

CITY OF FLANDREAU

**FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2024**

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), South Dakota, as of and for the year ended December 31, 2024, 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, 2024, 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 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 opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting 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 September 15, 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.



KETEL THORSTENSON, LLP
Certified Public Accountants

CITY OF FLANDREAU

**STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2024**

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	\$ 1,671,956	\$ 5,347,840	\$ 7,019,796
Restricted Cash	-	563,097	563,097
Capital Assets:			
Land and Construction in Progress	677,365	847,095	1,524,460
Other Capital Assets, Net of Depreciation	6,936,802	13,993,721	20,930,523
TOTAL ASSETS	\$ 9,286,123	\$ 20,751,753	\$ 30,037,876
LIABILITIES:			
Non-Current Liabilities:			
Due Within One Year	\$ 83,681	\$ 452,105	\$ 535,786
Due in More Than One Year	2,402,492	10,420,349	12,822,841
TOTAL LIABILITIES	2,486,173	10,872,454	13,358,627
NET POSITION:			
Net Investment in Capital Assets	5,127,994	3,968,362	9,096,356
Restricted for Debt Service	8,393	563,097	571,490
Restricted for Fire Station	1,368	-	1,368
Restricted for Culture and Recreation Purposes	272,385	-	272,385
Unrestricted	1,389,810	5,347,840	6,737,650
TOTAL NET POSITION	6,799,950	9,879,299	16,679,249
TOTAL LIABILITIES AND NET POSITION	\$ 9,286,123	\$ 20,751,753	\$ 30,037,876

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, 2024

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Capital	Operating	Governmental Activities	Primary Government	
			Grants and Contributions	Grants and Contributions		Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 239,410	\$ -	\$ 47,192	\$ -	\$ (192,218)	\$ -	\$ (192,218)
Public Safety	1,184,112	704	-	-	(1,183,408)	-	(1,183,408)
Public Works	507,916	122,454	-	105,506	(279,956)	-	(279,956)
Culture and Recreation	632,197	37,391	-	-	(594,806)	-	(594,806)
Conservation and Development	19,325	-	-	-	(19,325)	-	(19,325)
Interest on Long-Term Debt*	65,002	-	-	-	(65,002)	-	(65,002)
Total Governmental Activities	2,647,962	160,549	47,192	105,506	(2,334,715)	-	(2,334,715)
Business-Type Activities:							
Water	860,910	817,058	-	-	-	(43,852)	(43,852)
Electric	3,001,358	3,758,534	-	-	-	757,176	757,176
Sewer	645,139	759,779	-	-	-	114,640	114,640
Solid Waste	254,305	214,834	-	-	-	(39,471)	(39,471)
Total Business-Type Activities	4,761,712	5,550,205	-	-	-	788,493	788,493
Total Primary Government	\$ 7,409,674	\$ 5,710,754	\$ 47,192	\$ 105,506	(2,334,715)	788,493	(1,546,222)
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					807,909	-	807,909
Sales Taxes					971,294	-	971,294
Gross Receipt Taxes					8,891	-	8,891
State Shared Revenues					21,015	-	21,015
Unrestricted Investment Earnings					783	3,935	4,718
Miscellaneous Revenue					157,650	10,646	168,296
Transfers					125,000	(125,000)	-
Total General Revenues and Transfers					2,092,542	(110,419)	1,982,123
Change in Net Position					(242,173)	678,074	435,901
Net Position - December 31, 2023					7,042,123	9,201,225	16,243,348
Net Position - December 31, 2024					\$ 6,799,950	\$ 9,879,299	\$ 16,679,249

* 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, 2024**

	General Fund	Capital Project Fire Station Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS:				
101 Cash and Investments	\$ 1,433,447	\$ 1,368	\$ 237,141	\$ 1,671,956
TOTAL ASSETS	\$ 1,433,447	\$ 1,368	\$ 237,141	\$ 1,671,956
FUND BALANCE:				
264.01 Restricted - Debt Service	\$ -	\$ -	\$ 8,393	\$ 8,393
264.02 Restricted - Bike Path	-	-	209,994	209,994
264.04 Restricted - Facilities & Promoting the City	-	-	18,754	18,754
264.06 Restricted - Park	43,637	-	-	43,637
264.02 Restricted - Fire Station	-	1,368	-	1,368
265.02 Committed - Capital Replacement	261,744	-	-	261,744
266.01 Assigned - Subsequent Year's Budget	10,569	-	-	10,569
267.00 Unassigned	1,117,497	-	-	1,117,497
TOTAL FUND BALANCE	\$ 1,433,447	\$ 1,368	\$ 237,141	\$ 1,671,956

