CITY OF MCLAUGHLIN

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

KETEL THORSTENSON
CPAs · ADVISORS

CITY OF MCLAUGHLIN

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INDEPENDENT AUDITOR'S REPORT

City Council
City of McLaughlin
McLaughlin, South Dakota

Report on the Financial Statements

Qualified Opinions
We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of McLaughlin (the City), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, except for the possible effects of the matter discussed in the Basis for Qualified Opinions section of our report, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, and each major fund of the City, as of December 31, 2025, and the changes in financial position thereof for the year then ended in accordance with the modified cash basis of accounting.

Basis for Qualified 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 qualified audit opinions.

Matter Giving Rise to Qualified Opinions
We were unable to obtain sufficient appropriate audit evidence of the cash and investment balances of the governmental activities, the business-type activities, and each major fund as of January 1, 2024. Since beginning balances enter into the determination of the changes in modified cash-basis financial position for the year ended December 31, 2024, we were unable to determine whether any adjustments are necessary to the changes in modified cash-basis financial position reported in the accompanying modified cash-basis financial statements. The effects of this matter cannot be quantified.

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; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation 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 a 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.

Report on Other Legal and Regulatory Requirements
In accordance with *Government Auditing Standards*, we have also issued our report dated September 2, 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 2, 2026

CITY OF MCLAUGHLIN

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

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and Cash Equivalents	$ 462,890	$ 2,265,581	$ 2,728,471
Certificates of Deposit	18,812	417,847	436,659
TOTAL ASSETS	$ 481,702	$ 2,683,428	$ 3,165,130
Net Position			
Unrestricted	$ 481,702	$ 2,683,428	$ 3,165,130
TOTAL NET POSITION	$ 481,702	$ 2,683,428	$ 3,165,130

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

		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	$ 251,375	$ 7,525	$ -	$ -	$ (243,850)	$ -	$ (243,850)
Public Safety	85,885	-	-	-	(85,885)	-	(85,885)
Public Works	126,594	-	60,243	33,427	(32,924)	-	(32,924)
Culture and Recreation	22,762	-	-	-	(22,762)	-	(22,762)
Total Governmental Activities	486,616	7,525	60,243	33,427	(385,421)	-	(385,421)
Business-Type Activities:							
Liquor	399,949	367,500	-	-	-	(32,449)	(32,449)
Water	345,062	192,192	-	-	-	(152,870)	(152,870)
Electric	553,129	601,109	-	-	-	47,980	47,980
Sewer	170,185	129,420	-	-	-	(40,765)	(40,765)
Solid Waste	139,504	125,820	-	-	-	(13,684)	(13,684)
Total Business-Type Activities	1,607,829	1,416,041	-	-	-	(191,788)	(191,788)
Total Primary Government	$ 2,094,445	$ 1,423,566	$ 60,243	$ 33,427	(385,421)	(191,788)	(577,209)
General Revenues:							
Taxes:							
Property Taxes					183,619	-	183,619
Sales Taxes					250,737	-	250,737
State Shared Revenues					10,030	-	10,030
Unrestricted Investment Earnings					21,887	-	21,887
Debt Proceeds					-	92,250	92,250
Micellaneous Revenue					17,950	-	17,950
Total General Revenues					484,223	92,250	576,473
Change in Net Position					98,802	(99,538)	(736)
Net Position - December 31, 2023					382,900	2,782,966	3,165,866
Net Position - December 31, 2024					$ 481,702	$ 2,683,428	$ 3,165,130

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

BALANCE SHEET
GOVERNMENTAL FUND - MODIFIED CASH BASIS
DECEMBER 31, 2024

		General Fund	Totals Governmental Funds
Assets			
101	Cash and Cash Equivalents	$ 462,890	$ 462,890
110	Certificates of Deposit	18,812	18,812
TOTAL ASSETS		$ 481,702	$ 481,702
Fund Balance			
267	Unassigned	$ 481,702	$ 481,702
Total Fund Balance		481,702	481,702
TOTAL FUND BALANCE		$ 481,702	$ 481,702

