

CITY OF FLANDREAU

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2023**

CITY OF FLANDREAU

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INDEPENDENT AUDITOR'S REPORT

City Council
City of Flandreau
Flandreau, South Dakota

Report on the Financial Statements

Opinions

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flandreau (the City), Moody County, South Dakota, as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the 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, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2023, 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 of accounting described in Note 1.

Basis for Opinions

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

Emphasis of Matter Regarding 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 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 as 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 there is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards 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 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 other internal control 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 accompanying combining nonmajor fund financial statements 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 combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Report on Other Legal and Regulatory Requirements

In accordance with *Government Auditing Standards*, we have also issued our report dated April 22, 2025 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.

A handwritten signature in dark ink, reading "Ketel Thorstenson, LLP". The signature is fluid and cursive, with the letters "K", "T", and "L" being particularly prominent.

KETEL THORSTENSON, LLP
Certified Public Accountants

April 22, 2025

CITY OF FLANDREAU

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

| | Governmental Activities | Business-Type Activities | Total |
|--|------------------------------------|-------------------------------------|----------------------|
| ASSETS: | | | |
| Cash and Cash Equivalents | \$ 1,569,183 | \$ 4,904,883 | \$ 6,474,066 |
| Restricted Cash | - | 537,311 | 537,311 |
| Capital Assets: | | | |
| Land and Construction in Progress | 2,380,713 | 6,096,339 | 8,477,052 |
| Other Capital Assets, Net of Depreciation | 3,870,884 | 8,804,065 | 12,674,949 |
| TOTAL ASSETS | \$ 7,820,780 | \$ 20,342,598 | \$ 28,163,378 |
| LIABILITIES: | | | |
| Non-Current Liabilities: | | | |
| Due Within One Year | 40,633 | 443,430 | 484,063 |
| Due in More Than One Year | 738,024 | 10,697,943 | 11,435,967 |
| TOTAL LIABILITIES | 778,657 | 11,141,373 | 11,920,030 |
| NET POSITION: | | | |
| Net Investment in Capital Assets | 5,472,940 | 3,759,031 | 9,231,971 |
| Restricted for Debt Service | 106,080 | 537,311 | 643,391 |
| Restricted for Fire Station | 14,443 | - | 14,443 |
| Restricted for Culture and Recreation Purposes | 301,714 | - | 301,714 |
| Unrestricted | 1,146,946 | 4,904,883 | 6,051,829 |
| TOTAL NET POSITION | 7,042,123 | 9,201,225 | 16,243,348 |
| TOTAL LIABILITIES AND NET POSITION | \$ 7,820,780 | \$ 20,342,598 | \$ 28,163,378 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

| Functions/Programs | Program Revenues | | | | Net (Expense) Revenue and | | |
|--|---------------------|----------------------|--------------------------|--------------------------|---------------------------|---|----------------------|
| | Expenses | Charges for Services | Capital | Operating | Governmental Activities | Changes in Net Position | |
| | | | Grants and Contributions | Grants and Contributions | | Primary Government Business-Type Activities | Total |
| Primary Government: | | | | | | | |
| Governmental Activities: | | | | | | | |
| General Government | \$ 78,920 | \$ 4,516 | \$ 48,564 | \$ - | \$ (25,840) | \$ - | \$ (25,840) |
| Public Safety | 894,721 | 1,372 | - | - | (893,349) | - | (893,349) |
| Public Works | 708,870 | 156,177 | - | 4,276 | (548,417) | - | (548,417) |
| Culture and Recreation | 543,989 | 32,437 | - | - | (511,552) | - | (511,552) |
| Conservation and Development | 154,519 | - | - | - | (154,519) | - | (154,519) |
| Interest on Long-Term Debt* | 34,522 | - | - | - | (34,522) | - | (34,522) |
| Total Governmental Activities | 2,415,541 | 194,502 | 48,564 | 4,276 | (2,168,199) | - | (2,168,199) |
| Business-Type Activities: | | | | | | | |
| Water | 711,602 | 798,632 | - | - | - | 87,030 | 87,030 |
| Electric | 3,023,306 | 3,516,945 | - | - | - | 493,639 | 493,639 |
| Sewer | 509,959 | 715,926 | - | - | - | 205,967 | 205,967 |
| Solid Waste | 197,981 | 212,870 | - | - | - | 14,889 | 14,889 |
| Total Business-Type Activities | 4,442,848 | 5,244,373 | - | - | - | 801,525 | 801,525 |
| Total Primary Government | \$ 6,858,389 | \$ 5,438,875 | \$ 48,564 | \$ 4,276 | (2,168,199) | 801,525 | (1,366,674) |
| General Revenues and Transfers: | | | | | | | |
| General Revenues: | | | | | | | |
| Taxes: | | | | | | | |
| Property Taxes | | | | | 779,939 | - | 779,939 |
| Sales Taxes | | | | | 951,524 | - | 951,524 |
| Gross Receipt Taxes | | | | | 1,804 | - | 1,804 |
| State Shared Revenues | | | | | 16,304 | - | 16,304 |
| Unrestricted Investment Earnings | | | | | 1,021 | 3,996 | 5,017 |
| Miscellaneous Revenue | | | | | 437,394 | 17,065 | 454,459 |
| Transfers | | | | | 777,640 | (777,640) | - |
| Total General Revenues and Transfers | | | | | 2,965,626 | (756,579) | 2,209,047 |
| Change in Net Position | | | | | 797,427 | 44,946 | 842,373 |
| Net Position - December 31, 2022, as Previously Stated | | | | | 6,243,355 | 9,587,584 | 15,830,939 |
| Change in Basis of Accounting | | | | | 1,341 | (431,305) | (429,964) |
| Net Position - December 31, 2022, as Restated | | | | | 6,244,696 | 9,156,279 | 15,400,975 |
| Net Position - December 31, 2023 | | | | | \$ 7,042,123 | \$ 9,201,225 | \$ 16,243,348 |

* The City does not have interest expense related to the functions presented above.
This amount includes indirect expense on general long-term debt.

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

BALANCE SHEET

GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

DECEMBER 31, 2023

| | General Fund | Capital Project Fire Station Fund | Other Nonmajor Funds | Total Governmental Funds |
|--------------------------|-------------------------|--|-------------------------------------|---|
| ASSETS: | | | | |
| 101 Cash and Investments | \$ 1,258,583 | \$ 14,443 | \$ 296,157 | \$ 1,569,183 |
| TOTAL ASSETS | \$ 1,258,583 | \$ 14,443 | \$ 296,157 | \$ 1,569,183 |

FUND BALANCE:

| | | | | |
|---|---------------------|------------------|-------------------|---------------------|
| 264.01 Restricted - Debt Service | - | - | 106,080 | 106,080 |
| 264.02 Restricted - Playground Equipment | 68,000 | - | - | 68,000 |
| 264.02 Restricted - Bike Path | - | - | 169,994 | 169,994 |
| 264.04 Restricted - Facilities & Promoting the City | - | - | 20,083 | 20,083 |
| 264.06 Restricted - Park | 43,637 | - | - | 43,637 |
| 264.02 Restricted - Fire Station | - | 14,443 | - | 14,443 |
| 265.02 Committed - Capital Replacement | 147,842 | - | - | 147,842 |
| 267.00 Unassigned | 999,104 | - | - | 999,104 |
| | 1,258,583 | 14,443 | 296,157 | 1,569,183 |
| TOTAL FUND BALANCE | \$ 1,258,583 | \$ 14,443 | \$ 296,157 | \$ 1,569,183 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2023**

| | |
|--|--------------|
| Total Fund Balances - Governmental Funds | \$ 1,569,183 |
|--|--------------|

