Financial Statements
December 31, 2025

City of Clear Lake



City of Clear Lake
Municipal Officials (Unaudited)
December 31, 2025

Mayor	Lisa Lundberg
City Council	Roderick Pauli
	Matt Stormo
	Jamie Hintz
	Amy Bjerke
	Jonas Reppe
	Ramona Drake
Finance Officer	Mary Krueger
Attorney	Todd Boyd

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Eide Bailly

Independent Auditor's Report

The City Council
City of Clear Lake
Clear Lake, South Dakota

Report on the Audit of the Financial Statements

Adverse and Unmodified Opinions

We have audited the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Clear Lake (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, the accompanying modified cash basis financial statements referred to above do not present fairly the financial position of the discretely presented component unit of the City, as of December 31, 2025, or the modified cash basis change in financial position for the year then ended in accordance with the modified cash basis described in Note 1.

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

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

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* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

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We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our adverse and unmodified audit opinions.

Matters Giving Rise to Adverse Opinion on the Discretely Presented Component Unit

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles applicable to the City's modified cash basis of accounting require the financial data for the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component unit. The City has not issued such reporting entity financial statements. The effects of not including the City's legally separate component unit on the discretely presented component unit have not been determined.

Emphasis of Matter - Basis of Accounting

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

Responsibilities of Management for the Financial Statements

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedules of employer's share of net pension liability (asset) and employer's contributions, budgetary comparison schedules, and schedule of changes in notes and bonds payable are presented for purposes of additional analysis and are not a required part of the basic financial statements. Because of the significance of the matter described in the Basis for Adverse and Unmodified Opinions section of our report, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2026, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Eide Bailly LLP

Aberdeen, South Dakota
November 16, 2026

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	$ 2,259,063	$ 1,585,237	$ 3,844,300
Investments	200,000	-	200,000
Restricted assets			
Cash and cash equivalents	6,710	453,296	460,006
	$ 2,465,773	$ 2,038,533	$ 4,504,306
Net Position			
Restricted for			
Customer deposits	$ 6,710	$ 74,455	$ 81,165
Promoting the City	134,938	-	134,938
Library	4,759	-	4,759
Debt service purposes	6,222	317,671	323,893
Equipment repair and/or replacement	-	61,170	61,170
Unrestricted	2,313,144	1,585,237	3,898,381
	$ 2,465,773	$ 2,038,533	$ 4,504,306

See Notes to Financial Statements

City of Clear Lake
Statement of Activities–Modified Cash Basis
Year Ended December 31, 2025

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Business-Type Activities	Net Revenue (Expense) and Changes in Net Position: Primary Government: Total
Primary Government							
Governmental activities							
General government	$ 202,614	$ 34,999	$ -	$ -	$ (167,615)	$ -	$ (167,615)
Public safety	126,077	-	-	-	(126,077)	-	(126,077)
Public works	650,601	92,372	61,862	-	(496,367)	-	(496,367)
Health and welfare	17,073	-	125	-	(16,948)	-	(16,948)
Culture and recreation	233,889	47,417	1,645	-	(184,827)	-	(184,827)
Conservation and development	93,706	-	-	-	(93,706)	-	(93,706)
Debt service	8,104	-	-	-	(8,104)	-	(8,104)
Total governmental activities	1,332,064	174,788	63,632	-	(1,093,644)	-	(1,093,644)
Business-type activities							
Water	815,444	465,004	-	-	-	(350,440)	(350,440)
Sewer	512,049	426,005	-	-	-	(86,044)	(86,044)
Total business-type activities	1,327,493	891,009	-	-	-	(436,484)	(436,484)
Total primary government	$ 2,659,557	$ 1,065,797	$ 63,632	$ -	(1,093,644)	(436,484)	(1,530,128)
General Revenues							
Taxes							
Property taxes					576,718	-	576,718
Sales taxes					726,244	-	726,244
State shared revenues					11,619	-	11,619
Unrestricted investment earnings					6,594	2,263	8,857
Debt issued					-	263,385	263,385
Miscellaneous revenue					52,402	-	52,402
Compensation for loss or damage to capital assets					5,018	-	5,018
Transfers					(200,000)	200,000	-
Total general revenues					1,178,595	465,648	1,644,243
Change in Net Position					84,951	29,164	114,115
Net Position - Beginning					2,380,822	2,009,369	4,390,191
Net Position - Ending					$ 2,465,773	$ 2,038,533	$ 4,504,306

