

CITY OF GARY
GARY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING December 31, 2021
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
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CITY OF GARY
GARY, SOUTH DAKOTA

TABLE OF CONTENTS TO THE FINANCIAL REPORT
FOR THE ONE YEAR ENDING December 31, 2021

FINANCIAL SECTION

1 Independent Auditor's Report

Basic Financial Statements -- Modified Cash Basis:

Government-Wide Financial Statements:

- 4 Statement of Net Position as of December 31, 2021
- 5 Statement of Activities for the Year Ending December 31, 2021

Fund Financial Statements:

Governmental Funds:

- 6 Balance Sheet as of December 31, 2021
- 7 Statement of Receipts, Disbursements, and Changes in Fund Balances
for the Year Ending December 31, 2021

Enterprise Funds:

- 8 Statement of Net Position as of December 31, 2021
- 9 Statement of Receipts, Disbursements, and Changes in Net Position
for the Year Ending December 31, 2021
- 10 Statement of Cash Flow for the Year Ending December 31, 2021

11 Notes to the Financial Statements

SUPPLEMENTARY INFORMATION SECTION

Budgetary Comparison Schedule - Budgetary Basis:

- 24 General Fund for the Year Ending December 31, 2021
- 25 Notes to Supplementary Information - Budgets

Pension Schedules:

- 26 Schedule of the City's Proportional Share of Net Pension (Asset)/Liability
- 26 Schedule of the City's Contributions
- 27 Notes to Supplementary Information - Pension

GOVERNMENTAL SECTION

- 28 Report on Compliance and Other Matters and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

- 30 Schedule of Prior Audit Findings
- 30 Schedule of Current Audit Findings and Responses

NOTE: All figures shown in this financial report are in U.S. dollars.
For space considerations, the "\$" symbol is not used.

INDEPENDENT AUDIT SERVICES, PC

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Governing Board
City of Gary
Gary, South Dakota

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinions:

I have audited the accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Gary (City), Deuel County, South Dakota as of December 31, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Gary's basic financial statements as listed in the Table of Contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of governmental activities, business-type activities, and each major fund of the City of Gary, South Dakota as of December 31, 2021, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for year then ended, in accordance with the modified cash basis of accounting described in Note 1c to the financial statements.

Basis for Opinions:

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

Emphasis of Matter - Basis of Accounting

I draw attention to Note 1c 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. My opinion is not modified with respect to this matter.

Management's Responsibilities for the Financial Statements:

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

In preparing the modified cash basis of accounting financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Gary's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements:

My 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 my 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 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 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*, I:

- > 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 of Gary'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 my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City of Gary's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Other Matters - Supplementary Information (no opinion)

My audit was conducted for the purpose of forming opinions on the modified cash basis of accounting financial statements that collectively comprise the City of Gary, South Dakota basic financial statements. The accompanying budgetary comparison schedule (page 24 to 25) and pension schedules (page 26 to 27) are presented for the purpose of additional analysis and are not a required part of

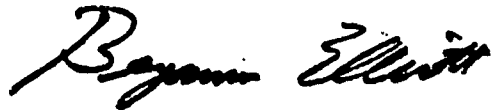
the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other record used to prepare the basic modified cash basis of accounting financial statements.

I have applied certain limited procedures to the supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic modified cash basis of accounting financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated June 23, 2023 (page 28) on my consideration of the City of Gary's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is solely to describe the scope of my 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 of Gary'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.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota
June 23, 2023



CITY OF GARY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
AS OF DECEMBER 31, 2021

	Primary Government		

	Governmental	Business-	
	Activities	Type	
	Activities	Activities	Total
	-----	-----	-----
ASSETS:			
Change cash	125	3,000	3,125
Lottery cash		25,000	25,000
Checking	569,879	372,023	941,902
Certificates of deposit	218,324		218,324
	-----	-----	-----
Total assets	788,328	400,023	1,188,351
	=====	=====	=====
NET POSITION:			
Restricted for:			
ARPA uses	20,476		20,476
Library	295		295
Unrestricted	767,557	400,023	1,167,580
	-----	-----	-----
Total net position	788,328	400,023	1,188,351
	=====	=====	=====

See accompanying notes.

CITY OF GARY
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2021

Functions/Programs:	Program Receipts				Net Receipts (Disbursements) and Changes in Net Position		
	Disbursements	Charges for Services and Reimbursements	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary government:							
Governmental activities:							
General government	89,730	3,384	22,030		-64,316		-64,316
Public safety	71,935		43,170		-28,765		-28,765
Public works	120,826	5,933			-114,893		-114,893
Health and welfare	1,364		1,142		-222		-222
Culture and recreation	28,762	652			-28,110		-28,110
Economic development	5,290				-5,290		-5,290
Total governmental activities	317,907	9,969	66,342	0	-241,596	0	-241,596
Business-type activities:							
Liquor	544,370	698,509				154,139	154,139
Water	39,112	54,671				15,559	15,559
Sewer	17,692	41,296				23,604	23,604
Solid waste	25,927	26,455				528	528
Total business-type activities	627,101	820,931	0	0	0	193,830	193,830
Total primary government	945,008	830,900	66,342	0	-241,596	193,830	-47,766
General receipts:							
Taxes:							
Property taxes					54,470		54,470
Sales taxes					62,235		62,235
State shared receipts					25,228		25,228
County shared receipts					5,551		5,551
Interest and dividends received					1,451		1,451
Rents and franchise fees					2,178		2,178
Special assessments - mowing					1,209		1,209
Miscellaneous receipts					1,325		1,325
Sale of surplus property					1,900		1,900
Transfers					186,932	-186,932	0
Total general receipts and transfers					342,479	-186,932	155,547
Change in net position					100,883	6,898	107,781
Net position:							
January 1, 2021					687,445	393,125	1,080,570
December 31, 2021					788,328	400,023	1,188,351

