

**CITY OF MCLAUGHLIN
MCLAUGHLIN, SOUTH DAKOTA
AUDIT REPORT
FOR THE YEAR THEN ENDED
DECEMBER 31, 2022**

CITY OF MCLAUGHLIN
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CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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

Governing Board
City of McLaughlin
McLaughlin, South Dakota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of McLaughlin (City), South Dakota, as of December 31, 2022 and for the year then ended and the related notes to the financial statements, which collectively comprises the City's basic financial statements and have issued our report thereon dated September 25, 2023.

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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Current Audit Findings, as items 2022-001, 2022-002, 2022-003, 2022-004, 2022-005, 2022-006, and 2022-007 to be material weaknesses.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

City's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the City's response to the findings identified in our audit. The City's responses to the findings identified in our audit are described in the accompanying Schedule of Current Audit Findings. 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 them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. As required by South Dakota Codified Law 4-11-11 this report is a matter of public record and its distribution is not limited.

Colin Bauer

Mobridge, South Dakota
September 25, 2023

**CITY OF MCLAUGHLIN
SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2022**

PRIOR AUDIT FINDINGS:

Finding 2021-001:

The City has an inadequate listing of fixed asset records. This finding has not been corrected and is restated as current audit finding 2022-001.

Finding 2021-002:

A material weakness was reported for a lack of segregation of duties, for cash, revenues, customer deposits, equity expenditures, payroll, and budget, which could result in errors not being found in a timely manner. This finding has not been corrected and is restated as current audit finding 2022-002.

Finding 2021-003:

The City does not have an internal control structure designed to provide for the preparation of the annual financial statements being audited, including required footnotes and disclosures, in accordance with other comprehensive basis of accounting-modified cash basis. This finding has not been corrected and is restated as current audit finding 2022-003.

Finding 2021-004:

The City lacks a system of internal control structure to provided for the recording of all necessary material adjustments. This finding has not been corrected and is restated as current audit finding 2022-004.

Finding 2021-005:

The City had not reconciled their pooled cash bank accounts to their records. This finding has been corrected.

Finding 2021-006:

The City transferred funds from the general fund to the sanitation fund without approval by two-thirds vote by the governing body. This finding has been corrected.

Finding 2021-007:

The City did not present and file the annual report in accordance with SDCL 9-22-21. This finding has not been corrected and is restated as current audit finding 2022-005.

Finding 2021-008:

The City transferred contingency amounts greater than five percent (5%) of the total municipal budget. This finding has been corrected.

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022**

CURRENT AUDIT FINDING:

Finding 2022-001:

Criteria:

Fixed asset records should include comprehensive lists of all land, buildings, improvements and equipment that have a cost greater than the City's capitalization policy. The City's lists of such assets were found to be incomplete and lacking in supporting documentation.

Condition Found:

Fixed asset records were inadequate.

Cause and Effect:

Capital asset records did not contain adequate documentation to support the cost of capital assets, which could lead to misappropriation of assets.

Recommendation:

The City should conduct a comprehensive physical inventory of all fixed assets and update the subsidiary records accordingly. Costs (or estimated costs) of the assets should be properly documented.

Identification of Repeat Finding:

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

Views of Responsible Officials and Planned Corrective Action:

The City agrees with the finding and will work on updating their records. The Mayor, D Wutzke, is the contact person responsible for this finding. The City has not set an anticipated completion date.

Finding 2022-002:

Criteria:

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

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022**

Condition Found:

A lack of proper segregation of duties existed for the revenue function resulting in decreased reliability of reported financial data and increased potential for the loss of public assets. This lack of segregation of duties has a direct effect on the cash management of the City. The finance officer received money, issued receipts, recorded receipts, posted receipts in the accounting records, prepared bank deposits, reconciled bank statements and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function of the City.

Cause and Effect:

Inaccurate financial statement and/or misappropriations of funds could result from a lack of segregation of duties.

Recommendation:

We recommend that City officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever and wherever possible and practical.

Identification of Repeat Finding:

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

Views of Responsible Officials and Planned Corrective Action:

Due to our size, the City of McLaughlin has determined that it is not cost beneficial to employ additional personnel just to be able to adequately segregate duties for revenues, cash, trust deposits, equity, expenditures, and payroll. We are aware of the problem and are attempting to provide compensating controls wherever and whenever possible and practical.