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

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

		General Fund	Total Governmental Funds
Revenue:			
	Taxes:		
311	General Property Taxes	$ 183,087	$ 183,087
313	General Sales and Use Taxes	250,737	250,737
319	Penalties and Interest on Delinquent Taxes	532	532
320	Licenses and Permits	80	80
	Intergovernmental Revenue:		
331	Federal Grant	60,243	60,243
	State Shared Revenue:		
335.01	Bank Franchise Tax	6,138	6,138
335.03	Liquor Tax Reversion	3,892	3,892
335.04	Motor Vehicle Licenses (5%)	7,526	7,526
335.08	Local Government Highway and Bridge Fund	25,901	25,901
339	Other Intergovernmental Revenue	2,138	2,138
	Charges for Goods and Services:		
341	General Government	7,445	7,445
	Miscellaneous Revenue:		
361	Earnings on Deposits and Investments	21,887	21,887
369	Other	15,812	15,812
Total Revenue		585,418	585,418

CITY OF MCLAUGHLIN

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

		General Fund	Total Governmental Funds
Expenditures:			
	General Government:		
411	Legislative	25,227	25,227
414	Financial Administration	214,195	214,195
419	Other	11,953	11,953
	Public Safety:		
421	Police	84,561	84,561
422	Fire	1,324	1,324
	Public Works:		
431	Highway and Streets	61,020	61,020
435	Airport	35,012	35,012
	Health and Welfare:		
443	Mental Health Centers	1,500	1,500
	Culture and Recreation:		
452	Parks	1,868	1,868
456	Auditorium	19,394	19,394
470	Debt Service	30,562	30,562
Total Expenditures		486,616	486,616
Net Change in Fund Balance		98,802	98,802
Fund Balance, December 31, 2023		382,900	382,900
Fund Balance, December 31, 2024		$ 481,702	$ 481,702

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

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

		Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Totals
Assets							
101	Cash and Cash Equivalents	$ 317,727	$ 329,336	$ 1,239,750	$ 338,335	$ 40,433	$ 2,265,581
110	Certificates of Deposit	-	-	417,847	-	-	417,847
TOTAL ASSETS		$ 317,727	$ 329,336	$ 1,657,597	$ 338,335	$ 40,433	$ 2,683,428
Net Position							
253.9	Unrestricted Net Position	$ 317,727	$ 329,336	$ 1,657,597	$ 338,335	$ 40,433	$ 2,683,428
TOTAL NET POSITION		$ 317,727	$ 329,336	$ 1,657,597	$ 338,335	$ 40,433	$ 2,683,428

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS - MODIFIED CASH BASIS
FOR THE YEAR ENDED DECEMBER 31, 2024

		Liquor Fund	Water Fund	Electric Fund	Sewer Fund	Solid Waste Fund	Totals
Operating Revenue:							
380	Charges for Goods and Services	$ 367,500	$ 192,192	$ 601,109	$ 129,420	$ 125,820	$ 1,416,041
Operating Expenses:							
480	Personal Services	92,150	62,813	183,871	84,149	323	423,306
480.5	Other Current Expense	33,963	213,980	61,181	37,903	6,651	353,678
426.2	Materials (Cost of Goods Sold)	273,836	10,799	308,077	-	132,530	725,242
Total Operating Expenses		399,949	287,592	553,129	122,052	139,504	1,502,226
Operating Income (Loss)		(32,449)	(95,400)	47,980	7,368	(13,684)	(86,185)
Nonoperating Revenue (Expense):							
332	Debt Proceeds	-	92,250	-	-	-	92,250
470	Debt Service	-	(57,470)	-	(48,133)	-	(105,603)
Total Nonoperating Revenue (Expense)		-	34,780	-	(48,133)	-	(13,353)
Income (Loss) before Transfers		(32,449)	(60,620)	47,980	(40,765)	(13,684)	(99,538)
391.01	Transfers In	-	-	-	-	100,000	100,000
490.00	Transfers Out	-	-	(100,000)	-	-	(100,000)
Change in Net Position		(32,449)	(60,620)	(52,020)	(40,765)	86,316	(99,538)
Net Position - December 31, 2023		350,176	389,956	1,709,617	379,100	(45,883)	2,782,966
NET POSITION - DECEMBER 31, 2024		$ 317,727	$ 329,336	$ 1,657,597	$ 338,335	$ 40,433	$ 2,683,428

The accompanying notes are an integral part of this statement.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

As discussed further below, 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.