See Notes to Financial Statements

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Library Fines Fund	TIF District #1	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 2,113,144	$ 134,938	$ 4,759	$ 6,222	$ 2,259,063
Restricted cash and cash equivalents	6,710	-	-	-	6,710
Investments	200,000	-	-	-	200,000
	$ 2,319,854	$ 134,938	$ 4,759	$ 6,222	$ 2,465,773
Fund Balances					
263 Nonspendable	$ 6,710	$ -	$ -	$ -	$ 6,710
264 Restricted for					
Promoting the City	-	134,938	-	-	134,938
Library	-	-	4,759	-	4,759
Debt service	-	-	-	6,222	6,222
267 Unassigned	2,313,144	-	-	-	2,313,144
	$ 2,319,854	$ 134,938	$ 4,759	$ 6,222	$ 2,465,773

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Library Fines Fund	TIF District #1	Total Governmental Funds
Revenues					
310 Taxes					
311 General property taxes	$ 563,082	$ -	$ -	$ 6,222	$ 569,304
313 General sales and use taxes	701,659	24,585	-	-	726,244
314 Gross receipts business taxes	4,852	-	-	-	4,852
319 Penalties and interest on delinquent taxes	2,562	-	-	-	2,562
Total taxes	1,272,155	24,585	-	6,222	1,302,962
320 Licenses and permits	6,057	-	-	-	6,057
330 Intergovernmental revenue					
335 State shared revenue					
335.01 Bank franchise tax	3,485	-	-	-	3,485
335.02 Motor vehicle commercial prorate	4,806	-	-	-	4,806
335.03 Liquor tax reversion	8,134	-	-	-	8,134
335.04 Motor vehicle licenses (5%)	22,891	-	-	-	22,891
335.08 Local government highway and bridge fund	26,709	-	-	-	26,709
338 County shared revenue					
338.01 County road tax (25%)	2,484	-	-	-	2,484
338.03 County wheel tax	4,972	-	-	-	4,972
Total intergovernmental revenue	73,481	-	-	-	73,481
340 Charges for goods and services					
344 Sanitation	92,372	-	-	-	92,372
346 Culture and recreation	47,417	-	-	-	47,417
Total charges for goods and services	139,789	-	-	-	139,789
360 Miscellaneous revenue					
361 Investment earnings	6,594	-	-	-	6,594
362 Rentals	28,942	-	-	-	28,942
367 Contributions and donations from private sources	125	-	1,645	-	1,770
368 Liquor operating agreement income	23,001	-	-	-	23,001
369 Other	29,401	-	-	-	29,401
Total miscellaneous revenue	88,063	-	1,645	-	89,708
Total revenues	1,579,545	24,585	1,645	6,222	1,611,997

City of Clear Lake

Statement of Revenues, Expenditures and Changes in Fund Balances–Modified Cash Basis–Governmental Funds

Year Ended December 31, 2025

	General Fund	Liquor, Lodging and Dining Gross Receipts Tax Fund	Library Fines Fund	TIF District #1	Total Governmental Funds
Expenditures					
410 General government					
411 Legislative	28,606	-	-	-	28,606
412 Executive	5,817	-	-	-	5,817
413 Elections	21	-	-	-	21
414 Financial administration	134,248	-	-	-	134,248
419 Other	33,922	-	-	-	33,922
Total general government	202,614	-	-	-	202,614
420 Public safety					
421 Police	76,286	-	-	-	76,286
422 Fire	46,415	-	-	-	46,415
423 Protective inspection	3,376	-	-	-	3,376
Total public safety	126,077	-	-	-	126,077
430 Public works					
431 Highways and streets	550,285	-	-	-	550,285
432 Sanitation	99,816	-	-	-	99,816
439 Transit	500	-	-	-	500
Total public works	650,601	-	-	-	650,601
440 Health and welfare					
441 Health	7,073	-	-	-	7,073
446 Ambulance	10,000	-	-	-	10,000
Total health and welfare	17,073	-	-	-	17,073
450 Culture and recreation					
451 Recreation	86,590	-	-	-	86,590
452 Parks	48,221	-	-	-	48,221
455 Library	66,723	-	2,987	-	69,710
456 Auditorium	26,868	-	-	-	26,868
457 Historical preservation	2,500	-	-	-	2,500
Total culture and recreation	230,902	-	2,987	-	233,889
460 Conservation and development					
465 Economic development and assistance	86,445	7,261	-	-	93,706
Total conservation and development	86,445	7,261	-	-	93,706
470 Debt service	-	-	-	8,104	8,104
Total expenditures	1,313,712	7,261	2,987	8,104	1,332,064
Other Financing Sources (Uses)					
391.01 Transfers in	-	-	-	8,104	8,104
391.04 Compensation for loss/ damage to capital assets	5,018	-	-	-	5,018
511 Transfers out	(208,104)	-	-	-	(208,104)
Total other financing sources (uses)	(203,086)	-	-	8,104	(194,982)
Net Change in Fund Balance	62,747	17,324	(1,342)	6,222	84,951
Fund Balance - Beginning	2,257,107	117,614	6,101	-	2,380,822
Fund Balance - Ending	$ 2,319,854	$ 134,938	$ 4,759	$ 6,222	$ 2,465,773