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2024**

Total Fund Balances - Governmental Funds	\$ 1,671,956
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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.	7,614,167
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(2,486,173)
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Total Net Position - Governmental Activities	\$ 6,799,950
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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, 2024

		General Fund	Capital Project Fire Station Fund	Other Nonmajor Funds	Total Governmental Funds
Revenue:					
	<i>Taxes:</i>				
311	General Property Taxes	\$ 735,296	\$ -	\$ 72,613	\$ 807,909
313	General Sales and Use Taxes	933,856	-	37,438	971,294
319	Penalties and Interest on Delinquent Taxes	7,818	-	1,073	8,891
320	Licenses and Permits	17,111	-	-	17,111
	<i>Intergovernmental Revenue:</i>				
331	Federal Grant	47,192	-	-	47,192
334	State Grant	3,768	-	-	3,768
	<i>State Shared Revenue:</i>				
335.01	Bank Franchise Tax	4,792	-	-	4,792
335.03	Liquor Tax Reversion	16,223	-	-	16,223
335.04	Motor Vehicle Licenses (5%)	44,871	-	-	44,871
335.08	Local Government Highway and Bridge Fund	49,884	-	-	49,884
338.01	County Road Tax	6,983	-	-	6,983
338.99	Other	21,652	-	-	21,652
	<i>Charges for Goods and Services:</i>				
342	Highways and Streets	105,343	-	-	105,343
346	Culture and Recreation	37,391	-	-	37,391
	<i>Fines and Forfeits:</i>				
350	Court Fines and Costs	704	-	-	704
	<i>Miscellaneous Revenue:</i>				
361	Investment Earnings	783	-	-	783
362	Rentals	74,687	-	-	74,687
367	Contributions and Donations	4,000	-	-	4,000
369	Other	43,066	-	-	43,066
Total Revenue		2,155,420	-	111,124	2,266,544

CITY OF FLANDREAU

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

		General Fund	Capital Project Fire Station Fund	Other Nonmajor Funds	Total Governmental Funds
Expenditures:					
	<i>General Government:</i>				
411	Legislative	43,586	-	-	43,586
412	Executive	8,030	-	-	8,030
414	Financial Administration	69,526	-	-	69,526
419	Other	112,261	-	-	112,261
	<i>Public Safety:</i>				
421	Police	717,728	-	-	717,728
422	Fire	143,817	163,163	-	306,980
429	Other Protection	11,643	-	-	11,643
	<i>Public Works:</i>				
431	Highway and Streets	273,266	-	-	273,266
435	Airport	56,738	-	-	56,738
437	Cemeteries	18,378	-	-	18,378
	<i>Culture and Recreation:</i>				
451	Recreation	231,006	-	22,205	253,211
452	Parks	202,668	-	-	202,668
455	Library	10,750	-	-	10,750
458	Museum	9,000	-	-	9,000
	<i>Conservation and Development:</i>				
465	Economic Development and Assistance	19,325	-	-	19,325
470	Debt Service	-	580,641	56,456	637,097
485	Capital Outlay	253,121	1,562,757	16,562	1,832,440
Total Expenditures		2,180,843	2,306,561	95,223	4,582,627
Other Financing Sources (Uses):					
391.01	Transfers In	296,373	13,875	96,456	406,704
391.03	Sale of Municipal Property	14,245	-	-	14,245
391.20	Long-Term Debt Issued	-	2,279,611	-	2,279,611
511	Transfers Out	(110,331)	-	(171,373)	(281,704)
Total Other Financing Sources		200,287	2,293,486	(74,917)	2,418,856
Net Change in Fund Balance		174,864	(13,075)	(59,016)	102,773
Fund Balance, December 31, 2023		1,258,583	14,443	296,157	1,569,183
Fund Balance, December 31, 2024		\$ 1,433,447	\$ 1,368	\$ 237,141	\$ 1,671,956

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, 2024**

Net Change in Fund Balance - Government Funds	\$	102,773
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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	1,832,440
Depreciation Expense	(469,870)
	1,362,570

Repayment of long-term debt is an expenditure in the governmental
funds, but the repayment reduces long-term liabilities in the
Statement of Net Position.

