CITY OF FLANDREAU

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2025

KETEL THORSTENSON
CPAs · ADVISORS

CITY OF FLANDREAU

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KETEL THORSTENSON
CPAs · ADVISORS

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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, 2025, and the respective changes in modified cash basis financial position, and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis 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 and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 8, 2026 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Ketel Thorstenson, LLP

KETEL THORSTENSON, LLP
Certified Public Accountants

September 8, 2026

CITY OF FLANDREAU

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

	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and Cash Equivalents	$ 1,544,919	$ 6,153,769	$ 7,698,688
Restricted Cash	4,718	572,026	576,744
Capital Assets:			
Land and Construction in Progress	740,098	3,435,654	4,175,752
Other Capital Assets, Net of Depreciation	6,948,373	13,558,000	20,506,373
TOTAL ASSETS	$ 9,238,108	$ 23,719,449	$ 32,957,557
LIABILITIES:			
Non-Current Liabilities:			
Due Within One Year	$ 95,970	$ 465,845	$ 561,815
Due in More Than One Year	2,323,544	10,333,977	12,657,521
TOTAL LIABILITIES	2,419,514	10,799,822	13,219,336
NET POSITION:			
Net Investment in Capital Assets	5,268,957	6,193,832	11,462,789
Restricted for Debt Service	9,178	572,026	581,204
Restricted for Culture and Recreation Purposes	278,054	-	278,054
Unrestricted	1,262,405	6,153,769	7,416,174
TOTAL NET POSITION	6,818,594	12,919,627	19,738,221
TOTAL LIABILITIES AND NET POSITION	$ 9,238,108	$ 23,719,449	$ 32,957,557

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, 2025

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs							
Primary Government:							
Governmental Activities:							
General Government	$ 430,034	$ -	$ 95,658	$ -	$ (334,376)	$ -	$ (334,376)
Public Safety	1,017,431	2,640	-	-	(1,014,791)	-	(1,014,791)
Public Works	500,874	129,114	-	117,058	(254,702)	-	(254,702)
Culture and Recreation	628,134	37,827	-	-	(590,307)	-	(590,307)
Conservation and Development	34,500	-	-	-	(34,500)	-	(34,500)
Interest on Long-Term Debt*	94,868	-	-	-	(94,868)	-	(94,868)
Total Governmental Activities	2,705,841	169,581	95,658	117,058	(2,323,544)	-	(2,323,544)
Business-Type Activities:							
Water	892,536	884,792	1,133,922	-	-	1,126,178	1,126,178
Electric	2,917,985	4,049,422	-	-	-	1,131,437	1,131,437
Sewer	703,594	796,460	972,192	-	-	1,065,058	1,065,058
Solid Waste	196,987	216,369	-	-	-	19,382	19,382
Total Business-Type Activities	4,711,102	5,947,043	2,106,114	-	-	3,342,055	3,342,055
Total Primary Government	$ 7,416,943	$ 6,116,624	$ 2,201,772	$ 117,058	(2,323,544)	3,342,055	1,018,511
General Revenues and Transfers:							
General Revenues:							
Taxes:							
Property Taxes					814,004	-	814,004
Sales Taxes					964,344	-	964,344
Gross Receipt Taxes					2,969	-	2,969
State Shared Revenues					18,464	-	18,464
Unrestricted Investment Earnings					641	2,572	3,213
Miscellaneous Revenue					235,767	1,700	237,467
Transfers					305,999	(305,999)	-
Total General Revenues and Transfers					2,342,188	(301,727)	2,040,461
Change in Net Position					18,644	3,040,328	3,058,972
Net Position - December 31, 2024					6,799,950	9,879,299	16,679,249
Net Position - December 31, 2025					$ 6,818,594	$ 12,919,627	$ 19,738,221

***** 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, 2025

		General Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS:				
101	Cash and Investments	$ 1,262,405	$ 282,514	$ 1,544,919
107	Restricted Cash	4,718	-	4,718
TOTAL ASSETS		$ 1,267,123	$ 282,514	$ 1,549,637
FUND BALANCE:				
264.01	Restricted - Debt Service	$ 4,718	$ 4,460	$ 9,178
264.02	Restricted - Bike Path	-	254,994	254,994
264.04	Restricted - Facilities & Promoting the City	-	23,060	23,060
265.02	Committed - Capital Replacement	134,132	-	134,132
267.00	Unassigned	1,128,273	-	1,128,273
		1,267,123	282,514	1,549,637
TOTAL FUND BALANCE		$ 1,267,123	$ 282,514	$ 1,549,637

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, 2025

Total Fund Balances - Governmental Funds	$	1,549,637
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.		7,688,471
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		(2,419,514)
Total Net Position - Governmental Activities	$	6,818,594