Reporting Entity

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

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. 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 two major categories: governmental and proprietary. An emphasis is placed on major funds within the governmental and proprietary categories.

A fund is considered major if it is the primary operating fund of the City or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 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 MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Basis of Presentation

Fund Financial Statements:

The funds of the City 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.

Proprietary Funds:

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

Proprietary Funds include:

Liquor Fund – Financed primarily by the sale of liquor; this fund accounts for the operation of the City liquor store. This is a major fund.

Water Fund – Financed primarily by user charges; this fund accounts for the construction, capital improvements, and operation of the City waterworks system and related facilities (SDCL 9-47-1). This fund 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 (SDCL 9-39-1). This is a major fund.

Sewer Fund – Financed primarily by user charges; this fund accounts for the construction and operation of the City's 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 the City's solid waste (SDCL 9-32-11 and 34A-6). This is a major 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.

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.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Measurement Focus and Basis of Accounting

Fund Financial Statements:

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

Basis of Accounting:

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

The acceptable modification to the cash basis of accounting implemented by the City in these financial statements is recording of investments arising from cash transactions.

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.

Capital Assets

Capital assets include land, buildings, improvements other than buildings, furnishings and equipment, construction/development in progress, infrastructure, intangible lease assets, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

As discussed in Note 1 above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording capital assets arising from cash transactions and depreciating/amortizing those assets where appropriate, so any capital assets owned by the City and the related depreciation/amortization are not reported on the financial statements of the City.

Long-Term Liabilities

Long-term liabilities include but are not limited to revenue bonds and a financed purchase.

As discussed in Note 1 above, the government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the modified cash basis of accounting. The City has not elected to modify its cash basis presentation by recording long-term debt or long-term liabilities arising from cash transactions, so any outstanding long-term debt or long-term liabilities are not reported on the financial statements of the City. The City reports the principal and interest payments on long-term debt as Debt Service expenditures.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

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 as operating or non-operating revenues and expenses. Operating revenues and expenses directly relate to the purpose of the fund.

Cash and Cash Equivalents

The City pools the cash resources of its funds for cash management purposes. The 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.

Equity Classifications

Government-wide Financial Statements:

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

1. 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.

2. Unrestricted Net Position – All other net position that do not meet the definition of restricted.

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.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Equity Classifications

Fund Financial Statements:

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.

4. Assigned – Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted nor committed. Fund balance may be assigned by the City Council, Mayor, or Finance Officer.

5. Unassigned – Includes positive and negative fund balance within the General Fund which has not been classified within the above-mentioned categories.

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

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

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

Emerging Accounting Standards

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

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

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(1) Summary of Significant Accounting Policies

Emerging Accounting Standards

In December 2025, the Governmental Accounting Standards Board (GASB) issued Statement No. 105, *Subsequent Events,* which clarifies the subsequent events period 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 2, 2026, the date on 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 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 duly 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.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of December 31, 2024, the City did not have any investments measured at fair value. The investments reported in the financial statements consist of only nonnegotiable certificates of deposit reported at cost plus interest.

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.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(2) Deposits and Investments

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:
The risk that, in the event of a depository failure, the City's deposits may not be returned to it. The City has a policy to follow state law depository requirements. The bank balances at December 31, 2024, are as follows:

	Bank Balance
Insured - FDIC	$ 250,000
Uninsured, collateralized in accordance with SDCL 4-6A-3	2,973,045
Total Deposits	$ 3,223,045

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

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

(3) Property Taxes

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments before April 30 and October 31 of the following year. The county bills and collects the taxes and remits them to the City. 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.

