

B-Y WATER DISTRICT
31039 428th Street
TABOR, SOUTH DAKOTA 57063

AUDIT REPORT

FOR THE YEAR ENDED DECEMBER 31, 2025

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

B-Y WATER DISTRICT
Tabor, South Dakota

DISTRICT OFFICIALS
December 31, 2025

<u>NAME OF BOARD OF DIRECTORS & ADDRESS:</u>			<u>POSITION:</u>
Stacy Frank	40779 293 rd St.	Tripp, SD	Chairman
Chuck Murtha	41723 277 th St.	Parkston, SD	Vice-Chairman
Larry Schwarz	43332 308 th St.	Yankton, SD	Secretary/Treasurer
Paul Baumiller	28120 409 th Ave.	Parkston, SD	Member
Joe Fillaus	403 Maple Street	Avon, SD	Member
Terry Hacecky	1012 W 9 th St.	Yankton, SD	Member
Ordell Munkvold	43503 292 nd St.	Menno, SD	Member
Gary Kronaizl	30629 426 th Ave.	Tabor, SD	Member
Justin Kronaizl	29605 441 st Ave.	Irene, SD	Member
Mark Schaeffer	42804 US Hwy 18.	Menno, SD	Member
Roger Sykora	30107 423 rd Ave.	Tyndall, SD	Member
Duane "D.G." Becker	115 Lewis Trail	Yankton, SD	Member
Michael Welch	3106 Peninah St.	Yankton, SD	Member

MANAGER

Terry Wootton

Schoenfish & Co., Inc.

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B-Y WATER DISTRICT

TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	1-2
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance.....	3-5
Schedule of Prior Audit Findings.....	6
Schedule of Current Audit Findings and Questioned Costs.....	7-12
Independent Auditor’s Report	13-15
Management’s Discussion and Analysis.....	16-19
<u>FINANCIAL STATEMENTS:</u>	
Comparative Statement of Net Position, December 31, 2024 and 2025.....	20-21
Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position Calendar Years 2024 and 2025.....	22
Statement of Cash Flows, December 31, 2024 and 2025.....	23
Notes to the Financial Statements.....	24-39
<u>REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MD&A:</u>	
Schedule of the District’s Proportionate Share of the Net Pension Liability (Asset).....	40
Schedule of the District’s Contributions.....	41
Notes to the Required Supplementary Information – Pension Schedules.....	42
<u>SUPPLEMENTARY INFORMATION:</u>	
Schedule of Expenditures of Federal Awards.....	43
Schedule of Water Sales.....	44
Schedule of Operating Expenses.....	44-45

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

Board of Directors
B-Y Water District
Tabor, 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, the financial statements of the B-Y Water District of Tabor, South Dakota (District), as of December 31, 2025 and for the year then ended, and the related notes to the financial statements, which collectively comprise B-Y Water District's basic financial statements, and have issued our report thereon dated March 9, 2026.

Report on Internal Control Over Financial Reporting

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

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of B-Y Water District's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2025-001 and 2025-002 to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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 determination of financial statements. However, providing an opinion on


compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit. The District's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

This purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity'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.



Schoenfish & Co., Inc.
Certified Public Accountants
March 9, 2026

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

Governing Board
B-Y Water District
Tabor, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the B-Y Water District, South Dakota (District), compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended December 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Current Audit Findings and Questioned Costs.

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Current Audit Findings and Questioned Costs as item 2025-001 to be a material weakness.

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

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purposes. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
March 9, 2026

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Related Finding – Material Weakness:

Prior Finding Number 2024-001:

A material weakness in internal controls was noted due to a lack of segregation of duties for revenues. This finding has not been corrected and is restated under current audit finding number 2025-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTSSummary of the Independent Auditor's Results:Financial Statements

- a. An unmodified opinion was issued on the financial statements as a whole.
- b. A material weakness was disclosed by our audit of the financial statements for a lack of segregation of duties for revenue as discussed in finding number 2025-001 and errors and omissions as discussed in finding number 2025-002.
- c. Our audit did not disclose noncompliance which was material to the financial statements.

Federal Awards

- d. A material weakness was disclosed for internal control over major federal programs for a lack of segregation of duties affecting the compliance requirements as discussed in finding number 2025-001.
- e. An unmodified opinion was issued on compliance with the requirements applicable to major programs.
- f. Our audit did disclose an audit finding that needs to be disclosed in accordance with the 2 CFR 200.516(a) except for a material weakness resulting from the lack of segregation of duties for revenues as discussed in finding number 2025-001.
- g. The federal awards tested as major programs were:
 1. Water and Waste Disposal ALN No. 10.760
- h. The dollar threshold used to distinguish between Type A and Type B federal award programs was \$1,000,000.
- i. B-Y Water District did not qualify as a low-risk entity.

CURRENT FEDERAL AUDIT FINDINGS:Internal Control Related Finding – Material Weakness:Finding Number 2025-001:Condition:

A material weakness in internal controls was noted due to a lack of segregation of duties for revenues which affects compliance requirements.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data. Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets through the separation of key accounting and physical control functions.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)

The AICPA states that, "Segregation of Duties (SOD) is a basic building block of sustainable risk management and internal controls for a business. The principle of SOD is based on shared responsibilities of a key process that disperses the critical functions of that process to more than one person or department. Without this separation in key processes, fraud and error risks are far less manageable."

Cause of Condition:

Three members of the office staff process all revenue transactions from beginning to end. They also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements. A lack of segregation of duties existed for the revenues resulting in decreased reliability of reported financial data and increased potential for the loss of public assets.

Potential Effect of Condition:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

The Manager, Terry Wootton, and the Board of Directors should constantly be aware of this condition and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. The most effective controls lie in management's knowledge of the matters relating to the District's operations, establishing a procedure of rotation of duties and regular review of key areas such as bank reconciliations and strict enforcement of a vacation policy requiring all personnel to be absent from the District for specified times.

Identification as a Repeat Finding:

This is a repeat audit finding since 2011.

CURRENT OTHER AUDIT FINDINGS:

Internal Control Related Finding – Material Weakness:

Finding Number 2025-002:

Condition:

Material weaknesses in internal accounting control and record keeping were identified during the audit. Several significant errors and deficiencies were noted:

- a. Accounts payable were not properly accrued and adjusted at year-end.
- b. Although a physical inventory was performed subsequent to the year-end, inventory balances were not reconciled to the general ledger and adjusted prior to the preparation of the financial statements.
- c. Newly established payroll accounts were not properly mapped within the accounting system, resulting in payroll liabilities and expenses posting to inconsistent or incorrect accounts and requiring numerous audit adjustments.
- d. Wages were not properly allocated between departments.
- e. Health insurance expense was overstated, as each biweekly payroll expensed a full monthly premium rather than a prorated amount.