Amounts reported for governmental activities in the Statement of
Net Position are different because:

| | |
|--|-----------|
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 6,251,597 |
|--|-----------|

| | |
|---|-----------|
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. | (778,657) |
|---|-----------|

| | |
|---|---------------------|
| Total Net Position - Governmental Activities | \$ 7,042,123 |
|---|---------------------|

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

| | | General Fund | Capital Project Fire Station Fund | Other Nonmajor Funds | Total Governmental Funds |
|----------------------|--|------------------|---|----------------------------|--------------------------------|
| Revenue: | | | | | |
| | <i>Taxes:</i> | | | | |
| 311 | General Property Taxes | \$ 666,627 | \$ - | \$ 113,312 | \$ 779,939 |
| 313 | General Sales and Use Taxes | 912,727 | - | 38,797 | 951,524 |
| 319 | Penalties and Interest on | | | | |
| | Delinquent Taxes | 1,474 | - | 330 | 1,804 |
| 320 | Licenses and Permits | 18,569 | - | - | 18,569 |
| | <i>Intergovernmental Revenue:</i> | | | | |
| 331 | Federal Grant | 48,564 | - | - | 48,564 |
| 334 | State Grant | 4,276 | - | - | 4,276 |
| | <i>State Shared Revenue:</i> | | | | |
| 335.01 | Bank Franchise Tax | 4,516 | - | - | 4,516 |
| 335.03 | Liquor Tax Reversion | 16,304 | - | - | 16,304 |
| 335.04 | Motor Vehicle Licenses (5%) | 34,785 | - | - | 34,785 |
| 335.08 | Local Government Highway and Bridge Fund | 49,572 | - | - | 49,572 |
| 338.01 | County Road Tax | 10,916 | - | - | 10,916 |
| 338.99 | Other | 23,254 | - | - | 23,254 |
| | <i>Charges for Goods and Services:</i> | | | | |
| 342 | Highways and Streets | 42,335 | - | - | 42,335 |
| 346 | Culture and Recreation | 32,437 | - | - | 32,437 |
| | <i>Fines and Forfeits:</i> | | | | |
| 350 | Court Fines and Costs | 1,372 | - | - | 1,372 |
| | <i>Miscellaneous Revenue:</i> | | | | |
| 361 | Investment Earnings | 1,021 | - | - | 1,021 |
| 362 | Rentals | 94,140 | - | - | 94,140 |
| 367 | Contributions and Donations | 69,000 | - | 170,000 | 239,000 |
| 369 | Other | 78,600 | - | - | 78,600 |
| Total Revenue | | 2,110,489 | - | 322,439 | 2,432,928 |

CITY OF FLANDREAU

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

| | General Fund | Capital Project Fire Station Fund | Other Nonmajor Funds | Total Governmental Funds |
|---|---------------------|---|----------------------------|--------------------------------|
| Expenditures: | | | | |
| <i>General Government:</i> | | | | |
| 411 Legislative | 31,810 | - | - | 31,810 |
| 412 Executive | 6,364 | - | - | 6,364 |
| 414 Financial Administration | 28,477 | - | - | 28,477 |
| 419 Other | 6,292 | - | - | 6,292 |
| <i>Public Safety:</i> | | | | |
| 421 Police | 746,352 | - | - | 746,352 |
| 422 Fire | 58,700 | - | - | 58,700 |
| 429 Other Protection | 2,714 | - | - | 2,714 |
| <i>Public Works:</i> | | | | |
| 431 Highway and Streets | 463,758 | - | - | 463,758 |
| 435 Airport | 51,678 | - | - | 51,678 |
| 437 Cemeteries | 18,934 | - | - | 18,934 |
| <i>Culture and Recreation:</i> | | | | |
| 451 Recreation | 214,970 | - | 45,529 | 260,499 |
| 452 Parks | 112,478 | - | 6 | 112,484 |
| 455 Library | 10,750 | - | - | 10,750 |
| 458 Museum | 7,000 | - | - | 7,000 |
| <i>Conservation and Development:</i> | | | | |
| 465 Economic Development and Assistance | 154,519 | - | - | 154,519 |
| 470 Debt Service | 176,900 | - | 61,325 | 238,225 |
| 485 Capital Outlay | 163,657 | 1,531,979 | - | 1,695,636 |
| Total Expenditures | 2,255,353 | 1,531,979 | 106,860 | 3,894,192 |
| Other Financing Sources (Uses): | | | | |
| 391.01 Transfers In | 125,000 | 1,298,093 | 42,536 | 1,465,629 |
| 391.03 Sale of Municipal Property | 2,400 | - | - | 2,400 |
| 391.20 Long-Term Debt Issued | - | 248,329 | - | 248,329 |
| 511 Transfers Out | (687,989) | - | - | (687,989) |
| Total Other Financing Sources | (560,589) | 1,546,422 | 42,536 | 1,028,369 |
| Net Change in Fund Balance | (705,453) | 14,443 | 258,115 | (432,895) |
| Fund Balance, December 31, 2022, as Previously Stated | 2,003,668 | - | (86,197) | 1,917,471 |
| Change in Basis of Accounting | (39,632) | - | 124,239 | 84,607 |
| Fund Balance, December 31, 2022, as Restated | 1,964,036 | - | 38,042 | 2,002,078 |
| Fund Balance, December 31, 2023 | \$ 1,258,583 | \$ 14,443 | \$ 296,157 | \$ 1,569,183 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

| | | |
|--|----|------------------|
| Net Change in Fund Balance - Government Funds | \$ | (432,895) |
| Amounts reported for governmental activities in the Statement of Activities are different because: | | |
| Government funds report capital outlays as expenditures. However, in the Statement of Activities the cost of the assets is allocated over their estimated useful lives and reported as depreciation expense. | | |
| Capital Asset Purchases Capitalized | | 1,695,636 |
| Depreciation Expense | | (420,688) |
| | | <u>1,274,948</u> |
| Repayment of the notes payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. | | |
| | | 203,703 |
| Borrowings on long-term debt is an other financing source in the governmental funds, but increases long-term liabilities in the Statement on Net Position. | | |
| | | (248,329) |
| Change in Net Position - Governmental Activities | \$ | <u>797,427</u> |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2023

