

**MUNICIPALITY OF HERREID
HERREID, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
DECEMBER 31, 2025**

MUNICIPALITY OF HERREID
TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	1
Schedule of Prior and Current Audit Findings	2 - 5
Independent Auditor's Report	6 - 8
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position - Modified Cash Basis	9
Statement of Activities - Modified Cash Basis	10
Fund Financial Statements	
Governmental Funds	
Balance Sheet - Modified Cash Basis	11
Statement of Revenues, Expenditures and Changes in Fund Balance - Modified Cash Basis	12 - 13
Proprietary Funds	
Statement of Net Position - Modified Cash Basis	14
Statement of Revenues, Expenses and Changes in Fund Net Position - Modified Cash Basis	15
Notes to the Modified Cash Basis Financial Statements	16 - 29
<i>Supplementary Information</i>	
Budgetary Comparison Schedule - General Fund - Modified Cash Basis	30 - 31
Notes to Required Supplementary Information - Budgetary Comparison Schedules	32 - 33
Schedule of Changes in Long Term Debt	34
Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset)	35
Notes to Supplementary Information - Pension Schedules	36



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Independent Auditor's Report

Municipal Council
Municipality of Herreid
Herreid, 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Herreid, South Dakota, as of December 31, 2025 and for the year then ended and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements and have issued our report thereon dated July 27, 2026, which was adverse on the aggregate discretely presented component units because the financial statements do not include financial data for the Municipality's legally separate component unit.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Municipality'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 Municipality's internal control. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 Municipality'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 certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings, as items 2025-001, 2025-002, and 2025-003 to be material weaknesses.

Jason W. Bauer, CPA, CGMA, PFS • bauer@cahillbauer.com

P.O. Box 669 • Mobridge, SD 57601-0669 • Fax (605) 845-2517 • Phone (605) 845-2927 • Toll Free 1-800-244-8436

MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Report on Compliance and Other Matters

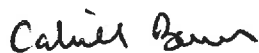
As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Municipality's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Municipality's response to the findings identified in our audit. The Municipality's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. The Municipality's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

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 Municipality'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.



Mobridge, South Dakota
July 27, 2026

MUNICIPALITY OF HERREID
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2025

PRIOR OTHER AUDIT FINDINGS

Finding 2024-001

A material weakness was reported for a lack of proper segregation of duties for the revenue function resulting in decreased reliability of reported financial data and an increased potential for the loss of public

Current Status

Ongoing: Condition still exists, see current audit finding number 2025-001. The reason for recurrence is due to cost considerations, the Municipality has determined it is not practical to employ additional staff to adequately segregate duties. The Municipality will implement compensating controls where practical.

Finding 2024-002

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

Current Status

Ongoing: Condition still exists, see current audit finding number 2025-002. The reason for recurrence is due to cost considerations, the Municipality accepts the risks associated with the auditors preparing the financial statements. The Municipality will implement compensating controls where practical.

Finding 2024-003

The Municipality does not have an internal control system designed to provide for the recording of all necessary material adjustments in order to ensure that accounting records are in accordance with the modified cash basis of accounting.

Current Status

This finding has been corrected

Finding 2024-004

While conducting our audit, we found minutes of the Municipality that were not timely published in accordance with SDCL 9-18-1.

Current Status

This finding has been corrected

MUNICIPALITY OF HERREID
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2025

Finding 2024-005

During the course of our engagement, we noted that the Municipality did not designate an official depository or depositories at a meeting of its governing body.

Current Status

Ongoing: Condition still exists, see current audit finding number 2025-003. Management is aware of their responsibility to designate an official depository or depositories and will ensure that this is approved at the next annual meeting of the governing body.

CURRENT AUDIT FINDINGS

Internal Control-Related Findings - Material Weaknesses

Finding 2025-001

Criteria

To obtain adequate internal control over cash management, the duties of collecting and handling of cash must be segregated from the recording of cash transactions. The duties of preparing, mailing or otherwise distributing checks should be segregated from the recording process.

Condition Found

A lack of proper segregation of duties existed for the duties for cash, equity, revenue, expenditures, and the payroll functions resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the Municipality.