572,095

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.

(2,279,611)

Change in Net Position - Governmental Activities	\$	(242,173)
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The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

STATEMENT OF NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
DECEMBER 31, 2024

	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
ASSETS:					
Current Assets:					
101 Cash and Cash Equivalents	\$ 1,052,247	\$ 2,771,728	\$ 1,490,038	\$ 33,827	\$ 5,347,840
107 Restricted Cash	67,958	413,026	82,113	-	563,097
Total Current Assets	1,120,205	3,184,754	1,572,151	33,827	5,910,937
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	6,280,488	7,806,370	6,039,919	-	20,126,777
166 Machinery and Equipment	166,287	473,632	314,798	10,615	965,332
Less: Accumulated Depreciation	(3,196,562)	(3,100,402)	(2,013,202)	(10,615)	(8,320,781)
168 Construction in Progress	362,181	-	357,761	-	719,942
Total Noncurrent Assets	3,893,746	5,854,750	5,065,064	27,256	14,840,816
TOTAL ASSETS	\$ 5,013,951	\$ 9,039,504	\$ 6,637,215	\$ 61,083	\$ 20,751,753
LIABILITIES:					
Current Liabilities:					
205 Current Portion of Long-Term Debt	\$ 71,776	\$ 310,000	\$ 70,329	\$ -	\$ 452,105
Total Current Liabilities	71,776	310,000	70,329	-	452,105
Long-Term Liabilities:					
237 Long-Term Debt, Net of Current Portion	3,079,245	3,650,000	3,691,104	-	10,420,349
Total Long-Term Liabilities	3,079,245	3,650,000	3,691,104	-	10,420,349
NET POSITION:					
253.1 Net Investment in Capital Assets	742,725	1,894,750	1,303,631	27,256	3,968,362
253.2 Restricted for Debt Service	67,958	413,026	82,113	-	563,097
253.9 Unrestricted Net Position	1,052,247	2,771,728	1,490,038	33,827	5,347,840
Total Net Position	1,862,930	5,079,504	2,875,782	61,083	9,879,299
TOTAL LIABILITIES AND NET POSITION	\$ 5,013,951	\$ 9,039,504	\$ 6,637,215	\$ 61,083	\$ 20,751,753

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, 2024

	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Operating Revenue:					
380 Charges for Goods and Services	\$ 817,058	\$ 3,758,534	\$ 759,779	\$ 214,834	\$ 5,550,205
Total Operating Revenue	817,058	3,758,534	759,779	214,834	5,550,205
Operating Expenses:					
410 Personal Services	203,667	419,965	172,592	18,615	814,839
420 Other Current Expense	367,809	2,274,945	170,472	235,690	3,048,916
457 Depreciation	220,906	204,310	211,841	-	637,057
Total Operating Expenses	792,382	2,899,220	554,905	254,305	4,500,812
Operating Income (Loss)	24,676	859,314	204,874	(39,471)	1,049,393
Nonoperating Revenue (Expense):					
361 Investment Earnings	919	2,177	839	-	3,935
362 Rental Income	-	8,520	700	-	9,220
391.4 Compensation for Loss or Damaged Capital Assets	-	1,426	-	-	1,426
442 Interest Expense and Fiscal Charges	(68,528)	(102,138)	(90,234)	-	(260,900)
Total Nonoperating Expense	(67,609)	(90,015)	(88,695)	-	(246,319)
Income (Loss) Before Transfers	(42,933)	769,299	116,179	(39,471)	803,074
511 Transfers Out	-	(125,000)	-	-	(125,000)
Total Transfers	-	(125,000)	-	-	(125,000)
Change in Net Position	(42,933)	644,299	116,179	(39,471)	678,074
Net Position - December 31, 2023	1,905,863	4,435,205	2,759,603	100,554	9,201,225
NET POSITION - DECEMBER 31, 2024	\$ 1,862,930	\$ 5,079,504	\$ 2,875,782	\$ 61,083	\$ 9,879,299