| | Water Fund | Electric Fund | Sewer Fund | Solid Waste Fund | Total Proprietary Funds |
|--|---------------------|---------------------|---------------------|---------------------|-------------------------------|
| ASSETS: | | | | | |
| Current Assets: | | | | | |
| 101 Cash and Cash Equivalents | \$ 1,052,258 | \$ 2,243,186 | \$ 1,536,141 | \$ 73,298 | \$ 4,904,883 |
| 107 Restricted Cash | 58,066 | 413,025 | 66,220 | - | 537,311 |
| Total Current Assets | 1,110,324 | 2,656,211 | 1,602,361 | 73,298 | 5,442,194 |
| Capital Assets: | | | | | |
| 160 Land | 1,928 | 22,028 | 75,941 | 27,256 | 127,153 |
| 162 Buildings | 279,424 | 653,122 | 289,847 | - | 1,222,393 |
| 164 Improvements Other Than Buildings | 3,617,654 | 7,806,370 | 2,891,105 | - | 14,315,129 |
| 166 Machinery and Equipment | 166,287 | 458,567 | 314,798 | 10,615 | 950,267 |
| Less: Accumulated Depreciation | (2,975,655) | (2,896,093) | (1,801,361) | (10,615) | (7,683,724) |
| 168 Construction in Progress | 2,752,132 | - | 3,217,054 | - | 5,969,186 |
| Total Noncurrent Assets | 3,841,770 | 6,043,994 | 4,987,384 | 27,256 | 14,900,404 |
| TOTAL ASSETS | \$ 4,952,094 | \$ 8,700,205 | \$ 6,589,745 | \$ 100,554 | \$ 20,342,598 |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| 205 Current Portion of Long-Term Debt | \$ 69,750 | \$ 305,000 | \$ 68,680 | \$ - | \$ 443,430 |
| Total Current Liabilities | 69,750 | 305,000 | 68,680 | - | 443,430 |
| Long-Term Liabilities: | | | | | |
| 237 Long-Term Debt, Net of Current Portion | 2,976,481 | 3,960,000 | 3,761,462 | - | 10,697,943 |
| Total Long-Term Liabilities | 2,976,481 | 3,960,000 | 3,761,462 | - | 10,697,943 |
| NET POSITION: | | | | | |
| 253.1 Net Investment in Capital Assets | 795,539 | 1,778,994 | 1,157,242 | 27,256 | 3,759,031 |
| 253.2 Restricted for Debt Service | 58,066 | 413,025 | 66,220 | - | 537,311 |
| 253.9 Unrestricted Net Position | 1,052,258 | 2,243,186 | 1,536,141 | 73,298 | 4,904,883 |
| Total Net Position | 1,905,863 | 4,435,205 | 2,759,603 | 100,554 | 9,201,225 |
| TOTAL LIABILITIES AND NET POSITION | \$ 4,952,094 | \$ 8,700,205 | \$ 6,589,745 | \$ 100,554 | \$ 20,342,598 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS - MODIFIED CASH BASIS
 FOR THE YEAR ENDED DECEMBER 31, 2023

| | Water Fund | Electric Fund | Sewer Fund | Solid Waste Fund | Total Proprietary Funds |
|--|---------------------|---------------------|---------------------|---------------------|-------------------------------|
| Operating Revenue: | | | | | |
| 380 Charges for Goods and Services | \$ 798,632 | \$ 3,516,945 | \$ 715,926 | \$ 212,870 | \$ 5,244,373 |
| Total Operating Revenue | 798,632 | 3,516,945 | 715,926 | 212,870 | 5,244,373 |
| Operating Expenses: | | | | | |
| 410 Personal Services | 187,347 | 397,910 | 164,209 | 4,153 | 753,619 |
| 420 Other Current Expense | 339,623 | 2,316,924 | 164,257 | 193,828 | 3,014,632 |
| 457 Depreciation | 114,395 | 200,618 | 89,663 | - | 404,676 |
| Total Operating Expenses | 641,365 | 2,915,452 | 418,129 | 197,981 | 4,172,927 |
| Operating Income | 157,267 | 601,493 | 297,797 | 14,889 | 1,071,446 |
| Nonoperating Revenue (Expense): | | | | | |
| 361 Investment Earnings | 884 | 2,263 | 847 | 2 | 3,996 |
| 362 Rental Income | - | 16,265 | 800 | - | 17,065 |
| 442 Interest Expense and Fiscal Charges | (70,237) | (107,854) | (91,830) | - | (269,921) |
| Total Nonoperating Revenue (Expense) | (69,353) | (89,326) | (90,183) | 2 | (248,860) |
| Income Before Transfers | 87,914 | 512,167 | 207,614 | 14,891 | 822,586 |
| 511 Transfers Out | - | (725,000) | (52,640) | - | (777,640) |
| Total Transfers | - | (725,000) | (52,640) | - | (777,640) |
| Change in Net Position | 87,914 | (212,833) | 154,974 | 14,891 | 44,946 |
| Net Position - December 31, 2022, as Previously Stated | 1,859,548 | 5,075,376 | 2,538,982 | 113,678 | 9,587,584 |
| Change in Basis of Accounting | (41,599) | (427,338) | 65,647 | (28,015) | (431,305) |
| Net Position - December 31, 2022, as Restated | 1,817,949 | 4,648,038 | 2,604,629 | 85,663 | 9,156,279 |
| NET POSITION - DECEMBER 31, 2023 | \$ 1,905,863 | \$ 4,435,205 | \$ 2,759,603 | \$ 100,554 | \$ 9,201,225 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

| | Water Fund | Electric Fund | Sewer Fund | Solid Waste Fund | Totals |
|--|-----------------------|--------------------------|-----------------------|-----------------------------|---------------------|
| Cash Flows from Operating Activities: | | | | | |
| Receipts from Customers | \$ 798,632 | \$ 3,516,945 | \$ 715,926 | \$ 212,870 | \$ 5,244,373 |
| Payments to Suppliers | (339,623) | (2,316,924) | (164,257) | (193,828) | (3,014,632) |
| Payments to Employees | (187,347) | (397,910) | (164,209) | (4,153) | (753,619) |
| Net Cash Flows Provided by Operating Activities | 271,662 | 802,111 | 387,460 | 14,889 | 1,476,122 |
| Cash Flows Used in Noncapital Financing Activities: | | | | | |
| Transfers to Other Funds | - | (725,000) | (52,640) | - | (777,640) |
| Cash Flows from Capital and Related Financing Activities: | | | | | |
| Purchases of Capital Assets | (182,171) | (51,079) | (193,613) | - | (426,863) |
| Proceeds from Capital Debt | 182,171 | - | - | - | 182,171 |
| Principal Paid on Capital Debt | (68,757) | (295,000) | (67,098) | - | (430,855) |
| Interest Paid | (70,237) | (107,854) | (91,830) | - | (269,921) |
| Net Cash Used in Capital and Related Financing Activities | (138,994) | (453,933) | (352,541) | - | (945,468) |
| Cash Flows Provided by Investing Activities: | | | | | |
| Rental Income | - | 16,265 | 800 | - | 17,065 |
| Investment Earnings | 884 | 2,263 | 847 | 2 | 3,996 |
| Net Cash Provided by Investing Activities | 884 | 18,528 | 1,647 | 2 | 21,061 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 133,552 | (358,294) | (16,074) | 14,891 | (225,925) |
| Cash and Cash Equivalents, December 31, 2022 | 976,772 | 3,014,505 | 1,618,435 | 58,407 | 5,668,119 |
| Cash and Cash Equivalents, December 31, 2023 | \$ 1,110,324 | \$ 2,656,211 | \$ 1,602,361 | \$ 73,298 | \$ 5,442,194 |
| Cash Flows From Operating Activities: | | | | | |
| Operating Income | \$ 157,267 | \$ 601,493 | \$ 297,797 | \$ 14,889 | \$ 1,071,446 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | | | | | |
| Depreciation Expense | 114,395 | 200,618 | 89,663 | - | 404,676 |
| Net Cash Flows Provided by Operating Activities | \$ 271,662 | \$ 802,111 | \$ 387,460 | \$ 14,889 | \$ 1,476,122 |
| Reconciliation of Cash and Restricted Cash | | | | | |
| Cash and Cash Equivelants | \$ 1,052,258 | \$ 2,243,186 | \$ 1,536,141 | \$ 73,298 | \$ 4,904,883 |
| Restricted Cash | 58,066 | 413,025 | 66,220 | - | 537,311 |
| Total Cash and Restricted Cash | \$ 1,110,324 | \$ 2,656,211 | \$ 1,602,361 | \$ 73,298 | \$ 5,442,194 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2023**