See accompanying notes.

CITY OF GARY

BALANCE SHEET -- MODIFIED CASH BASIS

ALL GOVERNMENTAL FUNDS

AS OF DECEMBER 31, 2021

	General Fund	Library Fines Fund	Total
	-----	-----	-----
ASSETS:			
Change cash	125		125
Checking	569,584	295	569,879
Certificates of deposit	218,324		218,324
	-----	-----	-----
Total assets	788,033	295	788,328
	=====	=====	=====
 FUND BALANCE:			
Nonspendable			0
Restricted	20,476	295	20,771
Committed			0
Assigned	125		125
Unassigned	767,432		767,432
	-----	-----	-----
Total fund balances	788,033	295	788,328**
	=====	=====	=====

** Equals net position on
statement of net position

See accompanying notes.

CITY OF GARY
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND
BALANCES -- MODIFIED CASH BASIS -- ALL GOVERNMENTAL FUNDS
FOR THE YEAR ENDING DECEMBER 31, 2021

	General Fund	Library Fines Fund	Total
	-----	-----	-----
Receipts:			
Local sources:			
Taxes:			
Ad valorem taxes	54,470		54,470
General sales taxes	62,235		62,235
Licenses and permits:	3,345		3,345
Intergovernmental:			
Federal shared revenue	65,200		65,200
State shared revenue:			
Grant - mosquito	1,142		1,142
Bank franchise tax	340		340
Commercial prorate	651		651
Liquor tax reversion	1,688		1,688
5% motor vehicle licenses	8,469		8,469
Highway and bridge	14,080		14,080
County shared revenue	5,551		5,551
Charges for goods and services:			
General government	39		39
Sanitation (rubble site)	2,723		2,723
Cemetery	3,210		3,210
Recreation (golf)	652		652
Miscellaneous:			
Interest received	1,451		1,451
Rents and franchise	2,178		2,178
Special assessment - mowing	1,209		1,209
Other	1,325		1,325
	-----	-----	-----
Total receipts	229,958	0	229,958
	-----	-----	-----
Disbursements:			
Current:			
General government:			
Mayor and Council	12,730		12,730
Elections	0		0
Financial administration	42,570		42,570
Other	31,896		31,896
Public safety:			
Police	6,083		6,083
Fire	65,852		65,852
Public works:			
Highways and streets	113,068		113,068
Sanitation	2,094		2,094
Cemetery	5,664		5,664
Health and welfare:			
West Nile	1,364		1,364
Culture and recreation:			
Recreation	3,335		3,335
Parks	17,178		17,178
Library	8,249		8,249
Conservation and development:			
Economic development	145		145
Donation	5,145		5,145
Capital outlay	2,534		2,534
	-----	-----	-----
Total disbursements	317,907	0	317,907
	-----	-----	-----
Excess of receipts over (under) disbursements	-87,949	0	-87,949
Other financing sources (uses):			
Sale of surplus property	1,900		1,900
Net transfer in - liquor	186,932		186,932
	-----	-----	-----
Net change in fund balance	100,883	0	100,883**
Fund balance:			
January 1, 2021	687,150	295	687,445
	-----	-----	-----
December 31, 2021	788,033	295	788,328
	=====	=====	=====

** Equals change in net position on
Statement of Activities

See accompanying notes.

CITY OF GARY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
ENTERPRISE FUNDS
AS OF DECEMBER 31, 2021

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
ASSETS					
Current assets:					
Change cash	3,000				3,000
Lottery cash	25,000				25,000
Checking	14,334	119,005	233,802	4,882	372,023
	-----	-----	-----	-----	-----
Total assets	42,334	119,005	233,802	4,882	400,023
	=====	=====	=====	=====	=====
 NET POSITION					
Unrestricted	42,334	119,005	233,802	4,882	400,023
	-----	-----	-----	-----	-----
Total net position	42,334	119,005	233,802	4,882	400,023
	=====	=====	=====	=====	=====

See accompanying notes.