Cause and Effect

The Municipality of Herreid has a limited number of employees who prepare all records for cash, revenues, equity, expenditures, and payroll. This lack of segregation of duties could result in inaccurate financial statement and/or misappropriations of funds.

Recommendation

We recommend that Municipality 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.

MUNICIPALITY OF HERREID
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2025

Identification of Repeat Finding

This is the fourteenth consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Due to staff size, it is not deemed feasible to adequately segregate duties. However, we are aware of this internal control weakness and intend to provide continuous monitoring in an effort to prevent, detect, or correct any matters that may result.

Finding 2025-002

Criteria

An organization's internal control structure should provide for the preparation of financial statements in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found

The Municipality does not have an internal control system designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting - modified cash basis. As auditors, we were requested to draft the financial statements.

Cause and Effect

This condition may affect the Municipality's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements.

Recommendation

It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Identification of Repeat Finding

This is the fourteenth consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action

The Finance Officer is the contact at this entity responsible for the corrective action plan for this comment. Both the City Council and management are aware of this process and have expressed their confidence in that the information is accurate and they are willing to accept this risk.

MUNICIPALITY OF HERREID
SCHEDULE OF PRIOR AND CURRENT AUDIT FINDINGS
DECEMBER 31, 2025

Finding Number 2025-003

Criteria

A Municipality is required to designate an official depository or depositories in which the funds belonging to the Municipality shall be deposited in accordance with SDCL 9-22-6.

Condition Found

During the course of our engagement, we noted that the Municipality did not designate an official depository or depositories at the annual meeting of its governing body.

Cause and Effect

This condition affects the public's ability to decipher which depository or depositories that the Municipality is approved to use.

Recommendation

We recommend that the Municipality make more effort to ensure that an official depository or depositories is (are) designated for the ensuing year at the annual meeting of its governing body.

Identification of Repeat Finding

This is the second consecutive audit report in which this finding has appeared.

Views of Responsible Officials and Planned Corrective Action

The Finance Officer is the contact person at this entity responsible for the corrective action plan for this comment. Management is aware of their responsibility to designate an official depository and will put procedures in place to ensure that this happens each year.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Municipal Council
Municipality of Herreid
Herreid, South Dakota

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Municipality of Herreid, South Dakota, as of December 31, 2025, and for the year then ended, and the related notes to the financial statements, which collectively comprises the Municipality's basic financial statements as listed in the Table of Contents.

Adverse Opinion on the Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter discussed in the Matters Giving Rise to Adverse Opinion on the Aggregate Discretely Presented Component Units section of our report, the accompanying modified cash basis of accounting financial statements referred to above do not present fairly the respective financial position of the aggregate discretely presented component units of the Municipality of Herreid, South Dakota, as of December 31, 2025, or the changes in financial position for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Unmodified Opinions on Governmental Activities, Business-Type Activities, Each Major Fund, and the Aggregate Remaining Fund Information

In our opinion, the accompanying modified cash basis of accounting financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Municipality of Herreid 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 the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis for Adverse and Unmodified 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 (*Government Auditing Standards*), issued by the Comptroller General of the United States. 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 Municipality 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 adverse and unmodified audit opinions.

Jason W. Bauer, CPA, CGMA, PFS • bauer@cahillbauer.com

6

P.O. Box 669 • Mobridge, SD 57601-0669 • Fax (605) 845-2517 • Phone (605) 845-2927 • Toll Free 1-800-244-8436

MEMBERS: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

Matters Giving Rise to Adverse Opinion on the Aggregate Discretely Presented Component Units

Management has not included the aggregate discretely presented component units of the Municipality of Herreid, South Dakota's, financial statements. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the Municipality's primary government unless the Municipality also issues financial statements for the financial reporting entity that include the financial data for its component unit. The Municipality has not issued such reporting entity financial statements.

Emphasis of Matter

As discussed in Note 1.c. of the financial statements, which describes the basis of accounting, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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 Municipality'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 modified cash basis of accounting 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 Municipality'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 Municipality's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the Municipality's basic financial statements. The Budgetary Comparison Schedules, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) 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 auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedule, Schedule of Changes in Long-Term Debt, and the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset) 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 July 27, 2026 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Municipality's internal control over financial reporting and compliance.