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, 2024

	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 817,058	\$ 3,758,534	\$ 759,779	\$ 214,834	\$ 5,550,205
Payments to Suppliers	(367,809)	(2,274,945)	(170,472)	(235,690)	(3,048,916)
Payments to Employees	(203,667)	(419,965)	(172,592)	(18,615)	(814,839)
Net Cash Flows Provided by (Used in) Operating Activities	245,582	1,063,624	416,715	(39,471)	1,686,450
Cash Flows Used in Noncapital Financing Activities:					
Transfers to Other Funds	-	(125,000)	-	-	(125,000)
Cash Flows from Capital and Related Financing Activities:					
Purchases of Capital Assets	(272,882)	(15,066)	(289,521)	-	(577,469)
Proceeds from Capital Debt	174,540	-	-	-	174,540
Principal Paid on Capital Debt	(69,750)	(305,000)	(68,709)	-	(443,459)
Interest Paid	(68,528)	(102,138)	(90,234)	-	(260,900)
Compensation for Loss or Damage to Capital Assets	-	1,426	-	-	1,426
Net Cash Used in Capital and Related Financing Activities	(236,620)	(420,778)	(448,464)	-	(1,105,862)
Cash Flows Provided by Investing Activities:					
Rental Income	-	8,520	700	-	9,220
Investment Earnings	919	2,177	839	-	3,935
Net Cash Provided by Investing Activities	919	10,697	1,539	-	13,155
Net Increase (Decrease) in Cash and Cash Equivalents	9,881	528,543	(30,210)	(39,471)	468,743
Cash and Cash Equivalents, December 31, 2023	1,110,324	2,656,211	1,602,361	73,298	5,442,194
Cash and Cash Equivalents, December 31, 2024	\$ 1,120,205	\$ 3,184,754	\$ 1,572,151	\$ 33,827	\$ 5,910,937
Cash Flows From Operating Activities:					
Operating Income (Loss)	\$ 24,676	\$ 859,314	\$ 204,874	\$ (39,471)	\$ 1,049,393
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities:					
Depreciation Expense	220,906	204,310	211,841	-	637,057
Net Cash Flows Provided by (Used in) Operating Activities	\$ 245,582	\$ 1,063,624	\$ 416,715	\$ (39,471)	\$ 1,686,450
Reconciliation of Cash and Restricted Cash					
Cash and Cash Equivalents	\$ 1,052,247	\$ 2,771,728	\$ 1,490,038	\$ 33,827	\$ 5,347,840
Restricted Cash	67,958	413,026	82,113	-	563,097
Total Cash and Restricted Cash	\$ 1,120,205	\$ 3,184,754	\$ 1,572,151	\$ 33,827	\$ 5,910,937

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, 2024**

	Custodial Fund
ASSETS:	
Cash and Cash Equivalents	\$ 43,716
TOTAL ASSETS	\$ 43,716
NET POSITION:	
Restricted for:	
Flandreau Housing Corporation	\$ 43,716
TOTAL NET POSITION	\$ 43,716

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, 2024**

	Custodial Fund
Additions:	
Rentals	\$ 1,000
Total Additions	1,000
Deductions:	
Professional Fees	10,667
Miscellaneous	46
Total Deductions	10,713
Net Change in Fiduciary Net Position	(9,713)
Net Position, Beginning	53,429
Net Position, Ending	\$ 43,716

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(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, 2024**

(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.

Tax Increment Financing (TIF) Districts #2, #4, #5 and #7 were closed in 2024 and any remaining fund balance was transferred to the General Fund.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(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, 2024**

(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, 2024**

(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, 2024

(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, 2024**

(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, 2024 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, 2024

(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.

Emerging Accounting Standards

In December 2023, the Governmental Accounting Standards Board (GASB) issued Statement No. 102, *Certain Risk Disclosures*, which expands the disclosure requirements for risks related to a government's vulnerabilities due to certain concentrations or constraints. The disclosure criteria should be assessed for the primary government reporting unit and all other reporting units that report a liability for revenue debt. A disclosure shall be made in the notes to the financial statements if all of the following criteria are met: a concentration or constraint is known, the concentration or constraint makes the reporting unit vulnerable to the risk of a substantial impact, and an event related to the concentration or constraint that could have a substantial impact has occurred or is expected to occur within twelve months of the date the financial statements are issued. The statement is effective for the City's year ending December 31, 2025.