(4) Long-Term Debt

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

	Balance 12/31/2023	Additions	Repayments	Balance 12/31/2024	Due Within One Year
Primary Government:					
Governmental Activities:					
Financed Purchase	$ 56,415	$ -	$ 27,451	$ 28,964	$ 28,964
Total Governmental Activities	56,415	-	27,451	28,964	28,964
Business-Type Activities:					
Drinking Water SRF #1	177,930	-	12,285	165,645	12,595
Drinking Water SRF #2	675,810	-	25,863	649,947	26,450
Drinking Water SRF #3	-	92,250	53,505	38,745	6,418
Clean Water SRF #1	724,416		24,891	699,525	25,710
Total Business-Type Activities	1,578,156	92,250	116,544	1,553,862	71,173
Total Primary Government	$ 1,634,571	$ 92,250	$ 143,995	$ 1,582,826	$ 100,137

During the year ended December 31, 2024, the City received principal forgiveness of $53,505 on Drinking Water SRF #3. Interest cost paid and charged to debt service expense in the current period totaled $45,675.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(4) Long-Term Debt

Long-term debt at December 31, 2024, is comprised of the following:

Financed Purchase Loan	
John Deere - 2020 Front Loader, matures June 2025, interest at 5.38 percent, due in annual installments of $30,562. Financed through the General Fund.	$ 28,964
Revenue Bonds	
Drinking Water SRF #1, matures April 2036, interest at 2.50 percent, due in quarterly installments of $4,155. Financed through the Water Fund.	165,645
Drinking Water SRF #2, matures July 2044, interest at 2.25 percent, due in quarterly installments of $10,213. Financed through the Water Fund.	649,947
Drinking Water SRF #3, matures May 2028, interest at 0.00 percent, due in quarterly installments of $3,209. Financed through the Water Fund.	38,745
Clean Water SRF #1, matures July 2044, interest at 3.25 percent, due in quarterly installments of $12,033. Financed through the Sewer Fund.	699,525
Total Long-Term Debt	$ 1,582,826

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

	Revenue Bonds		Financed Purchase		**Total**	
	Interest	Principal	Interest	Principal	**Interest**	**Principal**
2025	$ 40,849	$ 71,173	$ 1,597	$ 28,964	$ 42,446	$ 100,137
2026	39,085	79,353	-	-	39,085	79,353
2027	37,272	81,166	-	-	37,272	81,166
2028	35,408	76,852	-	-	35,408	76,852
2029	33,491	72,112	-	-	33,491	72,112
2030-2034	136,767	391,245	-	-	136,767	391,245
2035-2039	82,498	387,351	-	-	82,498	387,351
2040-2044	28,063	394,610	-	-	28,063	394,610
Total	$ 433,433	$ 1,553,862	$ 1,597	$ 28,964	$ 435,030	$ 1,582,826

Business-type Activities

The City has pledged future revenues of the Water and Sewer Funds for the retirement of debt issues associated with those funds through the maturity dates listed above. All debt secured by pledged revenues funded 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.

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

	Water Fund	Sewer Fund
Current Year Principal and Interest	$ 57,470	$ 48,133
Pledged Revenue	192,192	129,420

The City is required to comply with various debt covenants on both SRF Drinking Water and Clean Water debt. At December 31, 2024, the City was not in compliance with the debt coverage ratio requirement for the debt, and a formal waiver has not been obtained. The applicable state agency is aware of the deficiency and does not intend to call the debt due before its original maturity date. As such, balances are reported based on original agreements.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(5) Retirement Plan – South Dakota Retirement System

All employees, working more than 20 hours per week during the year, participate in the 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 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://www.sdrs.sd.gov/publications/ or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

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

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

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% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
    - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater 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 COLA.

(5) Retirement Plan – South Dakota Retirement System

Contributions:
Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to contribute an amount equal to the employee's contribution. The City's share of contributions to the SDRS for the fiscal years ended December 31, 2024, 2023, and 2022 were $20,280, $17,848, and $18,345, respectively, equal to the required contributions each year.

Under GAAP, the City is required to record its share of the SDRS net pension asset or liability, related deferred balances and its share of net pension revenue or expense rather than recording the City's required retirement contributions, noted above. As of June 30, 2024, SDRS is 100.0 percent funded and accordingly has a net pension asset. The City's share of the net pension asset at June 30, 2024, was .012048 percent. Based on the modified cash basis reporting, the City does not record this pension activity.

