

TM RURAL WATER DISTRICT
P.O. BOX 445
PARKER, SOUTH DAKOTA 57053

AUDIT REPORT

DECEMBER 31, 2025

Schoenfish & Co., Inc.

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

TM RURAL WATER DISTRICT

TM RURAL WATER DISTRICT
DISTRICT OFFICIALS
Parker, South Dakota
December 31, 2025

BOARD MEMBERS:

Greg Wirth	President	February 2026
Dennis R. Johnson	Vice-President	February 2027
Steve Knutson	Secretary	February 2027
Greg Nugteren	Treasurer	February 2027
Robin Christiansen	Member	February 2025
Dennis M. Johnson	Member	February 2026
Curt Matthies	Member	February 2026

TERM

EXPIRES:

MANAGER:

Jay Jorgensen

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

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

Governing Board
TM Rural Water District
Parker, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the business-type activities and aggregate remaining fund information of the TM Rural Water District (District), as of December 31, 2025, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated July 24, 2026, which was qualified due to not reporting the Single-Employer Defined Benefit Pension Plan's net pension liability, deferred outflow of resources, deferred inflow of resources, pension expense, and related disclosures.

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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings as 2025-001 to be a material weakness.

Report on Compliance and Other Matters

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

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit. The District's response to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.
Certified Public Accountants
July 24, 2026

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTSPRIOR FEDERAL AUDIT FINDINGS:

There are no prior federal audit findings to report.

PRIOR OTHER AUDIT FINDINGS:Internal Control Related Finding – Material Weakness:Finding Number 2023-001:

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

Views of Responsible Officials and Planned Corrective Action Plan:

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

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

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is a continuing audit comment since 2015.

Criteria:

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

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

Cause of Condition:

The Bookkeeper collects receipts and makes deposits. The Bookkeeper records receipts, posts receipts in the accounting records, reconciles bank statements, and prepares financial statements.

Potential Effect of Condition:

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

Recommendation:

1. We recommend that the TM Rural Water District officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Client's Response:

The TM Rural Water District General Manager, Jay Jorgensen, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the TM Rural Water District, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and will be developing policies to address the issue.

CLOSING CONFERENCE

The contents of this report were discussed with the Manager and the Bookkeeper during the course of the audit and at the conclusion of the audit.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
District of TM Rural Water District
Parker, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of TM Rural Water District (District) as of December 31, 2025, and for the year then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Qualified Opinion on the Financial Statements

In our opinion, except for the effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of TM Rural Water District, as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

The TM Rural Water District has not reported the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense, or related disclosures for its Single-Employer Defined Benefit Pension Plan in the financial statements. Accounting principles generally accepted in the United States of America require that such amounts be reported in the financial statements to properly recognize the financial position and results of operations. The amounts by which this departure would affect the assets, liabilities, net position, expenses, and disclosures of the financial statements have not been determined.

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.

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 Management's Discussion and Analysis (MD&A), the Schedule of the District's Contributions, and the Schedule of the District's Proportionate Share of the Net Pension Liability (Asset) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods 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

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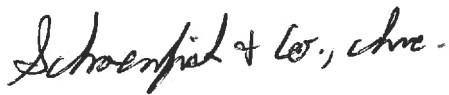
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do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 24, 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 and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Schoenfish & Co., Inc.
Certified Public Accountants
July 24, 2026

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TM RURAL WATER DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2025

Our discussion and analysis of the TM Rural Water District's financial performance provides an overview of the District's financial activities for the year ended December 31, 2025. Please read it in conjunction with the District's basic financial statements, which begin immediately following this analysis

Overview of the Basic Financial Statements

The District operates as a utility enterprise and presents its financial statements using the economic resources measurement focus and the full accrual basis of accounting. As an enterprise fund, the District's basic financial statements include four components:

- *Statement of Net Position*
- *Statement of Revenues, Expenses and Changes in Net Position.*
- *Statement of Cash Flows*
- *Notes to the Financial Statements*

The *Statement of Net Position* includes all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Net position is displayed in three categories:

- Net Investment in Capital Assets
- Restricted
- Unrestricted

The *Statement of Net Position* provides the basis for evaluating the capital structure of the District and assessing its liquidity and financial flexibility. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving.

The *Statement of Revenue, Expenses and Changes in Net Position* presents information that shows how the District's net position changed during the year. All of the current year's revenues and expenses are recorded when the underlying transaction occurs, regardless of the timing of the related cash flows. The *Statement of Revenues, Expenses and Changes in Net Position* measures the success of the District's operations over the past year and determines whether the District has recovered its costs through water sales, user fees and other charges. It also can be used to determine the District's creditworthiness.

The *Statement of Cash Flows* provides information regarding the District's cash receipts and cash disbursements during the year. This statement reports cash activity in four categories:

- Operating
- Noncapital Financing
- Capital Financing
- Investing

This statement differs from the *Statement of Revenues, Expenses and Changes in Net Position* in that it accounts only for transactions that result in cash receipts and cash disbursements.

The *Notes to the Financial Statements* provide a description of the accounting policies used to prepare the financial statements and present material disclosures required by generally accepted accounting principles that are not otherwise present in the financial statements.

Financial Highlights

During the year ending December 31, 2025, the District's operating revenues increased by \$947,296, operating expenses increased by \$1,191, and nonoperating revenue/expense and construction income decreased by \$3,800,135 resulting in \$1,580,789 increase in net position.