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SCHEDULE OF CURRENT AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)

- f. Journal entries were posted directly to beginning net position after completion of the 2024 audit to correct or reclassify prior-year amounts that had already been adjusted through the audit process, resulting in duplication and misstatement.

The financial statements included in this report have been adjusted to correct the errors and omissions noted above.

Criteria:

Proper preparation of district records results in increased reliability of reported financial data and decreased potential for the loss of public assets.

SDCL 46A-9-37 states in part that, "The board of directors shall cause to be kept accurate minutes of its meetings and accurate records and books of account, conforming to approved methods of bookkeeping, clearly setting out and reflecting the entire operation, management, and business of the district."

Cause of Condition:

The deficiencies appear to result from informal year-end closing procedures and the need for strengthened reconciliation and supervisory review processes to ensure transactions are consistent.

Potential Effect of Condition:

The noted weaknesses in internal control and record keeping increase the risk of material misstatements in the financial statements and reduce management's ability to monitor financial activity accurately. These conditions create the potential for:

- a. Misclassification of revenues and expenditures, resulting in inaccurate financial reporting.
- b. Reduced reliability of financial information used for decision-making by management and the governing body.
- c. Increased risk that errors, irregularities, or misappropriation of public assets could occur and not be detected in a timely manner.
- d. Noncompliance with state statutes requiring accurate and complete accounting records (SDCL 46A-9-37).

If not corrected, these deficiencies may continue to result in significant audit adjustments and impair the District's ability to ensure accountability and transparency in financial reporting.

Recommendation:

We recommend management strengthen internal controls over financial reporting by implementing formal year-end closing procedures, including timely accrual of accounts payable and reconciliation of inventory to the general ledger prior to the preparation of the financial statements. Management should ensure payroll accounts are properly mapped, wages and related benefits are accurately allocated, and significant journal entries—particularly those affecting beginning net position—are reviewed and approved. Additionally, supervisory review procedures should be established to promote accurate coding of transactions and reliable financial reporting throughout the year.

CLOSING CONFERENCE

The contents of this report were discussed with the Manager, Terry Wootton, and the Bookkeeper, Linda Bares, during the course of the audit and at the conclusion of the audit.

Schoenfish & Co., Inc.

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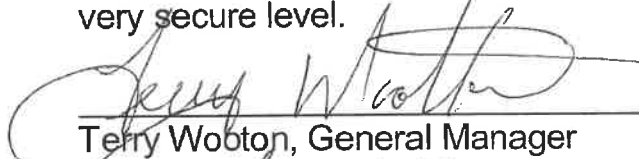
B-Y Water District is an equal opportunity employer and provider

March 4, 2026

Corrective Action Plan Finding Number 2025-001

A material weakness in internal controls was noted due to the lack of segregation of duties for revenue.

B-Y Water District's General Manager Terry Wootton is the contact person for the corrective action plan for this finding. Due to the population served by B-Y Water District and the limited resources available to compensate employees and the fiscal responsibility of utilizing each employee's abilities in the most fiscally responsible nature, B-Y Water District can't justify hiring the additional staff that would be necessary to properly segregate duties. The General Manager, B-Y Water District Board of Directors and B-Y Water District Bookkeeper are aware of the issue. B-Y Water District has put in place policies and is actively working on additional policies that will put controls in place that will safeguard the District's revenue and minimize any future risk. This process will be an ongoing process that will include input from numerous agencies that will ensure B-Y Water District's financial controls are at a very secure level.



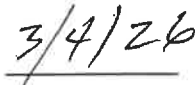
 Terry Wootton, General Manager



 Date



 Mike Mudder, Office Manager



 Date

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Corrective Action Plan Finding Number 2025-002

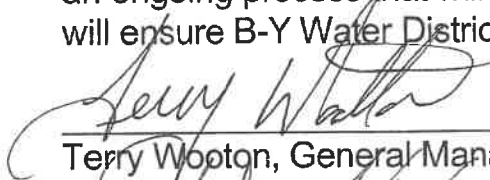
Material weaknesses in internal accounting control and record keeping were identified during the audit. Several significant errors and deficiencies were noted:

1. Accounts payable were not properly accrued and adjusted at year-end. B-Y staff was advised of this issue, corrective action was taken and it should not occur in the future.
2. Although a physical inventory was performed subsequent to the year-end, inventory balances were not reconciled to the general ledger and adjusted prior to the preparation of the financial statements. Currently inventory count was done for the audit but current pricing was not updated. This will be resolved by initiating inventory to be completed by year end.
3. Newly established payroll accounts were not properly mapped within the accounting system, resulting in payroll liabilities and expenses posting to inconsistent or incorrect accounts and requiring numerous audit adjustments. B-Y intends to resolve these issues by better understanding account mapping in Quick Books and getting accounts properly mapped.
4. Wages were not properly allocated between departments. B-Y intends to resolve these issues by better understanding account mapping in Quick Books and getting accounts properly mapped.
5. Health insurance expense was overstated, as each biweekly payroll expensed a full monthly premium rather than a prorated amount. B-Y staff was advised of this issue, corrective action was taken and it should not occur in the future.
6. Journal entries were posted directly to beginning net position after completion of the 2024 audit to correct or reclassify prior-year amounts that had already been adjusted through the audit process, resulting in duplication and misstatement. B-Y staff

March 9, 2026

was advised of this issue, corrective action was taken and it should not occur in the future.

B-Y Water District's General Manager Terry Wootton is the contact person for the corrective action plan for this finding. This process will be an ongoing process that will include input from numerous agencies that will ensure B-Y Water District's ability to correct these issues.



Terry Wootton, General Manager

3/9/26
Date



Mike Mudder, Office Manager

3/9/26
Date

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
B-Y Water District
Tabor, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of B-Y Water District of Tabor, South Dakota, (District) as of December 31, 2025, and for the year then ended, and the related notes of the financial statements, which collectively comprise the District'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 financial position of B-Y Water District as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (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 District 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.