In April 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 103, *Financial Reporting Model Improvements*, which improves key components of the financial reporting model to enhance its effectiveness in providing information to the users of the financial statements. The statement redefines the information to be included in management's discussion and analysis, clarifies operating vs. nonoperating revenues and expenses in the proprietary fund statement of revenues, expenses and changes in fund net position, provides guidance on the presentation of unusual or infrequent items, updates the requirements of presentation of major component unit information, and changes the presentation of the budgetary comparison schedules. The statement is effective for the City's year ending December 31, 2026.

In September 2024, the Governmental Accounting Standards Board (GASB) issued Statement No. 104, *Disclosure of Certain Capital Assets*, which requires certain information regarding capital assets to be presented by major class. This includes lease assets, intangible right-to-use assets under public-private and public-public partnerships, subscription assets, and certain other intangible assets. In addition, new disclosures surrounding capital assets held for sale are required. The statement is effective for the City's year ending December 31, 2026.

The City is currently evaluating the impact these statements will have on the financial statements.

Subsequent Events

The City has assessed subsequent events through September 15, 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:

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(2) Deposits and Investments

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.

As of December 31, 2024, 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, 2024 were as follows:

Primary Government	Bank Balance
Insured - FDIC	\$ 250,000
Uninsured and collateral held by pledging bank	7,505,689
Total Deposits	\$ 7,755,689

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, 2024

(4) Changes in Capital Assets

A summary of changes in governmental activities capital assets for the year ending December 31, 2024, is as follows:

	Balance 12/31/2023	Additions	Transfers	Deletions	Balance 12/31/2024
<i>Governmental Activities:</i>					
Capital Assets, not being Depreciated:					
Land	\$ 562,734	\$ 30,360	\$ -	\$ -	\$ 593,094
Construction in Progress	1,817,979	32,418	(1,766,126)	-	84,271
Total Capital Assets, not being Depreciated	2,380,713	62,778	(1,766,126)	-	677,365
Capital Assets, being Depreciated:					
Buildings	3,591,653	-	-	-	3,591,653
Improvements Other Than Buildings	5,306,693	1,588,209	1,766,126	-	8,661,028
Machinery and Equipment	2,783,151	181,453	-	64,070	2,900,534
Total Capital Assets, being Depreciated	11,681,497	1,769,662	1,766,126	64,070	15,153,215
Less Accumulated Depreciation for:					
Buildings	2,273,029	84,367	-	-	2,357,396
Improvements Other Than Buildings	3,072,393	260,851	-	-	3,333,244
Machinery and Equipment	2,465,191	124,652	-	64,070	2,525,773
Total Accumulated Depreciation	7,810,613	469,870	-	64,070	8,216,413
Total Governmental Activities Capital Assets, being Depreciated, Net	3,870,884	1,299,792	1,766,126	-	6,936,802
Total Governmental Capital Assets, Net	\$ 6,251,597	\$ 1,362,570	\$ -	\$ -	\$ 7,614,167

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

Public Works	\$ 159,534
Culture and Recreation	156,568
Public Safety	147,761
General Government	6,007
Total Depreciation Expense - Governmental	\$ 469,870

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(4) Changes in Capital Assets

A summary of changes in business-type activities capital assets for the year ending December 31, 2024, is as follows:

	Balance 12/31/2023	Additions	Transfers	Deletions	Balance 12/31/2024
<i>Business-Type Activities:</i>					
Capital Assets, not being Depreciated:					
Land	\$ 127,153	\$ -	\$ -	\$ -	\$ 127,153
Construction in Progress *	5,969,186	356,020	(5,605,264)	-	719,942
Total Capital Assets, not being Depreciated	6,096,339	356,020	(5,605,264)	-	847,095
Capital Assets, being Depreciated:					
Buildings	1,222,393	-	-	-	1,222,393
Improvements Other Than Buildings	14,315,129	206,384	5,605,264	-	20,126,777
Machinery and Equipment	950,267	15,065	-	-	965,332
Total Capital Assets Being Depreciated	16,487,789	221,449	5,605,264	-	22,314,502
Less Accumulated Depreciation for:					
Buildings	609,462	29,633	-	-	639,095
Improvements Other Than Buildings	6,244,026	581,508	-	-	6,825,534
Machinery and Equipment	830,236	25,916	-	-	856,152
Total Accumulated Depreciation	7,683,724	637,057	-	-	8,320,781
Total Business-Type Activities Capital Assets, being Depreciated, Net	8,804,065	(415,608)	5,605,264	-	13,993,721
Total Business-Type Capital Assets, Net	\$ 14,900,404	\$ (59,588)	\$ -	\$ -	\$ 14,840,816

* Construction Work in Progress on December 31, 2024 consists of engineering fees and construction costs for the water and sewer improvement projects, funded by the water fund and sewer fund. The water and sewer improvement projects have commitments of approximately \$6,450,000.