| | Custodial Fund |
|-------------------------------|---------------------------|
| ASSETS: | |
| Cash and Cash Equivalents | \$ 53,429 |
| TOTAL ASSETS | \$ 53,429 |
| NET POSITION: | |
| Restricted for: | |
| Flandreau Housing Corporation | \$ 53,429 |
| TOTAL NET POSITION | \$ 53,429 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023**

| | Custodial Fund |
|---|---------------------------|
| Additions: | |
| Rentals | \$ 1,000 |
| Total Additions | 1,000 |
| Deductions: | |
| Professional Fees | 5,026 |
| Miscellaneous | 20 |
| Total Deductions | 5,046 |
| Net Change in Fiduciary Net Position | (4,046) |
| Net Position, Beginning, as Previously Stated | 77,954 |
| Change in Basis of Accounting | (20,479) |
| Net Position, Beginning, as Restated | 57,475 |
| Net Position, Ending | \$ 53,429 |

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2023

(1) Summary of Significant Accounting Policies

Reporting Entity

The reporting entity of the City of Flandreau (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, 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 primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

These financial statements are presented on a modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position – Modified Cash Basis and Statement of Activities – Modified Cash Basis 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 – Modified Cash Basis 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 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 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 ten percent 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 five percent 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.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

The funds of the City's financial reporting entity 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.

3rd Cent Sales Tax Fund - a fund allowed by SDCL 10-52A-2 to account for the receipts from the 3rd cent sales tax imposed on liquor, lodging and dining sales. The 3rd cent sales tax can be spent on promotion of the City. This is a nonmajor fund.

Debt Service Funds – Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Aquatic G.O. Bond Fund – a fund allowed by law to account for the proceeds of a special property tax restricted to use for the payment of principal and interest on 2002 general obligation aquatic center bonds. This is a nonmajor fund.

Tax Increment Financing (TIF) # 2 District Fund - TIF #2 is allowed by SDCL 11-9-36 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This is a nonmajor fund.

Tax Increment Financing (TIF) # 4 District Fund - TIF #4 is allowed by SDCL 11-9-36 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This is a nonmajor fund.

Tax Increment Financing (TIF) # 5 District Fund - TIF #5 is allowed by SDCL 11-9-36 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This is a nonmajor fund.

Tax Increment Financing (TIF) # 7 District Fund - TIF #7 is allowed by SDCL 11-9-36 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This is a nonmajor fund.

Tax Increment Financing (TIF) # 8 District Fund - TIF #8 is allowed by SDCL 11-9-36 to account for the proceeds of incremental property taxes, restricted to the payment of principal and interest on debt issued to finance a public improvement. This is a nonmajor fund.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

Capital Projects Funds – Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Capital Project Fire Station Fund – to account for financial resources to be used for the construction of the City's fire station. This is a major fund.

Capital Project Bike Path Fund – To account for financial resources to be used for the construction of a community bike path. This is a nonmajor 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 or 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.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity).
2. 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.
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

Proprietary Funds include:

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

Electric Fund – Financed primarily by user charges; this fund accounts for the construction and operation of the City electricity system and related facilities. This is a major fund.

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

Solid Waste Fund – Financed primarily by user charges; this fund accounts for the collection and disposal of solid waste from the City. This is a major fund.

Fiduciary Funds:

Fiduciary funds consist of custodial funds and are never considered to be a major fund:

Custodial Funds – Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. The Flandreau Housing Corporation is the City's only custodial fund.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

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

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Position and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied 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 the modified cash basis of accounting as defined below.

Basis of Accounting:

All financial statements are presented using the 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 cash basis of accounting, the statement of financial position reports only cash and cash equivalents. 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.

Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are:

1. Recording of capital assets arising from cash transactions and depreciating those assets where appropriate.
2. Recording of long-term debt arising from cash transactions.
3. Recording both capital assets and related long-term debt used to finance the capital asset acquisition.

As a result of the use of the 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 City applied GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the government-wide financial statements and fund financial statements for proprietary fund types would use the accrual basis of accounting.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Interfund Transfers

The City transfers unrestricted revenues collected in the enterprise funds to the General Fund and other enterprise funds to balance the budgets in those funds.

Capital Assets

Under the modified cash basis of accounting, capital assets are recorded when they result from cash transactions, and are depreciated, when appropriate. The accounting treatment for property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide Financial Statements:

Under the modified cash basis of accounting, capital assets are considered a cost of the program for which they were acquired, for the amount paid in cash.

Allocations between programs are made, where necessary, to match the cost with the program that benefits from the use of the capital assets.

All capital assets are valued at cost or estimated historical cost, if actual historical cost is not available.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the City. Infrastructure assets acquired since January 1, 2004, are recorded at cost, and classified as "Improvements Other than Buildings."

Under the modified cash basis, depreciation of all exhaustible capital assets arising from cash transactions is recorded as an allocated expense in the Statement of Activities – Modified Cash Basis, with accumulated depreciation reflected in the Statement of Net Position – Modified Cash Basis.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

| | <u>Capitalization Threshold</u> | <u>Depreciation Method</u> | <u>Estimated Useful Life</u> |
|-----------------------------------|-------------------------------------|--------------------------------|----------------------------------|
| Land | \$ -0- | ----N/A---- | ----N/A---- |
| Construction in Progress | \$ -0- | ----N/A---- | ----N/A---- |
| Buildings | \$ -0- | Straight-line | 10-50 yrs. |
| Improvements Other Than Buildings | \$ 5,000 | Straight-line | 10-100 yrs. |
| Machinery and Equipment | \$ 5,000 | Straight-line | 5-25 yrs. |

Land is an inexhaustible capital asset and is not depreciated.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Capital Assets

Fund Financial Statements:

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund when paid for in cash. Capital assets acquired for use in proprietary fund operations are accounted for in the same manner as in the government-wide financial statements.

Long-Term Liabilities

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

All long-term liabilities, arising from cash transactions, to be repaid from governmental and business-type resources are reported as liabilities in the respective columns on the government-wide financial statements.