Financial Analysis of the District

Net Position

The District's net position increased between fiscal years 2024 and 2025 by \$1,580,789.

Table A-1
TM Rural Water District
Statement of Net Position

	2024	2025
Current Assets	\$ 4,722,332	\$ 5,218,072
Capital Assets, Net of		
Accumulated Depreciation	21,381,894	24,023,449
Other Assets	268,015	207,475
Deferred Outflows	52,183	3,134,258
Total Assets & Deferred Outflows	<u>\$ 26,424,424</u>	<u>\$ 32,583,254</u>
Current Liabilities	\$ 93,349	\$ 221,465
Non-current Liabilities	1,624,523	3,816,224
Deferred Inflows	43,523	2,301,747
Total Liabilities & Deferred Inflows	<u>\$ 1,761,395</u>	<u>\$ 6,339,436</u>
Net Investment in Capital Assets	\$ 19,754,554	\$ 20,142,911
Restricted	8,927	870,119
Unrestricted	4,899,548	5,230,788
Total Net Position	<u>\$ 24,663,029</u>	<u>\$ 26,243,818</u>
Beginning Net Position	\$ 20,562,864	\$ 24,663,029
Prior Period Adjustment	(334,653)	0.00
Adjusted Beginning Net Position	<u>\$ 20,228,211</u>	<u>\$ 24,663,029</u>
Change in Net Position	<u>\$ 4,434,818</u>	<u>\$ 1,580,789</u>

Change in Net Position

The District's revenues primarily come from water sales.

The District's operating revenue increased in 2025 by \$947,296 to \$4,047,875, mainly due to the pension revenue which increased due to the past service credit made by the District for the switch of pension plans. Operating expense increased by \$1,191 in 2025.

The District's non-operating revenue (expense) decreased by \$33,808.

The District's Capital Contributions & Construction Income decreased by \$3,766,327, due to the ARPA funds received in 2024.

Table A-2
TM Rural Water District
Statement of Revenue, Expense and Change in Net Position

	2024	2025
Operating Revenue		
Charges for Goods and Services	\$ 2,940,713	\$ 3,100,064
Pension Revenue	0.00	861,192
Miscellaneous Fees	65,188	37,845
Miscellaneous Income	94,678	48,774
Total Operating Revenue	<u>\$ 3,100,579</u>	<u>\$ 4,047,875</u>
Operating Expenses		
Personnel	\$ 717,099	\$ 595,399
Administrative	115,228	120,475
Professional Services	44,839	26,258
Purchased Water	732,236	770,277
Treatment/Distribution	250,488	300,987
Maintenance	161,726	179,772
Depreciation	830,459	860,099
Total Operating Expenses	<u>\$ 2,852,076</u>	<u>\$ 2,853,267</u>
Operating Income (Loss)	<u>\$ 248,503</u>	<u>\$ 1,194,608</u>
Nonoperating Revenue (Expenses)		
Interest Income	\$ 201,264	\$ 209,286
Gain on Disposal of Assets	29,069	0.00
Interest Expense	(20,615)	(19,844)
Net Increase (Decrease) in FV of NTCA Account	13,532	0.00
Total Nonoperating Revenue (Expenses)	<u>\$ 223,250</u>	<u>\$ 189,442</u>
Income/(Loss) Before Contributions	\$ 471,753	\$ 1,384,050
Capital Contributions & Construction Income	3,963,066	196,739
Change in Net Position	<u>\$ 4,434,819</u>	<u>\$ 1,580,789</u>

Capital Assets

As of December 31, 2025, the District had invested \$24,023,449 in capital assets, net of accumulated depreciation. This represents a net increase of \$2,641,555, mostly due to the state water plan and lime lagoon projects.

Table A-3
TM Rural Water District
Capital Assets

	<u>2024</u>	<u>2025</u>
Land	\$ 214,126	\$ 219,126
Wells	\$ 1,466,363	\$ 1,480,991
Storage	2,471,052	2,471,052
Treatment Plant Building	12,057,964	12,102,203
Distribution System	<u>21,372,832</u>	<u>22,351,887</u>
Total Utility Plant	\$ 37,368,211	\$ 38,406,133
Less: Accumulated Depreciation	(22,009,767)	(22,732,780)
Construction Work in Progress	<u>4,797,131</u>	<u>7,166,936</u>
Total Utility Plant Assets, Net of Depreciation	<u>\$ 20,155,575</u>	<u>\$ 22,840,288</u>
Buildings	\$ 755,597	\$ 755,597
Vehicles	431,498	431,498
Office Equipment	83,180	83,180
Other Equipment	<u>732,346</u>	<u>821,273</u>
Total Other Assets	\$ 2,002,621	\$ 2,091,548
Less: Accumulated Depreciation	<u>(990,428)</u>	<u>(1,127,514)</u>
Total Other Assets, Net of Depreciation	<u>\$ 1,012,193</u>	<u>\$ 964,035</u>
Total Capital Assets, Net of Depreciation	<u>\$ 21,381,894</u>	<u>\$ 24,023,449</u>

Debt Administration

Long-Term Liabilities

At December 31, 2025, the District had \$3,907,603 in long-term liabilities outstanding, an increase of \$2,255,925 from the prior year. More detailed information about the District's long-term liabilities is presented in Notes to the Financial Statements.