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

Business-Type Activities:	
Water	\$ 220,906
Electric	204,310
Sewer	211,841
Total Depreciation Expense - Business-Type	\$ 637,057

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(5) Long-Term Debt

A summary of the changes in long-term debt for the year ending December 31, 2024, is as follows:

	Balance 12/31/2023	Additions	Repayments	Balance 12/31/2024	Due Within One Year
Primary Government:					
Governmental Activities:					
TIF #8 Note Payable	\$ 530,328	\$ -	\$ 38,475	\$ 491,853	\$ 39,856
FSB Construction Loan #1	248,329	1,302,421	527,020	1,023,730	25,321
FSB Construction Loan #2	-	202,190	-	202,190	4,271
USDA Rural Development Loan	-	775,000	6,600	768,400	14,233
Total Governmental Activities	778,657	2,279,611	572,095	2,486,173	83,681
Business-Type Activities:					
2021 Water Revenue Refunding Bond	480,000	-	27,000	453,000	28,000
2019 Water Project Revenue Bond	2,384,060	-	42,750	2,341,310	43,776
2023 Drinking Water State Revolving Fund	182,171	174,540	-	356,711	-
2016 Electric Revenue Bond	1,945,000	-	130,000	1,815,000	130,000
2020 Electric Revenue Refunding Bond	2,320,000	-	175,000	2,145,000	180,000
2019 Sewer Project Revenue Bond	3,381,761	-	60,659	3,321,102	62,101
2019B Sewer Project Revenue Bond	448,381	-	8,050	440,331	8,228
Total Business-Type Activities	11,141,373	174,540	443,459	10,872,454	452,105
Total Primary Government	\$ 11,920,030	\$ 2,454,151	\$ 1,015,554	\$ 13,358,627	\$ 535,786

Long-term debt at December 31, 2024, 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.

\$ 491,853

Construction loan for fire station project due in monthly installments of \$5,296, including interest at 3.77 percent, through July 2049. Financed through the Capital Project Fund.

1,023,730

Construction loan for fire station project due in monthly installments of \$1,176, including interest at 4.90 percent, through July 2049. Financed through the Capital Project Fund.

202,190

USDA Rural Development loan for fire station project due in monthly installments of \$2,775, including interest at 2.50 percent, through June 2059. Financed through the Capital Project Fund.

768,400

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.

453,000

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(5) Long-Term Debt

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.	2,341,310
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.	356,711
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.	1,815,000
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.	2,145,000
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.	3,321,102
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.	440,331
	<u>\$ 13,358,627</u>

The annual requirements to amortize long-term debt outstanding as of December 31, 2024, are as follows:

	TIF #8 Note Payable		Construction Loans		Revenue Bonds		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2025	\$ 16,600	\$ 39,856	\$ 62,304	\$ 43,825	\$ 251,284	\$ 452,105	\$ 330,188	\$ 535,786
2026	15,222	41,233	65,576	45,386	241,222	465,845	322,020	552,464
2027	13,797	42,658	62,403	47,007	230,763	469,651	306,963	559,316
2028	12,358	44,097	62,402	48,561	219,957	477,524	294,717	570,182
2029	10,799	45,657	60,536	50,427	204,636	465,465	275,971	561,549
2030-2034	29,222	253,056	153,657	280,562	860,453	2,611,987	1,043,332	3,145,605
2035-2039	474	25,296	141,485	335,203	556,132	1,501,880	698,091	1,862,379
2040-2044	-	-	159,443	400,938	434,695	854,465	594,138	1,255,403
2045-2049	-	-	74,568	461,989	327,070	962,091	401,638	1,424,080
2050-2054	-	-	26,744	139,756	205,888	1,083,272	232,632	1,223,028
2055-2059	-	-	8,245	140,666	69,503	1,171,458	77,748	1,312,124
2023 SRF **	-	-	-	-	-	356,711	-	356,711
Total	\$ 98,472	\$ 491,853	\$ 877,363	\$ 1,994,320	\$ 3,601,603	\$ 10,872,454	\$ 4,577,438	\$ 13,358,627

** 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.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(5) Long-Term Debt

Tax Increment Districts (TID) Obligation

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.