Long-term liabilities 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. The accounting for long-term debt of the proprietary fund is the same in the fund financial statements as it is in the government-wide financial statements.

Program Revenues

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 Classification

In the proprietary fund's Statement of Revenues, Expenses, and Changes in Fund Net Position – Modified Cash Basis, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows – Modified Cash Basis. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues or expenses.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all unrestricted and restricted demand and savings accounts and certificates of deposit with a term to maturity at date of acquisition of three months or less.

The City 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. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows – Modified Cash Basis.

Equity Classifications

Government-wide Financial Statements:

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

1. Net Investment in Capital Assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted Net Position – Consists of net position with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted Net Position – All other net position that do not meet the definition of restricted or invested in capital assets, net of related debt.

Fund Financial Statements:

The City classifies governmental fund balance as follows:

1. Nonspendable – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
2. 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.
3. Committed – Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the City Council and does not lapse at year-end. The City has one committed balance at December 31, 2023 that was established by City Council Ordinance #564 for the purpose of accumulating cellular tower rental proceeds to be used for capital replacement.
4. 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 City Council, Mayor, or Finance Officer.
5. 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.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(1) Summary of Significant Accounting Policies

Equity Classifications

Proprietary fund equity is classified the same as in the government-wide financial statements.

The City uses restricted amounts first when both restricted and unrestricted net position or fund balances are available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement 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.

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

Subsequent Events

The City has assessed subsequent events through April 22, 2025, the date which the financial statements were available to be issued.

(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 South Dakota Codified Laws (SDCL) 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2, and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Administration (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 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 in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(2) Deposits and Investments

As of December 31, 2023, the City's cash and investments consisted of checking and savings accounts, and non-negotiable certificates of deposit. The actual bank balances at December 31, 2023 were as follows:

| Primary Government | Bank Balance |
|--|---------------------|
| Insured - FDIC | \$ 250,000 |
| Uninsured, collateralized in accordance with SDCL 4-6A-3 | 6,868,750 |
| Total Deposits | \$ 7,118,750 |

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.

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 from increasing interest rates.

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

Custodial Credit Risk: This is the risk that in the event of a deposit failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk.

Concentration of Credit Risk: The City places no limits on the amount that may be invested in any one issuer.

(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 the following January 1, the first day of the fiscal year. Taxes are payable in two installments on or before April 30 and October 31 of the fiscal year.

The 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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2023, is as follows:

| | Balance 12/31/2022 | Additions | Transfers | Deletions | Balance 12/31/2023 |
|---|-----------------------|---------------------|-----------------|--------------|-----------------------|
| <i>Governmental Activities:</i> | | | | | |
| Capital Assets, not being Depreciated: | | | | | |
| Land | \$ 562,734 | \$ - | \$ - | \$ - | \$ 562,734 |
| Construction in Progress * | 243,019 | 1,628,441 | (53,481) | - | 1,817,979 |
| Total Capital Assets, not being Depreciated | 805,753 | 1,628,441 | (53,481) | - | 2,380,713 |
| Capital Assets, being Depreciated: | | | | | |
| Buildings | 3,598,725 | - | - | 7,072 | 3,591,653 |
| Improvements Other Than Buildings | 5,186,017 | 67,195 | 53,481 | - | 5,306,693 |
| Machinery and Equipment | 2,783,151 | - | - | - | 2,783,151 |
| Total Capital Assets, being Depreciated | 11,567,893 | 67,195 | 53,481 | 7,072 | 11,681,497 |
| Less Accumulated Depreciation for: | | | | | |
| Buildings | 2,195,764 | 84,337 | - | 7,072 | 2,273,029 |
| Improvements Other Than Buildings | 2,882,686 | 189,707 | - | - | 3,072,393 |
| Machinery and Equipment | 2,318,547 | 146,644 | - | - | 2,465,191 |
| Total Accumulated Depreciation | 7,396,997 | 420,688 | - | 7,072 | 7,810,613 |
| Total Governmental Activities Capital Assets, being Depreciated, Net | 4,170,896 | (353,493) | 53,481 | - | 3,870,884 |
| Total Governmental Capital Assets, Net | \$ 4,976,649 | \$ 1,274,948 | \$ - | \$ - | \$ 6,251,597 |

Depreciation expense for governmental activities was charged to functions as follows:

| | |
|--|-------------------|
| Public Works | \$ 174,500 |
| Culture and Recreation | 153,256 |
| Public Safety | 86,955 |
| General Government | 5,977 |
| Total Depreciation Expense - Governmental | \$ 420,688 |

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023

(4) Changes in Capital Assets

A summary of changes in business-type activities capital assets for the year ending December 31, 2023, is as follows:

| | Balance 12/31/2022 | Additions | Transfers | Deletions | Balance 12/31/2023 |
|---|-----------------------|-----------|-----------|-----------|-----------------------|
| <i>Business-Type Activities:</i> | | | | | |
| Capital Assets, not being Depreciated: | | | | | |
| Land | \$ 127,153 | \$ - | \$ - | \$ - | \$ 127,153 |
| Construction in Progress * | 5,605,264 | 363,922 | - | - | 5,969,186 |
| Total Capital Assets, not being Depreciated | 5,732,417 | 363,922 | - | - | 6,096,339 |
| Capital Assets, being Depreciated: | | | | | |
| Buildings | 1,222,393 | - | - | - | 1,222,393 |
| Improvements Other Than Buildings | 14,315,129 | - | - | - | 14,315,129 |
| Machinery and Equipment | 887,326 | 62,941 | - | - | 950,267 |
| Total Capital Assets Being Depreciated | 16,424,848 | 62,941 | - | - | 16,487,789 |
| Less Accumulated Depreciation for: | | | | | |
| Buildings | 579,829 | 29,633 | - | - | 609,462 |
| Improvements Other Than Buildings | 5,894,676 | 349,350 | - | - | 6,244,026 |
| Machinery and Equipment | 804,543 | 25,693 | - | - | 830,236 |
| Total Accumulated Depreciation | 7,279,048 | 404,676 | - | - | 7,683,724 |
| Total Business-Type Activities Capital Assets, being Depreciated, Net | 9,145,800 | (341,735) | - | - | 8,804,065 |
| Total Business-Type Capital Assets, Net | \$ 14,878,217 | \$ 22,187 | \$ - | \$ - | \$ 14,900,404 |

* Construction Work in Progress on December 31, 2023 consists of engineering fees and construction costs for a fire station and water and sewer improvement projects funded by grant funding, a federal loan, financing with a bank, the General Fund, the Water Fund, and the Sewer Fund, with commitments of approximately \$1,950,000.