Finding 2022-003:

Criteria:

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

Condition Found:

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

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022**

Cause and Effect:

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

Recommendation:

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

Identification of Repeat Finding:

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

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

Finding 2022-004:

Criteria:

An organization's internal control structure should provide for the recording of all necessary material adjustments in order to ensure that the accounting records are in accordance with other comprehensive basis of accounting - modified cash basis.

Condition Found:

During the course of our engagement, we proposed material audit adjustments that would not have been 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.

Cause and Effect:

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

Recommendation:

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

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022**

Identification of Repeat Finding:

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

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City is continuing its work on correcting this deficiency.

Finding 2022-005:

Criteria:

SDCL 9-22-21 states, "The financial officer shall report to the governing body no later than the first regular meeting of May of each year, the receipts, expenses and financial condition of the municipality. The report shall include the amount of funds in the treasury at the time the report is made and where and in what amounts the funds are deposited or invested. The report shall be published in the official newspaper, or any other newspaper as the governing body may direct within thirty days after the report is made to the governing body or on completion of an annual audit. By the last day of May each year the financial officer shall file a copy of the report with the Department of Legislative Audit."

Condition Found:

The City did not present and file the annual report in accordance with SDCL 9-22-21.

Cause and Effect:

There was a lack of oversight by the City Council, Mayor, and Finance Officer to ensure that the annual report was given to the City Council at the first meeting of May and filed with the Department of Legislative Audit by the last day of May. These were filed late as a result.

Recommendation:

We recommend that the annual report be presented and filed in accordance with SDCL 9-22-21.

Identification of Repeat Finding:

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

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City will present and file the annual report by the required deadlines in the future.

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
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Finding 2022-006:

Criteria:

SDCL 9-21-9 states, "Neither the governing body nor any department or office of the municipality shall add to the municipal expenditures in any fiscal year any sum in excess of the amount provided for in the annual appropriation ordinance except as otherwise specifically provided. Nor shall the amount spend for any purpose or any department exceed the total amount appropriated for such purpose or for such department in the annual appropriation ordinance for such year, except as otherwise specially provided."

Condition Found:

The Municipality expended money in excess of amounts budgeted in three departments without supplementing the budget as allowed by SDCL 9-21-7.

Cause and Effect:

Without amending the budget or limiting expenditures, expenditures are being made without proper authority.

Recommendation:

We recommend that the amount budgeted for contingency be in compliance with SDCL 9-21-6.1.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City will monitor expenditures and compare to budgets more regularly.

Finding 2022-007:

Criteria:

As pursuant to SDCL, a Municipality is required to have dual signature on all checks or warrants drawn, except those of trust & agency. One signature is required by the finance officer and another countersignature by the Mayor or President of the Board.

**CITY OF MCLAUGHLIN
SCHEDULE OF CURRENT AUDIT FINDINGS
DECEMBER 31, 2022**

Condition Found:

During our review of expenditures, we noted one check written that did not have dual signature by the finance officer and Mayor or President of the Board.

Cause and Effect:

There is a breakdown of controls within the organization with regards to expenditures.

Recommendation:

We recommend that the Municipality make more effort to assure that all checks or warrants drawn, bear the signature of both the finance officer and Mayor or President of the Board.

Views of Responsible Officials and Planned Corrective Action:

The City's finance officer is the contact person responsible for the corrective action plan for this comment. The City will monitor all checks going forward for proper dual signature.



CAHILL BAUER & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITORS' REPORT

City Council
City of McLaughlin
McLaughlin, South Dakota

Report on the Audit of the Financial Statements

We have audited the accompanying modified cash basis of accounting financial statements of the governmental activities, the business-type activities, and each major fund of the City of McLaughlin, South Dakota, as of December 31, 2022, and for the year then ended, and the related notes to the financial statements, which collectively comprises the City's basic financial statements as listed in the Table of Contents.