Responsibilities of Management's for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and 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 District's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the B-Y Water District's 2024 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 6, 2025. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2024, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Schedule of the District Contributions, and the Schedule of the District's Proportionate Share of the Net Pension Liability (Asset) 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods

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of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, which as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), Schedule of Water Sales, and Schedule of Operating Expenses, listed in the Table of Contents 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards, Schedule of Water Sales, and Schedule of Operating Expenses is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the District 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 basic 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 March 9, 2026, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
 Certified Public Accountants
 March 9, 2026

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
 P.O. Box 247
 105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

B-Y WATER DISTRICT
PO Box 248
Tabor, SD 57063

Management's Discussion and Analysis

This section of the District's annual financial report presents an analysis of the District's financial performance during the fiscal year ending December 31, 2025. This information is presented in conjunction with the audited basic financial statements which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2025

Net position increased by \$950,316 or 2.5%, from \$38,232,283 as of December 31, 2024 to \$39,182,699 as of December 31, 2025.

Operating revenues increased by \$655,309, or 0.8%, from \$8,241,118 for the year ended December 31, 2024 to \$8,896,427 for the year ended December 31, 2025.

Operating expenses increased by \$385,751, or 5.1%, from \$7,495,729 for the year ended December 31, 2024 to \$7,881,480 for the year ended December 31, 2025.

Interest expense decreased by \$9,924, or 1.2%, from \$809,326 for the year ended December 31, 2024 to \$799,402 for the year ended December 31, 2025.

Capital contributions to the District increased by \$3,008, or 0.9% from \$352,394 for the year ended December 31, 2024 to \$355,402 for the year ended December 31, 2025.

The ongoing significant capital projects were Highway 50 Tyndall Water Main Relocation, Green Island Outdoors Water Plan, Irene Meter Station Review, 2019- Segment #3 Around Yankton, Hwy 18 Tripp to Hwy 25, Reservoir Rehab 2026, AMR Facility Plan, and SCADA Project 2025-2029.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements include notes which explain in detail some of the information included in the financial statements.

REQUIRED FINANCIAL STATEMENTS

The Financial Statements of the District report information utilizing the full accrual basis of accounting. The Financial Statements conform to accounting principles which are generally accepted in the United States of America. The Statement of Net Position includes information on the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the District creditors (liabilities). The Statement of Revenues, Expenses and Changes in Net Position identifies the District's revenues and expenses for the fiscal year ended December 31, 2025. This statement provides information on the District's operations over the past fiscal year and can be used to determine whether the District has recovered all of its actual and project costs through user fees and other charges. The third financial statement is the Statement of Cash Flows. This statement provides information on the District's cash receipts, cash payments, and changes in cash resulting from operations, investment and financing activities. From the Statement of Cash Flows, the reader can obtain comparative information on the source and use of cash and the change in the cash balance for the fiscal year. The prior year summarized comparative information has been derived from the District's 2024 financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position provide an indication of the District's financial condition. The District's net position equals the assets and deferred outflows of resources minus the liabilities and deferred inflows of resources.

BALANCE SHEET

A summary of the District's Net Position is presented below:

Table 1
Condensed Statement of Net Position

	<u>2024</u>	<u>2025</u>
Current and Other Assets	8,510,815	7,282,138
Noncurrent Assets	50,448,839	54,804,686
Total Assets	<u>58,959,654</u>	<u>62,086,824</u>
Pension Related Deferred Outflows	<u>186,455</u>	<u>228,646</u>
Long-Term Liabilities	19,779,623	18,954,190
Other Liabilities	998,832	4,047,578
Total Liabilities	<u>20,778,455</u>	<u>23,001,768</u>
Pension Related Deferred Inflows	<u>135,371</u>	<u>131,003</u>
Net Investment in Capital Assets	28,516,831	30,607,609
Restricted	1,425,490	1,473,413
Unrestricted	<u>8,289,962</u>	<u>7,101,677</u>
Total Net Position	<u>38,232,283</u>	<u>39,182,699</u>

As Table 1 indicates, total assets increased by \$3,127,170 from \$58,959,654 as of December 31, 2024 to \$62,086,824 as of December 31, 2025. This is comprised of a decrease of \$1,228,677 in current assets from 2024 to 2025 and an increase of \$4,355,847 in noncurrent assets from 2024 to 2025, which would reflect the additions for the construction projects.

The long-term liabilities reflect a decrease of \$825,433 from 2024 to 2025, and an increase of \$3,048,746 in current liabilities from 2024 to 2025 mainly due to the increase in short-term interim financing.

Table 1 also indicates that the total net position increased \$950,416 from 2024 to 2025.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The Statement of Revenues, Expenses and Changes in Net Position identify the various revenue and expense items which impact the change in net position.

Table 2
Condensed Statement of Revenues, Expenses and Changes in Net Position

	<u>2024</u>	<u>2025</u>
Operating Revenues	8,241,118	8,896,427
Nonoperating Revenues	447,291	379,469
Total Revenues	<u>8,688,409</u>	<u>9,275,896</u>
Depreciation Expense	2,280,630	2,306,643
Other Operating Expenses	5,215,099	5,574,837
Nonoperating Expenses	835,294	799,402
Total Expenses	<u>8,331,023</u>	<u>8,680,882</u>
Income Before Capital Contributions	<u>357,386</u>	<u>595,014</u>
Capital Contributions	<u>352,394</u>	<u>355,402</u>
Change in Net Position	<u>709,780</u>	<u>950,416</u>
Ending Net Position	<u>38,232,283</u>	<u>39,182,699</u>

Table 2 indicates that the District's total revenues increased by \$587,487, or 6.8% to \$9,275,896 for the year ended December 31, 2025 from \$8,688,409 for the year ended December 31, 2024.

Total expense increased by \$349,859, or 4.2% during 2025.

Capital contributions to the District increased by \$3,008, or 0.9% for the year ended December 31, 2025.

CAPITAL ASSETS

As of December 31, 2025, the District's investment in capital assets, net of depreciation, totaled \$53,417,173, which is an increase of \$4,329,409 over the capital asset balance of \$49,087,764 at December 31, 2024. Capital assets include all of the District's major capital assets, including water treatment facilities, water mains, pipes and storage reservoirs, land, District headquarters and other structures, as well as vehicles and other equipment with a value of \$1,000 or more. A comparison of the District's capital assets is presented in Table 3.

Table3
Capital Assets, Net of Depreciation

	2024	2025
Land	342,853	342,853
Construction in Progress	5,365,923	4,863,496
Buildings and Improvements	43,279,923	48,097,177
Furniture and Equip	99,065	113,647
	<u>49,087,764</u>	<u>53,417,173</u>

LONG TERM LIABILITIES

As of December 31, 2025, the District's had \$19,816,792 in notes and compensated absences payable compared to \$20,608,542 as of December 31, 2024. Principal payments during the year totaled \$792,097 and compensated absences payable increased by \$348. Additional information on the District's long-term liabilities is provided in the Notes to the Financial Statements.

