025	\$ 8,552	\$ 8,552	\$ -	\$ 142,536	6.0%
SDRS	12/31/2024	7,931	7,931	-	132,186	6.0%
SDRS	12/31/2023	5,787	5,787	-	96,444	6.0%
SDRS	12/31/2022	6,429	6,429	-	107,155	6.0%
SDRS	12/31/2021	6,828	6,828	-	113,800	6.0%
SDRS	12/31/2020	6,003	6,003	-	100,054	6.0%
SDRS	12/31/2019	6,271	6,271	-	104,530	6.0%
SDRS	12/31/2018	5,597	5,597	-	93,284	6.0%
SDRS	12/31/2017	3,768	3,768	-	62,795	6.0%
SDRS	12/31/2016	3,607	3,607	-	60,120	6.0%

City of Waubay
Schedules of Long-Term Debt
Year Ended December 31, 2025

Indebtedness	Long-Term Debt 1/1/2025	Add New Debt	Less Debt Retired	Less Debt Forgiven	Long-Term Debt 12/31/2025
Governmental Long-Term Debt					
237 Other long-term debt					
Other	\$ 44,334	\$ -	\$ 2,288	\$ -	\$ 42,046
Enterprise Long-Term Debt					
231.02 Revenue bonds					
Wastewater	470,601	-	20,765	-	449,836
Water	412,640	-	7,750	-	404,890
237 Other long-term debt					
Wastewater (#2)	103,737	-	3,685	-	100,052
Wastewater (#3)	812,605	-	20,840	-	791,765
Water	419,556	-	25,358	-	394,198
Total	<u>\$ 2,263,473</u>	<u>\$ -</u>	<u>\$ 80,686</u>	<u>\$ -</u>	<u>\$ 2,182,787</u>

City of Waubay
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenues				
310 Taxes				
311 General property taxes	\$ 166,000	\$ 166,000	\$ 169,150	\$ 3,150
313 General sales and use taxes	160,000	160,000	234,815	74,815
319 Penalties and interest on delinquent taxes	-	-	321	321
Total taxes	326,000	326,000	404,286	78,286
320 Licenses and permits	1,000	1,000	17,645	16,645
330 Intergovernmental revenue				
331 Federal grants	-	-	27,271	27,271
335 State shared revenue				
335.01 Bank franchise tax	1,000	1,000	804	(196)
335.02 Motor vehicle commercial prorate	2,000	2,000	3,804	1,804
335.03 Liquor tax reversion	3,000	3,000	3,159	159
335.04 Motor vehicle licenses (5%)	11,000	11,000	15,611	4,611
335.08 Local government highway and bridge fund	30,000	30,000	40,059	10,059
338 County shared revenue				
338.01 County road tax (25%)	1,000	1,000	1,066	66
338.02 County HBR tax (25%)	2,000	2,000	8,041	6,041
338.03 County wheel tax	4,000	4,000	4,746	746
Total intergovernmental revenue	54,000	54,000	104,561	50,561
340 Charges for goods and services				
341 General government	1,000	1,000	-	(1,000)
348 Cemetery	-	-	1,210	1,210
Total charges for goods and services	1,000	1,000	1,210	210
350 Fines and forfeits				
354 Library	-	-	111	111
Total fines and forfeits	-	-	111	111
360 Miscellaneous revenue				
361 Investment earnings	6,000	6,000	9,542	3,542
367 Contributions and donations from private sources	-	-	5,000	5,000
368 Liquor operating agreements	18,000	18,000	25,887	7,887
369 Other	2,500	2,500	6,042	3,542
Total miscellaneous revenue	26,500	26,500	46,471	19,971
Total revenues	408,500	408,500	574,284	165,784
Expenditures				
410 General government				
411 Legislative	7,000	7,000	8,262	(1,262)
411.5 Contingency	11,500	11,500		
Amount transferred	-	(11,500)	-	-
412 Executive	3,700	3,700	4,606	(906)
414 Financial administration	75,000	75,000	66,116	8,884
419 Other	61,180	61,180	48,134	13,046
Total general government	158,380	146,880	127,118	19,762

City of Waubay
Budgetary Comparison Schedule—General Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
420 Public safety				
421 Police	13,500	13,500	12,000	1,500
422 Fire	14,700	14,700	14,633	67
423 Zoning/Building Inspector	2,000	2,000	-	2,000
Total public safety	30,200	30,200	26,633	3,567
430 Public works				
431 Highways and streets	179,100	258,400	180,854	77,546
437 Cemetery	9,000	9,000	6,304	2,696
439 Transit	600	600	-	600
Total public works	188,700	268,000	187,158	80,842
440 Health and welfare				
449 Other	3,000	6,200	6,233	(33)
Total health and welfare	3,000	6,200	6,233	(33)
450 Culture and recreation				
451 Recreation	4,000	4,000	1,770	2,230
452 Parks	23,000	23,000	13,670	9,330
455 Library	30,000	30,000	18,150	11,850
Total culture and recreation	57,000	57,000	33,590	23,410
460 Conservation and development				
465 Economic development assistance	3,000	3,000	1,825	1,175
Total conservation and development	3,000	3,000	1,825	1,175
470 Debt service				
471 Principal	4,220	4,220	2,288	1,932
472 Interest	4,000	4,000	2,056	1,944
Total debt service	8,220	8,220	4,344	3,876
Total expenditures	448,500	519,500	386,901	132,599
Other Financing Sources (Uses)				
511 Transfers out	-	-	(139,995)	(139,995)
Total other financing sources (uses)	-	-	(139,995)	(139,995)
Net Change in Fund Balance	(40,000)	(111,000)	47,388	(106,810)
Fund Balance, Beginning	798,241	798,241	798,241	-
Fund Balance, Ending	\$ 758,241	\$ 687,241	\$ 845,629	\$ (106,810)

Note 1 - Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular City Council meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the City Council, 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% of the total municipal budget and may be transferred by resolution of the City Council 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.
5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and capital projects funds.