In our opinion, the accompanying modified cash basis of accounting financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of McLaughlin as of December 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in Note 1.c. to the financial statements.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards (Government Auditing Standards), issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 1.c. of the financial statements, which describes the basis of accounting, the financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Responsibilities of Management for the Financial Statements

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

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City's basic financial statements. The Budgetary Comparison Schedules, the Schedule of Changes in Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Budgetary Comparison Schedules, the Schedule of Changes in Long-Term Debt, and the Schedule of the City's Proportionate Share of the Net Pension Liability (Asset) are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 25, 2023 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

Calvin Buren

Mobridge, South Dakota
September 25, 2023

CITY OF MCLAUGHLIN
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
DECEMBER 31, 2022

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 371,410	\$ 2,031,592	\$ 2,403,002
Investments	18,343	408,883	427,226
TOTAL ASSETS	389,753	2,440,475	2,830,228
NET POSITION:			
Unrestricted	389,753	2,440,475	2,830,228
TOTAL NET POSITION	\$ 389,753	\$ 2,440,475	\$ 2,830,228

**CITY OF MCLAUGHLIN
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022**

Functions/Programs Primary government	Program Revenues				Net (Expenses) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 305,827	\$ 10,919	\$ -	\$ -	\$ (294,908)	\$ -	\$ (294,908)
Public safety	87,086	-	-	-	(87,086)	-	(87,086)
Public works	150,420	40,999	5,171	68,930	(35,320)	-	(35,320)
Culture and recreation	22,428	-	-	-	(22,428)	-	(22,428)
Total governmental activities	565,761	51,918	5,171	68,930	(439,742)	-	(439,742)
Business-type activities							
Water	135,034	177,595	-	-	-	42,561	42,561
Sewer	126,276	129,471	-	-	-	3,195	3,195
Liquor	554,248	640,856	-	-	-	86,608	86,608
Electric	543,743	670,895	-	-	-	127,152	127,152
Solid waste	126,169	131,775	-	-	-	5,606	5,606
Total business-type activities	1,485,470	1,750,592	-	-	-	265,122	265,122
Total primary government	\$ 2,051,231	\$ 1,802,510	\$ 5,171	\$ 68,930	\$ (439,742)	\$ 265,122	\$ (174,620)
General Revenues							
Taxes							
Property taxes					179,544	-	179,544
Sales tax					330,922	-	330,922
State shared revenue					5,466	-	5,466
Unrestricted investment earnings					3,205	384	3,589
Miscellaneous revenue					12,741	-	12,741
Total general revenues					531,878	384	532,262
Change in net position					92,136	265,506	357,642
Net position - beginning					297,617	2,174,969	2,472,586
Net position - ending					\$ 389,753	\$ 2,440,475	\$ 2,830,228

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

CITY OF MCLAUGHLIN
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
DECEMBER 31, 2022

	General Fund	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 371,410	\$ 371,410
Investments	18,343	18,343
TOTAL ASSETS	389,753	389,753
FUND BALANCES		
Unassigned	389,753	389,753
TOTAL FUND BALANCES	\$ 389,753	\$ 389,753

CITY OF MCLAUGHLIN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Primary Government	
	General Fund	Total Governmental Funds
REVENUES		
Taxes		
General property taxes	\$ 178,111	\$ 178,111
General sales and use taxes	330,922	330,922
Penalties and interest on delinquent taxes	1,433	1,433
Licenses and permits	70	70
Intergovernmental revenue		
Federal grants	68,930	68,930
State shared revenue		
Bank franchise tax	1,478	1,478
Motor vehicle commercial prorate	5,171	5,171
Liquor tax reversion	3,988	3,988
Motor vehicle licenses (5%)	12,765	12,765
Local government highway and bridge fund	25,099	25,099
County shared revenue		
County road tax (25%)	1,938	1,938
Charges for goods and services		
General government	2,299	2,299
Sanitation	1,197	1,197
Miscellaneous revenue		
Investment earnings	3,205	3,205
Rentals	8,550	8,550
Other	7,500	7,500
Total revenues	<u>\$ 652,656</u>	<u>\$ 652,656</u>