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, 2025

		General Fund	Capital Project Fire Station Fund	Other Nonmajor Funds	Total Governmental Funds
Revenue:					
	Taxes:				
311	General Property Taxes	$ 794,352	$ -	$ 19,652	$ 814,004
313	General Sales and Use Taxes	922,361	-	41,983	964,344
319	Penalties and Interest on Delinquent Taxes	2,390	-	579	2,969
320	Licenses and Permits	14,558	-	-	14,558
	Intergovernmental Revenue:				
331	Federal Grant	95,658	-	-	95,658
334	State Grant	2,542	-	-	2,542
	State Shared Revenue:				
335.01	Bank Franchise Tax	2,622	-	-	2,622
335.03	Liquor Tax Reversion	15,842	-	-	15,842
335.04	Motor Vehicle Licenses (5%)	40,935	-	-	40,935
335.08	Local Government Highway and Bridge Fund	62,635	-	-	62,635
338.01	County Road Tax	10,946	-	-	10,946
338.99	Other	15,046	-	-	15,046
	Charges for Goods and Services:				
342	Highways and Streets	114,556	-	-	114,556
346	Culture and Recreation	37,827	-	-	37,827
	Fines and Forfeits:				
350	Court Fines and Costs	2,640	-	-	2,640
	Miscellaneous Revenue:				
361	Investment Earnings	641	-	-	641
362	Rentals	86,096	-	-	86,096
367	Contributions and Donations	10,200	-	25,000	35,200
369	Other	87,425	-	-	87,425
Total Revenue		2,319,272	-	87,214	2,406,486

CITY OF FLANDREAU

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

		General Fund	Capital Project Fire Station Fund	Other Nonmajor Funds	Total Governmental Funds
Expenditures:					
	General Government:				
411	Legislative	47,208	-	-	47,208
412	Executive	8,772	-	-	8,772
414	Financial Administration	86,079	-	-	86,079
419	Other	281,998	-	-	281,998
	Public Safety:				
421	Police	714,023	-	-	714,023
422	Fire	105,902	-	17,033	122,935
429	Other Protection	7,740	-	-	7,740
	Public Works:				
431	Highway and Streets	255,382	-	-	255,382
435	Airport	67,659	-	-	67,659
437	Cemeteries	19,957	-	-	19,957
	Culture and Recreation:				
451	Recreation	235,975	-	32,490	268,465
452	Parks	176,279	-	-	176,279
455	Library	10,750	-	-	10,750
458	Museum	10,000	-	-	10,000
	Conservation and Development:				
465	Economic Development and Assistance	34,500	-	-	34,500
470	Debt Service	-	-	419,716	419,716
485	Capital Outlay	563,714	-	9,816	573,530
Total Expenditures		2,625,938	-	479,055	3,104,993
Other Financing Sources (Uses):					
391.01	Transfers In	305,999	-	177,657	483,656
391.03	Sale of Municipal Property	12,000	-	-	12,000
391.20	Long-Term Debt Issued	-	-	258,189	258,189
511	Transfers Out	(177,657)	-	-	(177,657)
Total Other Financing Sources		140,342	-	435,846	576,188
Net Change in Fund Balance		(166,324)	-	44,005	(122,319)
Fund Balance, December 31, 2024, as Previously Stated		1,433,447	1,368	237,141	1,671,956
Adjustment for Change within Financial Reporting Entity		-	(1,368)	1,368	-
Fund Balance, December 31, 2024, as Restated		1,433,447	-	238,509	1,671,956
Fund Balance, December 31, 2025		$1,267,123	$ -	$282,514	$ 1,549,637

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, 2025

Net Change in Fund Balance - Government Funds	$	(122,319)
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		573,530
Depreciation Expense		(499,226)
		74,304
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.		324,848
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.		(258,189)
Change in Net Position - Governmental Activities	$	18,644

