Financial Statements
December 31, 2025

Dakota Dunes Community Improvement District

Independent Auditor's Report

The Board of Supervisors
Dakota Dunes Community Improvement District
Dakota Dunes, South Dakota

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Dakota Dunes Community Improvement District (the District) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 the governmental activities, the business-type activities, and each major fund of the 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 for the Financial Statements

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

eidebailly.com
24 2nd Ave. S.W. • P.O. Box 430 • Aberdeen, SD 57402-0430 • T 605.225.8783 • F 605.225.0508 • EOE

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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of net pension liability (asset), and schedule of pension contributions 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 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 budgetary comparison information and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the budgetary comparison information and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2026, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
August 12, 2026

This section of the Dakota Dunes Community Improvement District's annual financial report presents management's discussion and analysis of the District's financial performance for the year ended December 31, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's General Fund total revenues generated from property taxes, franchise taxes, charges for service and other revenues typical to operations was $4,288,705 in 2025, as compared to $2,551,775 in 2024. This was a 68.1 percent increase in revenues primarily due to an increase in property tax revenues, FEMA receipts of $1,656,623, and State Grants from South Dakota Department of Public Safety of $285,685 for the Big Sioux River Levee repair. Operating expenses increased from $2,773,928 in 2024 to $5,072,295 in 2025. This increase can primarily be attributed to more operating expenses in 2025 due to the focus on street and roadway concrete repairs, Big Sioux River Levee repairs, and Dakota Dunes CID Maintenance Building construction work in progress.

- The District's business-type activities (Enterprise Fund) charges for water and sewer services increased from $2,165,119 in 2024 to $2,314,689 in 2025. This was a 6.9 percent increase, primarily due to increased irrigation and water use because of a very dry year. Water and Sewer rates for Dakota Dunes residents and businesses increased in July 2025. The water rate increase was due to maintaining adequate income to expense ratio in that fund. The sewer rate increase was due to a July 2025 increase in sewer disposal rates charged by Sioux City and also maintaining adequate income to expense ratio in that fund. Expenses increased by 16.5 percent from $1,835,678 in 2024 to $2,138,022 in 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report includes four sections: management's discussion and analysis, the basic financial statements and related notes, required supplementary information, and other supplementary information. The basic financial statements include two types of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the District government, reporting the District's operations in more detail than the government-wide statements.

    - The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.

    - Proprietary fund statements offer short-term and long-term financial information about the activities that the District operates like businesses. The District has two proprietary funds – the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed information. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The following schedule summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of Dakota Dunes' Government-Wide and Fund Financial Statements

	Government-Wide	Fund Statements	
	Statements	**Governmental Funds**	**Proprietary Funds**
Scope	Entire Dakota Dunes CID (except fiduciary funds and the fiduciary component units)	The activities of the District that are not proprietary or fiduciary, such as finance office, security, and parks	Activities the District operates similar to private businesses, the water and sewer systems
Required Financial Statements	*Statement of Net Position *Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenses and Changes in Net Position *Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources – is one way to measure the District's financial health or position.

- Increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, consideration needs to be given to additional nonfinancial factors such as changes in the District's property tax base.

The government-wide financial statements of the District are reported in two categories:

- Governmental Activities – This category includes most of the District's basic services, such as security, public works, parks department, and general administration. Property taxes, charges for services, state and federal grants, and interest earnings finance most of these activities.

- Business-type Activities – The District charges a fee to customers to help cover the costs of certain services it provides. The District's water and sewer systems are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- State law requires some of the funds to be established.

- The District Board establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- Governmental Funds – Most of the District's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets that can be readily converted to cash, flow in and flow out of these funds; and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps determine whether more or less financial resources can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided on the subsequent page that explains the relationship (or differences) between the statements.

- Proprietary Funds – Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The District's enterprise funds are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1
Summary of Net Position

	Governmental Activities		Business-type Activities		Total		Total Percent Change
	2024	2025	2024	2025	2024	2025	
Current and Other Assets	$ 3,816,364	$ 3,229,844	$ 2,614,500	$ 2,989,441	$ 6,430,864	$ 6,219,285	-3.3%
Capital Assets	14,115,772	14,574,337	11,029,652	11,511,031	25,145,424	26,085,368	3.7%
Total Assets	$ 17,932,136	$ 17,804,181	$ 13,644,152	$ 14,500,472	$ 31,576,288	$ 32,304,653	2.3%
Deferred Outflows of Resources	$ 80,541	$ 98,988	$ 55,228	$ 66,501	$ 135,769	$ 165,489	21.9%
Long-term Liabilities Outstanding	$ 212,748	$ 138,366	$ 1,747,647	$ 2,053,220	$ 1,960,395	$ 2,191,586	11.8%
Other Liabilities	130,521	296,820	87,803	178,526	218,324	475,346	117.7%
Total Liabilities	$ 343,269	$ 435,186	$ 1,835,450	$ 2,231,746	$ 2,178,719	$ 2,666,932	22.4%
Deferred Inflows of Resources	$ 58,172	$ 54,396	$ 429,765	$ 411,564	$ 487,937	$ 465,960	-4.5%
Net Position:							
Net Investment in Capital Assets	$ 13,907,538	$ 14,439,471	$ 9,294,446	$ 9,472,304	$ 23,201,984	$ 23,911,775	3.1%
Restricted	463	229,215	19,395	53,857	19,858	283,072	1325.5%
Unrestricted	3,703,235	2,744,901	2,120,324	2,397,502	5,823,559	5,142,403	-11.7%
Total Net Position	$ 17,611,236	$ 17,413,587	$ 11,434,165	$ 11,923,663	$ 29,045,401	$ 29,337,250	1.0%

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, and deferred inflows of resources in order of relative liquidity. Liabilities are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the District, consisting of compensated absences payable and the SRF Loan, have been reported in this manner on the Statement of Net Position. The difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources is its net position.

The District's net position in capital assets reflects its investment in capital assets (e.g. land, buildings, machinery and equipment); less any related outstanding debt used to acquire those assets. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The District's restricted net position represents resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statutes, federal regulations, grantors, or debt covenants. Total restricted net position increased from $19,858 at the end of 2024 to $283,072 at the end of 2025. This increase was due to Sewer Surcharge for a parallel sewer project and Surcharge for a water looping project, as well as excess FEMA grant related funds received. Surcharges are set to pay debt servicing those projects and are restricted for that purpose and excess FEMA grant funds are restricted for future repair of flood related damages.

The remaining balance of net position is unrestricted and may be used to meet the District's ongoing obligations to citizens and creditors.

At the ends of the current and prior year, the District is able to report positive balances in net position for its separate governmental and business-type activities. Total unrestricted net position decreased from $5,823,559 at the end of 2024 to $5,142,403 at the end of 2025. This is due to the use of reserve funds for capital projects such as the Dakota Dunes CID Maintenance Building construction work in progress. The District's positive net position shows that it is able to finance its day-to-day activities.

Changes in Net Position

The District's revenues totaled $6,980,875 (See Table 2). Nearly 64% of the District's revenue comes from charges for services and property taxes, with 31 cents of every dollar raised coming from property taxes and 33 cents of every dollar raised coming from charges for services (primarily water and sewer operations).

The District's expenses totaled $6,689,026 (See Table 2). This is an increase of $1,722,759. The District's expenses cover a range of services, with 50 percent related to public work services (road maintenance, water system services and sewer system services).