CITY OF MCLAUGHLIN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Primary Government	
	General Fund	Total Governmental Funds
EXPENDITURES		
General government		
Legislative	\$ 25,332	\$ 25,332
Financial administration	214,861	214,861
Other	65,634	65,634
Public safety		
Police	86,408	86,408
Fire	678	678
Public works		
Highways and streets	123,296	123,296
Sanitation	186	186
Airport	26,938	26,938
Culture and recreation		
Parks	1,299	1,299
Libraries	6,107	6,107
Auditorium	14,022	14,022
Conservation and development		
Economic development and assistance		
(Industrial development)	1,000	1,000
Total expenditures	565,761	565,761
Excess of revenue over (under) expenditures	86,895	86,895
Other financing sources (uses)		
Compensation of loss of capital assets	5,241	5,241
Total other financing sources	5,241	5,241
Net change in fund balance	92,136	92,136
Fund balance - beginning	297,617	297,617
Fund Balance - ending	\$ 389,753	\$ 389,753

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

CITY OF MCLAUGHLIN
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
DECEMBER 31, 2022

	Enterprise Funds					Totals
	Water Fund	Sewer Fund	Liquor Fund	Electric Fund	Solid Waste Fund	
ASSETS						
Current assets						
Cash and cash equivalents	\$ 438,114	\$ 330,772	\$ 270,440	\$ 984,610	\$ 7,656	\$ 2,031,592
Investments	-	-	-	408,883	-	408,883
TOTAL ASSETS	438,114	330,772	270,440	1,393,493	7,656	2,440,475
NET POSITION						
Unrestricted	438,114	330,772	270,440	1,393,493	7,656	2,440,475
TOTAL NET POSITION	\$ 438,114	\$ 330,772	\$ 270,440	\$ 1,393,493	\$ 7,656	\$ 2,440,475

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

CITY OF MCLAUGHLIN
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Enterprise Funds					Totals
	Water Fund	Sewer Fund	Liquor Fund	Electric Fund	Solid Waste Fund	
OPERATING REVENUE						
Charges for goods and services	\$ 177,594	\$ 129,471	\$ 639,149	\$ 670,895	\$ 131,775	\$ 1,748,884
Miscellaneous	-	-	1,707	-	-	1,707
Total operating revenue	<u>177,594</u>	<u>129,471</u>	<u>640,856</u>	<u>670,895</u>	<u>131,775</u>	<u>1,750,591</u>
OPERATING EXPENSES						
Personal services	51,314	51,816	96,275	45,668	-	245,073
Other current expense	26,250	26,327	11,060	34,465	6,576	104,678
Materials	-	-	446,913	252,691	119,592	819,196
Capital assets	-	-	-	210,919	-	210,919
Total operating expenses	<u>77,564</u>	<u>78,143</u>	<u>554,248</u>	<u>543,743</u>	<u>126,168</u>	<u>1,379,866</u>
Operating income (loss)	<u>100,030</u>	<u>51,328</u>	<u>86,608</u>	<u>127,152</u>	<u>5,607</u>	<u>370,725</u>
NONOPERATING REVENUES (EXPENSES)						
Investment earnings	-	-	-	384	-	384
Debt service (principal)	(36,416)	(24,098)	-	-	-	(60,514)
Interest expense and fiscal charges	(21,054)	(24,035)	-	-	-	(45,089)
Total nonoperating revenues (expenses)	<u>(57,470)</u>	<u>(48,133)</u>	<u>-</u>	<u>384</u>	<u>-</u>	<u>(105,219)</u>
Income (Loss) before contributions, special items, extraordinary items and transfers	<u>42,560</u>	<u>3,195</u>	<u>86,608</u>	<u>127,536</u>	<u>5,607</u>	<u>265,506</u>
CHANGE IN NET POSITION	<u>42,560</u>	<u>3,195</u>	<u>86,608</u>	<u>127,536</u>	<u>5,607</u>	<u>265,506</u>
NET POSITION - BEGINNING	<u>395,554</u>	<u>327,577</u>	<u>183,832</u>	<u>1,265,957</u>	<u>2,049</u>	<u>2,174,969</u>
NET POSITION - ENDING	<u>\$ 438,114</u>	<u>\$ 330,772</u>	<u>\$ 270,440</u>	<u>\$ 1,393,493</u>	<u>\$ 7,656</u>	<u>\$ 2,440,475</u>

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

CITY OF MCLAUGHLIN
NOTES TO MODIFIED CASH BASIS FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2022
(See Independent Auditors' Report)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Financial Reporting Entity

The reporting entity of the City of McLaughlin (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 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.