See Notes to Financial Statements

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Assets			
Current Assets			
Cash and cash equivalents	$ 687,567	$ 897,670	$ 1,585,237
Total current assets	687,567	897,670	1,585,237
Noncurrent Assets			
107.1 Restricted cash and cash equivalents	137,859	315,437	453,296
Total noncurrent assets	137,859	315,437	453,296
	$ 825,426	$ 1,213,107	$ 2,038,533
Liabilities and Net Position			
Net Position			
253.20 Restricted net position for			
253.21 Revenue bond debt service	$ 63,404	$ 254,267	$ 317,671
253.26 Equipment repair and/or replacement	-	61,170	61,170
253.29 Customer deposits	74,455	-	74,455
253.90 Unrestricted	687,567	897,670	1,585,237
Total net position	825,426	1,213,107	2,038,533
	$ 825,426	$ 1,213,107	$ 2,038,533

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating Revenue			
380 Charges for goods and services	$ 465,004	$ 425,305	$ 890,309
389 Miscellaneous	-	700	700
Total operating revenue	465,004	426,005	891,009
Operating Expenses			
410 Personal services	107,371	80,896	188,267
420 Other current expense	72,605	44,962	117,567
426.2 Materials	96,368	-	96,368
Total operating expenses	276,344	125,858	402,202
Operating Income	188,660	300,147	488,807
Nonoperating Revenue (Expense)			
361 Investment earnings	206	2,057	2,263
430 Capital assets	(511,751)	(266,043)	(777,794)
440 Debt service principal	(23,118)	(85,665)	(108,783)
442 Debt service interest	(4,231)	(34,483)	(38,714)
391.2 Long-term debt issued	-	263,385	263,385
Total nonoperating expense	(538,894)	(120,749)	(659,643)
Income (Loss) Before Transfers	(350,234)	179,398	(170,836)
391 Transfers in	200,000	-	200,000
Change in Net Position	(150,234)	179,398	29,164
Net Position - Beginning	975,660	1,033,709	2,009,369
Net Position - Ending	$ 825,426	$ 1,213,107	$ 2,038,533

See Notes to Financial Statements

City of Clear Lake

Statement of Cash Flows–Modified Cash Basis–Proprietary Funds

Year Ended December 31, 2025

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
Cash Flows from (used for) Operating Activities			
Receipts from customers	$ 465,004	$ 425,305	$ 890,309
Receipts from intergovernmental services provided	-	700	700
Payments to suppliers	(168,973)	(44,962)	(213,935)
Payments to employees	(107,371)	(80,896)	(188,267)
Net Cash from Operating Activities	188,660	300,147	488,807
Cash Flows from Noncapital and Related Financing Activities			
Transfers from other funds	200,000	-	200,000
Net Cash from Noncapital and Related Financing Activities	200,000	-	200,000
Cash Flows from (used for) Capital and Related Financing Activities			
Proceeds from long-term debt issued	-	263,385	263,385
Purchase of capital assets	(511,751)	(266,043)	(777,794)
Principal paid on capital debt	(23,118)	(85,665)	(108,783)
Interest paid on capital debt	(4,231)	(34,483)	(38,714)
Net Cash used for Capital and Related Financing Activities	(539,100)	(122,806)	(661,906)
Cash Flows from Investing Activities			
Interest earnings	206	2,057	2,263
Net Cash from Investing Activities	206	2,057	2,263
Net Change in Cash and Cash Equivalents	(150,234)	179,398	29,164
Cash and Cash Equivalents - Beginning	975,660	1,033,709	2,009,369
Cash and Cash Equivalents - Ending	$ 825,426	$ 1,213,107	$ 2,038,533
Cash and Cash Equivalents Consist of			
Cash and cash equivalents	$ 687,567	$ 897,670	$ 1,585,237
Restricted cash and cash equivalents	137,859	315,437	453,296
	$ 825,426	$ 1,213,107	$ 2,038,533
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	$ 188,660	$ 300,147	$ 488,807
Net Cash from Operating Activities	$ 188,660	$ 300,147	$ 488,807

See Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

As discussed further in Note 1.C., the financial statements are presented 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 (GAAP). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

Financial Reporting Entity

The reporting entity of the City of Clear Lake (the City) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the City's financial statements to be misleading or incomplete.

The reporting entity is composed of the primary government, City of Clear Lake, and one component unit, The Housing and Redevelopment Commission of the City of Clear Lake.

The Housing and Redevelopment Commission of the City of Clear Lake (Commission) is a component unit of the City of Clear Lake. 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 a housing unit, or to issue debt, which gives the governing board the ability to impose its will on the Commission. Due to the financial statements of the Commission being excluded from the City's financial statements, the opinion of the auditor's report has been modified.

Basis of Presentation

Government-Wide Financial Statements

The statement of net position and statement of activities display information about the City as a whole. They include all funds of the City. 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 City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs; and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

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

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

The funds of the City of Clear Lake are described below:

Governmental Funds

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

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

- Liquor, Lodging and Dining Gross Receipts Tax Fund – Fund to account for an additional one percent sales tax on the gross receipts of lodging, alcoholic beverages, prepared food, and admissions, which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium, or athletic facilities buildings including the promotion and advertising of the City (SDCL 10-52A-2). This is a major fund.
- Library Fines Fund – A fund allowed by SDCL 14-2-42 to account for library-related fines, similar charges and donations to be used for library activities. This is a major fund.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. The City also uses these funds to account for the property taxes which may be used only for the payment of Tax Increment Financing (TIF) district expenditures.

- TIF District #1 – Fund to account for the receipt and payment of incremental property taxes from the TIF district. This is a major fund.

Proprietary Funds

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

The City reports the following enterprise funds:

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

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

Measurement Focus and Basis of Accounting

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

Measurement Focus

In the government-wide 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.

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

Basis of Accounting

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

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

If the City utilized accounting principles generally accepted in the United States of America, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented in accordance with the accrual basis of accounting.

Deposits and Investments

For the purpose of financial reporting in the respective proprietary fund statement of cash flows, "cash and cash equivalents" includes all demand, savings, and certificates of deposit accounts, or other 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 Laws (SDCL) § 4-5-6. Under the modified cash basis of accounting, investments are carried at cost.

Interfund Eliminations and Reclassifications

Government-Wide Financial Statements

In the process of aggregating data for the government-wide financial statements, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified, as follows:

- The City presents the net residual amounts due between governmental and business-type activities, which are presented as amounts due to or due from other funds.
- The City did not have internal service fund activity which required elimination as of December 31, 2025.

Capital Assets

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

Long-Term Liabilities

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

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

Program Revenues

In the government-wide statement of activities, reported program revenues derive directly from the program itself or from parties other than the City's taxpayers or citizenry as a whole. Program revenues are classified into three categories, as follows:

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

Proprietary Funds Revenue and Expense Classifications

In the proprietary funds' statement of revenues, expenses and changes in fund 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.

Cash and Cash Equivalents

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

Equity Classifications

Government-Wide Statements

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

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

Fund Financial Statements

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

Application of Net Position and Fund Balance

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

Fund Balance Classification Policies and Procedures

The following classifications describe the relative strength of the spending constraints:

- Nonspendable Fund Balance – Amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted Fund Balance – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed Fund Balance – Amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Council). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance – Amounts the City intends to use for a specific purpose. Intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance – Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

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

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. An assigned fund balance is established by the City Council through adoption of a resolution designating a fund balance as intended for a specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The purpose of each major special revenue fund and revenue source is listed below:

Major Special Revenue Fund	Revenue Source
Liquor, Lodging and Dining Gross Receipts Tax Fund	Sales taxes
Library Fines Fund	Fines and donations

Adoption of New Standard

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

Note 2 - Deposits and Investments

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

Deposits

The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1, and 9-22-6.2, and may be in the form of demand or time deposits.