Table 2
Changes in Net Position

	Governmental Activities		Business-type Activities		Total		Total Percent
	2024	2025	2024	2025	2024	2025	Change
Revenues:							
Program Revenues:							
Charges for Service	$ 2,250	$ 2,370	$ 2,147,487	$ 2,300,108	$ 2,149,737	$ 2,302,478	7.1%
Capital Grants and Contributions	634,816	1,942,308	172,343	247,025	807,159	2,189,333	100.0%
General Revenues:							
Property Taxes	2,071,106	2,192,352	-	-	2,071,106	2,192,352	5.9%
Other	114,988	171,896	316,635	124,816	431,623	296,712	-31.3%
Total Revenues	$ 2,823,160	$ 4,308,926	$ 2,636,465	$ 2,671,949	$ 5,459,625	$ 6,980,875	27.9%
Expenses:							
General Government	$ 485,675	$ 642,305	$ -	$ -	$ 485,675	$ 642,305	32.2%
Public Safety	138,412	203,780	-	-	138,412	203,780	47.2%
Public Works	963,733	1,169,669	-	-	963,733	1,169,669	21.4%
Culture and Recreation	1,486,544	2,487,048	-	-	1,486,544	2,487,048	67.3%
Interest on Long-Term Debt	10,635	3,773	-	-	10,635	3,773	-64.5%
Water	-	-	1,049,644	1,244,973	1,049,644	1,244,973	18.6%
Sewer	-	-	831,624	937,478	831,624	937,478	12.7%
Total Expenses	$ 3,084,999	$ 4,506,575	$ 1,881,268	$ 2,182,451	$ 4,966,267	$ 6,689,026	34.7%
Change in Net Position	$ (261,839)	$ (197,649)	$ 755,197	$ 489,498	$ 493,358	$ 291,849	
Net Position - Beginning	$ 17,873,075	$ 17,611,236	$ 10,678,968	$ 11,434,165	$ 28,552,043	$ 29,045,401	
Net Position - Ending	$ 17,611,236	$ 17,413,587	$ 11,434,165	$ 11,923,663	$ 29,045,401	$ 29,337,250	

Governmental Activities

Table 2 and the narrative that follows consider the operations of the governmental activities.

Total revenues for the District's governmental activities increased by 52.6%, and total governmental expenses increased by 46.1%. The increase in revenues is primarily due to an increase in FEMA receipts and State Grants from South Dakota Department of Public Safety for the Big Sioux River Levee repair. The increase in expenses is due to the Big Sioux Levee repair project related to the 2024 Big Sioux River Flood Event.

Business-type Activities

Revenues of the District's business-type activities including other (charges for service + other revenue) increased by 1.3% to $2,671,949 and expenses increased by 16.0% to $2,182,451. Factors contributing to these results included the following:

- Revenues from Charges for Services increased from $2,147,487 in 2024 to $2,300,108 during 2025, a 7.1% increase, due to increased water usage for irrigation because of the dry weather. Water rates also increased in July 2025. Additionally, there was a year-over-year increase in grants of $74,682.

- Water expenses increased from $1,049,644 in 2024 to $1,244,973 during 2025, a 18.6% increase. Sewer expenses increased from $831,624 in 2024 to $937,478 during 2025, a 12.7% increase.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial analysis of the District's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The District currently has one governmental fund - the general fund, and two business-type funds, water and sewer.

General Fund Budgetary Highlights

General Fund 2025 revenues were over budget by $1,256,801. The General Fund expenditures consist of General Government, Public Safety, Public Works, and Culture and Recreation. Capital outlay-related expenditures are presented within their respective departmental function. Dakota Dunes Community Improvement District expenditures were $656,252 more than budgeted in 2025. The operating expenses over budget can be explained by increased expenses related to the Big Sioux Levee repair project related to the 2024 Big Sioux Flood Event.

CAPITAL ASSET ADMINISTRATION

At the end of 2025, the District had net capital assets of $26,085,368 including land, buildings, and various machinery and equipment (See Table 3). This amount represents a net increase (including additions and deductions) of $939,944.

Table 3
Capital Assets Net of Accumulated Depreciation and Amortization

	Governmental Activities		Business-type Activities		Total Dollar	Total Percentage
	2024	2025	2024	2025	Change	Change
Land	$ 2,959,427	$ 2,959,427	$ 73,806	$ 73,806	$ -	0.0%
Construction in Progress	103,570	1,427,003	176,367	980,782	2,127,848	760.1%
Buildings	6,018	5,140	-	-	(878)	-14.6%
Improvements other than Buildings	9,978,554	9,238,814	10,627,153	10,285,213	(1,081,680)	-5.2%
Machinery and Equipment	909,501	814,977	61,375	87,421	(68,478)	-7.1%
Right of Use Asset	158,702	128,976	90,951	83,809	(36,868)	-14.8%
Total Capital Assets (Net)	$ 14,115,772	$ 14,574,337	$ 11,029,652	$ 11,511,031	$ 939,944	3.7%

This year's major capital asset additions included:

- Governmental activities included fixed asset additions of the following: 2025 Scag Mower, Bobcat Bucket, 2025 Bobcat Tractor, 2024 Frontier Aerator, 2025 Chemical and Fertilizer Spreader, 2025 Meadows Park Equipment Curbing, Oregon Belt Grinder, 4 Radar Speed Signs, Water Tower Access Concrete and West Lift Station Access Concrete

- Business-type activities included the fixed asset addition of the following: 2025 Dodge Ram 2500, and the North Sioux City Water Interconnect.

See Note 7 for more disclosure information on the District's capital assets.

Table 4
Outstanding Debt and Obligations

	Governmental Activities		Business-type Activities		Total Dollar	Total Percentage
	2024	2025	2024	2025	Change	Change
Direct Borrowing	$ 44,526	$ -	$ -	$ -	$ (44,526)	-100.0%
Leases	163,708	134,866	94,721	88,417	(35,146)	-13.6%
Compensated Absences	4,514	3,500	12,441	14,494	1,039	6.1%
SRF Loan 2015	-	-	965,264	891,992	(73,272)	-7.6%
SRF Loan 2023	-	-	254,698	243,906	(10,792)	-4.2%
SRF Loan 2023	-	-	420,523	402,704	(17,819)	-4.2%
SRF Loan 2024	-	-	-	411,708	411,708	100.0%
Total Outstanding Debt and Obligations	$ 212,748	$ 138,366	$ 1,747,647	$ 2,053,221	$ (165,284)	11.8%

The District is liable for the accrued vacation and sick leave payable to full-time employees who meet the length of service requirements.

The District has paid in full the direct borrowing agreement for a Pelican street sweeper. The District also has lease outstanding lease liabilities related to right-to-use assets for governmental activities of $134,866 and for business-type activities of $88,417. The District has outstanding SRF Loans for the following: Clearwell loan of $891,922, Parallel Sewer Line of $243,906, Water Looping of $402,704 and Sewer Force Main Replacement Project of $411,708 payable to the State of South Dakota. These loans are secured by a security interest in the District's Water System Income and Revenues or project income surcharge revenues. These loans were taken out to fund the Clear Well Project, the Parallel Sewer Line Project, the Water Looping Project and the Sewer Force Main Replacement Project. The SRF loans are expected to be fully paid off in February 2036, April 2044, April 2044, and January 2046 respectfully. In 2017, the District added a monthly surcharge to every water account of $6.98 to pay for SRF Clearwell loan and was adjust to $6.56 in July 2025. In January 2024, the District added a monthly surcharge to every sewer account of $1.10 to pay for the SRF Parallel Sewer Line loan. In January 2024, the District added a monthly surcharge to every water account of $1.70 to pay for the SRF Water Looping loan. In January 2025, the District added a monthly surcharge to sewer account of $1.75 to pay for the SRF Force Main Replacement loan.

See Note 8 for more disclosure information on the District's outstanding debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's taxable value for the 2026 fiscal year increased 2.89% from $776,773,400 in 2025 to $799,228,889 for 2026. The District requested collections of $2,282,586 for property taxes for 2026.

Unlike municipalities, the District does not have authority to assess sales tax. Therefore, a substantial amount of General Fund revenues comes from property tax.