Depreciation expense for business-type activities was charged to functions as follows:

| | |
|--|------------|
| Business-Type Activities: | |
| Water | \$ 114,395 |
| Electric | 200,618 |
| Sewer | 89,663 |
| Total Depreciation Expense - Business-Type | \$ 404,676 |

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(5) Long-Term Debt

A summary of the changes in long-term debt for the year ending December 31, 2023, is as follows:

| | Balance 12/31/2022 | Additions | Repayments | Balance 12/31/2023 | Due Within One Year |
|--|-----------------------|-------------------|-------------------|-----------------------|------------------------|
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| 2016 Sales Tax Refunding Bond | \$ 175,000 | \$ - | \$ 175,000 | \$ - | \$ - |
| TIF #8 Note Payable | 559,031 | - | 28,703 | 530,328 | 38,475 |
| Construction Loan | - | 248,329 | - | 248,329 | 2,158 |
| Total Governmental Activities | 734,031 | 248,329 | 203,703 | 778,657 | 40,633 |
| Business-Type Activities: | | | | | |
| 2021 Water Revenue Refunding Bond | 507,000 | - | 27,000 | 480,000 | 27,000 |
| 2019 Water Project Revenue Bond | 2,425,817 | - | 41,757 | 2,384,060 | 42,750 |
| 2023 Drinking Water State Revolving Fund | - | 182,171 | - | 182,171 | - |
| 2016 Electric Revenue Bond | 2,070,000 | - | 125,000 | 1,945,000 | 130,000 |
| 2020 Electric Revenue Refunding Bond | 2,490,000 | - | 170,000 | 2,320,000 | 175,000 |
| 2019 Sewer Project Revenue Bond | 3,440,997 | - | 59,236 | 3,381,761 | 60,645 |
| 2019B Sewer Project Revenue Bond | 456,243 | - | 7,862 | 448,381 | 8,035 |
| Total Business-Type Activities | 11,390,057 | 182,171 | 430,855 | 11,141,373 | 443,430 |
| Total Primary Government | \$ 12,124,088 | \$ 430,500 | \$ 634,558 | \$ 11,920,030 | \$ 484,063 |

Long-term debt at December 31, 2023, is comprised of the following:

Notes Payable

Tax Increment Financing District #8 Loan; due in semi-annual installments of \$28,228, including interest at 3.38 percent, through June 2038. Financed through the TIF #8 Debt Service Fund.

\$ 530,328

Construction loan for fire station project due in monthly installments of \$1,176, including interest at 3.77 percent, through July 2049. Financed through the Capital Project Fund.

248,329

Revenue Bonds

Water Revenue Refunding Bonds, Series 2021; due in monthly installments of \$3,381, including interest between 2.65 to 3.25 percent, through March 2038. Financed through the Water Fund.

480,000

Water Project Revenue Bond, Series 2019; due in monthly installments of \$8,243, including interest at 2.375 percent, through October 2059. Financed through the Water Fund.

2,384,060

Drinking Water Revenue Borrower Bond; Series 2023, for \$2,818,087, interest at 1.675 percent payment amounts will be finalized upon completion of the associated project. Water revenue revenue is pledged. Financed through the Water Fund.

182,171

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(5) Long-Term Debt

| | |
|--|----------------------|
| Electric Revenue Bonds, Series 2016; due in variable annual installments between \$125,000 to \$180,000, with quarterly interest payments between 0.90 to 3.50 percent, through May 2036. Financed through the Electric Fund. | 1,945,000 |
| Electric Revenue Bonds, Series 2020; due in variable annual installments between \$150,000 to \$240,000, with quarterly interest payments between 2.00 to 2.25 percent, through May 2035. Financed through the Electric Fund. | 2,320,000 |
| Sewer Project Revenue Bonds, Series 2019; due in monthly installments of \$11,693, including interest at 2.375 percent, through October 2059. Financed through the Sewer Fund. | 3,381,761 |
| Sewer Project Revenue Bonds, Series 2019B; due in monthly installments of \$1,550, including interest at 2.375 percent, through October 2059. Financed through the Sewer Fund. | 448,381 |
| | <u>\$ 11,920,030</u> |

The annual requirements to amortize long-term debt outstanding as of December 31, 2023, are as follows:

| | TIF #8 Note Payable | | Construction Loan | | Revenue Bonds | | Total | |
|--------------|---------------------|-------------------|-------------------|-------------------|---------------------|----------------------|---------------------|----------------------|
| | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal |
| 2024 | \$ 17,981 | \$ 38,475 | \$ 3,721 | \$ 2,158 | \$ 260,902 | \$ 443,430 | \$ 282,604 | \$ 484,063 |
| 2025 | 16,600 | 39,856 | 9,841 | 4,271 | 251,284 | 452,105 | 277,725 | 496,232 |
| 2026 | 15,222 | 41,233 | 9,624 | 4,488 | 241,222 | 465,845 | 266,068 | 511,566 |
| 2027 | 13,797 | 42,658 | 9,396 | 4,716 | 230,762 | 469,651 | 253,955 | 517,025 |
| 2028 | 12,358 | 44,097 | 9,182 | 4,929 | 219,957 | 477,524 | 241,497 | 526,550 |
| 2029-2033 | 37,676 | 244,602 | 41,767 | 28,790 | 922,894 | 2,561,184 | 1,002,337 | 2,834,576 |
| 2034-2038 | 2,819 | 79,407 | 33,719 | 36,892 | 599,557 | 1,859,086 | 636,095 | 1,975,385 |
| 2039-2043 | - | - | 23,283 | 47,274 | 454,729 | 834,431 | 478,012 | 881,705 |
| 2044-2048 | - | - | 9,981 | 60,576 | 349,628 | 939,532 | 359,609 | 1,000,108 |
| 2049-2053 | - | - | 134 | 54,235 | 231,289 | 1,057,870 | 231,423 | 1,112,105 |
| 2054-2058 | - | - | - | - | 98,042 | 1,191,118 | 98,042 | 1,191,118 |
| 2059-2063 | - | - | - | - | 2,238 | 207,426 | 2,238 | 207,426 |
| 2023 SRF ** | - | - | - | - | - | 182,171 | - | 182,171 |
| Total | \$ 116,453 | \$ 530,328 | \$ 150,648 | \$ 248,329 | \$ 3,862,504 | \$ 11,141,373 | \$ 4,129,605 | \$ 11,920,030 |

** Loan amortization schedule to be determined when the financed project is complete.

Tax Increment Districts (TID) Obligation

Tax increment financing is a method of financing improvements and development in an area which has been determined to be blighted according to the criteria set forth in SDCL 11-9. In some instances, the City pledges future tax revenues generated by the tax increment district to acquire public improvement within the established Tax Increment District which was constructed by a private developer.

It is a specific condition of the developer's agreement and a condition of the City's obligation that all sums payable shall be limited to the proceeds of the positive tax increment. It is also specifically agreed that the City has made no representation that the proceeds from such fund shall be sufficient to retire the indebtedness incurred by the developer to construct the public improvements.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(5) Long-Term Debt

Tax Increment Districts (TID) Obligation

During the year ended December 31, 2023, property tax revenues were \$28,496, \$25,495, \$23,380, \$25,901, and \$10,040 for TIDs #2, #4, #5, #7, and #8, respectively. Interest expenditures, excluding corresponding accruals, related to TID obligations totaled \$32,622 for the year ended December 31, 2023.

Debt Covenants

The City has pledged future revenue associated with the 2019 Water Revenue Bonds and 2020 Refunding Electric Utility Bonds. The debt is secured by the pledged revenues, capital projects and improvements. The current principal balance plus interest at the stated applicable rate over the life of the debt represents the amount of future revenue pledged. Pledged revenues associated with the debt issue have been pledged through the maturity dates listed below.