CITY OF GARY

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
 IN NET POSITION -- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2021

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Operating receipts:					
Charges for goods and services	591,577	54,671	41,296	26,455	713,999
Lottery sales, net	106,932				106,932
	-----	-----	-----	-----	-----
Total operating receipts	698,509	54,671	41,296	26,455	820,931
	-----	-----	-----	-----	-----
Operating disbursements:					
Personal services	182,492	16,965	16,965		216,422
Other current services	40,721	3,537	727		44,985
Cost of goods sold	270,198	18,610		25,927	314,735
Capital costs	50,959				50,959
	-----	-----	-----	-----	-----
Total operating disbursements	544,370	39,112	17,692	25,927	627,101
	-----	-----	-----	-----	-----
Excess operating receipts (disbursements)	154,139	15,559	23,604	528	193,830
Nonoperating receipts (disbursements):					
None					0
	-----	-----	-----	-----	-----
Total nonoperating receipts (disbur	0	0	0	0	0
Excess receipts (disbursements) before transfers	154,139	15,559	23,604	528	193,830
Net transfer (out) - general	-186,932				-186,932
	-----	-----	-----	-----	-----
Change in net position	-32,793	15,559	23,604	528	6,898
Net position:					
January 1, 2021	75,127	103,446	210,198	4,354	393,125
	-----	-----	-----	-----	-----
December 31, 2021	42,334	119,005	233,802	4,882	400,023
	=====	=====	=====	=====	=====

See accompanying notes.

CITY OF GARY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2021

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Cash flows from:					
Operating activities:					
Receipts from customers	698,509	53,171	40,596	26,255	818,531
Receipts interfund services (est)		1,500	700	200	2,400
Payments to employees	-182,492	-16,965	-16,965		-216,422
Payments to suppliers	-308,919	-22,147	-727	-25,927	-357,720
Pymts interfund services (est)	-2,000				-2,000
Net cash provided (used) by operating activities	----- 205,098	----- 15,559	----- 23,604	----- 528	----- 244,789
Noncapital financing activities:					
Net transfers (out) - general	-186,932				-186,932
Capital financing activities:					
Cash paid for improvements	-50,959				-50,959
Investing activities:					
None					0
Net increase (decrease) in cash and cash equivalents	----- -32,793	----- 15,559	----- 23,604	----- 528	----- 6,898
Cash and cash equivalents:					
January 1, 2021	75,127	103,446	210,198	4,354	393,125
December 31, 2021	----- 42,334 =====	----- 119,005 =====	----- 233,802 =====	----- 4,882 =====	----- 400,023 =====
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	154,139	15,559	23,604	528	193,830
Add back capital purchases	50,959				50,959
Net cash provided (used) by operating activities	----- 205,098 =====	----- 15,559 =====	----- 23,604 =====	----- 528 =====	----- 244,789 =====
Noncash investing, capital and financing activities: None					

See accompanying notes.

CITY OF GARY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in note 1.c, 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). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements.

a. Reporting Entity:

The funds and account groups included in this report are controlled by or dependent upon the City of Gary's (City) Governing Board.

The City's officials at December 31, 2021 are:

Mayor:	Finance Officer:
Larry Stoks	Joni Kjelden
Governing Board:	Attorney:
Albert Bekaert, President	Reed Mahlke of Helsper, McCarty & Rasmussen, PC
Clark Dessler	
Darwyn Engesser	
Josef Gislason	
David Peterson	
Robert Stee	

The City's financial reporting entity is composed of the following:

Financial Reporting Entity:
Primary Government: - City of Gary
Component Units: - None

To determine the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

The reporting entity of the City of Gary consists of (1) 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; (2) those organizations for which the primary government is financially accountable; and (3) 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.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The City is financially accountable if its governing board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on the City (the primary government). The City may also be financially accountable for another organization if that organization is fiscally dependent on the City unless that organization can, without the approval of the City: (1) set its own budget; (2) determine its own rates or charges; and (3) borrow money, unless it would be misleading to exclude the organization because of its relationship with the City.

Based upon the application of these criteria, the City of Gary does not have any component units.

b. Basis of Presentation:

Government-wide Financial Statements:

The government-wide financial statements include the Statement of Net Position and the Statement of Cash Activities. These statements display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds (if any). 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 good and services.

The Statement of Net Position reports all cash assets. Net position is displayed in two components: restricted (distinguishing between major categories of restrictions) and unrestricted.

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

Fund Financial Statements:

The fund financial statements include specific information about individual funds used by the reporting entity. Each fund is considered a separate accounting entity with a separate set of self-balancing accounts that constitutes its cash, net position, receipts and disbursements. Funds are organized into three major categories: governmental, enterprise, and fiduciary (if any). An emphasis is placed on major funds within the governmental and enterprise categories. A fund is considered major if it is the primary operating fund of the City or if it meets the following criteria:

- a. Total cash, receipts or disbursements of the individual governmental or enterprise fund are at least 10 percent of the corresponding element total (cash, receipts or disbursements) for all funds of that category (that is, total governmental or total enterprise), and
- b. The same element that meets the 10 percent criterion in (a) is at least 5 percent of the corresponding element total for all governmental and enterprise funds combined.
- c. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the government's official believe is particularly important to financial statement users (for example, because of public interest or consistency) may be reported as a major fund.

The City has elected to classify all of its funds as major funds.