(6) 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 period ended December 31, 2024, 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 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 general liability, vehicle coverage, wrongful acts, and errors and omissions of public officials.

The City carries a $0 deductible for 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.

CITY OF MCLAUGHLIN

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2024

(6) Risk Management

Worker's Compensation:
The City joined the South Dakota Municipal League Worker's Compensation Fund (the 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 Fund pays the first $650,000 of any claim per individual. The Fund has reinsurance, which covers up to statutory limits in addition to a separate combined employer liability limit of $2,000,000 per incident. The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

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 over the past three years.

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

(7) Interfund Transfers

Fund	Transfers In	Transfers Out
Electric Fund	$ -	$ 100,000
Solid Waste Fund	100,000	-
Total Transfers	$ 100,000	$ 100,000

The transfer in 2024 was made to cover cash deficits in the Solid Waste Fund.

OTHER REPORTS

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

City Council
City of McLaughlin
McLaughlin, 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 modified cash basis financial statements of the governmental activities, the business-type activities, and each major fund of the City of McLaughlin (the City) as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated September 2, 2026. Our report was modified as we were unable to obtain sufficient appropriate audit evidence regarding beginning balances of the governmental activities, business-type activities, and each major fund as of January 1, 2024.

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 #2024-001 through #2024-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings as #2024-004 to be a significant deficiency.

Report on Compliance and Other Matters
As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is 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 and described in the accompanying Schedule of Findings. The City's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. 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 2, 2026

CITY OF MCLAUGHLIN

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Material Weaknesses

#2024-001 FINDING: Preparation of Financial Statements

Condition and Cause: As a matter of practicality and efficiency, we have assisted in drafting the modified-cash basis financial statements, in both form and context, 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 in accordance with the applicable financial reporting framework. The auditor's responsibility for the financial statements is to express an opinion on them based on the audit evidence obtained.

Repeat Finding from Prior Year: Yes, 2023-001.

Recommendation: Management and, if applicable, governance should review the financial statements 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.

Views of Responsible Officials: See City's Corrective Action Plan.

#2024-002 FINDING: Segregation of Duties

Condition and Cause: The City has a general lack of segregation of duties in the finance office surrounding the cash receipt and disbursement process.

Criteria and Effect: Authorization, recording, and custody of assets should be segregated to reduce the risk of misstatement, misappropriation, or other irregularities going undetected.

Repeat Finding from Prior Year: Yes, 2023-002.

Recommendation: As staffing in the finance office is limited, we recommend hiring additional personnel or include a member of governance to provide oversight of transactions. Specific areas lacking proper segregation of duties are:

- Bank reconciliations should be performed monthly. A detailed review should be performed by an individual other than the preparer including outstanding items and agreement to the general ledger balances.
- Cash receipt and disbursement postings, manual journal entries, cash deposits, utility billing registers, payroll registers, and cash payments should be authorized and reviewed by someone other than the individual recording the transaction.

Views of Responsible Officials: See City's Corrective Action Plan.

#2024-003 FINDING: Scope Limitations

Condition and Cause: We were not able to rely on beginning balances for the year ended December 31, 2024. The City experienced complete turnover of finance office personnel between 2024 and the timing of audit fieldwork. As a result, management did not have significant familiarity with operations and processes in place during 2024. Additionally, due to the amount of time elapsed, some documentation could not be obtained to support certain revenue and expenditure transactions.

Criteria and Effect: Governmental standards and internal control policies require all financial transactions to be supported by proper documentation to ensure accountability and compliance. When documentation is missing, it becomes difficult to verify the legitimacy of expenditures, increasing the risk of errors, fraud, or unauthorized spending. This can lead to audit findings, questioned costs, and potential financial or legal consequences.

Repeat Finding from Prior Year: Yes, 2023-003.

Recommendation: The City should maintain written or electronic accounting records for a reasonable period of time.