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

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

		Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
ASSETS:						
Current Assets:						
101	Cash and Cash Equivalents	$ 1,176,423	$ 3,471,056	$ 1,453,081	$ 53,209	$ 6,153,769
107	Restricted Cash	61,000	413,026	98,000	-	572,026
Total Current Assets		1,237,423	3,884,082	1,551,081	53,209	6,725,795
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	587,515	405,628	10,615	1,170,045
	Less: Accumulated Depreciation	(3,395,438)	(3,314,713)	(2,240,449)	(10,615)	(8,961,215)
168	Construction in Progress	1,680,853	-	1,627,648	-	3,308,501
Total Noncurrent Assets		5,013,542	5,754,322	6,198,534	27,256	16,993,654
TOTAL ASSETS		$ 6,250,965	$ 9,638,404	$ 7,749,615	$ 80,465	$ 23,719,449
LIABILITIES:						
Current Liabilities:						
205	Current Portion of Long-Term Debt	$ 73,827	$ 320,000	$ 72,018	$ -	$ 465,845
Total Current Liabilities		73,827	320,000	72,018	-	465,845
Long-Term Liabilities:						
237	Long-Term Debt, Net of Current Portion	3,187,412	3,330,000	3,816,565	-	10,333,977
Total Long-Term Liabilities		3,187,412	3,330,000	3,816,565	-	10,333,977
NET POSITION:						
253.1	Net Investment in Capital Assets	1,752,303	2,104,322	2,309,951	27,256	6,193,832
253.2	Restricted for Debt Service	61,000	413,026	98,000	-	572,026
253.9	Unrestricted Net Position	1,176,423	3,471,056	1,453,081	53,209	6,153,769
Total Net Position		2,989,726	5,988,404	3,861,032	80,465	12,919,627
TOTAL LIABILITIES AND NET POSITION		$ 6,250,965	$ 9,638,404	$ 7,749,615	$ 80,465	$ 23,719,449

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, 2025

		Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Total Proprietary Funds
Operating Revenue:						
380	Charges for Goods and Services	$ 884,792	$ 4,049,422	$ 796,460	$ 216,369	$ 5,947,043
Total Operating Revenue		884,792	4,049,422	796,460	216,369	5,947,043
Operating Expenses:						
410	Personal Services	195,700	400,133	232,179	5,113	833,125
420	Other Current Expense	417,760	2,207,619	154,984	191,874	2,972,237
457	Depreciation	198,876	214,309	227,247	-	640,432
Total Operating Expenses		812,336	2,822,061	614,410	196,987	4,445,794
Operating Income		72,456	1,227,361	182,050	19,382	1,501,249
Nonoperating Revenue (Expense):						
331	Federal Grant	1,133,922	-	972,192	-	2,106,114
361	Investment Earnings	618	1,463	491	-	2,572
362	Rental Income	-	-	700	-	700
381	Other Income	-	1,000	-	-	1,000
442	Interest Expense and Fiscal Charges	(80,200)	(95,924)	(89,184)	-	(265,308)
Total Nonoperating Revenue (Expense)		1,054,340	(93,461)	884,199	-	1,845,078
Income Before Transfers		1,126,796	1,133,900	1,066,249	19,382	3,346,327
511	Transfers Out	-	(225,000)	(80,999)	-	(305,999)
Total Transfers		-	(225,000)	(80,999)	-	(305,999)
Change in Net Position		1,126,796	908,900	985,250	19,382	3,040,328
Net Position - December 31, 2024		1,862,930	5,079,504	2,875,782	61,083	9,879,299
NET POSITION - DECEMBER 31, 2025		$ 2,989,726	$ 5,988,404	$ 3,861,032	$ 80,465	$ 12,919,627

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, 2025

	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Totals
Cash Flows from Operating Activities:					
Receipts from Customers	$ 884,792	$ 4,049,422	$ 796,460	$ 216,369	$5,947,043
Payments to Suppliers	(417,760)	(2,207,619)	(154,984)	(191,874)	(2,972,237)
Payments to Employees	(195,700)	(400,133)	(232,179)	(5,113)	(833,125)
Net Cash Flows Provided by Operating Activities	271,332	1,441,670	409,297	19,382	2,141,681
Cash Flows Used in Noncapital Financing Activities:					
Transfers to Other Funds	-	(225,000)	(80,999)	-	(305,999)
Cash Flows from Capital and Related Financing Activities:					
Purchases of Capital Assets	(1,318,672)	(113,881)	(1,360,717)	-	(2,793,270)
Proceeds from Capital Debt	184,700	-	197,880	-	382,580
Federal Grant Receipts	1,133,922	-	972,192	-	2,106,114
Principal Paid on Capital Debt	(74,482)	(310,000)	(70,730)	-	(455,212)
Interest Paid	(80,200)	(95,924)	(89,184)	-	(265,308)
Net Cash Used in Capital and Related Financing Activities	(154,732)	(519,805)	(350,559)	-	(1,025,096)
Cash Flows Provided by Investing Activities:					
Investment Earnings	618	1,463	491	-	2,572
Rental Income	-	-	700	-	700
Other Income	-	1,000	-	-	1,000
Net Cash Provided by Investing Activities	618	2,463	1,191	-	4,272
Net Change in Cash and Cash Equivalents	117,218	699,328	(21,070)	19,382	814,858
Cash and Cash Equivalents, December 31, 2024	1,120,205	3,184,754	1,572,151	33,827	5,910,937
Cash and Cash Equivalents, December 31, 2025	$ 1,237,423	$ 3,884,082	$ 1,551,081	$ 53,209	$6,725,795
Cash Flows From Operating Activities:					
Operating Income	$ 72,456	$ 1,227,361	$ 182,050	$ 19,382	$1,501,249
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:					
Depreciation Expense	198,876	214,309	227,247	-	640,432
Net Cash Flows Provided by Operating Activities	$ 271,332	$ 1,441,670	$ 409,297	$ 19,382	$2,141,681
Reconciliation of Cash, Cash Equivalents, and Restricted Cash					
Cash and Cash Equivalents	$ 1,176,423	$ 3,471,056	$ 1,453,081	$ 53,209	$6,153,769
Restricted Cash	61,000	413,026	98,000	-	572,026
Total Cash, Cash Equivalents, and Restricted Cash	$ 1,237,423	$ 3,884,082	$ 1,551,081	$ 53,209	$6,725,795