The City did not encumber any amounts at December 31, 2025.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
7. The budget for the General Fund is adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting 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 new fire truck would be reported as a capital outlay expenditure on the governmental funds statement of revenues, expenditures and changes in fund balances; however, in the budgetary schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department-related expenditures.

Note 3 - Schedule of Proportionate Share of the Net Pension Liability (Asset) and Pension Contributions

Changes from 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 as 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, no less than 0% and no greater than 1.56%. For this June 30, 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.



**Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance with
*Government Auditing Standards***

To the City Council
City of Waubay
Waubay, South Dakota

We have audited, 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 (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Waubay (the City) as of December 31, 2025 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Waubay's basic financial statements and have issued our report thereon dated August 26, 2026. The financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Report on Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002, we identified certain deficiencies in internal control that we consider to be material weaknesses and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2025-003 to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and responses as item 2025-003.

The City's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Eide Bailly LLP

Aberdeen, South Dakota
August 26, 2026

2025-001 – Preparation of Financial Statements, Footnotes, and Audit Adjustments

Material Weakness

Criteria: The City of Waubay's (the City) internal control structure should be designed to provide for the preparation of the financial statements and footnotes, which includes having an adequate system for recording and processing entries material to the financial statements being audited in accordance with the modified cash basis of accounting.

Condition: The City does not have an internal control system designed to provide for the preparation of the financial statements and related notes to the financial statements being audited. As a part of the financial statement preparation process and as a result of our audit procedures, we proposed audit adjustments that were not identified as a result of the City's existing internal controls, and, therefore, could result in a material misstatement of the City's financial statements if not recorded.

Cause: The City has limited staff trained to prepare full disclosure financial statements, including related footnotes. This could also cause the need for auditors to, at times, propose material journal entries.

Effect: This condition may affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The identification of proposed audit adjustments indicates that the City's interim financial information might not be materially correct, which may affect management decisions made during the course of the year.

Recommendation: This circumstance is not unusual in an organization of this size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations. Also, a thorough review of the transactions in each fund should take place prior to the beginning of the audit to ensure that the modified cash basis of accounting has been followed for each fund type, especially for transaction types infrequent in occurrence.

Views of Responsible Officials: Management agrees with the finding.

Finding 2025-002 – Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition: The City of Waubay has a limited number of office personnel and, accordingly, does not have adequate internal accounting controls in revenue, expenditures, and payroll functions because of a lack of segregation of duties.

Cause: The City has an insufficient number of staff and cannot justify staffing the number of positions necessary to adequately separate duties.

Effect: This condition increases the risk of fraud or errors that might occur in the financial reporting process and not be detected.

Recommendation: Although it is recognized that the number of office staff may not be large enough to permit adequate segregation of duties in all respects, it is important that management and those charged with governance be aware of this condition. We recommend that the City Council exercise adequate oversight of the accounting function.

Views of Responsible Officials: Management agrees with the finding.

Finding 2025-003 – Violations of South Dakota Codified Law (SDCL)

Significant Deficiency and Non-Compliance

Criteria: A good system of internal controls ensures that all laws and regulations pertaining to the City are monitored and followed to ensure the City remains in compliance. South Dakota Codified Law (SDCL) sets forth the laws and regulations governing municipalities within the state of South Dakota. The following SDCL sections provide the criteria in areas in which we noted absence of controls to ensure compliance with these applicable SDCL's:

- SDCL 9-18-1 provides the criteria for the requirement of when board minutes are required to be published in the official newspaper.
- SDCL 9-21-26.1 provides the criteria for transfers of money from one fund to another to be approved by a two-thirds vote of the governing body.
- SDCL 43-41B-18 provides the criteria for reporting of outstanding checks.
- SDCL 4-11-12 provides the criteria for making the audit report available on the City's website.

Condition: Based on our audit procedures, the City of Waubay violated SDCL related to:

- Regarding SDCL 9-18-1, in 2025, the City did not timely publish the board minutes for 4 of the 13 meetings within the 12-day requirement.
- Regarding SDCL 9-21-26.1, for 2025 fund transfers from the General Fund to the Water and Sewer Funds were not approved by the board.
- For SDCL 43-41B-18, in 2025, the City did not properly report outstanding checks not cashed within one year of issuance.
- For SDCL 4-11-12, the City did not make the annual audit report available on the city website.

Cause: Lack of oversight of management of the City, limited staff size and general unfamiliarity with the applicable SDCL's relating to the above findings could result in the City not being materially compliant with those applicable SDCL's.

Effect: Known noncompliance with these requirements and provisions of SDCL were identified during our audit and could result in potential fine or impact to future funding provided to the City.

Recommendation: We recommend that management of the City review existing controls in place for monitoring compliance with SDCL's and to increase management oversight of compliance with SDCL specifically in the areas in which noncompliance from our audit was noted.

Views of Responsible Officials: Management agrees with the finding.