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

Custodial Credit Risk - Deposits – The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2025, the City maintained its deposits at in-state financial institutions which were properly collateralized in accordance with SDCL 4-6A-3.

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

	Bank Balance
Insured (FDIC/NCUA)	$ 360,659
Uninsured, collateral jointly held by State's/City's agent in the name of the State and the pledging financial institution	4,185,443
	$ 4,546,102

The City's carrying amount of deposits at December 31, 2025, is as follows:

Cash and cash equivalents	$ 4,304,306
Investments	200,000
	$ 4,504,306

Investments

In general, SDCL 4-5-6 permits City 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 (c) shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2025, the investments reported in the financial statements consist of only certificates of deposit.

Interest Rate Risk – The City 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. As of December 31, 2025, all of the City's investments consist of certificates of deposit which have maturities of less than one year.

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

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 City's policy is to credit all income from investments to the fund making the investment, as permitted by SDCL 9-32-18.

Note 3 - Property Taxes

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

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

Note 4 - Retirement Plan

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

Benefits Provided

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

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

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

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

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

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater than or equal to the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
  - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater than 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% of salary; Class B judicial members, 9% of salary; and Class B public safety members, 8% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions made to the SDRS for the years ended December 31, 2025, 2024 and 2023, were $19,262, $20,614 and $19,028, respectively, equal to the required contributions each year.

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

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

Proportionate share of pension liability	$ 1,685,494
Less proportionate share of net position restricted for pension benefits	1,686,434
Proportionate share of net pension liability (asset)	$ (940)

At December 31, 2025, the City disclosed a liability (asset) of $(940) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2025, and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities.

At June 30, 2025, the City's proportion was 0.011043%, which is a decrease of 0.000784% from its proportion measured as of June 30, 2024. The City's proportionate share of the net pension liability (asset) is not reported in the financial statements shown under the modified cash basis of accounting.

Actuarial Assumptions

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

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

Mortality Rates

All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020
Active and Terminated Vested Members:
- Teachers, Certified Regents, and Judicial: PubT-2010
- Other Class A Members: PubG-2010
- Public Safety Members: PubS-2010

Retired Members:
- Teachers, Certified Regents, and Judicial Retirees: PubT-2010, 108% of rates above age 65
- Other Class A Retirees: PubG-2010, 93% of rates through age 74, increasing by 2% per year until 111% of rates at age 83 and above
- Public Safety Members: PubS-2010, 102% of rates at all ages

Beneficiaries:
- Pub G-2010 contingent survivor mortality table

Disabled Members:
- Public Safety: PubS-2010 disabled member mortality table
- Others: PubG-2010 disabled member mortality table

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

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

Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2025, (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

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

Discount Rate

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

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

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

	1% Decrease	Current Discount Rate	1% Increase
City's proportionate share of the net pension liability (asset)	$ 230,184	$ (940)	$ (190,284)

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 - Significant Contingencies – Litigation

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

Note 6 - Restricted Net Position

Restricted net position for the year ended December 31, 2025, is as follows:

Fund	Restricted By	Amount
General Fund	Contractual	$ 6,710
Liquor, Lodging and Dining Gross Receipts Tax Fund	State Law	134,938
Library Fines Fund	Contractual	4,759
TIF District #1	Contractual	6,222
Water Fund	Contractual	137,859
Sewer Fund	Contractual	315,437

Note 7 - Transfers

In 2025, the City transferred $200,000 from the General Fund to the Water Fund for the purchase of water meters and a related system and software. The City also transferred $8,104 from the General Fund to TIF District #1 for 2025 payments from property tax.

Note 8 - Risk Management

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

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a no lifetime maximum payment per person.

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

Liability Insurance

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

The City carries a deductible ranging from $0 to $50,000 depending on the specific coverage within governmental liability coverage, a $0 deductible for automobile liability coverage, a deductible ranging from $0 to $10,000 depending on the specific type of coverage within governmental property coverage, and a $0 deductible for government crime coverage.