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, 2025

		Custodial Fund
ASSETS:		
Cash and Cash Equivalents	$	41,794
TOTAL ASSETS	$	41,794
NET POSITION:		
Restricted for:		
Flandreau Housing Corporation	$	41,794
TOTAL NET POSITION	$	41,794

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, 2025

		Custodial Fund
Additions:		
Miscellaneous Revenue	$	15,000
Rentals		1,000
Total Additions		16,000
Deductions:		
Professional Fees		17,912
Miscellaneous		10
Total Deductions		17,922
Net Change in Fiduciary Net Position		(1,922)
Net Position, Beginning		43,716
Net Position, Ending	$	41,794

The accompanying notes are an integral part of this statement.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(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, 2025

(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 for the payment of principal and interest on 2002 general obligation aquatic center bonds. This is a nonmajor fund.
>
> Tax Increment Financing (TIF) #8 City 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 and was closed during 2025.

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. During the year, the Capital Project Fire Station Fund, which was reported as a major governmental fund in 2024, is reported as a nonmajor governmental fund in 2025. This change represents a change within the financial reporting entity under GASB Statement No. 100. The beginning fund balance previously reported for the Capital Project Fire Station Fund has been reclassified to nonmajor governmental funds. The effect of this change on beginning fund balance is presented in the statement of revenues, expenditures, and changes in fund balance governmental funds – modified cash basis.
>
> 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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Basis of Presentation

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.

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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

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.

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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Capital Assets

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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Long-Term Liabilities

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.

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

<u>Government-wide Financial Statements:</u>

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.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Equity Classifications

Government-wide Financial Statements:

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, 2025 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.

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.

Adopted Accounting Standards

On January 1, 2025, the City adopted Governmental Accounting Standards Board (GASB) 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 implementation of this standard did not have a material impact on the City at December 31, 2025.

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(1) Summary of Significant Accounting Policies

Emerging Accounting Standards

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.

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, *Subsequent Events,* which clarifies the subsequent events time frame and those that constitute recognized and nonrecognized events. The standard also specifies the information items required to be disclosed about subsequent events. The statement is effective for the City's year ending December 31, 2027.

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 8, 2026, 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, 2025

(2) Deposits and Investments

As of December 31, 2025, 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, 2025 were as follows:

Primary Government	**Bank Balance**
Insured - FDIC	$ 250,000
Uninsured and collateral held by pledging bank	8,345,440
Total Deposits	$ 8,595,440

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, 2025

(4) Changes in Capital Assets

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

	Balance 12/31/2024	Additions	Transfers	Deletions	Balance 12/31/2025
Governmental Activities:					
Capital Assets, not being Depreciated:					
Land	$ 593,093	$ -	$ -	$ -	$ 593,093
Construction in Progress	84,271	147,005	(84,271)	-	147,005
Total Capital Assets, not being Depreciated	677,364	147,005	(84,271)	-	740,098
Capital Assets, being Depreciated:					
Buildings	3,591,654	-	84,271	-	3,675,925
Improvements Other Than Buildings	8,661,028	-	-	-	8,661,028
Machinery and Equipment	2,900,534	426,525	-	-	3,327,059
Total Capital Assets, being Depreciated	15,153,216	426,525	84,271	-	15,664,012
Less Accumulated Depreciation for:					
Buildings	2,357,396	84,009	-	-	2,441,405
Improvements Other Than Buildings	3,333,244	262,658	-	-	3,595,902
Machinery and Equipment	2,525,773	152,559	-	-	2,678,332
Total Accumulated Depreciation	8,216,413	499,226	-	-	8,715,639
Total Governmental Activities Capital Assets, being Depreciated, Net	6,936,803	(72,701)	84,271	-	6,948,373
Total Governmental Capital Assets, Net	$ 7,614,167	$ 74,304	$ -	$ -	$ 7,688,471

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

Public Safety	$ 172,733
Culture and Recreation	162,640
Public Works	157,876
General Government	5,977
Total Depreciation Expense - Governmental	$ 499,226