CITY OF MCLAUGHLIN

SCHEDULE OF FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

Significant Deficiency

#2024-004 FINDING: Noncompliance with State Laws and Regulatory Environment

Condition and Cause: The City did not comply with various state laws and filing requirements during the year ended December 31, 2024. These issues included late filing of the annual report to the Department of Legislative Audit and lack of Council approved supplemental budget amendments for expenditures exceeding annual budget appropriations.

Criteria and Effect: South Dakota Codified Law (SDCL) 9-22-21 states the City must file an annual report with the State by the last day of May. SDCL 9-21-9 requires the City to approve supplemental budget amendments so anticipated expenditures exceeding the annual appropriation ordinance.

Repeat Finding from Prior Year: Yes, 2023-004.

Recommendation: The City should ensure the Annual Report is presented to the Council for approval by the first meeting in May and submitted to DLA by May 31 each year. Additionally, the City Council should approve budget supplements for any expenditures expected to exceed annual appropriations.

Views of Responsible Officials: See City's Corrective Action Plan.

MANAGEMENT RESPONSE

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CITY OF MCLAUGHLIN

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

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

#2023-001 FINDING: Financial Statement Preparation and Audit Adjustments

Status: It is more cost effective for the City to hire 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: As the City has accepted the risk associated with the auditor's preparation of the financial statements, the finding is repeated in 2024. See Corrective Action Plan.

#2023-002 FINDING: Segregation of Duties

Status: The City has a general lack of segregation of duties in the finance office surrounding the cash receipt and disbursement process.

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: This comment is due to the expertise of staff and the size of the City of McLaughlin, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City is aware of this condition and is attempting to provide compensating controls. The finding is revised and repeated in 2024. See the Corrective Action Plan.

#2023-003 FINDING: Lack of Supporting Documentation

Status: The City experienced turnover of finance office personnel between 2024 and the completion of audit fieldwork. As a result, management did not have familiarity with operations, controls, or records for 2024. Additionally, due to a software conversion, the City no longer had access to electronic records for 2024, including a general ledger detail and other accounting records.

Initial Year Report: Originally issued in 2023.

Reasons for Recurrence and Corrective Action Plan: As the City has made efforts to ensure that all necessary accounting records are established and properly maintained and approved, the finding is repeated in 2024. See Corrective Action Plan.

#2023-004 FINDING: Noncompliance with State Laws

Status: The City did not comply with various state laws and filing requirements during the year ended December 31, 2024. These issues included late filing of the annual report to the Department of Legislative Audit and lack of Council approved supplemental budget amendments for expenditures exceeding annual budget appropriations.

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CITY OF MCLAUGHLIN

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2024

#2023-004 FINDING: Noncompliance with State Laws

Initial Year Report: Originally issued years ago.

Reasons for Recurrence and Corrective Action Plan: The City did not submit the 2024 Annual Report to DLA by the deadline. Additionally, supplemental budget amendments were not approved. As such, the finding is repeated in 2024.

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CITY OF MCLAUGHLIN

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2024

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

#2024-001 FINDING: Financial Statement Preparation

Responsible Official: Anne Larsen, Business Manager

Corrective Action Plan: The City has accepted the risk associated with Finding #2024-001 regarding the preparation of the financial statements and will continue to have the independent auditor prepare the annual financial statements.

Anticipated Completion Date: Ongoing

#2024-002 FINDING: Segregation of Duties

Responsible Official: Anne Larsen, Business Manager

Corrective Action Plan: The City will make an effort to adopt and better apply proper procedures and protocols for reconciling bank statements and the general maintenance of the City's accounting records.

Anticipated Completion Date: Ongoing

#2024-003 FINDING: Scope Limitations

Responsible Official: Anne Larsen, Business Manager

Corrective Action Plan: The City will make an effort to maintain electronic accounting records for a reasonable period of time.

Anticipated Completion Date: Ongoing

#2024-004 FINDING: Noncompliance with State Laws and Regulatory Environment

Responsible Official: Anne Larsen, Business Manager

Corrective Action Plan: The City will make an effort to ensure future annual reports are filed timely and appropriate budget supplements are approved, annually.

Anticipated Completion Date: Ongoing