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

Workers' Compensation

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

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

Unemployment Benefits

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

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

Note 9 - Tax Abatements

The City has one active Tax Increment Financing (TIF) district in which the City has entered into an agreement with a developer (sponsor) of the TIF district. Under the agreement, property tax increments received by the City are paid to the project sponsor as a grant to cover eligible project expenses approved by resolution by the City of Clear Lake Planning and Zoning Commission and City Council, as allowed by South Dakota Codified Law Section 11-9. The project sponsor bears the risk that increments collected over the life of the TIF district will be less than sufficient to cover all eligible project expenses and the City bears no responsibility to make up any shortfall. When all approved project costs are paid, or the TIF is dissolved in accordance with state statutes, all property tax revenue will be distributed to the appropriate taxing entities. Increments totaling approximately $8,100 were received by the City and paid to the project sponsor during 2025.

Note 10 - Violations of Finance-Related Legal Provisions

The City is prohibited by statute from spending in excess of appropriated amounts at the department level. For the year ended December 31, 2025, the City had overdrafts of expenditures compared to appropriations in the Library Fines Fund, library department in the amount of $2,987. The City will monitor budget schedules for overspending and supplement the budget as allowed to avoid overspending in the future.

Note 11 - Commitments

During 2024, the City was awarded approximately $3.5 million and $3.694 million of State of South Dakota Department of Agriculture and Natural Resources State Revolving Fund loans for planned infrastructure projects including lift station and storm sewer improvements, water main replacements, and drinking water improvements. The City has committed approximately $427,000 for engineering services for the projects, with $382,000 remaining at year end. In 2025, the City has committed approximately $4,152,000 to contractors for these projects, with $4,019,000 remaining at year end. The commitments will be paid for by loan proceeds.

Subsequent to year-end, the City was awarded $2,696,900 from the State of South Dakota Department of Agriculture and Natural Resources State Revolving Fund in loan funding for drinking water improvements and another $2,130,400 in loan funding for storm sewer improvements related to the Phase 1B project. The City was also awarded a $200,000 grant to assist with financing the overall project. As of the date the financial statements were issued, the City had entered into approximately $721,000 of commitments with contractors or engineers related to the Phase 1B project.

Supplementary Information
December 31, 2025

City of Clear Lake

Schedule of Employer's Share of Net Pension Liability (Asset)

Pension Plan	Fiscal Year Ending *	City's Percentage of the Net Pension Liability (Asset)	City's Proportionate Share of the Net Pension Liability (Asset) (a)	City's Covered Payroll (b)	City's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability (Asset)
SDRS	6/30/2025	0.0110%	$ (940)	$ 328,557	0.3%	100.10%
SDRS	6/30/2024	0.0118%	(479)	331,811	0.1%	100.00%
SDRS	6/30/2023	0.0117%	(1,145)	302,575	0.4%	100.10%
SDRS	6/30/2022	0.0113%	(1,069)	270,180	0.4%	100.10%
SDRS	6/30/2021	0.0119%	(90,912)	269,400	33.7%	105.52%
SDRS	6/30/2020	0.0103%	(448)	226,780	0.2%	100.04%
SDRS	6/30/2019	0.0107%	(1,139)	228,534	0.5%	100.09%
SDRS	6/30/2018	0.0104%	(243)	216,248	0.1%	100.02%
SDRS	6/30/2017	0.0100%	(904)	202,298	0.4%	100.10%
SDRS	6/30/2016	0.0105%	35,465	199,633	17.8%	96.89%

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

Schedule of Employer's Contributions

Pension Plan	Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
SDRS	12/31/2025	$ 19,262	$ 19,262	$ -	$ 321,031	6.0%
SDRS	12/31/2024	20,614	20,614	-	343,571	6.0%
SDRS	12/31/2023	19,028	19,028	-	317,138	6.0%
SDRS	12/31/2022	16,617	16,617	-	276,943	6.0%
SDRS	12/31/2021	17,017	17,017	-	283,615	6.0%
SDRS	12/31/2020	14,694	14,694	-	244,891	6.0%
SDRS	12/31/2019	13,290	13,290	-	221,507	6.0%
SDRS	12/31/2018	13,491	13,491	-	224,855	6.0%
SDRS	12/31/2017	12,411	12,411	-	206,854	6.0%
SDRS	12/31/2016	11,930	11,930	-	198,825	6.0%

City of Clear Lake
Schedule of Changes in Notes and Bonds Payable
Year Ended December 31, 2025