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(4) Changes in Capital Assets

A summary of changes in business-type activities capital assets for the year ending December 31, 2025, is as follows:

	Balance 12/31/2024	Additions	Transfers	Deletions	Balance 12/31/2025
Business-Type Activities:					
Capital Assets, not being Depreciated:					
Land	$ 127,153	$ -	$ -	$ -	$ 127,153
Construction in Progress *	719,941	2,588,560	-	-	3,308,501
Total Capital Assets, not being Depreciated	847,094	2,588,560	-	-	3,435,654
Capital Assets, being Depreciated:					
Buildings	1,222,393	-	-	-	1,222,393
Improvements Other Than Buildings	20,126,777	-	-	-	20,126,777
Machinery and Equipment	965,333	204,712	-	-	1,170,045
Total Capital Assets Being Depreciated	22,314,503	204,712	-	-	22,519,215
Less Accumulated Depreciation for:					
Buildings	639,095	29,634	-	-	668,729
Improvements Other Than Buildings	6,825,535	558,482	-	-	7,384,017
Machinery and Equipment	856,153	52,316	-	-	908,469
Total Accumulated Depreciation	8,320,783	640,432	-	-	8,961,215
Total Business-Type Activities Capital Assets, being Depreciated, Net	13,993,720	(435,720)	-	-	13,558,000
Total Business-Type Capital Assets, Net	$ 14,840,814	$ 2,152,840	$ -	$ -	$ 16,993,654

* Construction Work in Progress on December 31, 2025 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 remaining commitments of approximately $5,252,000 at December 31, 2025.

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

Business-Type Activities:	
Water	$ 198,876
Electric	214,309
Sewer	227,247
Total Depreciation Expense - Business-Type	$ 640,432

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Long-Term Debt

A summary of the changes in long-term debt for the year ending December 31, 2025, is as follows:

	Balance 12/31/2024	Additions	Repayments	Balance 12/31/2025	Due Within One Year
Primary Government:					
Governmental Activities:					
TIF #8 Note Payable	$ 491,853	$ -	$ 36,720	$ 455,133	$ 41,233
FSB Construction Loan #1	1,023,730	-	265,768	757,962	26,305
FSB Construction Loan #2	202,190	248,373	2,920	447,643	9,210
USDA Rural Development Loan	768,400	-	14,253	754,147	14,593
Financed Equipment	-	9,816	5,187	4,629	4,629
Total Governmental Activities	2,486,173	258,189	324,848	2,419,514	95,970
Business-Type Activities:					
2021 Water Revenue Refunding Bond	453,000	-	28,000	425,000	29,000
2019 Water Project Revenue Bond	2,341,310	-	43,796	2,297,514	44,827
2023 Drinking Water State Revolving Fund	356,711	184,700	2,686	538,725	-
2016 Electric Revenue Bond	1,815,000	-	130,000	1,685,000	135,000
2020 Electric Revenue Refunding Bond	2,145,000	-	180,000	1,965,000	185,000
2019 Sewer Project Revenue Bond	3,321,102	-	62,115	3,258,987	63,592
2019B Sewer Project Revenue Bond	440,331	-	8,244	432,087	8,426
2023 Clean Water Loan State Revolving Fund	-	197,880	371	197,509	-
Total Business-Type Activities	10,872,454	382,580	455,212	10,799,822	465,845
Total Primary Government	$ 13,358,627	$ 640,769	$ 780,060	$ 13,219,336	$ 561,815

Long-term debt at December 31, 2025, 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 2035. Financed through the TIF #8 Debt Service Fund.	$ 455,133
Construction loan for fire station project due in monthly installments of $5,296, including interest at 3.77 percent, through July 2045. Financed through the Capital Project Fund.	757,962
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.	447,643
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.	754,147
Financed purchase of equipment; due in monthly installments of $434, through November 2026. Financed through the 3rd Cent Sales Tax Fund.	4,629

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Long-Term Debt

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.	425,000
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.	2,297,514
Drinking Water Revenue Borrower Bond; Series 2023, borrowing up to $2,818,087, interest at 1.875 percent, payment amounts will be finalized upon completion of the associated project. Water revenue is pledged. Financed through the Water Fund.	538,725
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.	1,685,000
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.	1,965,000
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.	3,258,987
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.	432,087
Clean Water Project Revenue Bond, Series 2023; borrowings up to $2,776,087, interest at 2.125 percent, payment amounts will be finalized upon completion of the associated project. Sewer revenue is pledged. Financed through the Sewer Fund.	197,509
	$ 13,219,336