Calvin Benn

Mobridge, South Dakota
July 27, 2026

MUNICIPALITY OF HERREID
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2025

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 774,445	\$ 375,776	\$ 1,150,221
Investments	775,000	100,000	875,000
TOTAL ASSETS	1,549,445	475,776	2,025,221
NET POSITION			
Restricted for			
Revenue contingency bonds	-	95,016	95,016
Equipment repair and/or replacement	-	34,147	34,147
Unrestricted	1,549,445	346,613	1,896,058
TOTAL NET POSITION	\$ 1,549,445	\$ 475,776	\$ 2,025,221

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

**MUNICIPALITY OF HERREID
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government							
Governmental activities							
General government	\$ 182,341	\$ 7,199	\$ -	\$ -	\$ (175,142)	\$ -	\$ (175,142)
Public safety	126,744	-	-	-	(126,744)	-	(126,744)
Public works	250,290	74,774	45,257	10,527	(119,732)	-	(119,732)
Health and welfare	553	-	-	-	(553)	-	(553)
Culture and recreation	139,945	17,494	-	10,107	(112,344)	-	(112,344)
Conservation and development	20,000	-	-	-	(20,000)	-	(20,000)
Total governmental activities	719,873	99,467	45,257	20,634	(554,515)	-	(554,515)
Business-type activities							
Water	230,725	187,704	-	-	-	(43,021)	(43,021)
Sewer	188,890	180,965	-	-	-	(7,925)	(7,925)
Total business-type activities	419,615	368,669	-	-	-	(50,946)	(50,946)
Total primary government	\$ 1,139,488	\$ 468,136	\$ 45,257	\$ 20,634	(554,515)	(50,946)	(605,461)
General Revenues							
Taxes							
Property taxes					147,493	-	147,493
Sales tax					290,415	-	290,415
State shared revenue					4,468	-	4,468
Unrestricted investment earnings					38,657	4,112	42,769
Miscellaneous revenue					3,776	-	3,776
Transfers					(70,000)	70,000	-
Total general revenues					414,809	74,112	488,921
Change in net positions					(139,706)	23,166	(116,540)
Net positions - beginning					1,689,151	452,610	2,141,761
Net positions - ending					\$ 1,549,445	\$ 475,776	\$ 2,025,221

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

MUNICIPALITY OF HERREID
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2025

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 774,445	\$ 774,445
Investments	775,000	775,000
TOTAL ASSETS	<u>1,549,445</u>	<u>1,549,445</u>
FUND BALANCES		
Unassigned	<u>1,549,445</u>	<u>1,549,445</u>
TOTAL FUND BALANCES	<u>\$ 1,549,445</u>	<u>\$ 1,549,445</u>

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Primary Government	
	General Fund	Total Governmental Funds
REVENUES		
Taxes		
General property taxes	\$ 147,366	\$ 147,366
General sales and use taxes	290,415	290,415
Penalties and interest on delinquent taxes	127	127
Licenses and permits	1,650	1,650
Intergovernmental revenue		
State grants	8,000	8,000
State shared revenue		
Bank franchise tax	1,690	1,690
Motor vehicle commercial prorate	2,276	2,276
Liquor tax reversion	2,778	2,778
Motor vehicle licenses (5%)	14,588	14,588
Local government highway and bridge fund	17,757	17,757
County shared revenue		
County road tax (25%)	523	523
County road and bridge tax (25%)	2,113	2,113
Charges for goods and services		
Sanitation	74,474	74,474
Culture and recreation	17,494	17,494
Cemetery	300	300
Miscellaneous revenue		
Investment earnings	38,657	38,657
Rentals	5,549	5,549
Special assessments	10,527	10,527
Contributions and donations from private sources	10,107	10,107
Other	3,666	3,666
Total Revenues	<u>\$ 650,057</u>	<u>\$ 650,057</u>