The City participates in a cooperative unit with six other cities. See detailed note entitled "Joint Ventures" for specific disclosures. Joint ventures do not meet the criteria for inclusion in the financial reporting entity as a component unit, but are discussed in these notes because of the nature of their relationship with the City.

b. Basis of Presentation

Government-wide Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the City and for each function of the City's governmental activities. Direct expenses and those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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(See Independent Auditors' Report)

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:

- a. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and;
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least five percent of the corresponding total for all governmental and enterprise funds combined, or;
- c. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the City financial reporting entity are described below within their respective fund types:

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 a major fund.

Proprietary Funds

Enterprise Funds - Enterprise funds may be used to report any activity for which a fee is charged to external users for goods 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.

- a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
- b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.

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

c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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

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

Liquor Fund - financed primarily by user charges this fund accounts for the operation of an on sale and/or off sale City liquor store. (SDCL 35-3-21) This is a major fund.

Electric Fund - financed primarily by user charges this fund accounts for the construction and operation of the City electrical system and related facilities. (SDCL 9-39-1) 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. (SDCL 9-32-11) This is a major fund.

c. Measurement Focus and Basis of Accounting

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

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

Measurement Focus

Government-wide Financial Statements

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

Fund Financial Statements

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

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(See Independent Auditors' Report)

Basis of Accounting

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

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

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

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

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

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

d. Deposits and Investments

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

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

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

e. Long-Term Liabilities

Long-term liabilities include, but are not limited to Revenue Bonds. As discussed in Note 1c. above the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental and business-type activities are presented using a modified cash basis of accounting. The City has not elected to modify their cash basis presentation by recording long-term debt arising from cash transactions so any outstanding indebtedness is not reported on the financial statements of the City. The City does report the principal and interest payments on long-term debt as Debt Service expenditures on the Statement of Revenues, Expenditures and Changes in Net Position. The City has presented as Supplementary Information a Schedule of Changes in Long-Term Debt along with related notes that include details of any outstanding Long-Term Debt.

f. Program Revenues

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

a: 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.

b: 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.

c: Program-specific capital grants and contributions - These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Proprietary Funds Revenue and Expense Classifications

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

h. Cash and Cash Equivalents

The 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.

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

i. Equity Classifications

Government-wide Financial Statements

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

a: Restricted Net Position - Consists of net position with constraints placed on their use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

Fund Financial Statements

Governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned", and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Position

It is the City's policy to first use restricted Net Position, prior to the use of unrestricted Net Position, when an expense is incurred for purposes for which both restricted and unrestricted Net Position are available.

k. Fund Balance Classification and Policies and Procedures

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

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

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

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

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

Unassigned - includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

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(See Independent Auditors' Report)

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

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

NOTE 2 - DEPOSITS AND INVESTMENTS CREDIT RISK AND INTEREST RATE RISK

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

Deposits - The City's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 9-22-6, 9-22-6.1 and 9-22-6.2 and may be in the form of demand or time deposits. Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by federal home loan banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments - In general, SDCL 4-5-6 permits 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 physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

As of December 31, 2022, the City did not have any investments. The investments reported in the financial statements consist of only certificates of deposit.

Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

Custodial Credit Risk - The risk that, in the even of a depository failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. As of December 31, 2022, none of the City's deposits were exposed to custodial credit risk.

Concentration of Credit Risk - The City places no limit on the amount that may be invested in any one issuer. All of the City's investments are in certificates of deposit with First National Bank of McLaughlin.

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

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

NOTE 3 - PROPERTY TAXES

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

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

NOTE 4 - PENSION PLAN

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 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 survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at <http://sdrs.sd.gov/publications.aspx> or by writing to the SDRS, PO Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:

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

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

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

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

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

Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to long-term inflation assumption of 2.25%.

If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%

If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

Legislation enacted in 2021 reduced the minimum COLA from 0.5 percent to 0.0 percent.

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

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, 2022, 2021, and 2020 were \$18,345, \$18,814 and \$19,412 respectively, equal to the required contributions each year.