Funds of the City are described below within their respective fund type:

Governmental Funds

General Fund - A fund established by South Dakota Codified Law (SDCL) 4-11-6 to met all the general operational costs of the City except those required to be accounted for in another fund. The general fund is always a major fund.

Special Revenue Fund Types - special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The City has the following special revenue fund:

Library Fund - A fund allowed by SDCL 14-2-42 and AGR 82-33 to account for the collection and disbursement of library fines and gifts. This fund is a major fund.

Enterprise Funds:

Enterprise Fund Types - enterprise funds are used to account for activity for which a fee is charged to external users for goods or services. The City has the following enterprise funds:

Liquor Fund - A fund established by SDCL 35-3-21 to provide on-sale and off-sale liquor services. This fund also accounts for video lottery machine activity. This fund is a major fund.

Water Fund - A fund established by SDCL 9-47-1 to provide water to customers within the City of Gary. This fund is a major fund.

Sewer Fund - A fund established by SDCL 9-48-2 to provide sewer services to customers within the City of Gary. This fund is a major fund.

Solid Waste Fund - A fund established by SDCL 9-32-11 and 34A-6 to account for the collection and disposal of solid waste from the City of Gray. This fund is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds. The City had no fiduciary funds in 2021.

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 (disbursements) 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 of accounting, which is a basis of accounting other than US-GAAP. Under US-GAAP, transactions are recorded in the accounts when revenues are earned and liabilities are incurred. Under the modified cash basis of accounting, 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 described below.

Fund Financial Statements:

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

Basis of Accounting

In the government-wide Statement of Net Position and Statement of Activities and the fund financial statements, governmental, business-type, and major fund 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 receipts and disbursement transactions. Under the modified cash basis of accounting, the statement of net position reports only cash and cash equivalents. Under the modified cash basis of accounting, transactions are recorded in the accounts when cash and/or cash equivalents are received or disbursed and assets and liabilities are recognized to the extent cash has been received or disbursed. Acceptable modifications to the cash basis of accounting implemented by the City in these financial statements are certificates of deposit (if any) whose maturity when purchased is more than 90 days.

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 and services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

If the City applied US-GAAP, the fund financial statements for governmental funds would use the modified accrual basis of accounting and the fund financial statements for enterprise funds and fiduciary funds (if any) would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

d. Cash and Cash Equivalents:

In the enterprise funds' statement of cash flows, the City considers all highly liquid investments and deposits (including restricted assets) with a term to maturity of three months or less when purchased to be cash equivalents. Those portions of the enterprise funds' cash resources that are included in the City's internal cash management pool are considered to be cash and cash equivalents, regardless of the form in which they are held, because use of the pool provides each enterprise fund with access to its cash resources essentially on demand.

At December 31, 2021 all enterprise fund deposits and investments are considered to be cash and cash equivalent for purposes of the statement of cash flow except for specific certificates of deposit in the water fund totaling \$0 and in the sewer fund totaling \$0 because their maturity when purchased was longer than three months and they are not part of a pool.

Under the modified cash basis of accounting, investments (if any) are carried at cost.

e. Interfund Transactions:

Transactions that constitute reimbursements to a fund for disbursements made from it, and that are properly applicable to another fund, are recorded as a disbursement in the reimbursing fund and as reductions of disbursements in the fund that is reimbursed. All other interfund transactions are reported as transfers.

f. Program Receipts and General Receipts:

Program Receipts:

In the government-wide Statement of Activities, reported program receipts derive directly from the program itself or from parties other than the City's taxpayers or citizenry, as a whole. Program receipts are classified in 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 contribution - 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 contribution - These arise from mandatory and voluntary non-exchange transactions with other government, organization, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

General Receipts:

General receipts include all receipts not specifically earmarked for a specific program. General receipts include all taxes, interest received, unrestricted receipts from federal, state, or county governments, and miscellaneous receipts not related to a program. These receipts are not restricted and can be used on the regular operation of the City.

g. Enterprise Fund Receipt and Disbursement Classifications:

In both the government-wide statements and fund financial statements, enterprise fund receipts and disbursements are classified in a manner consistent with how they are classified in the statement of cash flows. Accordingly, transactions in which cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating receipts and disbursements.

In both the government-wide statements and fund financial statements, enterprise fund operating receipts, such as charges for water and sewer services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, if any, such as grants, operating subsidies, interest received, and transfers in, result from nonexchange transactions.

h. Equity Classifications:

Government-wide financial Statements:

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

1. Restricted Net Position - Consists of net position with constraints placed on their use either by (a) external groups such as creditor, grantor, 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 does 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. Enterprise fund equity is classified as "Net Position", the same as in the government-wide financial statements. Fiduciary fund equity (if any) is reported as "Custodial Net Position".

i. Fund Balance Classification 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 cash balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- * Restricted - includes fund cash 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 cash balance amounts that are constrained for specific purposes that are internally imposed (or modified or rescinded) by the government through formal action at the highest level of decision making authority and does not lapse at year-end.
- * Assigned - includes fund cash balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund cash balance may be assigned by the Board of Trustees or Finance Officer.
- * Unassigned - includes positive fund cash balance within the general fund which has not been classified within the above categories and negative fund balance amounts in other governmental funds.