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Primary Government	
	General Fund	Total Governmental Funds
EXPENDITURES		
General government		
Legislative	\$ 11,614	\$ 11,614
Executive	1,674	1,674
Elections	19	19
Financial administration	79,957	79,957
Other	89,077	89,077
Public safety		
Police	39,701	39,701
Fire	82,433	82,433
Protective inspection	4,610	4,610
Public works		
Highways and streets	175,785	175,785
Sanitation	73,734	73,734
Airport	74	74
Cemeteries	697	697
Health and welfare		
Health	553	553
Culture and recreation		
Recreation	122,171	122,171
Parks	15,265	15,265
Libraries	2,509	2,509
Conservation and development		
Economic development and assistance (Industrial development)	20,000	20,000
Total expenditures	<u>719,873</u>	<u>719,873</u>
Excess of revenue over (under) expenditures	(69,816)	(69,816)
Other financing sources (uses)		
Transfer out	(70,000)	(70,000)
Sale of municipal property	110	110
Total other financing sources	<u>(69,890)</u>	<u>(69,890)</u>
Net change in fund balances	(139,706)	(139,706)
Fund balance - beginning	<u>1,689,151</u>	<u>1,689,151</u>
Fund Balance - Ending	<u>\$ 1,549,445</u>	<u>\$ 1,549,445</u>

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

MUNICIPALITY OF HERREID
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS			
Current assets			
Cash and cash equivalents	\$ 97,957	\$ 277,819	\$ 375,776
Investments	-	100,000	100,000
Total current assets	<u>97,957</u>	<u>377,819</u>	<u>475,776</u>
 Total assets	<u>97,957</u>	<u>377,819</u>	<u>475,776</u>
 NET POSITION			
Restricted for			
Revenue bond contingency	-	95,016	95,016
Equipment repair and/or replacement	34,147	-	34,147
Unrestricted	<u>63,810</u>	<u>282,803</u>	<u>346,613</u>
 Total net position	<u>\$ 97,957</u>	<u>\$ 377,819</u>	<u>\$ 475,776</u>

MUNICIPALITY OF HERREID
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
- MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
OPERATING REVENUE			
Charges for goods and services	\$ 187,704	\$ 180,965	\$ 368,669
Total operating revenue	187,704	180,965	368,669
OPERATING EXPENSES			
Personal services	27,521	26,860	54,381
Other current expense	92,520	41,627	134,147
Materials	102,046	-	102,046
Total operating expenses	222,087	68,487	290,574
Operating income	(34,383)	112,478	78,095
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	-	4,112	4,112
Debt service principle	(5,047)	(67,303)	(72,350)
Interest expense and fiscal charges	(3,591)	(53,100)	(56,691)
Total nonoperating expenses	(8,638)	(116,291)	(124,929)
INCOME (LOSS) BEFORE CONTRIBUTIONS, SPECIAL ITEMS, EXTRAORDINARY ITEMS AND TRANSFERS	(43,021)	(3,813)	(46,834)
Transfers in	70,000	-	70,000
CHANGE IN NET POSITION	26,979	(3,813)	23,166
NET POSITION - BEGINNING	70,978	381,632	452,610
NET POSITION - ENDING	\$ 97,957	\$ 377,819	\$ 475,776

MUNICIPALITY OF HERREID
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2025
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.c, these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Financial Reporting Entity

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

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the Municipality. The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Herreid, South Dakota (Commission), is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission.

The Municipality has created a Housing and Redevelopment Commission under the authority of South Dakota Codified Law 11-7-7. The financial information of the component unit is available upon request from the Herreid Housing and Redevelopment Commission, Herreid, South Dakota.

NOTES TO FINANCIAL STATEMENTS - Page 2
(See Independent Auditors' Report)

b. Basis of Presentation

Government-wide Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses and 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 Municipality or it meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. 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 Municipality financial reporting entity are described below within their respective fund types:

NOTES TO FINANCIAL STATEMENTS - Page 3
(See Independent Auditors' Report)

Governmental Funds

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

Proprietary Funds

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods and services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments 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 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 municipal waterworks system and related facilities. (SDL 9-47-1) This is a major fund.

Sewer Fund - financed primarily by user charges this fund accounts for the construction and operation of the municipal sanitary system and related facilities. (SDL 9-48-2) This is a major fund.