The District adopted a General Fund operating budget for fiscal year 2026 that includes total revenue of $2,415,586, total expenses of $1,281,575, and a capital budget of $15,000 for equipment and $3,184,000 for other capital uses. Other capital uses included $2,800,000 for construction of the Dakota Dunes CID Maintenance Building, $24,000 for I-29 light replacement, $100,000 for the Oak Tree Lane paving construction-use easement, $125,000 to upgrade the trail under I-29 to asphalt, $100,000 for asphalt paving at the Maintenance Building and Water Plant, and $35,000 for Meadows sidewalk replacement along the levee trail. This budget projected $2,229,566 use of cash from cash reserves.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional information, contact the Dakota Dunes Community Improvement District's Finance Office, P.O. Box 1997, 335 Sioux Point Road, Suite 200, Dakota Dunes, South Dakota 57049, or call (605) 232-4211.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 1,908,997	$ 2,092,848	$ 4,001,845
Investments	-	510,303	510,303
Internal balances	(44,520)	44,520	-
Accounts receivable, net	1,307,795	237,678	1,545,473
Inventories	23,046	93,197	116,243
Other assets	33,507	10,211	43,718
Net pension asset	1,019	684	1,703
Capital assets			
Land and construction in progress	4,386,430	1,054,588	5,441,018
Other capital assets, net	10,058,931	10,372,634	20,431,565
Right-to-use lease assets, net	128,976	83,809	212,785
Total assets	17,804,181	14,500,472	32,304,653
Deferred Outflows of Resources			
Pension related deferred outflows	98,988	66,501	165,489
Total deferred outflows of resources	98,988	66,501	165,489
	$ 17,903,169	$ 14,566,973	$ 32,470,142
Liabilities			
Accounts payable	$ 233,191	$ 126,420	$ 359,611
Other current liabilities	63,629	52,106	115,735
Noncurrent liabilities			
Due within one year	40,958	146,300	187,258
Due in more than one year	97,408	1,906,920	2,004,328
Total liabilities	435,186	2,231,746	2,666,932
Deferred Inflows of Resources			
Pension related deferred inflows	54,396	36,544	90,940
Other deferred inflows	-	375,020	375,020
Total deferred inflows of resources	54,396	411,564	465,960
Net Position			
Net investment in capital assets	14,439,471	9,472,304	23,911,775
Restricted for			
Debt service purposes	-	53,173	53,173
SDRS pension	1,019	684	1,703
Flood damage repairs	228,196	-	228,196
Unrestricted	2,744,901	2,397,502	5,142,403
Total net position	17,413,587	11,923,663	29,337,250
	$ 17,903,169	$ 14,566,973	$ 32,470,142

		Program Revenues			Net (Expense) Revenue and Changes in Net Position — Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental activities							
General government	$ 642,305	$ 2,370	$ -	$ -	$ (639,935)	$ -	$ (639,935)
Public safety	203,780	-	-	-	(203,780)	-	(203,780)
Public works	1,169,669	-	-	-	(1,169,669)	-	(1,169,669)
Culture and recreation	2,487,048	-	-	1,942,308	(544,740)	-	(544,740)
Interest on long-term debt	3,773	-	-	-	(3,773)	-	(3,773)
Total governmental activities	4,506,575	2,370	-	1,942,308	(2,561,897)	-	(2,561,897)
Business-type activities							
Water	1,244,973	1,301,811	-	-	-	56,838	56,838
Sewer	937,478	998,297	-	247,025	-	307,844	307,844
Total business-type activities	2,182,451	2,300,108	-	247,025	-	364,682	364,682
Total primary government	$ 6,689,026	$ 2,302,478	$ -	$ 2,189,333	(2,561,897)	364,682	(2,197,215)
General Revenues							
Taxes							
Property taxes					2,192,352	-	2,192,352
State shared revenue					32,655	-	32,655
Unrestricted investment earnings					117,550	90,322	207,872
Miscellaneous revenue					21,691	34,494	56,185
Total general revenues and transfers					2,364,248	124,816	2,489,064
Change in Net Position					(197,649)	489,498	291,849
Net Position - Beginning					17,611,236	11,434,165	29,045,401
Net Position - Ending					$ 17,413,587	$ 11,923,663	$ 29,337,250

		General Fund
Assets		
Cash and cash equivalents	$	1,908,997
110 Taxes receivable, current		26,790
112 Taxes receivable, delinquent		3,615
115 Accounts receivable, net		18,704
132 Due from other governments		1,258,686
142 Inventories		23,046
155 Prepaid expenses		33,507
	$	3,273,345
Liabilities		
202 Accounts payable	$	233,191
207 Contracts payable - retained percentage		58,333
208 Due to other funds		44,520
216 Accrued wages payable		5,296
Total liabilities		341,340
Deferred Inflows of Resources		
245 Unavailable revenue - property taxes		14,762
247 Unavailable revenue - other		14,507
Total deferred inflows of resources		29,269
Fund Balance		
263 Nonspendable		56,553
264 Restricted		228,196
267 Unassigned		2,617,987
Total fund balance		2,902,736
	$	3,273,345

	Total
Total Fund Balances - Governmental Funds	$ 2,902,736
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:	
Net pension asset reported in governmental activities is not an available financial resource and, therefore, is not reported in the funds.	1,019
Pension related deferred outflows are components of pension asset and, therefore, are not reported in the funds.	98,988
Assets such as taxes receivable (delinquent) and special receivables (current, delinquent and deferred) are not available to pay for current period expenditures and, therefore, are deferred in the funds.	29,269
Pension related deferred inflows are components of pension asset and, therefore, are not reported in the funds.	(54,396)
Capital and right-to-use lease assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	14,574,337
Long-term liabilities, including bonds payable, lease liabilities, and compensated absences payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(138,366)
Net Position - Governmental Activities	$ 17,413,587

	General Fund
Revenues	
310 Taxes	
311 General property taxes	$ 2,183,857
319 Penalties and interest on delinquent taxes	2,809
330 Intergovernmental revenue	
331 Federal grants	1,656,623
334 State grants	285,685
335 State shared revenue	
335.01 Bank franchise tax	32,655
360 Miscellaneous revenue	
361 Investment earnings	117,550
362 Rentals	2,370
369 Other	7,156
Total revenues	4,288,705
Expenditures	
410 General government	
411 Legislative	3,000
412 Executive	54,338
414 Financial administration	563,487
Total general government	620,825
420 Public safety	
421 Police	151,229
Total public safety	151,229
430 Public works	
431 Highways and streets	474,399
432 Sanitation	5,967
Total public works	480,366
450 Culture and recreation	
452 Parks	3,733,392
Total culture and recreation	3,733,392
470 Debt service	86,483
Total expenditures	5,072,295
Excess of Revenue over (under) Expenditures	(783,590)

	General Fund
Other Financing Sources (Uses)	
391.27 Lease proceeds	8,148
Total other financing sources (uses)	8,148
Net Change in Fund Balances	(775,442)
Fund Balance - Beginning	3,678,178
Fund Balance - Ending	$ 2,902,736

		Total
Net Change in Fund Balances - Total Governmental Funds	$	(775,442)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		459,217
In the statement of activities, gains and losses on disposal of capital assets and termination of lease assets and lease liabilities are reported; whereas, in the governmental funds, the proceeds from the disposal or termination are reflected, regardless of whether a gain or loss is realized.		28
Lease liabilities are not recognized in governmental funds, but are an increase in long-term liabilities on the government-wide statements.		(8,148)
Payment of principal on long-term debt and lease liabilities is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		80,836
Governmental funds do not reflect the change in accrued leave; but, the statement of activities reflects the change in accrued leave through expenditures.		1,014
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		20,193
Accrued interest reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds.		1,874
Changes in pension related deferred outflows/inflows are direct components of pension asset and are not reflected in the governmental funds.		22,779
Change in Net Position of Governmental Activities	$	(197,649)

	Water Fund	Sewer Fund	Totals
Current Assets			
Cash and cash equivalents	$ 2,092,848	$ -	$ 2,092,848
151 Investments	510,303	-	510,303
115 Accounts receivable, net	91,950	110,034	201,984
130 Leases receivable	35,694	-	35,694
131 Due from other funds	276,558	3,955	280,513
141 Inventory of supplies	91,847	1,350	93,197
155 Prepaid expenses	7,658	2,553	10,211
Total current assets	3,106,858	117,892	3,224,750
Noncurrent Assets			
189 Net pension asset	513	171	684
Capital assets			
160 Land	72,826	980	73,806
164 Improvements other than buildings	12,367,959	7,623,311	19,991,270
166 Machinery and equipment	219,722	-	219,722
168 Construction work in progress	51,556	929,226	980,782
173 Right-to-use leased assets	101,016	33,672	134,688
Less accumulated depreciation	(6,120,871)	(3,717,487)	(9,838,358)
Less accumulated amortization	(38,159)	(12,720)	(50,879)
Total noncurrent assets	6,654,562	4,857,153	11,511,715
Deferred Outflows of Resources			
196 Pension related deferred outflows	49,873	16,628	66,501
Total deferred outflows of resources	49,873	16,628	66,501
	$ 9,811,293	$ 4,991,673	$ 14,802,966