Table A-4
TM Rural Water District
Long Term Liabilities

	Liabilities Payable 12/31/2024	Additions	Deletions	Liabilities Payable 12/31/2025
SRF - DW#1	671,223		26,184	645,039
SRF - DW#3	956,117	2,279,382		3,235,499
Compensated Absences	24,338	2,727		27,065
	<u>\$1,651,678</u>	<u>\$2,282,109</u>	<u>\$26,184</u>	<u>\$3,907,603</u>

Economic Factors

The District's strong financial condition continues as the District proceeds through another year. Water rates for the District's customers have been set to provide the District with an adequate cash flow to finance operating expenses as well as providing for the coverage of the debt incurred by the District.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, ratepayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact the TM Rural Water District's Office at Box 445 Parker, South Dakota 57053, (605) 297-3334.

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF NET POSITION
December 31, 2025

	<u>2025</u>
<u>ASSETS:</u>	
<u>Current Assets</u>	
Cash and Cash Equivalents	4,775,197.18
Accounts Receivable	249,559.50
Plant Material Inventory	164,980.51
Prepaid Expenses	26,227.27
Prepaid B-Y Water Fees	2,107.14
Total Current Assets	<u>5,218,071.60</u>
<u>Capital Assets, Net of Accumulated Depreciation</u>	<u>24,023,449.31</u>
<u>Other Assets</u>	
Net Pension Asset	37,607.37
Notes Receivable - City of Viborg	169,867.32
Total Other Assets	<u>207,474.69</u>
TOTAL ASSETS	<u>29,448,995.60</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES:</u>	
Pension Related Deferred Outflows	<u>3,134,258.47</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>3,134,258.47</u>
 <u>LIABILITIES:</u>	
<u>Current Liabilities</u>	
Accounts Payable	91,712.80
Accrued Payroll Payable	13,797.45
Accrued Excise and Sales Tax Payable	1.55
Prepaid Water Sales & Income	5,790.92
Accrued Compensated Absences Payable	20,000.00
Current Portion of Long-Term Debt	90,162.00
Total Current Liabilities	<u>221,464.72</u>
<u>Long-Term Liabilities</u>	
State Revolving Fund, Net of Current Portion	3,790,375.98
Accrued Compensated Absences	7,064.55
Total Long-Term Debt, Net of Current Portion	<u>3,797,440.53</u>
Customer Deposits	18,783.58
Total Long-Term Liabilities	<u>3,816,224.11</u>
TOTAL LIABILITIES	<u>4,037,688.83</u>

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

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF NET POSITION
December 31, 2025

	<u>2025</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>	
Pension Related Deferred Inflows	<u>2,301,747.01</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,301,747.01</u>
<u>NET POSITION:</u>	
<u>Net Investment in Capital Assets</u>	<u>20,142,911.33</u>
<u>Restricted Net Position:</u>	
Restricted for SDRS Pension Purposes	<u>870,118.83</u>
<u>Unrestricted Net Position</u>	<u>5,230,788.07</u>
TOTAL NET POSITION	<u>26,243,818.23</u>

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

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Operating Revenue:</u>	
Charges for Goods and Services Pledged as Security for Revenue Debt	3,100,063.71
Pension Revenue	861,191.64
Feasibility/Application Fees	35,750.00
Relocation/Service Charges	1,094.89
Transfer Fees	1,000.00
Miscellaneous Income	48,774.42
Total Operating Revenue	<u>4,047,874.66</u>
<u>Operating Expenses:</u>	
Personnel	595,399.16
Administrative	120,475.00
Professional Services	26,257.88
Purchased Water	770,276.85
Treatment/Distribution	300,987.32
Maintenance	179,772.22
Depreciation	860,098.51
Total Operating Expenses	<u>2,853,266.94</u>
 Operating Income (Loss)	 <u>1,194,607.72</u>
<u>Nonoperating Revenue (Expense):</u>	
Interest Income	209,286.37
Interest Expense	<u>(19,843.97)</u>
Total Nonoperating Revenue (Expense)	<u>189,442.40</u>
 Net Income Before Contributions	 <u>1,384,050.12</u>
 Construction Income - Add-Ons - Distribution System	 <u>196,738.92</u>
	<u>196,738.92</u>
 Change in Net Position	 <u>1,580,789.04</u>
 Net Position - Beginning	 <u>24,663,029.19</u>
 NET POSITION - ENDING	 <u>26,243,818.23</u>

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

TM RURAL WATER DISTRICT
Parker, South Dakota
STATEMENTS OF CASH FLOWS
For The Year Ended December 31, 2025