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.

The Municipality's basis of accounting is the modified cash basis, which is a basis of accounting other than USGAAP. Under USGAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis, transactions are recorded when cash is received or disbursed.

NOTES TO FINANCIAL STATEMENTS - Page 4
(See Independent Auditors' Report)

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 within the limitations of the modified cash basis of accounting as defined below.

Fund Financial Statements

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting.

The modified cash basis of accounting involves the measurement of cash and cash equivalents and changes in cash and cash equivalents resulting from cash receipt and disbursement transactions. Under the modified cash basis of accounting, the statement of financial position reports only cash and cash equivalents (those investments with terms to maturity of 90 days (three months) or less at the date of acquisition). Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent that cash has been received or disbursed. The acceptable modification to the cash basis of accounting implemented by the Municipality in these financial statements is:

- a. Recording long-term investments in marketable securities (those with maturities more than 90-days (three months) from the date of acquisition) acquired with cash assets at cost.

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the Municipality applied USGAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types and fiduciary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

NOTES TO FINANCIAL STATEMENTS - Page 5
(See Independent Auditors' Report)

d. Deposits and Investments

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

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

e. Long-Term Liabilities

Long-term liabilities include, but are not limited to Revenue Bonds and Revolving Funding loans.

As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and component unit activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the Municipality. The Municipality does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Fund Balances. On the Statement of Activities the principal portion of these Debt Service payments are reported within the appropriate expense function while the interest portion is reported as Interest on Long-Term Debt.

The Municipality has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

f. Program Revenues

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

- 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.

NOTES TO FINANCIAL STATEMENTS - Page 6
(See Independent Auditors' Report)

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.

g. Proprietary Funds Revenue and Expense Classifications

In the proprietary fund's Statement of Revenues, Expenses and Changes in Net Position, revenues and expenses are classified as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

h. Cash and Cash Equivalents

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand.

i. Capital Assets

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1.c. above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The Municipality has not elected to modify their cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate so any capital assets owned by the Municipality and the related depreciation/amortization are not reported on the financial statements of the Municipality.

j. Equity Classifications

Government-wide Statements

Equity is classified as Net Position and is displayed in two components:

- a: 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.

NOTES TO FINANCIAL STATEMENTS - Page 7
(See Independent Auditors' Report)

b: Unrestricted Net Position – All other net position that do not meet the definition of Restricted Net Position.

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.

k. Application of Net Positions

It is the Municipality'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.

l. Fund Balance Classification and Policies and Procedures

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

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

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

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

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

Unassigned - 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.

NOTES TO FINANCIAL STATEMENTS - Page 8
(See Independent Auditors' Report)

The Municipality 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 Government would first use *committed, then assigned, and lastly unassigned amounts* of unrestricted fund balance when expenditures are made.

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

NOTE 2 - DEPOSITS AND INVESTMENTS

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

Deposits - The Municipality's deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.11 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.

Investments - In general, SDCL 4-5-6 permits municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or 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 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 Municipality did not have any investments. The investments reported in the financial statements consist only of Certificates of Deposit.

Interest Rate Risk - The Municipality 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 Municipality of Herreid. The Municipality has no investment policy that would further limit its investment choices.

Custodial Credit Risk - The risk that, in the event of a depository failure, the Municipality's deposits may not be returned to it. The Municipality does not have a deposit policy for custodial credit risk. As of December 31, 2025, none of the Municipality's deposits were exposed to custodial credit risk.

NOTES TO FINANCIAL STATEMENTS - Page 9
(See Independent Auditors' Report)

Assignment of Investment Income - State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income to the fund making the investment.

NOTE 3 - PROPERTY TAXES

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

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

NOTE 4 - PENSION PLAN

Plan Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. 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://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 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.

NOTES TO FINANCIAL STATEMENTS - Page 10
(See Independent Auditors' Report)

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 retirements that do not meet the above criteria may be payable at a reduced level. Class A and B eligible spouses of Foundation members will receive a 60 percent joint survivor benefit when the member dies.

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

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

Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to 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.