Some amounts reported for business-type activities in the statement of net position are different because:	
Business-type activities reflect the net due from/due to other funds as internal balances within the assets section of the statement of net position	(235,993)
	$ 14,566,973

	Water Fund	Sewer Fund	Totals
Current Liabilities			
202 Accounts payable	$ 94,632	$ 31,788	$ 126,420
207 Contracts payable, retained percentage	-	38,941	38,941
208 Due to other funds	4	235,989	235,993
215 Accrued interest payable	5,072	2,585	7,657
216 Accrued wages payable	2,439	819	3,258
220 Customer deposits	2,250	-	2,250
226 Bonds and leases payable current			
226.02 Revenue	93,674	23,668	117,342
226.04 Leases	10,849	3,616	14,465
230 Compensated absences payable	10,870	3,623	14,493
Total current liabilities	219,790	341,029	560,819
Noncurrent Liabilities			
231 Bonds payable			
231.02 Revenue	1,201,022	631,946	1,832,968
234 Lease liabilities	55,464	18,488	73,952
Total noncurrent liabilities	1,256,486	650,434	1,906,920
Deferred Inflows of Resources			
247 Other deferred inflows of resources	375,020	-	375,020
248 Pension related deferred inflows	27,406	9,138	36,544
Total deferred inflows of resources	402,426	9,138	411,564
Net Position			
253.10 Net investment in capital assets	5,293,040	4,179,264	9,472,304
253.20 Restricted net position, restricted for			
253.21 Revenue bond debt service	14,841	38,332	53,173
253.29 SDRS pension purposes	513	171	684
253.90 Unrestricted net position	2,624,197	(226,695)	2,397,502
Total net position	7,932,591	3,991,072	11,923,663
	$ 9,811,293	$ 4,991,673	$ 14,802,966

	Water Fund	Sewer Fund	Totals
Operating Revenue			
380 Charges for goods and services	$ 1,155,199	$ 951,774	$ 2,106,973
380 Debt service surcharge	146,612	46,523	193,135
369 Miscellaneous	8,084	6,497	14,581
Total operating revenue	1,309,895	1,004,794	2,314,689
Operating Expenses			
410 Personal services	287,338	95,828	383,166
420 Other current expenses	580,385	650,223	1,230,608
426 Materials	14,170	-	14,170
453 Amortization	20,652	3,659	24,311
457 Depreciation	304,983	180,784	485,767
Total operating expenses	1,207,528	930,494	2,138,022
Operating Income	102,367	74,300	176,667
Nonoperating Revenue (Expense)			
330 Operating grants	-	247,025	247,025
361 Investment earnings	73,728	16,594	90,322
362 Rental revenue	19,885	-	19,885
442 Interest expense	(37,445)	(6,984)	(44,429)
366 Gain on termination of lease	21	7	28
Total nonoperating revenue (expense)	56,189	256,642	312,831
Income Before Contributions and Transfers	158,556	330,942	489,498
Change in Net Position	158,556	330,942	489,498
Net Position - Beginning	7,774,035	3,660,130	11,434,165
Net Position - Ending	$ 7,932,591	$ 3,991,072	$ 11,923,663

	Water Fund	Sewer Fund	Totals
Cash Flows from (used for) Operating Activities			
Receipts from customers	$ 1,318,346	$ 992,846	$ 2,311,192
Payments to suppliers	(511,616)	(661,483)	(1,173,099)
Payments to employees	(304,132)	(101,422)	(405,554)
Net Cash from Operating Activities	502,598	229,941	732,539
Cash Flows from (used for) Noncapital Financing Activities			
Advances (payments) to other funds	124,070	(46,879)	77,191
Operating grants	-	247,025	247,025
Net Cash from Noncapital Financing Activities	124,070	200,146	324,216
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from capital debt	-	411,708	411,708
Purchase of capital assets	(106,339)	(838,680)	(945,019)
Principal paid on lease liabilities	(10,329)	(3,443)	(13,772)
Principal paid on capital debt	(91,091)	(10,792)	(101,883)
Interest paid on lease liabilities	(1,381)	(460)	(1,841)
Interest paid on capital debt	(36,416)	(5,014)	(41,430)
Net Cash used for Capital and Related Financing Activities	(245,556)	(446,681)	(692,237)
Cash Flows from (used for) Investing Activities			
Purchase of investments	(510,303)	-	(510,303)
Proceeds from maturity of investments	500,000	-	500,000
Interest earnings	73,728	16,594	90,322
Receipts from rentals	6,697	-	6,697
Net Cash from Investing Activities	70,122	16,594	86,716
Net Change in Cash and Cash Equivalents	451,234	-	451,234
Cash and Cash Equivalents, Beginning	1,641,614	-	1,641,614
Cash and Cash Equivalents, Ending	$ 2,092,848	$ -	$ 2,092,848
Cash from Operating Activities			
Operating income	$ 102,367	$ 74,300	$ 176,667
Adjustments to reconcile operating income to			
net cash from operating activities			
Depreciation and amortization expense	325,635	184,443	510,078
Change in assets and liabilities			
Receivables	7,473	(11,948)	(4,475)
Inventories	11,441	450	11,891
Prepaid expenses	516	172	688
Pension asset	(275)	(92)	(367)
Pension related deferred outflows	(8,451)	(2,822)	(11,273)
Accounts and other payables	70,982	(11,882)	59,100
Accrued wages payable	(7,095)	(2,359)	(9,454)
Customer deposits	978	-	978
Compensated absences payable	1,539	513	2,052
Pension related deferred inflows	(2,512)	(834)	(3,346)
Net Cash from Operating Activities	$ 502,598	$ 229,941	$ 732,539
Noncash Investing, Capital and Financing Activities			
Purchase of capital assets in accounts payable	$ -	$ 38,941	38,941
Lease liability for the acquisition of a right-to-use lease asset	6,111	2,037	8,148
Gain on termination of lease	21	7	28

Note 1 - Summary of Significant Accounting Policies

A. Financial Reporting Entity

The reporting entity of the Dakota Dunes Community Improvement District (the “District”) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and, other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity’s financial statements to be misleading or incomplete. The District does not include any component units within its reporting entity.

B. Basis of Presentation

The financial statements of the District have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The GASB is the standard-setting body for governmental accounting and financial reporting.

Government-Wide Financial Statements

The statement of net position and the statement of activities display information about the District as whole. These statements include the financial activities of the overall government. In order to minimize the grossing-up effect on assets and liabilities within the governmental and business-type funds activities columns of the primary government, amounts reported as interfund receivables and payables have been eliminated in the governmental and business-type activities columns, except for the net, residual amounts due between governmental and business-type activities, which are presented as internal balances (as applicable). These statements distinguish between the governmental and business-type activities of the District. Governmental activities, generally, are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed, in whole or in part, by fees charged to external parties.

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

Fund Financial Statements

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

A fund is considered major if it is the primary operating fund of the District or it meets the following criteria:

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

The funds of the financial reporting entity are described below:

Governmental Funds

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

Proprietary Funds

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

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

Enterprise Funds

The District reports the following major enterprise funds:

Water Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the District's waterworks system and related facilities.

Sewer Fund – Financed primarily by user charges, this fund accounts for the construction and operation of the District's sanitary sewer and related facilities.

C. Measurement Focus and Basis of Accounting

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

Measurement Focus

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, both governmental and business-type activities are presented using the “economic resources” measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements

In the fund financial statements, the “current financial resources” measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the “economic resources” measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting

Government-Wide Financial Statements

In the government-wide statement of net position and statement of activities, governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests) and expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. “Available” means resources are collected, or to be collected, soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The District considers significant revenues, excluding revenues from reimbursement grants, reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Revenues from reimbursement grants and other reimbursement items are recognized when all eligibility requirements imposed by the provider have been met. Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt, which are recognized when due. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under long-term leases are reported as other financing sources.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

D. Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

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

E. Deposits and Investments

For the purpose of financial reporting on the statement of net position and fund balance sheets, cash and cash equivalents includes all demand and savings accounts, 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.

F. Receivables

Receivables are composed of amounts owed to the District by residents for water and sewer services rendered. All trade receivables are shown net of an allowance for uncollectibles. The allowance for uncollectibles on trade accounts receivables totaled $0 at December 31, 2025.