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Long-Term Debt

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

	Notes Payable		Construction Loans		Revenue Bonds		Total	
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2026	$ 15,222	$ 45,862	$ 78,851	$ 50,108	$ 241,222	$ 465,845	$ 335,295	$ 561,815
2027	13,797	42,659	80,212	52,976	230,763	469,651	324,772	565,286
2028	12,358	44,097	77,191	53,221	219,957	477,524	309,506	574,842
2029	10,799	45,657	74,979	55,433	208,677	496,465	294,455	597,555
2030	9,221	47,235	72,844	57,568	196,920	495,478	278,985	600,281
2031-2035	20,476	234,252	323,999	316,963	790,605	2,690,169	1,135,080	3,241,384
2036-2040	-	-	259,666	389,751	519,941	1,060,101	779,607	1,449,852
2041-2045	-	-	176,244	459,816	414,179	874,981	590,423	1,334,797
2046-2050	-	-	54,160	249,566	303,970	1,001,957	358,130	1,251,523
2051-2055	-	-	21,931	136,244	224,058	1,092,515	245,989	1,228,759
2056-2060	-	-	4,657	138,106	-	938,902	4,657	1,077,008
2023 SRF **	-	-	-	-	-	736,234	-	736,234
Total	$ 81,873	$ 459,762	$ 1,224,734	$ 1,959,752	$ 3,350,292	$ 10,799,822	$ 4,656,899	$ 13,219,336

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

Tax Increment City's (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 City to acquire public improvement within the established Tax Increment City 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.

During the year ended December 31, 2025, property tax revenues was $19,652 for TID #8. Interest expenditures related to TID obligations totaled $24,740 for the year ended December 31, 2025.

Debt Covenants

The City has pledged future revenue associated with the 2019 Water Revenue Bonds, 2023 Drinking Water Loan, 2019B Sewer Utility Revenue Bonds, 2023 Clean Water Loan, USDA Rural Development Loan, 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 above.

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

	Water	Electric	Sewer	USDA RD Loan
Current Year Principal and Interest	$ 138,111	$ 221,373	$ 19,582	$ 33,300
Pledged Revenue	884,792	4,049,422	796,460	754,147

CITY OF FLANDREAU

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2025

(5) Long-Term Debt

The City's 2023 Drinking Water Revenue Bonds and the 2023 Clean Water Revenue Bonds require the City to keep net water revenue available for debt service at 110 percent of debt service expenditures each year. The City's USDA Rural Development Loan require the City to maintain a debt service ratio of 125 percent of General Fund Income.

Additionally, the City's 2019 Water Revenue Bonds, 2019 Sewer Revenue Bonds, USDA Rural Development Loan, 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 $576,744 at December 31, 2025, 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, 2025 were as follows:

Fund	Transfers In	Transfers Out
Major Funds:		
General Fund	$ 305,999	$ 177,657
Electric Fund	-	225,000
Sewer Fund	-	80,999
Nonmajor Funds:		
Capital Project Fire Station Fund	120,811	-
Capital Project Bike Path	20,000	-
TIF #8 Fund	36,846	-
Total Transfers	$ 483,656	$ 483,656

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), 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.

Benefits Provided:
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.

(7) Retirement Plan – South Dakota Retirement System

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.

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, 2025, 2024, and 2023 were $85,041, $78,539, and $72,303, respectively, equal to the required contributions each year.

(7) Retirement Plan – South Dakota Retirement System

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, 2025, 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, 2025 was 0.00057 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, 2025, 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 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.

(8) Risk Management

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, 2025, no claims were filed for unemployment benefits. At December 31, 2025, 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, 2025

		3rd Cent Sales Tax Fund	Aquatic GO Bond Fund	Capital Project Bike Path Fund	Total Nonmajor Funds
ASSETS:					
101	Cash and Investments	$ 23,060	$ 4,460	$ 254,994	$ 282,514
TOTAL ASSETS		$ 23,060	$ 4,460	$ 254,994	$ 282,514
FUND BALANCE:					
264.01	Restricted - Debt Service	$ -	$ 4,460	$ -	$ 4,460
264.02	Restricted - Bike Path	-	-	254,994	254,994
264.04	Restricted - Facilities & Promoting the City	23,060	-	-	23,060
	Unassigned	-	-	-	-
Total Fund Balance		23,060	4,460	254,994	282,514
TOTAL FUND BALANCE		$ 23,060	$ 4,460	$ 254,994	$ 282,514