	<u>2025</u>
<u>Cash Flows From Operating Activities:</u>	
Cash Receipts from Customers	3,146,618.20
Cash Payments to Employees for Services	(605,673.92)
Cash Payments to Suppliers of Goods and Services	(1,198,340.08)
Miscellaneous Income	48,774.42
Net Cash Provided (Used) by Operating Activities	<u>1,391,378.62</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>	
Contributions from Customers, Other Governments and Construction Income	196,738.92
Acquisition of Utility Plant Assets	(3,412,726.96)
Purchase of Equipment and Buildings	(88,927.21)
Principal Paid on Bonds	(26,183.83)
Principal received from Bond Issue	2,279,382.00
Interest Paid	(19,843.97)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,071,561.05)</u>
<u>Cash Flows From Investing Activities:</u>	
Principle Received on Notes Receivable	6,961.70
Interest Income	209,286.37
Net Cash Provided (Used) by Investing Activities	<u>216,248.07</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>536,065.64</u>
Cash Balance at Beginning of Year	<u>4,239,131.54</u>
Cash Balance at End of Year	<u><u>4,775,197.18</u></u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) By Operating Activities:</u>	
Operating Income (Loss)	1,194,607.72
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:	
Depreciation Expense	860,098.51
(Increase) Decrease in Accounts Receivable	11,704.33
(Increase) Decrease in Material Inventory	33,808.59
(Increase) Decrease In Prepaid Expenses	(3,079.95)
(Increase) Decrease in Net Pension Assets	(37,340.41)
(Increase) Decrease in Prepaid Water Fees	88,812.00
(Increase) Decrease In Deferred Outflows of Resources	(3,082,075.45)
Increase (Decrease) in Accounts Payable	79,888.55
Increase (Decrease) in Prepaid Water Sales	(2,749.71)
Increase (Decrease) in Customer Deposits	(245.02)
Increase (Decrease) in Accrued Payroll, Vacation, & Benefits	(10,274.76)
Increase (Decrease) in Deferred Inflows of Resources	2,258,224.22
Net Cash Provided (Used) by Operating Activities	<u><u>1,391,378.62</u></u>
<u>Cash and Cash Equivalents are presented on the Statement of Net Position as follows:</u>	
	<u>4,775,197.18</u>
	<u><u>4,775,197.18</u></u>

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

TM RURAL WATER DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
December 31, 2025

	<u>Custodial Funds</u>
ASSETS:	
Cash and Cash Equivalents	<u>\$ 197,964.15</u>
TOTAL ASSETS	<u><u>\$ 197,964.15</u></u>
NET POSITION:	
Restricted for:	
Individuals Future Retirement Payments	<u>\$ 197,964.15</u>
TOTAL NET POSITION	<u><u>\$ 197,964.15</u></u>

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

TM RURAL WATER DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended December 31, 2025

	Custodial Funds
<u>ADDITIONS:</u>	
Investment Earnings:	
Interest and Dividends	<u>1,650.29</u>
Total Additions	<u>1,650.29</u>
<u>DEDUCTIONS:</u>	
Other Deductions	<u>40,299.12</u>
Total Deductions	<u>40,299.12</u>
Change in Net Position	<u>(38,648.83)</u>
Net Position - beginning, as previously reported	<u>236,612.98</u>
NET POSITION - ENDING	<u><u>\$ 197,964.15</u></u>

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

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The TM Rural Water District (District) is organized under the authority of Chapter 46A-9-16 of the South Dakota Codified Laws of 1967, as amended, as a water user district.

The District was organized to construct or acquire a water system to conserve, control and distribute potable water to homes, pastures, feedlots, and elsewhere deemed feasible. The system consists of pumps, filtering and treatment plants, storage tanks, mains, pipelines, booster pumps and other water works deemed necessary to pump, filter, treat, store and distribute potable water.

The District provides water to users in primarily Turner and McCook counties in South Dakota and has its office in Parker, South Dakota. An elected Board of Directors consisting of seven directors governs the District. The District is authorized to exercise the power of eminent domain, and is a political subdivision of the State of South Dakota.

The District has no taxing powers and has no power to levy assessments. No governmental authority will have the power to levy or collect taxes of assessments for the purpose of paying, in whole or in part, any indebtedness or obligations incurred by the District in which the District is in any manner liable. Nor any privately owned property within or outside the District, or the owner thereof, nor any city, town, county, irrigation district, political subdivision, or public or private corporations will be liable for any such District indebtedness or obligation beyond the liability to perform the obligations of any express contract between such owner or public or private organizations and the District.

b. Financial Reporting Entity

The reporting entity of the TM Rural Water District (District) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility); those organization 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 TM Rural Water District Benefit Plan (the Plan) is a fiduciary component unit of TM Rural Water District. The Plan was established to provide retirement benefits to eligible employees of the District in accordance with the plan document. The Plan is administered by Jay Jorgensen, who is responsible for the management of the Plan, including the investment of assets and payment of benefits.

The Plan is a single-employer defined benefit pension plan and is reported as a fiduciary component unit of the District because it is legally separate but is financially accountable to the District. A stand-alone financial report is not issued for the Plan.

c. Basis of Presentation

The accounting policies of the TM Rural Water District conform to U.S. generally accepted accounting principles applicable to governmental enterprise funds.

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

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, fund equity, revenues, and expenditures/expenses. Funds are organized into two main categories: proprietary and fiduciary.

The funds of the District financial reporting entity are described below:

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. The District should apply each of these criteria in the context of the activity's principal revenue sources.

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

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the district waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of the following sub-category and is never considered to be a major fund.