Lease receivables are recorded by the District as the present value of future lease payments expected to be received from the lessee during the lease term, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the District charges the lessee.

G. Capital Assets

Capital assets include land, buildings, improvements other than buildings, machinery, equipment, and vehicles that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets, including roads and bridges, are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

All capital assets are valued at historical cost or estimated cost if actual historical cost could not be determined. Donated capital assets are valued at their estimated acquisition value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use.

For governmental activities, capital assets’ construction period interest is not capitalized in accordance with U.S. GAAP. For capital assets used in business-type activities and proprietary fund operations, construction period interest is not capitalized in accordance with U.S. GAAP.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with net capital assets reflected in the statement of net position. Capitalization thresholds (the dollar values at which asset acquisitions are added to the capital asset accounts), depreciation and amortization methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Land	***	***	***
Buildings	$ 50,000	Straight-line	50 years
Improvements other than buildings			
Water/Sewer Lines	25,000	Straight-line	50 years
Roads	50,000	Straight-line	15 - 75 years
Other Improvements	10,000	Straight-line	15 - 50 years
Machinery, equipment and vehicles	2,500	Straight-line	5 - 20 years

****Land, an inexhaustible capital asset, is all capitalized and is not depreciated.*

The accounting treatment over capital assets depends on whether those assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

Right-to-use leased assets are recognized at the lease commencement date and represent the District's right to use an underlying asset for the lease term. Right-to-use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the leased asset into service. Right-to-use leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 10 years.

H. Long-Term Liabilities

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities consist, primarily, of notes payable, direct borrowings, lease liabilities, and compensated absences payable.

In the fund financial statements, debt and lease proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. In addition, governmental fund types recognize bond issuance costs during the current period. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the District.

I. Program Revenues

Program revenues are derived directly from the program itself or from parties other than the District's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

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

J. Deferred Inflows and Deferred Outflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has two items that qualify for reporting in this category reported in the government-wide statement of net position. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end and changes in the net pension asset/liability not included in pension expense.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District's governmental funds report unavailable revenues from delinquent property taxes or other revenue sources. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is changes in the net pension asset/liability not included in pension expense reported in the government-wide statement of net position. The third item is deferred inflows related to leases where the District is the lessor and is reported in the enterprise funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on a straight-line basis over the term of the lease.

K. Proprietary Funds Revenue and Expense Classifications

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

L. Cash and Cash Equivalents

The District pools the cash resources of its funds for cash management purpose. The governmental and proprietary funds essentially have access to the entire amount of their cash and investment resources on demand. Accordingly, each proprietary fund's equity in the cash management pool of the District is considered to be cash equivalents for the purpose of the statement of cash flows. The cash management pool of the District includes checking, savings and money market funds.

M. Equity Classifications

Government-Wide Statements

Equity is classified as net position and is displayed in three components:

- Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and amortization (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

- 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.

- Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements

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

N. 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.

O. Fund Balance Classification Policies and Procedures

The District follows GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. Nonspendable fund balance includes inventory and prepaid expenses that are not in spendable form.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. Restricted fund balance includes Federal Emergency Management Agency (FEMA) funds received for which eligible costs have not yet been incurred.
- Committed Fund Balance – Amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the District intends to use for a specific purpose. Intent can be expressed by the District Board of Supervisors or by an official or body to which the District Board of Supervisors delegates the authority.
- Unassigned Fund Balance – Includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

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

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

P. Pensions

For purposes of measuring the net pension asset, deferred outflows/inflows of resources, and pension expense/(revenue) information about the fiduciary net position of the South Dakota Retirement System (SDRS), additions to/deductions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Adoption of New Standard

As of January 1, 2025, the District adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. There was not a significant effect on the District's financial statements as result of the implementation of this standard.

Note 2 - Deposits and Investments: Fair Value Measurement, Credit Risk, Concentrations of Credit Risk, and Interest Rate Risk

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

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

Deposits

The District's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain, at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 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.

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

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's deposit policy follows state statute which requires that deposits in excess of the depository insurance maximums must be collateralized 100%. The District's deposits and investments with financial institutions were in excess of FDIC limits in the approximate amount of $4,098,000 as of December 31, 2025. The District's uninsured deposits with financial institutions were adequately collateralized with securities held by the pledging financial institutions.

Investments

In general, SDCL 4-5-6 permits municipal funds to be invested in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) 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 that investments shall 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, 2025, the District's investments consisted solely of certificates of deposit held for investment purposes.

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 further investment policy that would limit its investment choices.

Custodial Credit Risk – The risk that, in the event of a counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District has no investments exposed to custodial credit risk.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. The District's investments consist solely of certificates of deposit held with local banks.

Note 3 - Receivables and Payables

Receivables and payables are not aggregated in these financial statements. The District expects all receivables to be collected within one year, except for lease receivables which will be received throughout the entire lease term.

Note 4 - Inventory

Inventory in the General Fund consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

In the fund financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of current net position.

Inventory in the proprietary funds is recorded as an asset when acquired. The consumption of inventories is charged to expense as it is consumed. Inventories are recorded at the lower of cost or market, on the first-in, first-out cost flow assumption.

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase and charged to expense as it is consumed.

Note 5 - Property Taxes

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

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

Note 6 - Due from Other Governments

The District's due from other governments consists of a due from federal government of $1,048,905 and a due from state government of $209,781 for grant money from the Federal Emergency Management Agency (FEMA).

Note 7 - Changes in Capital Assets

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

Primary Government	Balance 1/1/25	Transfers	Increases	Decreases	Balance 12/31/25
Governmental Activities					
Capital assets, not being depreciated					
Land, not depreciated	$ 2,959,427	$ -	$ -	$ -	$ 2,959,427
Construction work in progress	103,570	-	1,323,433	-	1,427,003
Total capital assets, not being depreciated	3,062,997	-	1,323,433	-	4,386,430
Capital assets, being depreciated					
Buildings	23,807	-	-	-	23,807
Improvements other than buildings	30,309,975	68,602	59,530	-	30,438,107
Machinery and equipment	2,153,459	-	80,701	(18,226)	2,215,934
Total	32,487,241	68,602	140,231	(18,226)	32,677,848
Less accumulated depreciation for					
Buildings	(17,789)	-	(878)	-	(18,667)
Improvements other than buildings	(20,331,421)	(68,602)	(799,270)	-	(21,199,293)
Machinery and equipment	(1,243,958)	-	(175,225)	18,226	(1,400,957)
Total accumulated depreciation	(21,593,168)	(68,602)	(975,373)	18,226	(22,618,917)
Total capital assets, being depreciated, net	10,894,073	-	(835,142)	-	10,058,931
Right-to-use leased assets being amortized					
Right-to-use lease assets	244,354	-	8,148	(4,895)	247,607
Total	244,354	-	8,148	(4,895)	247,607
Less accumulated amortization for					
Right-to-use lease assets	(85,652)	-	(37,222)	4,243	(118,631)
Total accumulated amortization	(85,652)	-	(37,222)	4,243	(118,631)
Total right-to-use lease assets, being amortized, net	158,702	-	(29,074)	(652)	128,976
Governmental activity capital assets, net	$ 14,115,772	$ -	$ 459,217	$ (652)	$ 14,574,337

Depreciation and amortization expense was charged to functions as follows:

Governmental Activities	
General government	$ 37,222
Public safety	52,551
Public works	822,269
Culture and recreation	100,553
Total depreciation and amortization expense - governmental activities	$ 1,012,595

Primary Government	Balance 1/1/25	Increases	Increases	Decreases	Balance 12/31/25
Business-Type Activities					
Capital assets, not being depreciated					
Land, not depreciated	$ 73,806	$ -	$ -	$ -	$ 73,806
Construction work in progress	176,367	-	983,960	(179,545)	980,782
Total capital assets, not being depreciated	250,173	-	983,960	(179,545)	1,054,588
Capital assets, being depreciated					
Improvements other than buildings	19,928,207	(68,602)	131,665	-	19,991,270
Machinery and equipment	171,841	-	47,881	-	219,722
Total	20,100,048	(68,602)	179,546	-	20,210,992
Less accumulated depreciation for					
Improvements other than buildings	(9,301,054)	68,602	(473,605)	-	(9,706,057)
Machinery and equipment	(110,466)	-	(21,835)	-	(132,301)
Total accumulated depreciation	(9,411,520)	68,602	(495,440)	-	(9,838,358)
Total capital assets, being depreciated, net	10,688,528	-	(315,894)	-	10,372,634
Right-to-use leased assets being amortized					
Right-to-use lease assets	131,435	-	8,148	(4,895)	134,688
Total	131,435	-	8,148	(4,895)	134,688
Less accumulated amortization for					
Right-to-use lease assets	(40,484)	-	(14,638)	4,243	(50,879)
Total accumulated amortization	(40,484)	-	(14,638)	4,243	(50,879)
Total right-to-use lease assets, being amortized, net	90,951	-	(6,490)	(652)	83,809
Business-type activities capital assets, net	$ 11,029,652	$ -	$ 661,576	$ (180,197)	$ 11,511,031

Depreciation and amortization expense was charged to functions as follows:

Business-type Activities	
Water	$ 325,635
Sewer	184,443
Total depreciation and amortization expense - business-type activities	$ 510,078

The District has active construction projects as of December 31, 2025, related to a bike path project, maintenance building project, sewer system project, and other various small upgrades. At year-end, the District has remaining contractual commitments related to these projects of approximately $1,598,000.