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, 2025

		3rd Cent Sales Tax Fund	Aquatic GO Bond Fund	Capital Project Fire Station Fund	Capital Project Bike Path Fund	TIF #8 Fund	Total Nonmajor Funds
Revenue:							
	Taxes:						
311	General Property Taxes	$ -	$ -	$ -	$ -	$ 19,652	$ 19,652
313	General Sales and Use Taxes	41,983	-	-	-	-	41,983
319	Penalties and Interest on Delinquent Taxes	-	579	-	-	-	579
	Miscellaneous Revenue:						
367	Contributions and Donations	-	-	-	25,000	-	25,000
Total Revenue		41,983	579	-	25,000	19,652	87,214
Expenditures:							
	Public Safety:						
421	Police	-	-	17,033	-	-	17,033
	Culture and Recreation:						
451	Recreation	32,490	-	-	-	-	32,490
470	Debt Service	5,187	-	353,519	-	61,010	419,716
485	Capital Outlay	9,816	-	-	-	-	9,816
Total Expenditures		47,493	-	370,552	-	61,010	479,055
Other Financing Sources (Uses):							
391.01	Transfers In	-	-	120,811	20,000	36,846	177,657
391.20	Long-Term Debt Issued	9,816	-	248,373	-	-	258,189
Total Other Financing Sources		9,816	-	369,184	20,000	36,846	435,846
Net Change in Fund Balance		4,306	579	(1,368)	45,000	(4,512)	44,005
Fund Balance, December 31, 2024, as Previously Stated		18,754	3,881	-	209,994	4,512	237,141
Adjustment for Change within Financial Reporting Entity		-	-	1,368	-	-	1,368
Fund Balance, December 31, 2024, as Restated		18,754	3,881	1,368	209,994	4,512	238,509
Fund Balance, December 31, 2025		$ 23,060	$ 4,460	$ -	$ 254,994	$ -	$ 282,514

SINGLE AUDIT SECTION

CITY OF FLANDREAU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2025

	Identifying Number	Assistance Listing Number	Amount
U.S. Department of Agriculture			
Direct Funding			
Community Facilities Loans and Grants	111314	10.766	$ 768,400
Total U.S. Department of Agriculture			768,400
U.S. Department of Transportation			
Pass-Through the S.D. Department of Transportation:			
Airport Improvement Program	3-46-0077-016-2025	20.106	31,855
Airport Improvement Program	3-46-0077-017-2025	20.106	61,057
Total Airport Improvement Program			92,912
Total U.S. Department of Transportation			92,912
U.S. Department of Treasury			
Pass-Through the S.D. Board of Water and Natural Resources:			
Coronavirus State and Local Fiscal Recovery Funds (COVID-19)	2022G-ARP-415	21.027	972,192
Coronavirus State and Local Fiscal Recovery Funds (COVID-19)	2022G-ARP-416	21.027	1,133,922
Total Coronavirus State and Local Fiscal Recovery Funds (COVID-19)			2,106,114
Total U.S. Department of Treasury			2,106,114
Total Federal Expenditures			$ 2,967,426

Note 1 – Basis of Presentation and Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of the City under programs of the federal government for the year ended December 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the City, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City.

Expenditures reported on the Schedule are reported on the modified cash basis basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 2 – Indirect Cost Rate

The City has not elected to use the de minimis indirect cost rate as allowed under the Uniform Guidance.

Note 3 – Federal Loan Program

The Municipality had the following loan balances outstanding at December 31, 2025. These loan balances outstanding which have continuing compliance requirements are also included in the federal expenditures presented in the Schedule.

Program Title	Assistance Listing Number	Outstanding Balance
Community Facilities Loans and Grants	10.766	$ 754,147

KETEL THORSTENSON
CPAs · ADVISORS

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

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, 2025, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 8, 2026.

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 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 #2025-001 through #2025-003 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 #2025-004 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

KETEL THORSTENSON, LLP
Certified Public Accountants

September 8, 2026

KETEL THORSTENSON
CPAs · ADVISORS

810 Quincy Street
P.O. Box 3140, Rapid City, South Dakota 57709
Telephone (605) 342-5630 • e-mail: info@ktllp.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

City Council
City of Flandreau
Flandreau, South Dakota

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program
We have audited the City of Flandreau's (the City) compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2025. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program
We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the City's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance
Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the City's federal programs.

Auditor's Responsibilities for the Audit of Compliance
Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the City's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually, or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the City's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, Government Auditing Standards, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 City's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the City's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify a certain deficiency in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over *compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings as 2025-001 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the internal control over compliance findings identified in our compliance audit described in the accompanying Schedule of Findings. The City's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report 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 8, 2026

CITY OF FLANDREAU

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

A. SUMMARY OF AUDIT RESULTS

1. The Independent Auditor's Report expresses an unmodified opinion on all of the financial statements of the City.

2. Material weaknesses and a significant deficiency disclosed during the audit of the financial statements are reported in the 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*.

3. No instances of noncompliance material to the financial statements of the City were disclosed during the audit.

4. A material weakness disclosed during the audit of the major federal award program is reported in the Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance.

5. The auditor's report on compliance for the major federal award programs for the City expresses unmodified opinions on all major programs, as listed in #7.