	Notes and Bonds Payable 1/1/2025	Add New Debt	Less Debt Retired	Notes and Bonds Payable 12/31/2025
Enterprise Long-Term Debt				
State Revolving Fund Loan				
Drinking Water 2000	$ 149,663	$ -	$ (23,118)	$ 126,545
Clean Water 2006	79,412	-	(44,827)	34,585
Clean Water 2025	-	263,385	-	263,385
USDA RD Loan - Sewer	1,748,604	-	(40,838)	1,707,766
	$ 1,977,679	$ 263,385	$ (108,783)	$ 2,132,281

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Revenues				
310 Taxes				
311 General property taxes	$ 553,563	$ 553,563	$ 563,082	$ 9,519
313 General sales and use taxes	655,000	655,000	701,659	46,659
314 Gross receipts business taxes	4,600	4,600	4,852	252
319 Penalties and interest on delinquent taxes	1,300	1,300	2,562	1,262
Total taxes	1,214,463	1,214,463	1,272,155	57,692
320 Licenses and permits	6,950	6,950	6,057	(893)
330 Intergovernmental revenue				
335 State shared revenue				
335.01 Bank franchise tax	3,500	3,500	3,485	(15)
335.02 Motor vehicle commercial prorate	4,200	4,200	4,806	606
335.03 Liquor tax reversion	8,500	8,500	8,134	(366)
335.04 Motor vehicle licenses (5%)	22,000	22,000	22,891	891
335.08 Local government highway and bridge fund	26,000	26,000	26,709	709
338 County shared revenue				
338.01 County road tax (25%)	2,484	2,484	2,484	-
338.02 County road and bridge tax (25%)	1,000	1,000	-	(1,000)
338.03 County wheel tax	4,200	4,200	4,972	772
Total intergovernmental revenue	71,884	71,884	73,481	1,597
340 Charges for goods and services				
344 Sanitation	97,800	97,800	92,372	(5,428)
346 Culture and recreation	43,300	43,300	47,417	4,117
Total charges for goods and services	141,100	141,100	139,789	(1,311)
360 Miscellaneous revenue				
361 Investment earnings	1,500	1,500	6,594	5,094
362 Rentals	13,400	13,400	28,942	15,542
367 Contributions and donations from private sources	100	100	125	25
368 Liquor operating agreement income	23,800	23,800	23,001	(799)
369 Other	13,500	13,500	29,401	15,901
Total miscellaneous revenue	52,300	52,300	88,063	35,763
Total revenues	1,486,697	1,486,697	1,579,545	92,848

City of Clear Lake
Budgetary Comparison Schedule–General Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
Expenditures				
410 General government				
411 Legislative	36,870	36,870	28,606	8,264
411.5 Contingency	80,000	80,000		
Amount transferred		(39,994)	-	40,006
412 Executive	6,070	6,144	5,817	327
413 Elections	1,500	1,500	21	1,479
414 Financial administration	147,587	150,957	134,248	16,709
419 Other	31,150	40,186	33,922	6,264
Total general government	303,177	275,663	202,614	73,049
420 Public safety				
421 Police	76,287	76,287	76,286	1
422 Fire	47,300	47,300	46,415	885
423 Protective inspection	210	3,510	3,376	134
Total public safety	123,797	127,097	126,077	1,020
430 Public works				
431 Highways and streets	763,645	840,235	550,285	289,950
432 Sanitation	141,508	141,563	99,816	41,747
439 Transit	500	500	500	-
Total public works	905,653	982,298	650,601	331,697
440 Health and welfare				
441 Health	5,175	7,675	7,073	602
446 Ambulance	10,000	10,000	10,000	-
Total health and welfare	15,175	17,675	17,073	602
450 Culture and recreation				
451 Recreation	124,183	125,818	86,590	39,228
452 Parks	100,090	100,090	48,221	51,869
455 Library	74,598	76,898	66,723	10,175
456 Auditorium	33,550	39,405	26,868	12,537
457 Historical preservation	2,500	2,500	2,500	-
Total culture and recreation	334,921	344,711	230,902	113,809
460 Conservation and development				
465 Economic development and assistance	90,000	90,000	86,445	3,555
Total conservation and development	90,000	90,000	86,445	3,555
Total expenditures	1,772,723	1,837,444	1,313,712	523,732
Other Financing Sources (Uses)				
391.04 Compensation for loss/damage to capital assets	-	-	5,018	5,018
511 Transfers out	(1,000,000)	(1,000,000)	(208,104)	791,896
Total other financing sources (uses)	(1,000,000)	(1,000,000)	(203,086)	796,914
Net Change in Fund Balance	(1,286,026)	(1,350,747)	62,747	1,413,494
Fund Balance - Beginning	2,257,107	2,257,107	2,257,107	-
Fund Balance - Ending	$ 971,081	$ 906,360	$ 2,319,854	$ 1,413,494