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

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

At June 30, 2022, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate share of the components of the net pension asset of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2022, and reported by the City as of December 31, 2022 are as follows:

Proportionate share of pension liability	\$ 1,858,029
Less proportionate share of net pension restricted for pension benefits	\$ 1,859,273
Proportionate share of net pension asset	<u>\$ (1,244)</u>

The net pension asset was measured as of June 30, 2022 and the total pension asset used to calculate the net pension asset was based on a projection of the City's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2022, the City's proportion was 0.0131620%, which is a decrease of 0.0011010% from its proportion measured as of June 30, 2021.

Actuarial Assumptions:

The total pension asset in the June 30, 2022 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.5% net of plan investment expense. This is composed of an average inflation of 2.50% and real returns of 4.00%
Futures COLAs	2.15%

Mortality Rates:

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

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: PubT-2010

Other Class A Members: PubG-2010

Public Safety Members: PubG-2010

Retired Members:

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

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

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

Beneficiaries:

PubG-2010 contingent survivor mortality table

Disabled members:

Public Safety: PubS-2010 disabled member mortality table

Others: PubG-2010 disabled member mortality table

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

The actuarial assumptions used in the June 30, 2022 valuation were based on the results of an actuarial experience study for the period of July 1, 2016, to June 30, 2021.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2022 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.00%	3.70%
Fixed Income	30.00%	1.10%
Real Estate	10.00%	2.60%
Cash	2.00%	0.40%
Total	100.00%	2.70%

Discount Rate:

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

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

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

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
City's proportionate share of the net pension liability (asset)	\$ 258,283	\$ (1,244)	\$ (213,346)

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(See Independent Auditors' Report)

Pension Plan Fiduciary Net Position:

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

NOTE 6 - JOINT VENTURES

The City participates in a joint venture known as Northwest South Dakota Regional Landfill Association formed for the purpose of providing landfill services to surrounding communities.

The members of the joint venture and their respective percentage of participation are as follows:

City of Bison	14.3%
City of Buffalo	14.3%
City of Isabel	14.3%
City of McIntosh	14.3%
City of McLaughlin	14.3%
City of Newell	14.3%
City of Lemmon	14.2%

The joint venture's governing board is composed of seven representatives, who are board members. The board is responsible for adopting the budget and setting service fees at a level adequate to fund the adopted budget. The City retains no equity in the net position of the joint venture, but does have a responsibility to fund deficits of the joint venture in proportion to the respective participation described above. Separate financial statements for this joint venture are available from Northwest South Dakota Regional Landfill Association.

At December 31, 2022, this joint venture had total assets of \$1,720,505, total liabilities of \$322,575, and total net position of \$1,397,930.

NOTE 7 - 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, 2022, the City managed its risks as follows:

Employee Health Insurance

The City joined the South Dakota Municipal League Health Pool of South Dakota. This is a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays a monthly premium to the pool to provide health insurance coverage for its employees. The pool purchases reinsurance coverage with the premiums it receives from the members. The coverage includes a \$2,000,000 lifetime maximum payment per person.

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

Liability Insurance

The City joined the South Dakota Public Assurance Alliance (SDPAA), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the SDPAA is to administer and provide risk management services and risk sharing facilities to the members and to defend and protect the members against liability, to advise members on loss control guidelines and procedures, and provide them with risk management services, loss control and risk reduction information and to obtain lower costs for that coverage. The City's responsibility is to promptly report to and cooperate with the SDPAA to resolve any incident which could result in a claim being made by or against the City. The City pays a Members' Annual Operating Contribution, to provide liability coverage detailed below, under a claims-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 automobile liability, legal liability, property coverage and boiler and machinery coverage.

Effective October 5, 2021, the SDPAA adopted a new policy on member departures. Departing members will no longer be eligible for any partial refund of the calculated portion of their contributions which was previously allowed. The prior policy provided the departing member with such a partial refund because the departing member took sole responsibility for all claims and claims expenses whether reported or unreported at the time of their departure from the SDPAA. With such partial refund being no longer available, the SDPAA will now assume responsibility for all reported claims of a departing member pursuant to the revised IGC.

The City carries a \$0 deductible for the legal liability, automobile liability, property coverage, and boiler and machinery coverage.

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

Workmen'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.

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The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have never exceeded the liability coverage.

Unemployment Benefits

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

NOTE 9 - LITIGATION

At December 31, 2022 the City was not involved in any litigation.