The City of Gary's fund balance classifications are:

<u>Fund Balance</u> <u>Classifications</u>	<u>Account</u> <u>or Fund</u>	<u>Authority</u> <u>or Action</u>	<u>Amount</u>
Nonspendable	None		0
Restricted	General	ARPA Grant	20,476
Restricted	Library	Statute	295
Committed	None		0
Assigned	General - change	Finance officer	125
Unassigned	General		767,432

			788,328

The City uses "restricted" and "committed" amounts first when 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 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 cash balance policy.

The purpose of each special revenue fund and revenue source is:

Special Revenue Fund:	Purpose:	Revenue Source:
* Library	Receive fines and gifts	See page 7

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 which can be charged to either restricted or unrestricted net position.

2. VIOLATIONS OF FINANCE-RELATED LEGAL AND CONTRACTUAL PROVISIONS

Budget Overdrafts:

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund.

In 2021 the general fund/public safety/fire line item went over its budget by \$45,852. This was largely because of grant money received for bunker gear and other fire purposes. This over budget amount is isolated and not considered significantly material to these financial statements. In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation.

3. DEPOSITS, INVESTMENTS AND RELATED RISKS

Except for restricted cash held by 3rd parties and bank certificates of deposit purchased for an individual fund, the City follows the practice of aggregating deposits of its 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 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. 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 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.

Deposits are reported at cost, plus interest, if the account is the add-on type.

Actual bank balances at December 31, 2021 were as follows: Insured \$468,324, Collateralized ** \$738,964, for a total of \$1,207,288.

** Uninsured, collateral jointly held by state's/municipality's agent in the name of the state and the pledging financial institution.

The carrying amount of these deposits and change cash of \$28,125 at December 31, 2021 was \$1,188,351 held as follows.

Deuel County National Bank (Gary):

Checking	941,902
Certificates of deposit	218,324

	1,160,226
Petty cash - general	125
Petty cash - liquor	3,000
Petty cash - lottery	25,000

	1,188,351
	=====

Certificates of deposit (if any), with a term to maturity of greater than 3 months when purchased, were insured or collateralized and are considered deposits.

4. INVESTMENTS AND RISKS

In general, SDCL 4-5-6 permits City money 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) or (c) in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) and repurchase agreements described in (b). 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 had no investments during the year ending December 31, 2021.

Investment 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 Risk (Investments) - The risk that, in the event of a default by the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities held by the counterparty.

Custodial Risk (Deposits) - The risk that, in the event of a depository failure, the City's deposits may not be returned to it. At December 31, 2021, the City's deposits in financial institutions were not exposed to custodial deposit risks.

Concentration of Credit Risk - the City places no limit on the amount that may be invested in any one institution. The City's deposit are held in Deuel County National Bank.

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.

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 deposit or investment. The City's policy is to credit all income from deposits and investments to the general fund except for certificates of deposit held by an individual fund.

5. RESTRICTED NET POSITION

Net position restricted for a specific purpose is as follows:

Purpose:	Restricted By:	Governmental	Business-Type
ARPA uses	Regulations	20,476	
Library services	Statute	295	none

6. INTERFUND TRANSACTIONS

During 2021 the liquor fund transferred \$186,932 to the general fund for operations.

7. PENSION PLAN

Summary of Significant Accounting Policies:

As mentioned in note 1c above, these financial statements, both government-wide and fund financial statements, are presented on a modified cash basis of accounting rather than an accrual/modified accrual basis of accounting. Consequently, these financial statements do not measure the net pension (assets)/liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense (revenue), and information about the fiduciary net position of the South Dakota Retirement System (SDRS).

Plan Description:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer hybrid defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South and its political subdivisions. The SDRS provides retirement, disability, and survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. 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 SDRS, PO Box 1098, Pierre, SD 57501-1098 or calling (605) 773-3731.

Benefits Provided:

SDRS has three different classes of employees, Class A general members, Class B public safety and judicial members, and Class C Cement Plant Retirement Fund 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.

Members that were hired on or 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 equal to or greater 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 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.

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

Contributions:

Per SDCL 3-12, contributions 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 calendar years ending December 31, 2021, 2020, and 2019 were \$12,557, \$11,733 and \$9,541 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities:

At June 30, 2021 SDRS is 105.52% funded and accordingly has net pension (asset). The proportionate shares of the components of the net pension (asset) of South Dakota Retirement System, for the City as of this measurement period ending June 30, 2021 and reported by the City as of December 31, 2021 are as follows:

Proportionate share of total pension liability	\$ 1,334,777
Less: Proportionate share of net position restricted for pension benefits	(1,408,496)

Proportionate share of net pension (asset)/liability	\$ (73,719)
	=====

The net pension liability (asset) was measured as of June 30, 2021 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the City's share of contribution to the pension plan relative to the contributions of all participating entities. At June 30, 2021, the City's proportion was .000096260 which is an increase of .000013305 over its proportion measured as of June 30, 2020.