Table4
Long Term Liabilities

	2024	2025
Notes Payable	20,570,933	19,778,836
Compensated Absences	37,608	37,956
	<u>20,608,541</u>	<u>19,816,792</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Board of Director's adopted the District's 2026 budget on December 10, 2025. The approval of the year's budget provides funding for the District's operating, capital, and debt service costs for 2026.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the District's customers, investors and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact B-Y Water District, PO Box 248, Tabor, SD 57063.

B-Y WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2025
With Comparative Totals for December 31, 2024

	2024	2025
<u>ASSETS:</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	5,395,849.90	3,908,076.90
Certificates of Deposit	1,892,893.89	1,984,327.03
Customer Receivables, (net of allowances for uncollectibles, if any)	648,564.29	746,520.29
Interest Receivable	32,977.43	18,601.62
Prepaid Expenses	79,699.94	88,126.41
Inventories	460,829.87	536,485.67
Total Current Assets	8,510,815.32	7,282,137.92
<u>Noncurrent Assets:</u>		
Capital Credits	1,325,404.84	1,349,037.93
Equity in Cobank	34,592.33	36,034.21
Net Pension Asset	1,077.13	2,440.99
<u>Capital Assets:</u>		
Capital Assets, Not Being Depreciated	5,708,775.73	5,206,349.37
Capital Assets, Being Depreciated, Net of Depreciation	43,378,988.89	48,210,823.15
Total Noncurrent Assets	50,448,838.92	54,804,685.65
TOTAL ASSETS	58,959,654.24	62,086,823.57
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Pension Related Deferred Outflows	186,454.98	228,645.68
TOTAL DEFERRED OUTFLOWS OF RESOURCES	186,454.98	228,645.68
<u>LIABILITIES:</u>		
<u>Current Liabilities:</u>		
Accounts Payable	118,968.15	101,134.30
Sales Tax Payable	540.87	337.74
Accrued Wages and Payroll Taxes Payable	7,288.51	8,496.81
Accrued Interest Payable	40,130.09	43,589.67
Unearned Revenues	2,986.00	689.75
Short Term Notes Payable	0.00	3,030,727.13
Accrued Compensated Absences- Current Portion	37,608.09	37,956.19
Notes Payable-Current Portion	791,310.00	824,646.00
Total Current Liabilities	998,831.71	4,047,577.59
<u>Noncurrent Liabilities:</u>		
Notes Payable	19,779,623.46	18,954,190.20
Total Noncurrent Liabilities	19,779,623.46	18,954,190.20
TOTAL LIABILITIES	20,778,455.17	23,001,767.79

The notes to the financial statements are an integral part of this statement.

B-Y WATER DISTRICT
STATEMENT OF NET POSITION
December 31, 2025
With Comparative Totals for December 31, 2024

	2024	2025
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Pension Related Deferred Inflows	135,370.60	131,003.04
TOTAL DEFERRED INFLOWS OF RESOURCES	135,370.60	131,003.04
<u>NET POSITION:</u>		
Net Investment in Capital Assets	28,516,831.16	30,607,609.19
Restricted for SDRS Pension Purposes	52,161.51	100,083.63
Restricted for Debt Service	1,373,329.00	1,373,329.00
Unrestricted Net Position	8,289,961.78	7,101,676.60
TOTAL NET POSITION	38,232,283.45	39,182,698.42

The notes to the financial statements are an integral part of this statement.

B-Y WATER DISTRICT**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION****For the Year Ended December 31, 2025****With Comparative Totals for the Year Ended December 31, 2024**

	<u>2024</u>	<u>2025</u>
<u>OPERATING REVENUES:</u>		
Water Sales	8,041,962.27	8,803,650.99
Service Charges	82,461.18	79,990.02
Other Revenue	116,694.47	12,785.64
Total Operating Revenues	<u>8,241,117.92</u>	<u>8,896,426.65</u>
<u>OPERATING EXPENSES:</u>		
Administrative	1,240,296.66	1,428,626.92
Source of Supply	146,854.44	169,672.58
Pumping	518,555.46	594,981.81
Water Treatment	2,704,509.95	2,952,495.60
Transmission and Distribution	604,881.97	429,059.56
Depreciation and Amortization	2,280,630.11	2,306,643.06
Total Operating Expenses	<u>7,495,728.59</u>	<u>7,881,479.53</u>
OPERATING INCOME (LOSS)	<u>745,389.33</u>	<u>1,014,947.12</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Interest Income	219,091.70	139,671.18
Other Nonoperating Revenue	113,442.63	108,497.59
Patronage Dividends Earned	114,757.43	83,377.76
Pension (Expense)/Revenue	(25,967.83)	47,922.12
Interest Expense	(809,326.46)	(799,402.32)
Total Nonoperating Revenues (Expenses)	<u>(388,002.53)</u>	<u>(419,933.67)</u>
INCOME (LOSS) BEFORE CONTRIBUTIONS AND SPECIAL ITEMS	<u>357,386.80</u>	<u>595,013.45</u>
Capital Contributions - Nonfederal Grants and Members	<u>352,393.92</u>	<u>355,401.52</u>
CHANGE IN NET POSITION	<u>709,780.72</u>	<u>950,414.97</u>
TOTAL NET POSITION - BEGINNING	<u>37,522,502.73</u>	<u>38,232,283.45</u>
TOTAL NET POSITION - ENDING	<u><u>38,232,283.45</u></u>	<u><u>39,182,698.42</u></u>

The notes to the financial statements are an integral part of this statement.