NOTES TO FINANCIAL STATEMENTS - Page 11
(See Independent Auditors' Report)

Contribution:

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 Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2025, 2024, and 2023 were \$7,419, \$7,100, and \$7,535 respectively, equal to the required contributions each year.

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

At June 30, 2025, SDRS is 100.10% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period ending June 30, 2025, and reported by the Municipality as of December 31, 2025 are as follows:

Proportionate share of pension liability	\$ 613,420
Less proportionate share net pension restricted for pension benefits	613,762
Proportionate share of net pension liability (asset)	<u>\$ (342)</u>

The net pension asset was measured as of June 30, 2025 and the total pension liability used to calculate the net pension asset was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the Municipality's proportion was 0.0040190%, which is an decrease of 0.000220% from its proportion measured as of June 30, 2024.

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 2.5% and real returns of 4.00%
Future COLAs	1.56%

NOTES TO FINANCIAL STATEMENTS - Page 12
(See Independent Auditors' Report)

Mortality Rates:

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

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubS-2010

Retired Members:

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

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

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

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

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

NOTES TO FINANCIAL STATEMENTS - Page 13
(See Independent Auditors' Report)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>LT Expected Real Rate of Return</u>
Global 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	100.0%	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that employee 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 position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension asset.

Sensitivity of liability (asset) to changes in the discount rate:

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension (asset) liability	\$ 83,773	\$ (342)	\$ (69,252)

Pension Plan Fiduciary Net Position:

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

NOTE 5 - RISK MANAGEMENT

The Municipality 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 Municipality managed its risks as follows:

Liability Insurance

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

Workmen's Compensation

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

Unemployment Benefits

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

NOTE 6 - LITIGATION

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

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date of the report, which is the date the financial statements were available to be issued.

NOTE 8 - INTERFUND TRANSFERS

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

	Transfers Out	Transfers In	Total
General Fund	\$ (70,000)	\$ -	\$ (70,000)
Water Fund	-	70,000	70,000
	<u>\$ (70,000)</u>	<u>\$ 70,000</u>	<u>\$ -</u>

The purpose of the interfund transfer from General Fund to the Water Fund was due to revenues being insufficient to support the expenditures of the fund.

SUPPLEMENTARY INFORMATION

MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	\$ 145,800	\$ 145,800	\$ 147,366	\$ 1,566
General sales and use tax	270,100	295,100	290,415	(4,685)
Penalties and interest on delinquent taxes	300	300	127	(173)
Licenses and permits	1,550	1,550	1,650	100
Intergovernmental revenue				
State grants	-	-	8,000	8,000
State shared revenue				
Bank franchise tax	1,800	1,800	1,690	(110)
Motor vehicle commercial prorated	3,000	3,000	2,276	(724)
Liquor tax reversion	3,000	3,000	2,778	(222)
Motor vehicle licenses (5%)	12,000	12,000	14,588	2,588
Local government highway and bridge fund	18,000	18,000	17,757	(243)
County shared revenue				
County road tax (25%)	500	50	523	473
County road and bridge tax (25%)	-	-	2,113	2,113
Charges for goods and services				
Sanitation	75,000	75,000	74,474	(526)
Culture and recreation	17,500	17,500	17,494	(6)
Cemetery	150	150	300	150
Miscellaneous revenue				
Investment earnings	15,000	15,000	38,657	23,657
Rentals	1,000	3,500	5,549	2,049
Special assessments	5,000	5,000	10,527	5,527
Contributions and donations from private sources	-	8,000	10,107	2,107
Other	350	350	3,666	3,316
Total revenue	\$ 570,050	\$ 605,100	\$ 650,057	\$ 44,957

(Continued on next page)