Pension Trust Funds – Pension trust funds are used to account for resources that are required to be held in trust for the members of defined benefit pension plan. The District manages the TM Rural Water District Defined Benefit Pension Policy. See the detailed note for more information.

d. **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.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

The District, as a utility enterprise fund, accounts for its operations in a manner similar to private business enterprises. The intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. The accompanying financial statements reflect the flow of economic resources measurement focus, applied on the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred, regardless of the timing of related cash flows.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues consist principally of water sales and fees to customers. Expenses include the costs of operating the District, including the purchase and treatment of water, personnel, administration, professional services, maintenance, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses or contributions. Non-operating revenues and expenses include interest income and interest expense amounts and contributions include construction revenue from customers and grants.

e. Deposits and Investments, Fair Value Measurement, Credit Risk, Concentrations of Credit Risk and Interest Rate Risk:

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

Deposits — The District's deposits are made in qualified public depositories as defined by SDCL 4-6A-1 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.

Investments — In general, SDCL 4-5-6 permits District funds to be invested in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly including; or (b) repurchase agreements fully collateralized by securities described in (a) above; or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political 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.

Fair Value Measurement — The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level one inputs are quoted prices in active markets for identical assets; Level two inputs are significant other observable inputs; Level three inputs are significant unobservable inputs. The district does not have any investments that are subject to the fair value measurement standards of GASB Statement 72.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

The District's investments, carried at market, at December 31, 2025 were as follows:

	<u>Credit Rating</u>	<u>2025</u>
<u>External Investment Pool</u>		
South Dakota Public Funds Investment Trust	Unrated	<u>\$ 4,747,174.47</u>
Total Investments		<u><u>\$ 4,747,174.47</u></u>

The South Dakota Public Funds Investment Trust (SD FIT) is an external investment pool that was established under SDCL 1-24. A nine-member board regulates it with representation from municipalities, school districts, and counties.

The net asset value of the SDFIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.

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's investment policy is to invest funds in excess of amounts needed for day to day operations in CDs purchased from banks offering the best rates, or in the South Dakota Public Funds Investment Trust.

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

f. Accounts Receivable:

No allowance for bad debt has been provided because estimated uncollectible receivables are not considered material. Accounts receivable consists of the following at December 31, 2025:

	<u>2025</u>
Water	<u>\$ 249,559.50</u>
Total	<u><u>\$ 249,559.50</u></u>

g. Inventory:

Inventory consists of material and supplies used in the construction and maintenance of the utility plant and water lines and are valued at the lower of cost or market using the first-in, first-out method.

h. Capital Assets:

All capital assets are recorded at historical cost. Donated capital assets are valued at their acquisition value on the date donated. As of December 31, 2025, there were no costs determined by estimations of the original cost. The cost of the distribution system includes the primary construction and installation of the water lines, pits, meters, engineering services, legal expenditures directly related to construction, and other items necessary in the distribution of the water. Reported

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

cost values include ancillary charges necessary to place the asset into its intended location and condition for use. The District's policy is to capitalize those assets with a useful life greater than one year. The District generally capitalized assets with an initial acquisition cost of \$1,000 or more.

Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

Construction costs of water lines that are reimbursed by users or that are financed directly or indirectly by developers and property owners are capitalized and recorded as capital contributions.

Depreciation of all exhaustible capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet.

Depreciation has been provided over the following estimated useful lives using the straight-line method.

Utility Plant:	Wells	20 – 28 years
	Storage	35 years
	Treatment Plant	20 – 35 years
	Distribution System	15 – 40 years
Other Property:	Office Building	31.5 years
	Vehicles	5 years
	Office Equipment	5 – 12 years
	Other Equipment	5 – 7 years

Land is an inexhaustible capital asset and is not depreciated.

i. Net Position Classifications:

Equity is classified as Net Position and is displayed in three components.

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – Consists of all other net position that do not meet the definition of "restricted" or "net investment in capital assets." Unlike the restricted net position, the Board of Directors has discretion in determining the use of any unrestricted net position. The Board may at any time change or eliminate amounts established for these purposes.

j. 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.

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

k. Fund Revenue and Expense Classifications:

In the Statements of Revenues and Expenses and Changes in Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, non-capital financing activities, or investing activities are not reported as components of operating revenues or expenses.

l. Use of Estimates:

Management uses estimates and assumptions in preparing these financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

m. Deferred Inflows and Deferred Outflows of Resources:

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

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

n. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, revenues and expenses are classified in a manner consistent with how they are classified in the 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.

o. Cash Flows:

For the purpose of financial reporting, the District considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Investments in money market open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

p. Budgets:

The District is not legally required to adopt a budget; however, the District is contractually required by Rural Development to approve an annual operating budget. The budgets are prepared in accordance with Rural Development requirements and, therefore, are not comparable to the GAAP

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

financial presentation in this report. Therefore, budgetary data is not included in the basic financial statements.

q. Accumulated Unpaid Vacation and Sick Pay:

Employees earn annual leave at the rate of one week after one year of employment, two weeks after two years and three weeks after five years of employment. Upon termination employees are entitled to receive compensation for their accrued annual leave. This liability is reflected in the financial statements. Employees are allowed to carry over three weeks of vacation to be used in the subsequent year. Sick leave is earned by the employees at the rate of twelve days per year cumulative to sixty days. Upon termination, employees are not entitled to receive compensation for their accrued sick leave.