Actuarial Assumptions:

The total pension liability in the June 30, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.25% and real returns of 4.25%.
Future COLAs	2.25%

Mortality rates were based on 97% of the RP-2014 Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016, white collar rates for females and total dataset rates for males.

Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, adjusted to 2006 and projected generationally with Scale MP-2016.

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

Investments

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 (ie: 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 weighting 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, 2021 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	4.3%
Fixed Income	30.0%	1.6%
Real Estate	10.0%	4.6%
Cash	2.0%	0.9%

	100.0%	
	=====	

Discount Rate:

The discount rate used to measure the total pension liability 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 will be made at rates equal to the member rate. Based on those 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 (Asset)/Liability to Changes in the Discount Rate:

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

	1% Decrease 5.50%	Current Discount Rate 6.50%	1% Increase 7.50%
City's proportionate share of the net pension (asset)/liability	\$119,369	\$(73,719)	\$(230,461)

Pension Plan Fiduciary Net Position:

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

8. PROPERTY TAX

Taxes are levied on or before October 1, attach as an enforceable lien on property, become due and payable on the following January 1, and are payable in two installment on or before the following April 30 and October 31. The county bills and collects the City's taxes and remits them to the City. Because the City is on the modified cash basis of accounting, all property taxes received in cash are considered revenue for the period in which it was collected.

The City is permitted by state statute to levy the following amounts of taxes per \$1,000 of taxable valuation of the property in the City: a) general fund \$27.00; b) bond redemption funds: Amts required by Bond Agreements; c) judgment fund (upon a judgment being made) \$10.00. State statute allows the tax rates to be raised by special election of the voters.

9. INSURANCE

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 one year ending December 31, 2021 the City managed its risks as follows:

Employee Health Insurance:

The City purchases health insurance for its employees from a commercial carrier.

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-based 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, auto liability, auto damage, property, and equipment breakdown insurance.

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 expense whether reported or unreported at the time of their departure from 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 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.

Worker's Compensation:

The City joined the South Dakota Municipal League Workers' Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities.

The objective of the Fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The City's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims.

The City pays an annual premium, to provide worker's compensation coverage for its employees, under a self-funded program and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to statutory limits in addition to a separate combined employer liability limit of \$2,000,000 per incident.

The City does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage 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. No unemployment payments were made during the year ending December 31, 2021 and none are expected in 2022.

11. LITIGATION

At December 31, 2021 the City was not a party to litigation. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees through South Dakota Public Assurance Alliance. Any potential litigation is not expected to have a material effect on the City's financial statements.

12. TAX ABATEMENTS

As of December 31, 2021 the City did not provide any tax abatement incentives through its Tax Increment Financing District Projects or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

During 2021 the City had no long-term debt, short-term, or conduit debt.

The city has a rubble site. It does not have a landfill with any associated closure costs or liabilities.

The City does not offer any Other Post Employment Benefits.

The City does not have any material related party transactions.

In 2022 the City received its 2nd ARPA tranche of \$20,476.

In 2022 the City added a 2nd and 3rd cent sales tax rate.

In 2023 the City will begin a Wastewater Collection & Treatment System study

CITY OF GARY
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE YEAR ENDING DECEMBER 31, 2021

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Contingency Transfers	Supplementals		
Receipts:					
Receipts from local sources:					
Taxes:					
Ad valorem taxes	58,000			54,470	-3,530
General sales and use taxes	52,000			62,235	10,235
Licenses and permits:	6,000			3,345	-2,655
Intergovernmental receipts:					
Federal shared receipts:			0	65,200	65,200
State shared receipts:	35,000		35,000		-35,000
Grants	8,000		8,000	1,142	-6,858
Bank franchise tax			0	340	340
Commercial prorate			0	651	651
Liquor tax reversion			0	1,688	1,688
5% motor vehicle licenses			0	8,469	8,469
Highway and bridge			0	14,080	14,080
County shared receipts:	12,000		12,000	5,551	-6,449
Charges for goods and services:	5,000		5,000		-5,000
General government			0	39	39
Sanitation (rubble site)			0	2,723	2,723
Cemetery			0	3,210	3,210
Recreation (golf)			0	652	652
Miscellaneous receipts:	9,000		9,000		-9,000
Interest received			0	1,451	1,451
Rents and franchise fees			0	2,178	2,178
Other			0	2,534	2,534
Total receipts	185,000	0	0	229,958	44,958
Disbursements:					
General government:					
Mayor and Council	25,000		25,000	12,730	12,270
Contingency	40,000	-40,000	0		0
Amount transferred			0		0
Elections	500		500	0	500
Financial administration	44,000	2,000	46,000	45,104	896
Other	35,000		35,000	31,896	3,104
Public safety:					
Police	7,000		7,000	6,083	917
Fire	20,000		20,000	65,852	-45,852
Public works:					
Highways and streets	91,500	28,000	119,500	113,068	6,432
Sanitation (rubble site)	2,000	500	2,500	2,094	406
Cemetery	2,500	5,000	7,500	5,664	1,836
Health and welfare:					
West Nile	2,000		2,000	1,364	636
Culture and recreation:					
Recreation (golf)	3,000	4,500	7,500	3,335	4,165
Parks	37,400		37,400	17,178	20,222
Library	10,000		10,000	8,249	1,751
Economic development:	10,100		10,100	5,290	4,810
Total disbursements	330,000	0	0	317,907	12,093
Excess of receipts over (under) disbursements	-145,000	0	0	-145,000	57,051
Other financing sources (uses):					
Sale of surplus property			0	1,900	1,900
Transfers in	150,000		150,000	186,932	36,932
Net change in fund balance	5,000	0	0	100,883	95,883
Fund balance:					
January 1, 2021	687,150		687,150	687,150	0
December 31, 2021	692,150	0	692,150	788,033	95,883