B-Y WATER DISTRICT
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2025
With Comparative Totals for the Year Ended December 31, 2024

	2024	2025
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from Customers	7,970,535.76	8,703,398.74
Other Cash Payments Received	199,155.65	92,775.66
Payments to Employees	(1,241,846.05)	(1,322,237.11)
Payments to Suppliers	(3,984,877.37)	(4,353,162.21)
Net Cash Provided by Operating Activities	2,942,967.99	3,120,775.08
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital Contributions - Nonfederal Grants and Members	352,393.92	355,401.52
Rental Income	7,087.50	7,087.50
Gain on Sale of Capital Assets	7,379.13	2,434.09
Proceeds from Issuance of Long-Term Debt	0.00	3,030,727.13
Contract Fees	98,976.00	98,976.00
Acquisition of Capital Assets	(4,668,722.68)	(6,636,050.96)
Principal Paid on Long-Term Debt	(760,144.24)	(792,097.26)
Interest Paid on Debt	(811,077.44)	(795,942.74)
Net Cash (Used In) Capital and Related Financing Activities	(5,774,107.81)	(4,729,464.72)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Purchase/Sale of Certificates of Deposit	(55,902.98)	(91,433.14)
Cash Dividends from Capital Credits	49,308.35	58,302.79
Interest Income	197,032.49	154,046.99
Net Cash Provided by Investing Activities	190,437.86	120,916.64
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,640,701.96)	(1,487,773.00)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	8,036,551.86	5,395,849.90
CASH AND CASH EQUIVALENTS, END OF YEAR	5,395,849.90	3,908,076.90
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	745,389.33	1,014,947.12
Adjustments to Reconcile Operating Income to Net Cash Provided:		
Depreciation Expense	2,280,630.11	2,306,643.06
Change in Assets and Liabilities:		
Accounts Receivable	(66,257.26)	(97,956.00)
Prepaid Expenses	(9,674.09)	(8,426.47)
Inventories	(61,494.21)	(75,655.80)
Accounts Payable	80,239.45	(18,036.98)
Accrued Wages and Payroll Taxes	(21,520.98)	1,208.30
Accrued Compensated Absences	824.89	348.10
Unearned Revenue	(5,169.25)	(2,296.25)
Net Cash Provided (Used) by Operating Activities	2,942,967.99	3,120,775.08

The notes to the financial statements are an integral part of this statement.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

B-Y Water District (the District) is organized under the authority of, and in compliance with, Chapter 46A-9 of the South Dakota Codified Laws, 1967. As amended as a water user district. A petition to the Board of Natural Resource Development proposing the organization of the District was signed by 25% of the landowners or entrymen within the proposed District, approved by the Board of Natural Resource Development on December 16, 1976, and filed with the Secretary of State on January 5, 1977. The petition and certificate of Approval for the formation of the District was filed by the Secretary of State with the County Auditors in Bon Homme, Yankton, Hutchinson and Turner Counties.

The purpose of the District, as stated in its petition of organization, is to construct or acquire a water system to conserve, control and distribute potable water from the Missouri River at various locations, to homes, pastures, feedlots and elsewhere as deemed feasible and to provide for an ample supply of good quality water to municipalities. The proposed works would consist of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other waterworks deemed necessary to pump, filter, treat, store and distribute potable water.

The principal place of business of the District is Tabor, SD. The District is governed by an elected Board of Directors consisting of thirteen directors. The District is authorized to exercise the power of eminent domain and is a political subdivision of the State of SD. The District has no taxing powers and has no power to levy assessments.

Basis of Presentation

Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met.

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

Measurement Focus and Basis of Accounting

Measurement focus refers to what is being measure, basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the statement of revenues, expenses and changes in fund net position present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Comparative Financial Information

The financial statements include certain prior-year comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended December 31, 2025.

Deposits and Investments

For the purpose of financial reporting, "cash and cash equivalents" includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Law (SDCL) 4-5-6.

Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the District considers all highly liquid deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Certificates of deposit, regardless of maturity, are not considered to be cash and cash equivalents.

Inventories

Inventories are stated at the lower of cost or market. The cost valuation method is first-in, first-out.

Capital Assets

All acquisitions of property, plant and equipment in excess of \$1,000 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized.

Capital assets are recorded at historical cost, or estimated cost, where actual cost could not be determined. Donated capital assets are valued at their estimated acquisition value on the date donated. The total December 31, 2025, balances of business-type capital assets are all valued at original cost. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant, and which extend the useful life of a capital asset are also

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

capitalized. For capital assets used in business-type activities/proprietary fund's operations, construction period interest is not capitalized in accordance with USGAAP.

Depreciation is computed principally by the straight-line method over the following estimated useful lives:

	<u>Years</u>
Buildings	40
Transmission and Distribution Systems	8-40
Meters and Stations	20
Equipment	3-15
Vehicles	3-5

Land is an inexhaustible capital asset and is not depreciated.

When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Long-Term Liabilities

All long-term liabilities to be repaid from business-type resources are reported as liabilities in the statements. The long-term liabilities consist of RECD loans, SRF Loan, and compensated absences.

The accounting for proprietary fund long-term liabilities is on the accrual basis.

Compensated Absences

The District allows employees to accumulate vacation leave. Upon termination, all accumulated vacation leave will be paid to the employee.

Deferred Inflows & Outflows

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. 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. 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.

Equity Classifications

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

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

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

Application of Net Position

It is the District's policy to first use restricted net position, prior to the use of unrestricted net position, when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary of the entity. For the District, these revenues are charges for water sales. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the entity. Revenues and expenses not meeting these definitions are reported as non-operating. The primary non-operating revenue is contract fees with other water districts.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expense during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for doubtful accounts.

Pensions

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

2. DEPOSITS AND INVESTMENTS, CREDIT RISK, CONCENTRATIONS OF CREDIT RISK, AND INTEREST RATE RISK

Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

Deposits - The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC 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.

Investments - In general, SDCL 4-5-6 permits District funds to be invested in

- (a) Securities of the United States and securities guaranteed by the United States Government either directly or indirectly including; or
- (b) repurchase agreements fully collateralized by securities described in (a) above; or
- (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above.

Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2024 and 2025, the District did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Custodial Credit Risk-Deposits —The risk that, in the event of a depository failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of December 31, 2024 and 2025, the District's deposits were fully insured or collateralized and were not exposed to custodial credit risk.

Authorized Investments by the District – The District does not have a formal investment policy that further limits investments beyond those imposed by statutes.

Interest Rate Risk — The District 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.