During the year ended December 31, 2024, property tax revenues were \$27,107, \$26,686, and \$18,820 for TIDs #5, #7, and #8, respectively. Interest expenditures related to TID obligations totaled \$17,981 for the year ended December 31, 2024.

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	\$ 98,907	\$ 219,923
Pledged Revenue	817,058	3,758,534

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 \$563,097 at December 31, 2024, in accordance with these debt covenants. These amounts are reported as Restricted for Debt Service.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(6) Interfund Transfers

Interfund transfers for the year ended December 31, 2024 were as follows:

Fund	Transfers In	Transfers Out
<i>Major Funds:</i>		
General Fund	\$ 296,373	\$ 110,331
Capital Project Fire Station Fund	13,875	-
Electric Fund	-	125,000
<i>Nonmajor Fund:</i>		
Capital Project Bike Path Fund	40,000	-
TIF #2 Fund	-	28,496
TIF #4 Fund	-	25,495
TIF #5 Fund	-	50,487
TIF #7 Fund	-	52,587
TIF #8 Fund	56,456	14,308
Total Transfers	\$ 406,704	\$ 406,704

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

(7) Retirement Plan – South Dakota Retirement System

Plan Information:

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

Benefits Provided:

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

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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2024

(7) Retirement Plan – South Dakota Retirement System

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.

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, 2024, 2023, and 2022 were \$78,539, \$72,303, and \$64,853, 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, 2024, SDRS is 100.00 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, 2024 was 0.046658 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, 2024, 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.

CITY OF FLANDREAU

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024**

(8) Risk Management

Liability Insurance:

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

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.

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

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

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, 2024, no claims were filed for unemployment benefits. At December 31, 2024, no claim had been filed and nor anticipated.

OTHER SUPPLEMENTARY INFORMATION

CITY OF FLANDREAU

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

DECEMBER 31, 2024

		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	\$ 18,754	\$ 3,881	\$ 209,994	\$ -	\$ -
TOTAL ASSETS		\$ 18,754	\$ 3,881	\$ 209,994	\$ -	\$ -
FUND BALANCE:						
264.01	Restricted - Debt Service	\$ -	\$ 3,881	\$ -	\$ -	\$ -
264.02	Restricted - Bike Path	-	-	209,994	-	-
264.04	Restricted - Facilities & Promoting the City	18,754	-	-	-	-
TOTAL FUND BALANCE		\$ 18,754	\$ 3,881	\$ 209,994	\$ -	\$ -

TIF #5 Fund	TIF #7 Fund	TIF #8 Fund	Total Nonmajor Funds
\$ -	\$ -	\$ 4,512	\$ 237,141
\$ -	\$ -	\$ 4,512	\$ 237,141
\$ -	\$ -	\$ 4,512	\$ 8,393
-	-	-	209,994
-	-	-	18,754
\$ -	\$ -	\$ 4,512	\$ 237,141

CITY OF FLANDREAU

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

		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	\$ -	\$ -	\$ -	\$ -	\$ -
313	General Sales and Use Taxes	37,438	-	-	-	-
319	Penalties and Interest on Delinquent Taxes	-	1,073	-	-	-
Total Revenue		37,438	1,073	-	-	-
Expenditures:						
	<i>Culture and Recreation:</i>					
451	Recreation	22,205	-	-	-	-
470	Debt Service	-	-	-	-	-
485	Capital Outlay	16,562	-	-	-	-
Total Expenditures		38,767	-	-	-	-
Other Financing Sources (Uses):						
391.01	Transfers In	-	-	40,000	-	-
511	Transfers Out	-	-	-	(28,496)	(25,495)
Total Other Financing Sources		-	-	40,000	(28,496)	(25,495)
Net Change in Fund Balance		(1,329)	1,073	40,000	(28,496)	(25,495)
Fund Balance, December 31, 2023		20,083	2,808	169,994	28,496	25,495
Fund Balance, December 31, 2024		\$ 18,754	\$ 3,881	\$ 209,994	\$ -	\$ -