Note 8 - Long-Term Liabilities

A summary of the changes in long-term liabilities follows:

Primary Government	January 1, 2025	Increases	Decreases	December 31, 2025	Due Within One Year
Governmental Activities					
Direct borrowing - equipment	$ 44,526	$ -	$ (44,526)	$ -	$ -
Leases	163,708	8,148	(36,990)	134,866	37,458
Compensated absences*	4,514	-	(1,014)	3,500	3,500
Total governmental activities	212,748	8,148	(82,530)	138,366	40,958
Business-Type Activities:					
SRF Drinking Water Loan 2015	965,264	-	(73,272)	891,992	75,495
SRF Drinking Water Loan 2023	420,523	-	(17,819)	402,704	18,178
SRF Clean Water Loan 2023	254,698	-	(10,792)	243,906	11,010
SRF Clean Water Loan 2024	-	411,708	-	411,708	12,658
Leases	94,721	8,148	(14,452)	88,417	14,465
Compensated absences*	12,441	2,053	-	14,494	14,494
Total business-type activities	1,747,647	421,909	(116,335)	2,053,221	146,300
Total primary government	$ 1,960,395	$ 430,057	$ (198,865)	$ 2,191,587	$ 187,258

*The roll-forward schedule only reports the net change in the compensated absences liability.

Compensated absences liability includes the amount owed by the District to employees for their accrued annual and sick leave balances.

Long-term liabilities payable at December 31, 2025, is comprised of the following (excluding compensated absences):

During, 2021, the District entered into a direct borrowing agreement with CapFirst Equipment Finance for the purchase of a street sweeper. The agreement matured in April 2025 and required five annual payments of $47,158 at an interest rate of 5.9125% and was secured by the streetsweeper. Payments are made from the General Fund. The amount outstanding at December 31, 2025, was $0.

The South Dakota State Revolving Fund (SRF) Drinking Water Loan 2015 matures in February 2036 and is payable in quarterly payments of $25,353, including interest, on the 15th day of February, May, August, and November. The interest rate on the loan is 3.0%. Payments on the loan are made by the Water Fund. The District has pledged future revenues from the system as security for the principal and interest payments on the 2015 SRF Drinking Water Loan. Total remaining principal and interest on the loan is $891,992 and $147,476, respectively. Principal and interest paid and total customer revenues for 2025 were $101,412 and $1,272,336, respectively.

The South Dakota State Revolving Fund (SRF) Drinking Water Loan 2023 matures in April 2044 and is payable in quarterly payments of $6,524, including interest, on the 15th day January, April, July, and October. The interest rate on the loan is 2.0%. Payments on the loan are made by the Water Fund from surcharge revenues.

The South Dakota State Revolving Fund (SRF) Clean Water Loan 2023 matures in April 2044 and is payable in quarterly payments of $3,951, including interest, on the 15th day of January, April, July, and October. The interest rate on the loan is 2.0%. Payments on the loan are made by the Sewer Fund from surcharge revenues.

The South Dakota State Revolving Fund (SRF) Clean Water Loan 2024 matures in January 2046 and is payable in quarterly payments of $6,257, including interest, on the 15th day of January, April, July, and October. The interest rate on the loan is 2.0%. Payments on the loan are made by the Sewer Fund from surcharge revenues.

Maturities

The annual requirements to maturity for all debt outstanding, including lease liabilities as of December 31, 2025 are as follows:

Year Ending December 31	SRF Drinking Water Loan 2015 Principal	SRF Drinking Water Loan 2015 Interest	SRF Drinking Water Loan 2023 Principal	SRF Drinking Water Loan 2023 Interest	SRF Clean Water Loan 2023 Principal	SRF Clean Water Loan 2023 Interest
2026	$ 75,496	$ 25,916	$ 18,178	$ 7,918	$ 11,010	$ 4,796
2027	77,786	23,625	18,544	7,552	11,235	4,574
2028	80,146	21,265	18,918	7,178	11,458	4,348
2029	82,578	18,834	19,299	6,797	11,689	4,117
2030	85,083	16,328	19,688	6,408	11,924	3,881
2031-2035	465,739	41,319	104,554	25,928	63,325	15,704
2036-2040	25,164	189	115,521	14,961	69,967	9,061
2041-2045	-	-	88,002	3,337	53,298	2,020
Total	$ 891,992	$ 147,476	$ 402,704	$ 80,079	$ 243,906	$ 48,501

Year Ending December 31	SRF Clean Water Loan 2024 Principal	SRF Clean Water Loan 2024 Interest	Leases Principal	Leases Interest	Total Principal	Total Interest
2026	$ 12,658	$ 6,113	$ 51,923	$ 3,988	$ 169,265	$ 48,731
2027	17,174	7,853	54,422	2,925	179,161	46,529
2028	17,520	7,507	31,589	2,046	159,631	42,344
2029	17,873	7,154	30,034	1,430	161,473	38,332
2030	18,233	6,793	28,918	832	163,846	34,242
2031-2035	96,829	28,306	26,397	297	756,844	111,554
2036-2040	106,986	18,149	-	-	317,638	42,360
2041-2045	118,208	6,927	-	-	259,508	12,284
2046-2050	6,227	29	-	-	6,227	29
Total	$ 411,708	$ 88,831	$ 223,283	$ 11,518	$ 2,173,593	$ 376,405

Note 9 - Leases

Lessee Activities

The District has entered into various lease agreements for equipment and office and building space. The District is required to make principal and interest payments through April 2034 under these various lease agreements. The lease liability was valued using discount rates between 1.75% and 2.00% based on the District's incremental borrowing rate at the inception of the leases or the rate implicit in the lease, if available.

Lessor Activities

The District has accrued a receivable for lease of real estate for the placement of communications equipment. The remaining receivable for this lease was $35,694 as of December 31, 2025. Deferred inflows related to this lease was $34,980 as of December 31, 2025. Interest revenue recognized in the Water Fund on this lease was $732 for the year ended December 31, 2025. Principal receipts of $1,668 were recognized during the fiscal year. The interest rate on the lease is 2.00%. Final receipt is expected in fiscal year 2043.

The District also has three long-term tower leases that mature in May 2052. The District received the entire lease payment amount, for each lease, upfront in May 2012 totaling $515,000. Current year rental income recognized in the Water Fund related to these leases was $12,875. The balance of unrecognized revenue was $340,040 at December 31, 2025, and is included as deferred inflow of resources on the statement of net position.

Note 10 - Interfund Balances and Activity

Interfund receivable and payable balances at December 31, 2025, were:

Fund	Interfund Receivable	Interfund Payable
General Fund	$ -	$ 44,520
Water Fund	276,558	4
Sewer Fund	3,955	235,989
	$ 280,513	$ 280,513

The interfund receivable and payable are result of certain expenses being paid out of the Water Fund that also get allocated to the General and Sewer Funds. All interfund activity is expected to be repaid within one year.

Note 11 - Risk Management

Primary Government

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 year 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. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance

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

The District carries a $1,000 deductible for automobile liability, a $2,500 deductible for machinery liability, a $1,000 deductible for buildings and contents, and a $250 deductible for miscellaneous property coverage.