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

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

3. RECEIVABLES

Receivables are not aggregated in these financial statements. The District expects all receivables to be collected within one year. Allowance for uncollectible accounts receivable is calculated based on historical trend data. For the year ended December 2024 and 2025, the allowance for doubtful accounts totaled \$6,285.13 and \$7,093.13 respectively.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

4. CAPITAL CREDITS AND COBANK EQUITY

The District is a member in several local cooperatives and acquired equity in CoBank and has earned and been paid cash patronage dividends and earned equity as follows:

	<u>Patronage Equity in Cooperatives</u>	<u>CoBank Equity</u>
Balance as of December 31, 2023	1,259,955.76	34,592.33
2023 Dividends and Equity:		
Earned	114,757.43	
Paid	<u>(49,308.35)</u>	
Balance as of December 31, 2024	1,325,404.84	34,592.33
2024 Dividends and Equity:		
Earned	81,935.88	
Paid	<u>(58,302.79)</u>	<u>1,441.88</u>
Balance as of December 31, 2025	<u><u>1,349,037.93</u></u>	<u><u>36,034.21</u></u>

5. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended December 31, 2025, is as follows:

	<u>Balance 01/01/2025</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/2025</u>
Business-Type Activities:				
Capital Assets, Not Being Depreciated:				
Land	342,853.16			342,853.16
Construction Work in Progress	5,365,922.57	6,347,239.64	(6,849,666.00)	4,863,496.21
Total Capital Assets, Not Being Depreciated	<u>5,708,775.73</u>	<u>6,347,239.64</u>	<u>(6,849,666.00)</u>	<u>5,206,349.37</u>
Capital Assets, Being Depreciated:				
Building	1,232,393.55			1,232,393.55
Utility Plant	99,556,314.25	7,082,736.62		106,639,050.87
Machinery & Equipment	820,021.21	55,740.70	(37,820.25)	837,941.66
Total Capital Assets, Being Depreciated	<u>101,608,729.01</u>	<u>7,138,477.32</u>	<u>(37,820.25)</u>	<u>108,709,386.08</u>
Less Accumulated Depreciation for:				
Building	(655,606.61)	(32,631.56)		(688,238.17)
Utility Plant	(56,853,177.80)	(2,232,852.25)		(59,086,030.05)
Machinery & Equipment	(720,955.71)	(41,159.25)	37,820.25	(724,294.71)
Total Accumulated Depreciation	<u>(58,229,740.12)</u>	<u>(2,306,643.06)</u>	<u>37,820.25</u>	<u>(60,498,562.93)</u>
Total Business-Type Activity Capital Assets, Being Depreciated, Net	<u>43,378,988.89</u>	<u>4,831,834.26</u>	<u>0.00</u>	<u>48,210,823.15</u>
Total Business-Type Activity Capital Assets, Net	<u><u>49,087,764.62</u></u>	<u><u>11,179,073.90</u></u>	<u><u>(6,849,666.00)</u></u>	<u><u>53,417,172.52</u></u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

Construction Work in Progress at December 31, 2025 is composed of the following:

Project Name	Project Authorization	Expended Thru 12/31/2025	Committed	Required Future Financing
Highway 50 Tyndall Water Main Relocation	1,889.85	1,889.85	0.00	0.00
Green Island Outdoors Water Plan	188.90	188.90	0.00	0.00
Irene Meter Station Review	5,116.25	5,116.25	0.00	0.00
2019-04 Segment #3 Around Yankton	4,928,935.70	3,909,257.35	0.00	1,019,678.35
Hwy 18 Tripp to Hwy 25	5,200,000.00	251,825.93	0.00	4,948,174.07
Reservoir Rehad 2026	2,727,296.00	395,461.78	1,210,705.22	1,121,129.00
AMR Facility Plan	6,076,980.00	59,000.00	0.00	6,017,980.00
SCADA Project 2025-2029	4,101,876.00	240,756.15	0.00	3,861,119.85
Total Construction Work in Progress	<u>23,042,282.70</u>	<u>4,863,496.21</u>	<u>1,210,705.22</u>	<u>16,968,081.27</u>

6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Business-Type Activities:					
USDA Rural Development Notes Payable	16,874,061.45		(685,632.46)	16,188,428.99	715,495.00
Drinking Water SRF Loan	3,696,872.01		(106,464.80)	3,590,407.21	109,151.00
Total Debt	<u>20,570,933.46</u>	<u>0.00</u>	<u>(792,097.26)</u>	<u>19,778,836.20</u>	<u>824,646.00</u>
Accrued Compensated Absences	37,608.09	348.10		37,956.19	37,956.19
Total Business-Type Activities	<u>20,608,541.55</u>	<u>348.10</u>	<u>(792,097.26)</u>	<u>19,816,792.39</u>	<u>862,602.19</u>
Total Primary Government	<u>20,608,541.55</u>	<u>348.10</u>	<u>(792,097.26)</u>	<u>19,816,792.39</u>	<u>862,602.19</u>

Long-term liabilities payable at December 31, 2024 and 2025 is comprised of the following:

	2024	2025
Note Payable – USDA RD Note #15 For Master Plan Project, monthly installments of \$15,647 including interest, 5.125% interest rate, due June 2035, Collateralized by a mortgage on substantially all assets of the District.	\$1,514,875.19	\$1,402,118.80
Note Payable – USDA RD Note #17 For Intake Project, monthly installments of \$8,533 including interest, 5.125% interest rate, due October 2036, Collateralized by a mortgage on substantially all assets of the District.	\$901,667.85	\$844,140.46

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

<p>Note Payable – USDA RD Note #19 For Project 97-01, monthly installments of \$3,563 including interest, 4.75% interest rate, due April 2038, Collateralized by a mortgage on substantially all assets of the District.</p>	\$418,992.84	\$395,633.61
<p>Note Payable – USDA RD Note #21 For Plant Improvement Project, monthly installments of \$2,090 including interest, 4.75% interest rate, due April 2038, Collateralized by a mortgage on substantially all assets of the District.</p>	\$246,316.95	\$232,641.11
<p>Note Payable – USDA RD Note #25 For Treatment Plant Expansion, monthly installments of \$38,799 including interest, 4.75% interest rate, due December 2043, Collateralized by a mortgage on substantially all assets of the District.</p>	\$5,804,870.56	\$5,610,812.23
<p>Note Payable – USDA RD Note #27 For Northwest Hutchinson Project, monthly installments of \$3,987 including interest, 4.25% interest rate, due May 2045, Collateralized by a mortgage on substantially all assets of the District.</p>	\$651,412.05	\$630,854.50
<p>Note Payable – USDA RD Note #29 For Southern Bon Homme Project, monthly installments of \$3,333 including interest, 4.125% interest rate, due April 2047, Collateralized by a mortgage on substantially all assets of the District.</p>	\$584,126.04	\$567,920.17
<p>Note Payable – USDA RD Note #31 For Southern Bon Homme Project, monthly installments of \$4,511 including interest, 4.125% interest rate, due May 2047, Collateralized by a mortgage on substantially all assets of the District.</p>	\$791,085.23	\$769,172.99
<p>Note Payable – USDA RD Note #33 For the 2009-1 thru 2009-3 Projects, monthly installments of \$14,745 including interest, 4.125% interest rate, due December 2049, Collateralized by a mortgage on substantially all assets of the District.</p>	\$1,439,916.24	\$1,320,120.51
<p>Note Payable – USDA RD Note #34 For the Roof Replacement and Motor Control Projects, monthly installments of \$1,650 including interest, 3.375% interest rate, due December 2049, Collateralized by a mortgage on substantially all assets of the District.</p>	\$333,005.00	\$324,309.84