MUNICIPALITY OF HERREID
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
EXPENDITURES				
General government				
Legislative	\$ 20,000	\$ 20,800	\$ 11,614	\$ 9,186
Contingency	20,000	20,000	-	-
Amount transferred		(20,000)	-	-
Executive	2,150	2,150	1,674	476
Elections	1,300	1,300	19	1,281
Financial administration	83,200	83,200	79,957	3,243
Other	102,500	108,000	89,077	18,923
Public safety				
Police	42,000	42,000	39,701	2,299
Fire	87,100	98,100	82,433	15,667
Protective Inspection	5,000	5,500	4,610	890
Public works				
Highways and streets	209,100	277,600	175,785	101,815
Cemetery	11,800	11,800	697	11,103
Airport	800	800	74	726
Sanitation	74,000	74,000	73,734	266
Health and welfare				
Health	1,000	1,500	553	947
Culture and recreation				
Recreation	131,800	159,800	122,171	37,629
Parks	18,300	18,300	15,265	3,035
Libraries	4,550	4,550	2,509	2,041
Conservation and development				
Economic development and assistance (industrial development)	20,000	20,000	20,000	-
Total Expenditures	834,600	929,400	719,873	209,527
Excess revenue over/under expenditures	(264,550)	(324,300)	(69,816)	254,484
Other financing sources/(uses)				
Transfers out	(70,000)	(70,000)	(70,000)	-
Sale of municipal property	-	-	110	110
Total other financing sources (uses)	(70,000)	(70,000)	(69,890)	110
Net change in fund balances	(334,550)	(394,300)	(139,706)	254,594
Fund balance - beginning	1,689,151	1,689,151	1,689,151	-
Fund balance - ending	\$ 1,354,601	\$ 1,294,851	\$ 1,549,445	\$ 254,594

MUNICIPALITY OF HERREID
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2025

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Municipal Commission introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Municipal Commission, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Municipal Commission to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpended appropriations lapse at year end unless encumbered by resolution of the Municipal Commission.

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund.

MUNICIPALITY OF HERREID

NOTES TO SUPPLEMENTARY INFORMATION - Page 2

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2025**

**NOTE 2 - OTHER COMPREHENSIVE BASIS OF ACCOUNTING MODIFIED CASH
BASIS/BUDGETARY ACCOUNTING BASIS DIFFERENCES**

The financial statements prepared in conformity with USGAAP applied within the context of the modified cash basis of accounting present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances, however in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.

MUNICIPALITY OF HERREID
SCHEDULE OF CHANGES IN LONG-TERM DEBT
FOR THE YEAR ENDED DECEMBER 31, 2025

Indebtedness	Long-Term Debt 1/1/2025	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2025
Enterprise Long-Term Debt				
USDA Rural Development Loan #93-03	\$ 181,919	\$ -	\$ 8,140	\$ 173,779
USDA Rural Development Loan #92-04	142,283	-	8,579	133,704
SRF #461252-01 Wastewater Loan	513,320	-	19,875	493,445
USDA Rural Development Loan #92-05	1,594,673	-	32,243	1,562,430
USDA Rural Development Loan #92-07	173,239	-	3,513	169,726
Total	<u>\$ 2,605,434</u>	<u>\$ -</u>	<u>\$ 72,350</u>	<u>\$ 2,533,084</u>

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

Pension Plan	Fiscal Year Ending	Employer's Percentage of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	Employer's Covered Payroll (b)	Employer'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	06/30/2025	0.0040%	\$ (342)	\$ 119,573	-0.29%	100.10%
SDRS	06/30/2024	0.0042%	(172)	118,938	-0.14%	100.03%
SDRS	06/30/2023	0.0045%	(444)	117,212	-0.38%	100.10%
SDRS	06/30/2022	0.0040%	(382)	96,472	-0.40%	100.10%
SDRS	06/30/2021	0.0044%	(33,819)	100,225	-33.74%	105.52%
SDRS	06/30/2020	0.0042%	(183)	92,343	-0.20%	100.04%
SDRS	06/30/2019	0.0041%	(437)	89,583	-0.49%	100.09%
SDRS	06/30/2018	0.0041%	(95)	86,308	-0.11%	100.02%
SDRS	06/30/2017	0.0042%	(376)	84,422	-0.45%	100.10%
SDRS	06/30/2016	0.0042%	14,025	78,951	17.76%	96.89%
SDRS	06/30/2015	0.0040%	(17,098)	73,593	-23.23%	104.10%

MUNICIPALITY OF HERREID
NOTES TO 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.

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

Benefit Provision Changes:

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

Actuarial Method Changes:

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

Actuarial Assumption Changes:

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

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

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