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
310 Taxes				
313 General sales and use taxes	$ 25,000	$ 25,000	$ 24,585	$ (415)
Total taxes	25,000	25,000	24,585	(415)
Total revenues	25,000	25,000	24,585	(415)
Expenditures				
460 Conservation and development				
465 Economic development and assistance	25,000	25,000	7,261	17,739
Total expenditures	25,000	25,000	7,261	17,739
Net Change in Fund Balance	-	-	17,324	17,324
Fund Balance - Beginning	117,614	117,614	117,614	-
Fund Balance - Ending	$ 117,614	$ 117,614	$ 134,938	$ 17,324

City of Clear Lake
Budgetary Comparison Schedule–Library Fines Fund
Year Ended December 31, 2025

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
360 Miscellaneous revenue				
367 Contributions and donations from private sources	$ -	$ -	$ 1,645	$ 1,645
Total miscellaneous revenue	-	-	1,645	1,645
Total revenues	-	-	1,645	1,645
Expenditures				
450 Culture and recreation				
455 Libraries	-	-	2,987	(2,987)
Total expenditures	-	-	2,987	(2,987)
Net Change in Fund Balance	-	-	(1,342)	(1,342)
Fund Balance - Beginning	6,101	6,101	6,101	-
Fund Balance - Ending	$ 6,101	$ 6,101	$ 4,759	$ (1,342)

Note 1 - Budgets and Budgetary Accounting

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

1. At the first regular City Council meeting in September of each year or within ten days thereafter, the City Council introduces the annual appropriation ordinance for the ensuing fiscal year.

2. After adoption by the City Council, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in Number 4.

3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5% of the total municipal budget and may be transferred by resolution of the City Council to any other budget category that is deemed insufficient during the year.

4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.

5. Unexpended appropriations lapse at year-end unless encumbered by resolution of the City Council.

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

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

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds. Formal budgetary integration is not employed for debt service funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.

7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with a modified cash basis of accounting.

Note 2 - Modified Cash Basis/Budgetary Accounting Basis Differences

The financial statements prepared on the modified cash basis of accounting present capital outlay expenditure information in the same manner as under the budgetary basis of accounting; whereas, capital outlay expenditures are reported within the function to which they relate.

Note 3 - Schedule of the Employer's Share of Net Pension Liability (Asset) and Employer's Contributions

Changes of 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:

Changes of Benefit Provisions

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 2024 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 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.

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

The City Council
City of Clear Lake
Clear Lake, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*), the financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Clear Lake (the City) as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 16, 2026. The statements were prepared on the modified cash basis of accounting, a basis of accounting other than accounting principles generally accepted in the United States of America. In our report, we issued an adverse opinion on the discretely presented component unit because the financial statements did not include the City'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 City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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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 identified certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2025-001 and 2025-002, that we consider to be material weaknesses.

Report on Compliance and Other Matters

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

City of Clear Lake's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the City's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The City's 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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record, and its distribution is not limited.

Eide Bailly LLP

Aberdeen, South Dakota
November 16, 2026

2025-001 - Lack of Segregation of Duties

Material Weakness

Criteria: A good system of internal controls contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion. It also allows for adequate review of manual adjusting journal entries posted by individuals separate from who originated the entry.

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

Cause: The City has an insufficient number of staff to adequately separate duties and has determined it would not be cost effective to hire additional staff.

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

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

Views of Responsible Officials: Management agrees with the finding.

2025-002 - Preparation of Financial Statements, Footnotes, and Audit Adjustments

Material Weakness

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

Condition: The City requested the external auditors to prepare the financial statements and related notes for the year ended December 31, 2025. As a part of the financial statement preparation process, we compiled certain net position restrictions in the proprietary funds and we proposed certain audit adjustments that were not identified as a result of the City's existing internal controls which, therefore, could result in a misstatement of the City's financial statements.

Cause: The City does not have staff able to prepare the financial statements and the related footnotes which could cause the need for auditors to, at times, propose various journal entries.

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

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

Views of Responsible Officials: Management agrees with the finding.