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

<p>Note Payable – USDA RD Note #36 For Douglas County Project/Segment 1, monthly installments of \$12,305 including interest, 2.75% interest rate, due May 2053, Collateralized by a mortgage on substantially all assets of the District.</p>	\$2,903,661.20	\$2,834,988.23
<p>Note Payable – USDA RD Note #38 For Douglas County Project/Segment 1, monthly installments of \$1,583 including interest, 2.75% interest rate, due April 2053, Collateralized by a mortgage on substantially all assets of the District.</p>	\$373,313.46	\$364,472.40
<p>Note Payable – USDA RD Note #39 For Segment 2, monthly installments of \$3,698 including interest, 2.75% interest rate, due April 2055, Collateralized by a mortgage on substantially all assets of the District.</p>	\$910,818.84	\$891,244.14
<p>Drinking Water-SRF Loan For Project 2016-01, Quarterly installments Of \$32,396 including interest, 2.50% interest Rate, due January 2050.</p>	\$3,696,872.01	\$3,590,407.21
<p>Compensated Absences – Accrued Vacation Payable to District employees as of December 31</p>	\$37,608.09	\$37,956.19
	\$20,608,541.55	\$19,816,792.39

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

The annual requirements to amortize all long-term liabilities outstanding, except compensated absences, as of December 31, 2025, are as follows:

Annual Requirements to Maturity for Long-Term Liabilities
December 31, 2025

Year Ending December 31,	Real Estate Mortgage Payable USDA		Drinking Water-SRF #2		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	715,495	657,833	109,151	88,743	824,646	746,576
2027	747,560	625,768	111,906	85,988	859,466	711,756
2028	779,847	593,481	114,730	83,164	894,577	676,645
2029	816,140	557,188	117,625	80,269	933,765	637,457
2030	852,860	520,468	120,594	77,300	973,454	597,768
2031-2035	4,579,619	2,016,199	650,181	339,287	5,229,800	2,355,486
2036-2040	3,281,682	1,139,706	736,465	253,003	4,018,147	1,392,709
2041-2045	2,747,243	485,632	834,200	155,268	3,581,443	640,900
2046-2050	1,110,365	152,360	795,555	45,493	1,905,920	197,853
2051-2055	557,618	35,847			557,618	35,847
Totals	<u>16,188,429</u>	<u>6,784,482</u>	<u>3,590,407</u>	<u>1,208,515</u>	<u>19,778,836</u>	<u>7,992,997</u>

7. SHORT-TERM DEBT

The District has entered into a short-term loan agreement with CoBank to provide funding for the Rural Development Segment 3 Project. The following is the short-term loan activity for the year:

	Beginning Balance	Additions	Deletions	Ending Balance
Primary Government:				
Business-Type Activities:				
CoBank Interim Loan		3,030,727.13		3,030,727.13
Total Debt	-	<u>3,030,727.13</u>	-	<u>3,030,727.13</u>

8. RESTRICTED NET POSITION

The following table shows the net position restricted as shown on the Statement of Net Position:

Description	Restricted by	2024	2025
USDA Rural Development	Debt Covenant	\$1,373,329.00	\$1,373,329.00
SDRS Pension Purposes	Government Accounting Standards	\$ 52,161.51	\$ 100,083.63

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

9. PENSION PLAN

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 plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provide retirement, disability, and survivor benefits. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12C. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS , P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided

SDRS has four different classes of employees: 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 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 the long-term inflation assumption of 2.25%.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
 (Continued)

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

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

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

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were \$49,967.83, \$48,618.35, and \$42,723.12, respectively, equal to the required contributions each year.

Pension Liabilities (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Recourses to Pension

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

Proportionate share of pension liability	\$ 4,380,484.56
Less proportionate share of net pension restricted for pension benefits	<u>\$ 4,382,925.55</u>
Proportionate share of net pension liability (asset)	<u>\$ (2,440.99)</u>

At December 31 2025, the District reported a liability (asset) of (\$2,440.99) 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 District's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the District's proportion was 0.028700%, which is a decrease of 0.002091% from its proportion measured as of June 30, 2024.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

For the year ended December 31, 2025, the District recognized pension expense (reduction of pension expense) of \$(47,922.12). At December 31, 2025 the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 83,572.13	
Changes in assumption.		\$ 129,569.67
Net Difference between projected and actual earnings on pension plan investments.	118,931.71	
Changes in proportion and difference between District contributions and proportionate share of contributions.	1,685.93	1,433.37
District contributions subsequent to the measurement date.	<u>24,455.91</u>	
TOTAL	<u>\$ 228,645.68</u>	<u>\$ 131,003.04</u>

\$24,455.91 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended
December 31:

2026	\$ 56,987.88
2027	6,226.21
2028	3,580.35
2029	<u>6,392.29</u>
TOTAL	<u>\$ 73,186.73</u>

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

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 percent
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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

<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%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability (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 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 Changes in the Discount Rate

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$598,231.85	\$(2,440.99)	\$(494,535.57)

Pension Plan Fiduciary Net Position

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

10. RISK MANAGEMENT

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

Employee Health Insurance

The District purchases health insurance for its employees from a commercial insurance carrier.

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025
(Continued)

Liability Insurance

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

Workmen's Compensation

The District purchases liability insurance for workmen's compensation from a commercial carrier.

Unemployment Benefits

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

11. SIGNIFICANT CONTINGENCIES – LITIGATION

At December 31, 2025, there were two claims pending against B-Y Water District.

The first claim involves a claim by a contractor that the District failed to appropriately mark its water line. The Plaintiff has not made any attempt to move the case forward in the last year. It is not anticipated that this case will involve any substantial damage claim against the District.

The second claim involves a claim for monetary damages by the Defendant involving a water line easement Bon Homme County, South Dakota. A prior court order in the case allowed the District to condemn property for the water line easement. The remaining issue is the finalization of monetary damages. It is not anticipated that this case will involve any substantial damage claim against the District.

11. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through March 9, 2026, the date on which the financial statements were available to be issued.

In 2025, the board approved borrowing \$3,800,000 from Rural Development with the interim loan to be drawn on CoBank for the Segment 3 Project. At December 31, 2025, \$3,030,727 had been drawn on the interim loan.

REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF THE SCHOOL DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

*Last 10 Years

	District's proportion of the net pension liability/asset	District's proportionate share of net pension liability (asset)	District's covered- employee payroll	District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	Plan fiduciary net position as a percentage of the total pension liability (asset)
2025	0.0287000%	\$ (2,441)	\$ 842,101	0.29%	100.10%
2024	0.0266090%	\$ (1,077)	\$ 746,504	0.14%	100.00%
2023	0.0274960%	\$ (2,684)	\$ 709,210	0.37%	100.10%
2022	0.0282310%	\$ (2,668)	\$ 683,653	0.39%	100.10%
2021	0.0294520%	\$ (225,552)	\$ 661,870	34.08%	105.52%
2020	0.0317957%	\$ (1,381)	\$ 697,823	0.20%	100.04%
2019	0.0301322%	\$ (3,193)	\$ 640,672	0.50%	100.09%
2018	0.0291091%	\$ (679)	\$ 603,958	0.11%	100.02%
2017	0.0289490%	\$ (2,627)	\$ 584,484	0.45%	100.10%
2016	0.0319590%	\$ 107,954	\$ 602,571	17.92%	96.89%

* The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 6/30 of the previous fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE SCHOOL DISTRICT CONTRIBUTIONS

South Dakota Retirement System

Last 10 Fiscal Years

	<u>Contractually required contribution</u>	<u>Contributions in relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>District's covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2025	\$ 49,968	\$ 49,968	\$ -	\$ 822,023	6.08%
2024	\$ 48,618	\$ 48,618	\$ -	\$ 815,691	5.96%
2023	\$ 42,723	\$ 42,723	\$ -	\$ 712,051	6.00%
2022	\$ 41,586	\$ 41,586	\$ -	\$ 693,153	6.00%
2021	\$ 40,841	\$ 40,841	\$ -	\$ 680,672	6.00%
2020	\$ 40,684	\$ 40,684	\$ -	\$ 678,060	6.00%
2019	\$ 39,797	\$ 39,797	\$ -	\$ 663,288	6.00%
2018	\$ 36,937	\$ 36,937	\$ -	\$ 615,615	6.00%
2017	\$ 35,516	\$ 35,516	\$ -	\$ 591,934	6.00%
2016	\$ 36,006	\$ 36,006	\$ -	\$ 600,101	6.00%

**Notes to Required Supplementary Information
for the Year Ended December 31, 2025**
Schedule of the Proportionate Share of the Net Pension Liability (Asset) and
Schedule of 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.

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 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.

B-Y WATER DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2025

Federal Grantor/Pass-Through Grantor Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures 2025
Department of Agriculture: Direct Federal Funding: Water and Waste Disposal Systems for Rural Communities (Note 3)	10.760	*	3,030,727.13
Total Department of Agriculture			<u>3,030,727.13</u>
GRAND TOTAL			<u><u>\$3,030,727.13</u></u>

* Pass-Through Entity Identification Number Not Provided

Note 1: Basis of Presentation

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

Note 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. The District has elected not to use the 15-percent de minimis indirect cost rate as allowed under the Uniform Guidance

Note 3: Major Federal Financial Assistance Program

This represents a Major Federal Financial Assistance Program.

Note 4: Federal Loan Program

The District had the following loan balances outstanding at December 31, 2025. These loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the Schedule.

Cluster/Program Title	Federal Assistance Listing Number	Amount Outstanding	Included as Federal Expenditure on this Schedule for 2025
USDA Rural Development Loan	10.760	3,030,727.13	3,030,727.13

B-Y WATER DISTRICT
SUPPLEMENTARY FINANCIAL INFORMATION
For the Year Ended December 31, 2025
With Comparative Totals for the Year Ended December 31, 2024

	2024	2025
SCHEDULE OF WATER SALES		
Residential	4,777,901.08	5,097,355.36
Town	2,769,783.35	3,171,985.98
Commercial	179,127.76	199,050.26
Public Authority	156,998.42	163,943.00
Pasture Taps	158,151.66	171,316.39
	<u>8,041,962.27</u>	<u>8,803,650.99</u>
SCHEDULE OF OPERATING EXPENSES		
Source of Supply		
Labor	24,841.62	30,210.64
Maintenance and Repair	122,012.82	139,457.48
Miscellaneous	0.00	4.46
	<u>146,854.44</u>	<u>169,672.58</u>
Pumping		
Purchased Power	394,012.96	446,488.60
Maintenance and Repair	62,097.50	48,196.06
Miscellaneous	37,603.38	70,086.51
Labor	24,841.62	30,210.64
	<u>518,555.46</u>	<u>594,981.81</u>
Water Treatment		
Utilities	798,513.32	873,353.00
Chemicals	1,138,188.70	1,239,804.77
Maintenance and Repair	457,499.67	553,518.12
Labor	267,237.51	264,837.37
Miscellaneous	43,070.75	20,982.34
	<u>2,704,509.95</u>	<u>2,952,495.60</u>
Transmission and Distribution		
Labor	264,262.46	272,427.19
Maintenance and Repair	315,424.01	138,644.40
Supplies and Materials	2,647.72	1,050.21
Miscellaneous	22,547.78	16,937.76
	<u>604,881.97</u>	<u>429,059.56</u>

The notes to the financial statements are an integral part of this statement.

B-Y WATER DISTRICT

SUPPLEMENTARY FINANCIAL INFORMATION

For the Year Ended December 31, 2025

With Comparative Totals for the Year Ended December 31, 2024

	<u>2024</u>	<u>2025</u>
General and Administrative		
Employee Fringe Benefits	336,131.04	406,334.27
Office Salaries	216,202.73	228,087.30
Vehicle Expense	61,860.80	63,565.11
Insurance	140,019.91	156,941.53
Payroll Taxes	66,182.98	63,036.10
Engineer Expense	46,178.60	69,559.97
Director Fees	21,450.00	28,650.00
Professional Services	49,431.76	55,840.06
Repairs and Maintenance	20,733.10	40,480.06
Telephone	14,352.29	13,922.19
Postage	20,059.39	23,282.73
Office Supplies	25,468.38	20,496.82
Miscellaneous	8,559.88	11,120.62
Equipment and Tools	8,191.44	6,630.47
Travel	11,442.15	14,945.81
Advertising	4,593.69	4,619.74
Water Samples	7,117.00	12,890.58
Dues and Subscriptions	34,271.01	51,411.04
One Call Expense	6,339.20	5,841.92
Utilities	141,711.31	150,970.60
	<u>1,240,296.66</u>	<u>1,428,626.92</u>

The notes to the financial statements are an integral part of this statement.