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

Workers' Compensation

The District participates in the South Dakota Municipal League Workers' Compensation Fund, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop and administer, on behalf of the member organizations, a program of workers' compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The District's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to, and cooperate with, the fund to resolve any workers' compensation claims. The District pays an annual premium to provide workers' compensation coverage for its employees under a self-funded program, and the premiums are accrued based on the ultimate costs of the experience-to-date of the fund members. Coverage limits are set by state statute. The pool pays for the first $650,000 of any claim per individual. The pool has reinsurance that covers up to statutory limits in addition to a separate combined employer liability limit of $2,000,000 per incident.

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

Unemployment Benefits

The District has elected to be self-insured and retains all risk for liabilities resulting from claims for unemployment benefits.

During the year ended December 31, 2025, $5,530 of claims for unemployment benefits were paid out. At December 31, 2025, no claims had been filed for unemployment benefits and none are anticipated in the next fiscal year.

Note 12 - Retirement Plan

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

Benefits Provided

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85, or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation public safety members where the sum of age and credited service is equal to or greater than 75. All Foundation retirement benefits that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60% joint and survivor benefit, or a 100% joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5% of compensation funded by part of the employer contribution. The VRAs will receive investment earnings based on investment returns.

Legislation enacted in 2017 established the current COLA process. At each valuation date:

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

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

All benefits except those depending on the member's accumulated contributions are annually increased by the cost-of-living adjustment.

Contributions

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan: Class A members, 6% of salary; Class B judicial members, 9% of salary; and, Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The District's share of contributions made to the SDRS for the years ended December 31, 2025, 2024 and 2023, were $40,118, $34,251 and $32,939, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions

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 SDRS for the District as of this measurement period and reported by the District as of December 31, 2025, are as follows:

Proportionate share of pension liability	$ 3,057,029
Less proportionate share of net position restricted for pension benefits	3,058,732
Proportionate share of net pension liability (asset)	$ (1,703)

At December 31, 2025, the District reported an asset of $1,703 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2025, and the total pension asset used to calculate the net pension 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 0.020029%, which was an increase of 0.000753% from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the District recognized a reduction of pension expense of $37,765. At December 31, 2025, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	$ 58,323	$ -
Changes in assumption	-	90,423
Net difference between projected and actual earnings on pension plan investments	82,999	-
Changes in proportion and difference between District contributions and proportionate share of contributions	2,531	517
District contributions subsequent to the measurement date	21,636	-
	$ 165,489	$ 90,940

At December 31, 2025, there was $21,636 reported as deferred outflow of resources related to pensions resulting from the District's contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability (or increase in the net pension asset) 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 expense) as follows:

Year Ended December 31:	Amount
2026	$ 40,424
2027	5,140
2028	2,846
2029	4,503
Total	$ 52,913

Actuarial Assumptions

The total pension asset in the June 30, 2025, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real returns of 4.00%.
Future COLAs	1.56%

Mortality Rates
- All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
- Active and Terminated Vested Members:
  - Teachers, Certified Regents, and Judicial: PubT-2010
  - Other Class A Members: PubG-2010
  - Public Safety Members: PubS-2010
- Retired Members:
  - Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
  - Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
  - Public Safety Members: PubS-2010, 102% of rates at all ages
- Beneficiaries:
  - Pub G-2010 contingent survivor mortality table
- Disabled Members:
  - Public Safety: PubS-2010 disabled member mortality table
  - Others: PubG-2010 disabled member mortality table

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

The following presents the District's proportionate share of net pension liability (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 one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
District's proportionate share of the net pension liability (asset)	$ 417,491	$ (1,703)	$ (345,124)

Pension Plan Fiduciary Net Position

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

Note 13 - Litigation

At December 31, 2025, the District was not involved in any litigation.

Required Supplementary Information
December 31, 2025

Dakota Dunes Community Improvement District

Pension Plan	Fiscal Year Ending *	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	District's Covered Payroll (b)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability Asset
SDRS	6/30/2025	0.0200%	$ (1,703)	$ 596,964	0.29%	100.10%
SDRS	6/30/2024	0.0193%	(780)	540,805	0.14%	100.00%
SDRS	6/30/2023	0.0215%	(2,094)	553,258	0.38%	100.10%
SDRS	6/30/2022	0.0216%	(2,040)	515,398	0.40%	100.10%
SDRS	6/30/2021	0.0224%	(171,821)	509,146	33.75%	105.52%
SDRS	6/30/2020	0.0239%	(1,036)	523,574	0.20%	100.04%
SDRS	6/30/2019	0.0221%	(2,341)	469,755	0.50%	100.09%
SDRS	6/30/2018	0.0212%	(495)	441,190	0.11%	100.02%
SDRS	6/30/2017	0.0218%	(1,978)	440,678	0.45%	100.10%
SDRS	6/30/2016	0.0239%	80,745	456,002	17.71%	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.

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2025	$ 40,118	$ 40,118	$ -	$ 668,637	6.0%
SDRS	12/31/2024	34,251	34,251	-	571,909	6.0%
SDRS	12/31/2023	32,939	32,939	-	548,983	6.0%
SDRS	12/31/2022	31,482	31,482	-	524,698	6.0%
SDRS	12/31/2021	31,538	31,538	-	525,629	6.0%
SDRS	12/31/2020	29,497	29,497	-	491,621	6.0%
SDRS	12/31/2019	30,480	30,480	-	507,996	6.0%
SDRS	12/31/2018	26,820	26,820	-	446,998	6.0%
SDRS	12/31/2017	26,153	26,153	-	435,889	6.0%
SDRS	12/31/2016	26,740	26,740	-	445,670	6.0%

Note 1 - 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.

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

Benefit Provision Changes:

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

Actuarial Assumption Changes:

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

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

As of June 30, 2025, the FVFR, assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, no less than 0% and no greater than 1.56%. For this June 30, 2025, actuarial valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

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

Actuarial Method Changes:

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

Supplementary Information
December 31, 2025

Dakota Dunes Community Improvement District

	Budgetary Amounts Original	Budgetary Amounts Final	Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
Revenues				
310 Taxes				
311 General property taxes	$ 2,190,582	$ 2,190,582	$ 2,183,857	$ (6,725)
319 Penalties and interest on delinquent taxes	2,700	2,700	2,809	109
330 Intergovernmental revenue				
331 Federal grants	-	682,622	1,656,623	974,001
334 State grants	-	-	285,685	285,685
335 State shared revenue				
335.01 Bank franchise tax	31,000	31,000	32,655	1,655
360 Miscellaneous revenue				
361 Investment earnings	100,000	100,000	117,550	17,550
362 Rentals/Franchises	2,250	2,250	2,370	120
369 Other	22,750	22,750	7,156	(15,594)
Total revenues	2,349,282	3,031,904	4,288,705	1,256,801
Expenditures				
410 General government				
411 Legislative	3,000	3,000	3,000	-
412 Executive	72,580	73,250	54,338	18,912
414 Financial administration	382,220	502,025	563,487	(61,462)
Total general government	457,800	578,275	620,825	(42,550)
420 Public safety				
421 Police	145,925	151,925	151,229	696
Total public safety	145,925	151,925	151,229	696
430 Public works				
431 Highways and streets	575,575	579,825	474,399	105,426
432 Sanitation	6,000	3,400	5,967	(2,567)
Total public works	581,575	583,225	480,366	102,859
450 Culture and recreation				
452 Parks	1,187,070	3,015,793	3,733,392	(717,599)
Total culture and recreation	1,187,070	3,015,793	3,733,392	(717,599)
470 Debt service	86,825	86,825	86,483	342
Total expenditures	2,459,195	4,416,043	5,072,295	(656,252)
Excess of Revenue over Expenditures	(109,913)	(1,384,139)	(783,590)	600,549
Other Financing Sources (Uses)				
391.27 Lease proceeds	-	-	8,148	8,148
Total other financing sources (uses)	-	-	8,148	8,148
Net Change in Fund Balances	(109,913)	(1,384,139)	(775,442)	608,697
Fund Balance - Beginning	3,678,178	3,678,178	3,678,178	-
Fund Balance - Ending	$ 3,568,265	$ 2,294,039	$ 2,902,736	$ 608,697