CITY OF GARY
NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL
FUND FOR THE ONE YEAR ENDING December 31, 2021

1. BUDGETS AND BUDGETARY ACCOUNTING

The City follows these procedures in establishing the budgetary data reflected in the supplementary information:

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. 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 to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. There were no supplemental budgets in 2021. See page 24 for more information.
- e. Formal budgetary integration is employed as a management control device for the general fund.
- f. The budget for the general fund is not adopted on a basis consistent with generally accepted accounting principles (GAAP) because the City uses a modified cash basis of accounting.

2. GAAP AND BUDGETARY ACCOUNTING BASIS DIFFERENCE:

The financial statements prepared in conformity with US-GAAP (within the context of the modified cash basis of accounting) present capital outlay disbursement information as a separate category of disbursements. Under the budgetary basis of accounting, capital outlay disbursements are reported within the function to which they relate. For example, the purchase of a road grader would be reported as a capital outlay disbursement in the governmental funds statement of receipts, disbursements and changes in fund balances. However, in the budgetary schedule, the purchase of a road grader would be reported as a disbursement in the public works function of general fund, along with all other current public works disbursements.

CITY OF GARY
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021

SUPPLEMENTARY INFORMATION

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

SDRS Measurement Date Year Ended (1)	City's Pension Allocation Percentage	City's Proportionate Share of Net Pension (Asset) Liability	City's Covered Employee Payroll for its 6-30 Year End	City's Proportionate Share of the Net Pension (Asset) Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2021	0.0096260%	-73,719	218,450	(33.75%)	105.53%
June 30, 2020	0.0082955%	-360	182,067	(0.20%)	100.04%
June 30, 2019	0.0075534%	-800	160,600	(0.50%)	100.09%
June 30, 2018	0.0075320%	-176	156,583	(0.11%)	100.02%
June 30, 2017	0.0075303%	-683	153,000	(0.45%)	100.10%
June 30, 2016	0.0076512%	25,845	145,483	17.76%	96.89%
June 30, 2015	0.0073661%	-31,242	134,483	(23.39%)	104.10%
June 30, 2014	0.0074764%	-53,864	130,733	(41.54%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension (asset)/liability (asset) is 6-30 of the City's current calendar year.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF GARY
FOR THE EIGHT YEARS ENDING DECEMBER 31, 2021

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE CITY'S CONTRIBUTIONS
TO THE SOUTH DAKOTA RETIREMENT SYSTEM

City's Year Ended	Contractually Required Contribution	Contributions Related to the Contractually Required Contribution	Contribution Deficiency (Excess)	City's Covered Employee Payroll for its Calendar Year End	Contributions as a Percentage of Covered Employee Payroll
December 31, 2021	12,557	12,557	0	209,283	6.00%
December 31, 2020	11,733	11,733	0	195,550	6.00%
December 31, 2019	9,541	9,541	0	159,017	6.00%
December 31, 2018	9,568	9,568	0	159,467	6.00%
December 31, 2017	9,248	9,248	0	154,133	6.00%
December 31, 2016	9,174	9,174	0	152,900	6.00%
December 31, 2015	8,232	8,232	0	137,200	6.00%
December 31, 2014	7,974	7,974	0	132,900	6.00%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF GARY

NOTES TO SUPPLEMENTARY INFORMATION - PENSION

SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION (ASSET)/LIABILITY
AND SCHEDULE OF PENSION CONTRIBUTIONS FOR THE YEAR ENDING December 31, 2021

Changes of Prior Valuation:

The June 30, 2021 Actuarial Valuation reflects no changes in actuarial methods from the June 30, 2020 Actuarial Valuation. One change in actuarial assumptions and one plan provision change are reflected and described below.

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

Benefit Provision Changes:

Legislation enacted in 2021 reduced the minimum SDRS COLA from 0.5% to 0%. This change will impact the SDRS COLA only when inflation is very low or when a restricted maximum COLA of 0.5% is not affordable. The change had no impact on the current assets or liabilities of SDRS.

Actuarial Assumption Changes:

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% (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%. The condition existed as of June 30, 2020 and the July 2021 SDRS COLA was limited to a restricted maximum of 1.41%. As of June 30, 2021, the FVFR assuming the COLA is equal to the baseline COLA assumption is greater than 100%. The July 2022 SDRS COLA will equal inflation, between 0% and 3.5%. For the June 30, 2020 actuarial valuation, future COLAs were assumed to equal the restricted maximum of 1.41%. For this June 30, 2021 actuarial valuation, future COLAs are assumed to equal the baseline COLA assumption of 2.25%.