NOTE 10 - SUBSEQUENT EVENTS

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

SUPPLEMENTARY INFORMATION

CITY OF MCLAUGHLIN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
REVENUES				
Taxes				
General property tax	\$ 172,530	\$ 172,530	\$ 178,111	\$ 5,581
General sales and use tax	260,000	260,000	330,922	70,922
Penalties and interest on delinquent taxes	500	500	1,433	933
Licenses and permits	85	85	70	(15)
Intergovernmental revenue				
Federal grants (Airport)	15,000	15,000	68,930	53,930
State grants (Airport)	135,000	135,000	-	(135,000)
State shared revenue				
Bank franchise tax	2,500	2,500	1,478	(1,022)
Motor vehicle commercial prorate	4,380	4,380	5,171	791
Liquor tax reversion	4,400	4,400	3,988	(412)
Motor vehicle licenses (5%)	12,100	12,100	12,765	665
Local government highway and bridge fund	23,600	23,600	25,099	1,499
County shared revenue				
County road tax (25%)	1,938	1,938	1,938	-
Charges for goods and services				
General government	7,150	7,150	2,299	(4,851)
Highways and streets	800	800	-	(800)
Sanitation	650	650	1,197	547
Miscellaneous revenue				
Investment earnings	5,000	5,000	3,205	(1,795)
Rentals	14,364	14,364	8,550	(5,814)
Other	-	-	7,500	7,500
Total revenue	\$ 659,997	\$ 659,997	\$ 652,656	\$ (7,341)

CITY OF MCLAUGHLIN
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2022

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
EXPENDITURES				
General government				
Legislative	\$ 27,200	\$ 27,200	\$ 25,332	\$ 1,868
Contingency	48,000	48,000	-	-
Amount transferred	-	-	-	48,000
Financial administration	170,000	170,000	214,861	(44,861)
Other	80,050	80,050	65,634	14,416
Public safety				
Police	93,965	93,965	86,408	7,557
Fire	7,500	7,500	678	6,822
Public works				
Highways and streets	90,120	90,120	123,296	(33,176)
Sanitation	750	750	186	564
Airport	104,865	104,865	26,938	77,927
Culture and recreation				
Recreation	280	280	-	280
Parks	7,350	7,350	1,299	6,051
Libraries	3,120	3,120	6,107	(2,987)
Auditorium	20,435	20,435	14,022	6,413
Conservation and development				
Economic development and assistance (industrial development)	2,000	2,000	1,000	1,000
Total Expenditures	655,635	655,635	565,761	89,874
Excess revenue over/under expenditures	4,362	4,362	86,895	82,533
Other financing sources/(uses)				
Compensation for loss of assets	-	-	5,241	(5,241)
Total other financing sources (uses)	-	-	5,241	(5,241)
Net change in fund balances	4,362	4,362	92,136	87,774
Fund balance - beginning	297,617	297,617	297,617	-
Fund balance - ending	\$ 301,979	\$ 301,979	\$ 389,753	\$ 87,774

CITY OF MCLAUGHLIN
NOTES TO SUPPLEMENTARY INFORMATION
SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2022

NOTE 1 - BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

The City did not encumber any amounts at December 31, 2022.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and major special revenue funds.

CITY OF MCLAUGHLIN

NOTES TO SUPPLEMENTARY INFORMATION - Page 2

**SCHEDULES OF BUDGETARY COMPARISONS FOR THE GENERAL FUND AND FOR EACH
MAJOR SPECIAL REVENUE FUND WITH A LEGALLY REQUIRED BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2022**

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

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

CITY OF MCLAUGHLIN
SCHEDULE OF CHANGES IN LONG-TERM DEBT
YEAR ENDED DECEMBER 31, 2022

Indebtedness	Long-Term Debt 01/01/2022	Add New Debt	Less Debt Retired	Long-Term Debt 12/31/2022
GOVERNMENTAL LONG-TERM DEBT:				
* Other Long Term Liabilities	\$ -	\$ 80,650	\$ -	\$ 80,650
ENTERPRISE LONG-TERM DEBT:				
Revenue Bonds	1,699,271	-	60,514	1,638,757
TOTAL	\$ 1,699,271	\$ 80,650	\$ 60,514	\$ 1,719,407

* Note: This debt incurred was a noncash transaction from financing a piece of equipment.