2. NOTE RECEIVABLE

The District entered into a note receivable agreement with the City of Viborg for the Southeast Improvement Project in February 2014 for \$240,629.19 with monthly payments of \$1,016.45 to be paid over a thirty year period. A summary of the change in note receivable for the year ended December 31, 2025 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities:					
Note Receivable - City of Viborg	176,829.02		6,961.70	169,867.32	7,174.51
Total Business-Type Activities	176,829.02	0.00	6,961.70	169,867.32	7,174.51

The following are the minimum payments required to be paid to the District for the existing note receivable:

Year Ending December 31,	Note Receivable City of Viborg	
	Principal	Interest
2026	7,174.51	5,022.89
2027	7,393.82	4,803.58
2028	7,619.86	4,577.54
2029	7,852.80	4,344.60
2030	8,092.86	4,104.54
2031-2035	44,330.03	16,656.97
2036-2040	51,533.13	9,453.87
2041-2044	35,870.31	1,738.34
Totals	169,867.32	50,702.33

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

3. CHANGES IN CAPITAL ASSETS

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

	Balance 1/1/2025	Increases	Decreases	Balance 12/31/2025
Capital Assets, Not Being Depreciated:				
Land	214,125.73	5,000.00		219,125.73
Construction Work in Progress	4,797,130.79	2,369,805.30		7,166,936.09
Total Capital Assets, Not Being Depreciated	5,011,256.52	2,374,805.30	0.00	7,386,061.82
Capital Assets, Being Depreciated:				
Utility Plant Assets:				
Wells	1,466,362.90	14,627.87		1,480,990.77
Storage	2,471,052.55			2,471,052.55
Treatment Plant Building	12,057,963.99	44,238.56		12,102,202.55
Distribution System	21,372,832.00	979,055.23		22,351,887.23
Total Utility Plant Assets	37,368,211.44	1,037,921.66	0.00	38,406,133.10
Less Accumulated Depreciation for:				
Wells	(1,109,066.64)	(51,640.50)		(1,160,707.14)
Storage	(1,266,714.15)	(57,533.67)		(1,324,247.82)
Treatment Plant Building	(6,907,027.74)	(258,571.13)		(7,165,598.87)
Distribution System	(12,726,958.69)	(355,267.64)		(13,082,226.33)
Total Accumulated Depreciation	(22,009,767.22)	(723,012.94)	0.00	(22,732,780.16)
Total Utility Plant Assets, Net	15,358,444.22	314,908.72	0.00	15,673,352.94
Other Assets:				
Buildings	755,596.89			755,596.89
Vehicles	431,497.90			431,497.90
Office Equipment	83,179.95			83,179.95
Other Equipment	732,346.21	88,927.21		821,273.42
Total Other Assets	2,002,620.95	88,927.21	0.00	2,091,548.16
Less Accumulated Depreciation for:				
Buildings	(132,200.63)	(22,318.61)		(154,519.24)
Vehicles	(248,930.05)	(56,361.71)		(305,291.76)
Office Equipment	(82,350.78)	(829.17)		(83,179.95)
Other Equipment	(526,946.58)	(57,576.08)		(584,522.66)
Total Accumulated Depreciation	(990,428.04)	(137,085.57)	0.00	(1,127,513.61)
Total Other Assets, Net	1,012,192.91	(48,158.36)	0.00	964,034.55
Total Capital Assets Being Depreciated, Net	16,370,637.13	266,750.36	0.00	16,637,387.49
Total Capital Assets, Net	21,381,893.65	2,641,555.66	0.00	24,023,449.31

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

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

Project Name	Project Authorization	Expended thru 12/31/2025	Committed	Required Future Financing
State Water Plan	9,720,908.00	7,111,902.19		2,609,005.81
Lime Lagoon	2,455,000.00	55,033.90	366,966.10	2,033,000.00
TOTAL	12,175,908.00	7,166,936.09	366,966.10	4,642,005.81

4. CUSTOMER DEPOSITS

Customers who do not own their property but rent must make a deposit of \$100 before the water is hooked up. When the customer moves and if the water bill is current, they are refunded their deposit.

5. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Business-Type Activities:					
SRF - Drinking Water # 1	671,222.81		26,183.83	645,038.98	26,978.23
SRF - Drinking Water # 3	956,117.00	2,279,382.00		3,235,499.00	63,183.77
Total Liabilities	1,627,339.81	2,279,382.00	26,183.83	3,880,537.98	90,162.00
Accrued Compensated Absences	24,338.36	2,726.19		27,064.55	20,000.00
Total Business-Type Activities	1,651,678.17	2,282,108.19	26,183.83	3,907,602.53	110,162.00

The liabilities payable at December 31, 2025, is comprised of the following individual issues:

State Revolving Fund Drinking Water Loan #1

State Revolving Fund Drinking Water Loan #1

Final Maturity January 2044; Interest Rate 3.00% \$ 645,038.98

State Revolving Fund Drinking Water Loan #3

State Revolving Fund Drinking Water Loan #3

Final Maturity October 2055; Interest Rate 1.625% \$3,235,499.00

Accrued Compensated Absences \$ 27,064.55

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

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

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

Year Ending December 31,	State Revolving Fund - Drinking Water # 1		State Revolving Fund - Drinking Water # 3		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	26,978.23	19,049.57	63,183.77	80,688.00	90,162.00	99,737.57
2027	27,796.73	18,231.07	85,449.38	51,031.18	113,246.11	69,262.25
2028	28,640.04	17,387.76	86,846.43	49,634.13	115,486.47	67,021.89
2029	29,508.98	16,518.82	88,266.30	48,214.26	117,775.28	64,733.08
2030	30,404.25	15,623.55	89,709.39	46,771.17	120,113.64	62,394.72
2031-2035	166,430.45	63,708.55	471,032.75	211,370.75	637,463.20	275,079.30
2036-2040	193,256.42	36,882.58	510,817.83	171,584.97	704,074.25	208,467.55
2041-2045	142,023.88	7,566.47	553,963.29	128,439.51	695,987.17	136,005.98
2046-2050			600,752.97	81,649.83	600,752.97	81,649.83
2051-2055			651,494.68	30,908.12	651,494.68	30,908.12
2056-2060			33,982.21	137.93	33,982.21	137.93
Totals	<u>645,038.98</u>	<u>194,968.37</u>	<u>3,235,499.00</u>	<u>900,429.85</u>	<u>3,880,537.98</u>	<u>1,095,398.22</u>

6. COMMITMENTS

B-Y Water District

In 1994, TM Rural Water District and B-Y Water District entered into a 40-year water supply agreement. Under the agreement, TM Rural Water District can purchase up to 640,000 gallons per day. If B-Y Water District deems it has it available, TM Rural Water District can purchase additional gallons up to 1,250,000 gallons per day. In addition to the cost of any water purchases, TM Rural Water District is required to pay a monthly minimum payment of \$7,401.00 to the B-Y Water District through approximately 2036. In 2013, TM Rural Water District prepaid the balance of their commitment to B-Y Water District. The minimum fee totaling \$88,812.00 for the year will be included in "Purchased Water" expense for all future years until the commitment expires.

7. RESTRICTED NET POSITION

Restricted Net Position for the year ended December 31, 2025 was as follows:

Major Purposes:

SDRS Pension Purposes	<u>\$ 870,118.83</u>
Total Restricted Net Position	<u>\$ 870,118.83</u>

These balances are restricted due to statutory requirements.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

8. PENSION PLAN

Entry into SDRS and Member Contribution Balances

Effective January 1, 2024, the District became a participating employer in SDRS. All eligible employees became members under the SDRS Generational benefit structure with \$0 Variable Retirement Account (VRA) balances. As part of joining SDRS, the South Dakota Retirement System calculated the present value of past service for District employees at \$827,228 as of June 30, 2024. This amount consisted primarily of the employees' accumulated contributions and interest from the District's former retirement plan, which were transferred to SDRS and recorded as member contributions. Because these amounts represented employee funds, they are not reported as employer contributions and do not affect the District's proportionate share of the collective net pension liability.

Plan Information:

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

Benefits Provided:

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

Members that were hired before July 1, 2017, are Foundation members. Class A Foundation members and Class B Foundation members who retire after age 65 with three years of contributory service are entitled to an unreduced annual retirement benefit. An unreduced annual retirement benefit is also available after age 55 for Class A Foundation members where the sum of age and credited service is equal to or greater than 85 or after age 55 for Class B Foundation judicial members where the sum of age and credited service is equal to or greater than 80. Class B Foundation public safety members can retire with an unreduced annual retirement benefit after age 55 with three years of contributory service. An unreduced annual retirement benefit is also available after age 45 for Class B Foundation 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 spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

Members that were hired on/after July 1, 2017, are Generational members. Class A Generational members and Class B Generational judicial members who retire after age 67 with three years of contributory service are entitled to an unreduced annual retirement benefit. Class B Generational public safety members can retire with an unreduced annual retirement benefit after age 57 with three years of contributory service. At retirement, married Generational members may elect a single-life benefit, a 60 percent joint and survivor benefit, or a 100 percent joint and survivor benefit. All Generational retirement benefits that do not meet the above criteria may be payable at a reduced

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

level. Generational members will also have a variable retirement account (VRA) established, in which they will receive up to 1.5 percent of compensation funded by part of the employer contribution. VRAs will receive investment earnings based on investment returns.

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

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

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

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The District's share of contributions to the SDRS for the fiscal year ended December 31, 2025, and 2024, were \$26,079.37 and \$24,106.01, equal to the required contribution for the year.

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

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

Proportionate share of pension liability	\$ 67,488,462.02
Less proportionate share of net pension restricted for pension benefits	<u>\$ 67,526,069.39</u>
Proportionate share of net pension liability (asset)	<u><u>\$ (37,607.37)</u></u>

The net pension liability (asset) was measured as of June 30, 2025 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the District's share of contributions to the pension plan relative to the contributions of all participating entities. At

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

June 30, 2025, the District's proportion was 0.442170%, which is an increase (decrease) of 0.435575% from its proportion measured as of June 30, 2024.

For the year ended December 31, 2025, the District recognized pension expense (reduction of expense) of (\$861,191.63). 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.	\$ 1,287,564.12	
Changes in assumption.		\$ 1,996,230.64
Net difference between projected and actual earnings on pension plan investments.	\$ 1,832,335.68	
Changes in proportion and difference between District contributions and proportionate share of contributions.		\$ 305,516.37
District contributions subsequent to the measurement date.	\$ 14,358.67	
TOTAL	\$ 3,134,258.47	\$ 2,301,747.01

\$14,358.67 reported as deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2026. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31:	
2026	775,071.29
2027	466.96
2028	(31,497.01)
2029	74,111.55
TOTAL	818,152.79

Actuarial Assumptions:

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

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

See Independent Auditor's Report.