Below is a comparison of principal and interest payments and total pledged revenue for the current year.

| | Water | Electric |
|-------------------------------------|-----------|------------|
| Current Year Principal and Interest | \$ 98,916 | \$ 218,373 |
| Pledged Revenue | 798,632 | 3,516,945 |

The City's 2023 Drinking Water Revenue Bonds require the City to keep net water revenue available for debt service at 110 percent of debt service expenditures each year.

Additionally, the City's 2019 Water Revenue Bonds, 2019 Sewer Revenue Bonds, and 2019B Sewer Revenue Bonds require debt reserve funds equal to at least one annual loan installment. The 2016 and 2020 Electric Fund Revenue Bonds require a reserve account that does not exceed 10 percent of the proceeds of the bonds or 125 percent of the average annual debt service.

The City has restricted cash reserves of \$537,311 at December 31, 2023, in accordance with these debt covenants. These amounts are reported as Restricted for Debt Service.

(6) Interfund Transfers

Interfund transfers for the year ended December 31, 2023 were as follows:

| Fund | Transfers In | Transfers Out |
|-----------------------------------|---------------------|---------------------|
| <i>Major Funds:</i> | | |
| General Fund | \$ 125,000 | \$ 687,989 |
| Capital Project Fire Station Fund | 1,298,093 | - |
| Electric Fund | - | 725,000 |
| Sewer Fund | - | 52,640 |
| <i>Nonmajor Fund:</i> | | |
| TIF #8 Fund | 42,536 | - |
| Total Transfers | \$ 1,465,629 | \$ 1,465,629 |

The City typically budgets operating transfers between funds. Transfers to the Capital Project Fire Station Fund were to assist in covering expenditures for the Fire Station Project.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(7) Retirement Plan – South Dakota Retirement System

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://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.

SDRS has four different classes of employees, Class A general members, Class B public safety and judicial members, and 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 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 Cost-of-Living Adjustment (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 percent.
- 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 percent and no greater than 3.5 percent.
- 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 percent 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 COLA.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(7) Retirement Plan – South Dakota Retirement System

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2023, 2022, and 2021 were \$72,303, \$64,853, and \$65,268, respectively, equal to the required contributions each year.

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred inflows and outflows and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2023, SDRS is 100.10 percent funded and accordingly has a net pension asset based on actuarial assumptions including inflation, investment return, mortality tables, and other factors. The City's share of the net pension asset at June 30, 2023 was .046719 percent. Based on the modified-cash basis reporting of the City, the City does not record this pension activity.

(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, 2023, the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The City purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier.

The 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:

Airport Liability Coverage - The City has purchased airport liability coverage through a commercial insurance carrier. This insurance covers bodily injury, property damage, and medical malpractice. These coverages are provided to a \$1,000,000 limit for each occurrence.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023**

(8) Risk Management

Worker's Compensation:

The City joined the South Dakota Municipal League Worker's 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 worker's 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 worker's compensation claims. The City pays an annual premium, to provide worker's 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.

Unemployment Benefits:

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

During the year ended December 31, 2023, no claims were filed for unemployment benefits. At December 31, 2023, no claim had been filed and nor anticipated.

(9) Change in Basis of Accounting

In previous years, the City prepared its financial statements using accounting principles generally accepted in the United States of America (US GAAP). Effective January 1, 2023, the City elected to change its financial reporting framework to the modified-cash basis of accounting, which is a basis of accounting other than US GAAP. City management believes the modified-cash basis of accounting provides the information needed by the primary users of the financial statements. The change in basis of accounting was applied retrospectively and the beginning fund balance and net position have been restated to conform with the new basis of accounting.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FLANDREAU

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

DECEMBER 31, 2023

| | | 3rd Cent Sales Tax Fund | Aquatic GO Bond Fund | Capital Project Bike Path Fund | TIF #2 Fund | TIF #4 Fund |
|---------------------------|--|-------------------------------|----------------------------|--------------------------------------|------------------|------------------|
| ASSETS: | | | | | | |
| 101 | Cash and Investments | \$ 20,083 | \$ 2,808 | \$ 169,994 | \$ 28,496 | \$ 25,495 |
| TOTAL ASSETS | | \$ 20,083 | \$ 2,808 | \$ 169,994 | \$ 28,496 | \$ 25,495 |
| FUND BALANCE: | | | | | | |
| 264.01 | Restricted - Debt Service | - | 2,808 | - | 28,496 | 25,495 |
| 264.02 | Restricted - Bike Path | - | - | 169,994 | - | - |
| 264.04 | Restricted - Facilities & Promoting the City | 20,083 | - | - | - | - |
| Total Fund Balance | | 20,083 | 2,808 | 169,994 | 28,496 | 25,495 |
| TOTAL FUND BALANCE | | \$ 20,083 | \$ 2,808 | \$ 169,994 | \$ 28,496 | \$ 25,495 |

| TIF #5 Fund | TIF #7 Fund | Total Nonmajor Funds |
|------------------------|------------------------|-------------------------------------|
| \$ 23,380 | \$ 25,901 | \$ 296,157 |
| \$ 23,380 | \$ 25,901 | \$ 296,157 |
| 23,380 | 25,901 | 106,080 |
| - | - | 169,994 |
| - | - | 20,083 |
| 23,380 | 25,901 | 296,157 |
| \$ 23,380 | \$ 25,901 | \$ 296,157 |

CITY OF FLANDREAU

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2023

| | | 3rd Cent Sales Tax Fund | Aquatic GO Bond Fund | Capital Project Bike Path Fund | TIF #2 Fund | TIF #4 Fund |
|--|---|-------------------------------|----------------------------|--------------------------------------|------------------|------------------|
| Revenue: | | | | | | |
| | <i>Taxes:</i> | | | | | |
| 311 | General Property Taxes | \$ - | \$ - | \$ - | \$ 28,496 | \$ 25,495 |
| 313 | General Sales and Use Taxes | 38,797 | - | - | - | - |
| 319 | Penalties and Interest on Delinquent Taxes | - | 330 | - | - | - |
| | <i>Miscellaneous Revenue:</i> | | | | | |
| 367 | Contributions and Donations | - | - | 170,000 | - | - |
| Total Revenue | | 38,797 | 330 | 170,000 | 28,496 | 25,495 |
| Expenditures: | | | | | | |
| | <i>Culture and Recreation:</i> | | | | | |
| 451 | Recreation | 45,529 | - | - | - | - |
| 452 | Parks | - | - | 6 | - | - |
| 470 | Debt Service | - | - | - | - | - |
| Total Expenditures | | 45,529 | - | 6 | - | - |
| Other Financing Sources (Uses): | | | | | | |
| 391.01 | Transfers In | - | - | - | - | - |
| Total Other Financing Sources | | - | - | - | - | - |
| Net Change in Fund Balance | | (6,732) | 330 | 169,994 | 28,496 | 25,495 |
| Fund Balance (Deficit) , December 31, 2022, | | | | | | |
| | as Previously Stated | 26,351 | 2,478 | - | - | - |
| | Change in Basis of Accounting | 464 | - | - | - | - |
| Fund Balance, December 31, 2022, as Restated | | 26,815 | 2,478 | - | - | - |
| Fund Balance, December 31, 2023 | | \$ 20,083 | \$ 2,808 | \$ 169,994 | \$ 28,496 | \$ 25,495 |