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*

The Board of Supervisors
Dakota Dunes Community Improvement District
Dakota Dunes, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, and each major fund of the Dakota Dunes Community Improvement District (the District) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 12, 2026.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify two deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2025-001 and 2025-002, that we consider to be material weaknesses.

eidebailly.com
24 2nd Ave. S.W. • P.O. Box 430 • Aberdeen, SD 57402-0430 • T 605.225.8783 • F 605.225.0508 • EOE

Report Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the finding identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Eide Bailly LLP

Aberdeen, South Dakota
August 12, 2026

Independent Auditor's Report on Compliance for the Major Federal Program; Report on Internal Control Over Compliance Required by the Uniform Guidance

To the Board of Supervisors
Dakota Dunes Community Improvement District
Dakota Dunes, South Dakota

Report on Compliance for the Major Federal Program

Opinion on the Major Federal Program

We have audited Dakota Dunes Community Improvement District's (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended December 31, 2025. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

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

Basis for Opinion on the 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 the 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 the District's federal programs.

eidebailly.com
24 2nd Ave. S.W. • P.O. Box 430 • Aberdeen, SD 57402-0430 • T 605.225.8783 • F 605.225.0508 • EOE

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 its 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 the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

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.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Eide Bailly LLP

Aberdeen, South Dakota
August 12, 2026

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing	Pass-through Entity Identifying Number	Expenditures
Department of Homeland Security			
Passed through South Dakota Department of Public Safety			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	4807DR-SD	$ 1,428,427
Total Department of Homeland Security			1,428,427
Department of Treasury			
Passed through South Dakota Department of Agriculture and Natural Resources			
COVID 19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	2022G-ARP-408	247,025
Total Department of Treasury			247,025
Total Federal Financial Assistance			$ 1,675,452

Note 1 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of the Dakota Dunes Community Improvement District (the District) under programs of the federal government for the year ended December 31, 2025. The information 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 fund balance, or cash flows of the District.

Note 2 - Summary of Significant Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, 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. No federal financial assistance has been provided to a subrecipient.

Note 3 - Indirect Cost Rate

The District does not draw for indirect administrative expenses and has not elected to use the de minimus cost rate of up to 15 percent.

Note 4 - Program 97.036 Expenditures

Amounts for program 97.036 and reported on the schedule of expenditures of federal awards for the year ended December 31, 2025, include $51,941 of expenditures incurred in a prior year.

Section I – Summary of Auditor's Results

FINANCIAL STATEMENTS

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None Reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516 (a):	No

Name of Federal Program	Federal Financial Assistance Listing
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036

Dollar threshold used to distinguish between type A and type B programs:	$ 1,000,000
Auditee qualified as low-risk auditee?	No

Section II – Financial Statement Findings

Finding 2025-001 – Auditor Preparation of Financial Statements and Schedule of Expenditures of Federal Awards, Including Audit Adjustments

Material Weakness

Criteria: The District's internal control structure should be designed to provide for the preparation of the financial statements and required footnote disclosures, including the schedule of expenditures of federal awards, which includes having an adequate internal control system for recording and processing entries material to the financial statements being audited in accordance with generally accepted accounting principles.

Condition: As the auditor, we prepared the financial statements and required footnote disclosures for the year ended December 31, 2025, as well as the schedule of expenditures of federal awards. As part of audit procedures and preparation of the financial statements, we identified and proposed various audit adjustments that were not identified by the District's current internal controls.

Cause: The District's internal controls did not identify and detect the misstatements noted during our audit, resulting in proposed audit adjustments. Additionally, the auditor was requested to prepare the complete financial statements and related required footnotes, as well as the schedule of expenditures of federal awards.

Effect: The presence of identified audit adjustments may affect the condition of financial information throughout the year being used by management in analysis and decision making, and increase the risk that potential misstatements remain present in the financial statements and schedule of expenditures of federal awards. The auditor's preparation of the financial statements and footnotes, including the schedule of expenditures of federal awards, may also affect the District's ability to summarize and report financial data consistent with the assertions of management.

Recommendation: We recommend management perform a thorough review of the auditor-prepared financial statements, schedule of expenditures of federal awads, and proposed audit adjustments, as well as account balances in each fund to ensure all necessary adjustments are reflected in the financial statements in accordance with generally accepted accounting principles. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with the auditor's role in preparation of the financial statements, footnotes, and schedule of expenditures of federal awards.

Views of Responsible Officials: Management agrees with the finding.

Finding 2025-002 – Balance Sheet Account Reconciliations and Manual Journal Entry Review

Material Weakness

Criteria: The District's internal control structure should be designed to provide for accurate and timely reconciliations of significant balance sheet accounts to the financial statements being audited in accordance with generally accepted accounting principles. Additionally, an internal control structure should allow for the documented review of manual adjusting journal entries by an individual separate from the preparer of the manual journal entry.

Condition: During our current year audit procedures, we identified that accounts payable and capital assets/construction in progress was not completely reconciled from subsidiary/detail listings to general ledger balances and, in certain cases, resulted in the need for audit adjustments. Additionally, there is not a documented direct review and approval of manual adjusting entries posted to the general ledger by an individual separate from the preparer of the entry.

Cause: There was not a control in place that ensured accounts payable and capital asset information was reconciled from general ledger balances to supporting subsidiary schedules and listings, and there was no audit documentation of a review control being performed on manual adjusting journal entries.

Effect: The presence of improperly reconciled or unreconciled balance sheet accounts and no documented review control over posted manual journal entries increases the risk of potential misstatements or occurrence of fraud in the financial statements .

Recommendation: We recommend management ensure internal controls are structured to perform accurate and timely reconciliations of all significant balance sheet accounts prior to audit and the documented review of those reconciliations and all manual adjusting journal entries.

Views of Responsible Officials: Management agrees with the finding.

Section III – Federal Award Findings and Questioned Costs

No findings reported.

Dakota Dunes Community Improvement District
PO Box 1997
Dakota Dunes SD 57049
Phone: (605) 232-4211 Fax: (605) 235-1447

Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan
December 31, 2025

Prepared by Management of
Dakota Dunes Community Improvement District

2024-001 – Auditor Preparation of Financial Statements and Audit Adjustments

Finding Summary: The District does not have an internal control system designed to provide for the full preparation of the financial statements including required footnotes and disclosures. During the course of the audit engagement, the auditors were requested to assist with drafting financial statements and accompanying notes to those financial statements.

Status: This finding has not been resolved as of December 31, 2025. The reason for the finding's recurrence is that the District's staffing model does not allow for a cost-effective solution. Planned actions include management annually reviewing the draft financial statements and footnotes prepared by the auditor and reviewing all recommended adjusting entries proposed by the auditor.

Finding 2025-001

Finding Summary:	Eide Bailly LLP assisted in preparing the full financial statements and accompanying footnotes, including the schedule of expenditures of federal awards. Further they identified audit adjustments during the course of their audit.
Responsible Individuals:	Andrew Tramp, Executive Director
Corrective Action Plan:	Due to cost considerations and staffing model, we will continue to request Eide Bailly LLP assist in preparing our audited financial statements and accompanying notes as part of their annual audit, including the schedule of expenditures of federal awards as applicable. Management will annually review the drafted financial statements and accompanying notes and schedule of expenditures of federal awards, including any recommended financial statement adjustments, and we have reviewed and agreed with the financial statement adjustments proposed during the audit.
Anticipated Completion Date:	Ongoing

Finding 2025-002

Finding Summary:	Eide Bailly LLP identified there to be issues in the reconciliation process and controls over the reconciliation of certain balance sheet account balances, namely accounts payable and capital assets/construction in progress, which led to instances of identified audit adjustments. Additionally, Eide Bailly LLP identified there was not an internal control process in place to ensure manual adjusting journal entries prepared and entered into the accounting records are reviewed an approved by an individual separate from the preparer to ensure proprietary and reasonableness of those manual entries.
Responsible Individuals:	Andrew Tramp, Executive Director
Corrective Action Plan:	Beginning in July 2026, management implemented additional monthly reconciliations of balance sheet accounts related to accounts payable and capital assets/construction in progress. Manual adjusting journal entries are reviewed using a prepared by, reviewed by, and entered by stamp, with the individual responsible for each step initialing and dating the entry.
Anticipated Completion Date:	This has been completed July 31, 2026 and will continue each month forward.