CITY OF MC LAUGHLIN
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY (ASSET)
SOUTH DAKOTA RETIREMENT SYSTEM

	2022	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.013162000%	0.014263000%	0.014937500%	0.016198400%	0.015985200%	0.015223000%	0.016203100%	0.016121500%
District's proportionate share of the net pension liability (asset)	\$ (1,244)	\$ (109,230)	\$ (649)	\$ (1,717)	\$ (373)	\$ (1,382)	\$ 54,732	\$ (68,376)
District's covered-employee payroll	\$ 314,291	\$ 323,670	\$ 327,834	\$ 344,412	\$ 332,315	\$ 307,988	\$ 308,362	\$ 294,334
District's proportionate share of the net pension asset as a percentage of it's covered-employee payroll	-0.40%	-33.75%	-0.20%	-0.50%	-0.11%	-0.45%	17.75%	-23.23%
Plan fiduciary net position as a percentage of the total pension asset	100.10%	105.53%	100.04%	100.09%	100.02%	100.10%	96.89%	104.10%

*The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension asset which is 6/30 of previous fiscal year. Until a full 10-year trend is compiled, the City will present information for those years for which information is available.

**CITY OF MCLAUGHLIN
NOTES TO SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2022
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)**

Changes from Prior Valuation:

The June 30, 2022 Actuarial Valuation reflects numerous changes in actuarial assumptions as a result of an experience analysis completed since the June 30, 2021 Actuarial Valuation. In addition, two change in actuarial assumptions and two plan provision changes are reflected and described below.

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

Benefit Provision Changes:

During the 2022 Legislative Session no significant SDRS benefit changes were made and gaming enforcement agents became Class B Public Safety Members.

Actuarial Assumption Changes:

As a result of an experience analysis covering the period from July 1, 2016, to June 30, 2021, and presented to the SDRS Board of Trustees in April and June 2022, significant changes to the actuarial assumptions were recommended by the SDRS Senior Actuary and adopted by the Board of Trustees first effective for this June 30, 2022, actuarial valuation.

The changes to economic assumptions included increasing the price inflation to 2.50% and increasing the wage inflation to 3.15%. The current assumed investment return assumption of 6.50% was retained, lowering the assumed real investment return to 4.00%. The baseline COLA assumption of 2.25% was also retained. Salary increase assumptions were modified to reflect the increase in assumed wage inflation and recent experience. The assumed interest on accumulated contributions was decreased to 2.25%

The demographic assumptions were also reviewed and revised. The mortality assumption was changed to the Pub-2010 amount-weighted tables using separate tables for teachers, general, and public safety retirees, with assumptions for retirees adjusted based on credible experience. The mortality assumption for active and terminated vested members was changed to the unadjusted amount-weighted Pub-2010 tables, again by member classification and the assumption for beneficiaries was changed to the amount-weighted Pub-2010 general contingent survivor table. Adjustments based on experience were also made to the assumptions regarding retirement, termination, disability, age of spouses for married Foundation members, percentage of terminated vested members electing a refund, and benefit commencement age for terminated vested Public Safety members with 15 or more years of service.

CITY OF MCLAUGHLIN
NOTES TO SUPPLEMENTARY INFORMATION - Page 2
FOR THE YEAR ENDED DECEMBER 31, 2022
SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)

The SDRS COLA equals the percentage increase in the most recent third calendar quarter CPI-W over the prior year, no less than 0% (0.5% prior to 2021) and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2021, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was greater than 100% and the full 0% to 3.5% COLA range was payable. For the June 30, 2021, Actuarial Valuation, future COLAs were assumed to equal the baseline COLA assumption of 2.25%.

As of June 30, 2022, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is less than 100% and the July 2023 SDRS COLA is limited to a restricted maximum of 2.10%. The July 2023 SDRS COLA will equal inflation, between 0% and 2.10%. For this June 30, 2022, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 2.10%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended 7 changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial Valuation.

Actuarial Method Changes:

Actuarial method changes with minor impact were implemented for this valuation after recommendation by Cavanaugh Macdonald Consulting as part of their reviews of prior valuations. As a result, liabilities and normal costs for refund benefits and the Generational Variable Retirement Account are now calculated using the entry age normal cost method with normal costs based on the expected value of these accounts rather than the actual balance.