| TIF #5 Fund | TIF #7 Fund | TIF #8 Fund | Total Nonmajor Funds |
|------------------------|------------------------|------------------------|-------------------------------------|
| \$ 23,380 | \$ 25,901 | \$ 10,040 | \$ 113,312 |
| - | - | - | 38,797 |
| - | - | - | 330 |
| - | - | - | 170,000 |
| 23,380 | 25,901 | 10,040 | 322,439 |
| - | - | - | 45,529 |
| - | - | - | 6 |
| - | - | 61,325 | 61,325 |
| - | - | 61,325 | 106,860 |
| - | - | 42,536 | 42,536 |
| - | - | 42,536 | 42,536 |
| 23,380 | 25,901 | (8,749) | 258,115 |
| (29,717) | (89,189) | 3,880 | (86,197) |
| 29,717 | 89,189 | 4,869 | 124,239 |
| - | - | 8,749 | 38,042 |
| \$ 23,380 | \$ 25,901 | \$ - | \$ 296,157 |



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

City Council
City of Flandreau
Flandreau, South Dakota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Flandreau (the City) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 22, 2025.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and another that is a significant deficiency.

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. We consider the deficiencies described in the accompanying Schedule of Findings as #2023-001 through #2023-003 to be material weaknesses.

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. We consider the deficiency described in the accompanying Schedule of Findings as #2023-004 to be a significant deficiency.

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's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's responses to the findings identified in our audit and described in the accompanying Corrective Action Plan. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

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. As required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



KETEL THORSTENSON, LLP
Certified Public Accountants

April 22, 2025

CITY OF FLANDREAU

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

SCHEDULE OF FINDINGS

MATERIAL WEAKNESSES

2023-001 FINDING: Financial Statement Preparation

Condition and Cause: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Ultimately, it is management's responsibility to provide for the preparation of the City's statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint, we do both for the City at the same time in connection with our audit. This is not unusual for us to do for cities of your size.

Criteria and Effect: These deficiencies could result in material misstatements to the financial statements that would not have been prevented or detected by the City's management.

Repeat Finding from Prior Year: Yes, prior year finding 2022-002.

Recommendation: We have instructed management to review a draft of the auditor prepared financial statements in detail for accuracy; we have answered any questions they might have and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification and disclosure in the City's statements. We are satisfied that the appropriate steps have been taken to provide the City with the completed financial statements. 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.

Response/Corrective Action Plan: See City's Corrective Action Plan.

2023-002 FINDING: Audit Adjustments

Condition and Cause: We proposed material audit adjustments that were approved and recorded by management. Adjustments included entries to adjust debt balances, capital assets and depreciation expense, and transfers. We also posted several entries to assist management in the change in accounting framework to the modified-cash basis.

Criteria and Effect: These adjustments would not have been identified because of the City's existing internal controls, and therefore, would have resulted in a material misstatement of the City's financial statements.

Repeat Finding from Prior Year: Yes, prior year finding 2022-002.

Recommendation: We recommend that management consider the following:

- a. Capital assets, including construction in progress, should be reviewed to ensure all additions, disposals, and depreciation are properly recorded.
- b. Debt balances should be reviewed to ensure all borrowings, payments, contributions, and extinguishments are properly reflected.
- c. Transfers between funds should be reviewed to ensure activity properly nets to \$-0- in total.

Response/Corrective Action Plan: The City is in agreement with the finding. See Corrective Action Plan.

CITY OF FLANDREAU

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023**

MATERIAL WEAKNESSES

2023-003 FINDING: Segregation of Duties

Condition and Cause: The City has a general lack of segregation of duties surrounding cash receipts and disbursements. The Council does not review adjustments made to customer accounts, manual journal entries, or bank reconciliations.

Criteria and Effect: Internal controls should be in place to provide reasonable assurance that all financial transactions and adjustments are reviewed and approved before payments are made and reports are generated. Internal controls need to be established to ensure all revenue is processed and recorded correctly. Proper segregation of duties and functions assures adequate safeguarding of assets and the reliability of financial records and reporting. The effectiveness of the internal control system relies on enforcement by management.

Repeat Finding from Prior Year: Yes, prior year finding 2022-001.

Recommendations: We recommend those charged with governance review the bank statements and reconciliations to include copies of cancelled checks. Additionally, we recommend governance review manual adjustments posted to the general ledger and adjustments to customer utility accounts monthly.

Response/Corrective Action Plan: See City's Corrective Action Plan.

SIGNIFICANT DEFICIENCY

2023-004 FINDING: Allocation of Wages

Condition and Cause: Payroll expenditures for City office staff, except for the City Administrator, are allocated to a single fund, rather than allocated to funds, functions and departments based on job duties.

Criteria and Effect: Expenditures should be recorded to the funds, functions and departments to which they relate. Not allocating expenditures to the functions to which they relate results in the misstatement of expenditures in the fund statements.

Repeat Finding from Prior Year: Not a finding in the prior year.

Recommendation: The City should perform a time study or determine a reasonable basis for allocating office staff payroll between funds, functions and departments.

Response/Corrective Action Plan: See City's Corrective Action Plan.

MANAGEMENT RESPONSE



City of Flandreau

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CITY OF FLANDREAU

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

The City of Flandreau respectfully submits the following summary schedule of prior audit findings from the December 31, 2022 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2022 Schedule of Findings.

Finding No. 2022-001:

The City has implemented mitigating controls but continues to have a lack of adequate segregation of duties as a result of the size of the Finance Office, and has accepted the risk involved with this finding. The finding, originally issued years ago, is repeated as Finding #2023-002.

Finding No. 2022-002:

It is more cost effective for the City to hire Ketel Thorstenson, LLP, a public accounting firm, to prepare the full disclosure financial statements as a part of the annual audit process. The City has designated a member of management to review the draft financial statements and accompanying notes to the financial statements. The finding, originally issued years ago, is modified and repeated as Finding #2023-001.

Finding No. 2022-003:

Volunteer Fire Department records are not available to report in the City's audit. This finding was not repeated.



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CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2023

The City respectfully submits the following corrective action plan from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

Finding 2023-001: Financial Statement Preparation

Responsible Official: Lori Kneebone, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2023-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

FINDING #2023-002: Audit Adjustments

Responsible Individuals: Lori Kneebone, Finance Officer

Corrective Action Plan: Year-end entries will be reviewed to ensure they are posted properly.

Anticipated Completion Date: Ongoing

Finding 2023-003: Segregation of Duties

Responsible Official: Lori Kneebone, Finance Officer

Corrective Action Plan: The City attempts to maintain proper segregation of duties with the staff that are available. The City will continually monitor internal control and segregate duties to the best of their ability.

Anticipated Completion Date: Ongoing

Finding 2023-004: Allocation of Wages

Responsible Official: Lori Kneebone, Finance Officer

Corrective Action Plan: The City will review and allocate employee time and allocate to the proper fund and function.

Anticipated Completion Date: Ongoing

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