TIF #5 Fund	TIF #7 Fund	TIF #8 Fund	Total Nonmajor Funds
\$ 27,107	\$ 26,686	\$ 18,820	\$ 72,613
-	-	-	37,438
-	-	-	1,073
27,107	26,686	18,820	111,124
-	-	-	22,205
-	-	56,456	56,456
-	-	-	16,562
-	-	56,456	95,223
-	-	56,456	96,456
(50,487)	(52,587)	(14,308)	(171,373)
(50,487)	(52,587)	42,148	(74,917)
(23,380)	(25,901)	4,512	(59,016)
23,380	25,901	-	296,157
\$ -	\$ -	\$ 4,512	\$ 237,141



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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, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 15, 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 #2024-001 through #2024-003 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 #2024-004 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

September 15, 2025

CITY OF FLANDREAU

**SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024**

MATERIAL WEAKNESSES

2024-001 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 2023-001.

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.

2024-002 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, depreciation expense, and transfers. As well as the reclassification of capital assets. We also posted several entries to assist management in the conversion of accounting framework to the modified-cash basis.

Criteria and Effect: GAAP dictates that government funds use the modified-accrual basis of accounting while proprietary funds operate under full accrual accounting. Additionally, a capital asset must be reported full accrual on the government-wide statements. 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 2023-002.

Recommendation: We recommend that management consider the following:

- a. Purchases pertaining to construction contracts for enterprise funds should be appropriately capitalized as an asset and in accordance with the City's capitalization policies. Similarly, for governmental funds, expenditures meeting capitalization criteria for the City should be expensed at the fund level and separately tracked to be capitalized at the government-wide level.
- 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, 2024**

MATERIAL WEAKNESSES

2024-003 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. No documentation is retained to support the City Administrator's review of the payroll register prior to submission. There is no review of the manual journal entries from CBI payroll software into Tyler Encode. The entire utility billing process is performed by a single employee.

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 2023-003.

Recommendations: We recommend those charged with governance review the bank statements and reconciliations to include copies of cancelled checks as well as review manual adjustments posted to the general ledger and adjustments to customer utility accounts monthly. The City Administrator should sign off on the payroll register to indicate their review and approval prior to submission of bi-weekly payroll. The Finance Officer or City Administrator should review the bi-weekly payroll entry to the general ledger to ensure it agrees to the approved payroll register. Monthly utility billing registers should be reviewed in detail by the Finance Officer or City Administrator prior to the bills being sent to customers.

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

SIGNIFICANT DEFICIENCY

2024-004 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: Yes, prior year finding 2023-004.

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, 2024

The City of Flandreau respectfully submits the following summary schedule of prior audit findings from the December 31, 2023 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2023 Schedule of Findings.

2023-001 FINDING: Financial Statement Preparation

Status: 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.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City has accepted the risk associated with the auditor's preparing the financial statements and considers management's review sufficient. The finding is repeated as Finding #2024-001 in the Schedule of Findings. See Corrective Action Plan.

2023-002 FINDING: Audit Adjustment

Status: The City attempted to make all necessary year-end adjustments, however, some audit adjustments were required in 2024.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City has accepted the risk associated with the auditor's preparing audit adjustments and considers management's review sufficient. The finding is repeated as Finding #2024-002 in the Schedule of Findings. See Corrective Action Plan.

2023-003 FINDING: Segregation of Duties

Status: The City has implemented the recommendations as 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.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: As the City has accepted the risk associated with the segregation of duties finding, it will be repeated in #2024-003. See Corrective Action Plan.

2023-004 FINDING: Allocation of Wages

Status: 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.

Initial Year Report: 2023

Reasons for Recurrence and Corrective Action Plan: The City plans to start allocating employee time to the proper fund and function in 2025. The finding is repeated as Finding #2024-004 in the Schedule of Findings. See Corrective Action Plan.

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City of Flandreau

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CITY OF FLANDREAU

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2024**

The City respectfully submits the following corrective action plan from the December 31, 2024 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2024 Schedule of Findings.

Finding 2024-001: Financial Statement Preparation

Responsible Official: Lori Kneebone, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding #2024-001 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 #2024-002: 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 2024-003: 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 2024-004: 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: 2025