6. Audit findings relative to the major federal award program for the City are reported in Part C of this schedule.

7. The program tested as a major program was the Coronavirus State and Local Fiscal Recovery Funds (ALN #21.027).

8. The threshold for distinguishing types A and B programs was $1,000,000.

9. The City was not determined to be a low risk auditee.

CITY OF FLANDREAU

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Material Weaknesses

Finding 2025-001: Preparation of Financial Statements and Schedule of Expenditure of Federal Award (SEFA)

Federal Program Affected: All

Compliance Requirement: Reporting

Questioned Costs: None

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the financial statements and SEFA in both form and content, based on information provided by management during the audit.

Criteria and Effect: Management and those charged with governance are ultimately responsible for preparing and presenting the financial statements and SEFA in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements and SEFA is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: Yes, prior year finding 2024-001.

Recommendation: Management and if applicable, governance, should review the financial statements and SEFA for accuracy of account balances and context of note disclosures. Management and governance should inquire of the auditors about any balances or disclosures which management does not understand or cannot reconcile to internal records prior to signing the management representation letter.

Response/Corrective Action Plan: The City agrees with the above Finding. See Corrective Action Plan.

Finding 2025-002: Audit Adjustments

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: During the course of our engagement, we proposed several audit adjustments. Adjustments included entries to reclassify expenses in revenue accounts, and adjust debt balances, capital assets, and depreciation expense. 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: These adjustments were not identified as a result of the City's existing internal controls, and therefore could have resulted in a material misstatement of the City's financial statements.

Repeat Finding from Prior Year: Yes, prior year finding 2024-002.

Recommendation: We recommend the City's operations be continually reviewed for potential changes in the accounting processes so the appropriate journal entries can be made throughout the year. The balance sheet accounts should be reconciled to actual at least annually. Specifically:

CITY OF FLANDREAU

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

Material Weaknesses

Finding 2025-002: Audit Adjustments

a. Purchases pertaining to construction contracts for enterprise funds should be 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. Accounts should be regularly reviewed to ensure proper classification of expenses.

Response/Corrective Action Plan: The City agrees with the above finding. See Corrective Action Plan.

Finding 2025-003: Segregation of Duties

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

Condition and Cause: The City lacks adequate segregation of duties over cash receipts and disbursements processes. The Council does not review adjustments made to customer accounts or manual journal entries. 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: Lack of adequate segregation of duties exists and could result in misappropriated cash receipts or disbursements.

Repeat Finding from Prior Year: Yes, prior year finding 2024-003.

Recommendations: We recommend those charged with governance review manual adjustments posted to the general ledger and adjustments to customer utility accounts monthly. 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: The City agrees with the above finding. See Corrective Action Plan.

Significant Deficiency

Finding 2025-004: Allocation of Wages

Federal Program Affected: None

Compliance Requirement: Not Applicable

Questioned Costs: None

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 properly allocating expenditures to the functions to which they relate could result in a misstatement of expenditures in the fund statements.

Repeat Finding from Prior Year: Yes, prior year finding 2024-004.

CITY OF FLANDREAU

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

Significant Deficiency

Finding 2025-004: Allocation of Wages

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.

C. FINDINGS AND QUESTIONS COSTS – MAJOR FEDERAL PROGRAMS AUDIT

Material Weakness

See finding 2025-001.

MANAGEMENT RESPONSE

City of Flandreau
1005 W Elm Avenue
Flandreau, South Dakota 57028-1404
Phone: (605)997-2492 • Fax: (605)997-2915
www.cityofflandreau.com

CITY OF FLANDREAU

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2025

The City of Flandreau respectfully submits the following summary schedule of prior audit findings 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

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 #2025-001 in the Schedule of Findings. See Corrective Action Plan.

FINDING 2024-002: 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 #2025-002 in the Schedule of Findings. See Corrective Action Plan.

FINDING 2024-003: 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 #2025-003. See Corrective Action Plan.

FINDING 2024-004: 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 #2025-004 in the Schedule of Findings. See Corrective Action Plan.

City of Flandreau
1005 W Elm Avenue
Flandreau, South Dakota 57028-1404
Phone: (605)997-2492 • Fax: (605)997-2915
www.cityofflandreau.com

CITY OF FLANDREAU

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2025

The City respectfully submits the following corrective action plan from the December 31, 2025 Schedule of Findings. The findings are numbered consistently with the numbers assigned in the 2025 Schedule of Findings.

Finding 2025-001: Financial Statement Preparation

Responsible Official: Lori Kneebone, Finance Officer

Corrective Action Plan: The City has accepted the risk associated with Finding 2025-001 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 2025-002: 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 2025-003: 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: 2026

Finding 2025-004: 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: 2026

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