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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(Continued)

Mortality Rates:

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

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

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

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

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

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled Members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	56.3%	3.8%
Investment Grade Debt	22.8%	2.3%
High Yield Debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9%	0.8%
Total	100%	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

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 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1%</u> <u>Decrease</u>	<u>Current</u> <u>Discount</u> <u>Rate</u>	<u>1%</u> <u>Increase</u>
District's proportionate share of the net pension liability (asset)	\$9,216,730.92	\$(37,607.37)	\$(7,619,121.71)

Pension Plan Fiduciary Net Position:

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

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the 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 purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

The following policies are in effect:

	<u>Amount of Insurance</u>
Property Insurance	\$16,739,102
Liability Insurance	\$1,000,000 / \$3,000,000
Crime (Blanket employee dishonesty)	\$ 500,000
Umbrella Insurance	\$3,000,000
Directors and Officers Liability	\$1,000,000 / \$3,000,000

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

TM RURAL WATER DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2025
(Continued)

Workmen's Compensation:

The District purchases liability insurance for workmen's compensation from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Unemployment Benefits:

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

10. SIGNIFICANT CONTINGENCIES - LITIGATION

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

11. SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events have occurred through July 24, 2026, the date on which the financial statements were available to be issued.

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

South Dakota Retirement System

Last Two Years *

<u>Calendar Year</u>	<u>District's proportion of the net pension liability/asset</u>	<u>District's proportionate share of net pension liability (asset)</u>	<u>District's covered- employee payroll</u>	<u>District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll</u>	<u>Plan fiduciary net position as a percentage of the total pension liability (asset)</u>
2025	0.442170%	(37,607.37)	412,089.71	9.13%	100.10%
2024	0.006595%	(266.96)	185,021.98	0.14%	100.00%

- * The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability (asset) which is 06/30, of the previous fiscal year. Until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE DISTRICT CONTRIBUTIONS

South Dakota Retirement System

*Last Two Years

<u>Calendar Year</u>	<u>Contractually required contribution</u>	<u>relation to the contractually required contribution</u>	<u>Contribution deficiency (excess)</u>	<u>Municipality's covered payroll</u>	<u>Contributions as a percentage of covered payroll</u>
2025	26,079.37	26,079.37	-	434,655.04	6.00%
2024	24,106.01	24,106.01	-	401,766.97	6.00%

*Until a full 10-year trend is compiled. The District will present information for those years for which information is available.

Effective January 1, 2024, TM Water District became a participating employer in the South Dakota Retirement System. In connection with entry into the plan, the District made a one-time past-service entry payment of \$764,427.21 during the year ended December 31, 2024. Management determined that this amount represents a separately financed specific liability associated with the District's entry into the retirement system. Accordingly, the one-time past-service entry payment is excluded from the statutorily or contractually required contributions and contributions in relation to required contributions presented in the Schedule of Employer Contributions. The schedule includes only ongoing employer contributions required under SDRS contribution provisions and applied prospectively to covered payroll beginning on the District's entry date. Ongoing employer contributions for periods after January 1, 2024 are based on the applicable SDRS contribution rate applied to covered payroll.

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

Changes from Prior Valuation

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

Benefit Provision Changes

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

Actuarial Method Changes

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

Actuarial Assumption Changes

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

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

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

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

TM RURAL WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2025

	<u>2025</u>
<u>Operating Expenses:</u>	
Personnel	
Salary - Administrative	170,564.95
Wages - Operators	264,710.23
Employee Benefits	73,203.60
Retirement Contributions	19,812.66
Directors Fees	21,687.94
Payroll Taxes	33,043.66
Directors Expense	<u>12,376.12</u>
Total Personnel	<u>595,399.16</u>
Administrative	
Insurance	42,510.93
Dues	16,927.70
Newsletter	4,503.56
Postage	1,196.12
Office - Supplies	4,404.04
Billing Costs	29,373.70
Office - Telephone	3,771.48
Training / Meeting	11,423.33
Advertising - Legal and Promotion	523.27
Office - Utilities	3,248.13
Office - Maintenance	1,401.83
Miscellaneous	<u>1,190.91</u>
Total Administrative	<u>120,475.00</u>
Professional Services	
Accounting & Computer	22,520.48
Legal	<u>3,737.40</u>
Total Professional Services	<u>26,257.88</u>
Purchased Water	<u>770,276.85</u>
Treatment / Distribution	
Electricity	145,393.64
Lab Testing/Water Supplies	10,252.33
Chemicals	143,435.61
Plant Telephone	<u>1,905.74</u>
Total Treatment / Distribution	<u>300,987.32</u>

**TM RURAL WATER DISTRICT
SCHEDULE OF OPERATING EXPENSES
For the Year Ended December 31, 2025**

	2025
<u>Operating Expenses (Continued):</u>	
Maintenance	
Distribution Maintenance	37,663.04
Vehicle Expense	46,117.03
WTP/Warehouse and Generator Maintenance	71,926.46
Answering Services	6,033.52
One Call	1,540.35
Well Maintenance	15,613.91
Equipment Expense and Repair	877.91
Total Maintenance	179,772.22
Depreciation	860,098.51
Total Operating Expenses	2,853,266.94