The change in the COLA assumption increased the actuarial accrued liability by \$1,135 million, or 8.9% of the actuarial accrued liability based on the 1.41% restricted maximum COLA.

Actuarial assumptions are reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2022 Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2022 actuarial valuation.

Actuarial Method Changes:

No changes in actuarial methods were made since the prior valuation.

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

To the Honorable Mayor and
Members of the Gary City Council
Gary, South Dakota

INDEPENDENT AUDITOR'S REPORT

I 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 accompanying modified cash basis of accounting financial statements of governmental activities, business-type activities, and each major fund of the City of Gary (City), Deuel County, South Dakota as of December 31, 2021 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Gary's basic financial statements and have issued my report thereon dated June 23, 2023 which was unmodified.

Report on Internal Control Over Financial Reporting:

In planning and performing my audit of the financial statements, I considered City of Gary'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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I do not express an opinion on the effectiveness of City of Gary's internal control.

A *deficiency in internal control* exist 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of City's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency*, is a deficiency, or 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.

My 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. Given these limitations, during my audit I did not identify a deficiency in internal control that I consider to be a material weakness. However, material weaknesses or significant deficiencies may exist that have not been identified.

I did identify deficiencies in internal control, described in the accompanying schedule of current audit findings and responses, that I consider to be a significant deficiencies. I consider the deficiency described in the accompanying schedule of current audit findings and responses as items 2021-01 and 2021-02 to be significant deficiencies.

City of Gary
Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters -- Page Two

Government Auditing Standards require the auditor to perform limited procedures on the City's responses to the internal control over financial reporting findings identified in my audit described in the accompanying schedule of findings and responses. The City's responses were not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the responses.

I also noted minor matters involving internal control that I reported to the governing body and management of the City of Gary in a separate Letter of Comments dated June 23, 2023.

Compliance and Other Matters:

As part of obtaining reasonable assurance about whether City of Gary's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, and contracts 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 my audit and, accordingly, I do not express such an opinion.

The results of my tests did not disclose an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

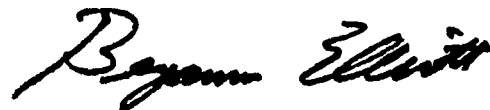
I did note minor matters involving compliance that I reported to the governing body and management of the City of Gary in a separate Letter of Comments dated June 23, 2023.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Independent Audit Services, PC
Benjamin Elliott, CPA
Madison, South Dakota



June 23, 2023

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:

There are no prior year federal compliance audit findings.

Prior Other Audit Findings:

2020-01 [Segregation of Duties] Repeated below as 2021-01

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2021-01: Lack of Proper Segregation of Duties
(internal control - first reported in 2004)

Criteria:

Management of a municipality is responsible for establishing and maintaining an internal control structure to provide management and the taxpayers with reasonable assurance: 1) that assets are safeguarded against loss from unauthorized use or disposition, 2) that transactions are executed in accordance with management's authorization, and 3) that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

A key element of an effective internal control structure is the separation of duties so one person isn't responsible of all aspects of a transaction.

Condition:

Except for point of sale activity at the municipal bar and liquor store, the finance officer processes most revenue transactions from beginning to end. Except for the bar and liquor store, the finance officer received money, issued receipts, recorded receipts, posted receipts in the accounting records, prepared bank deposits and prepared financial statements. As a result, an inadequate segregation of duties existed for the revenue function.

The point of sale activity at the bar and liquor store is done by all liquor store employees. In the morning, the liquor store employee who opens that day counts the money and makes a deposit. The finance officer is given the deposit receipt and records the transaction in the books.

A third person, and not the finance officer, does reconcile bank statements. The bank reconciliation is included in a Council members monthly packet.

Effect:

Inadequate segregation of duties can lead to the misappropriation of funds.

Recommendation:

I recommend the City of Gary's management be cognizant of this lack of segregation of duties for receipts and attempt to provide compensating internal controls whenever and wherever possible and practical.

Response:

This comment is a result of the size of the City, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. The City has determined it is not cost beneficial to employ additional personnel just to adequately segregate duties. The City of Gary is aware of this problem and is attempting to provide compensating controls whenever and wherever possible and practical. For example, liquor store employees do make deposits and the finance officer does not reconcile bank statements. However, this lack of segregation of duties in the revenue function is expected to continue to exist.

CITY OF GARY
DECEMBER 31, 2021
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2021-02: Preparation of Financial Statements
(internal control)

Condition:

As the auditor, I was requested to draft these financial statements and accompanying notes to the financial statements.

Criteria:

A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements and the preparation of the financial statements.

Cause of the Condition:

The City Council has elected not to have an internal control system designed to provide for the preparation of the financial statement being audited.

Effect:

This control deficiency could result in a misstatement of the financial statements that would not be prevented or detected.

Recommendation:

This situation is not unusual for an entity of this City's size. 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.

Management Response:

Due to cost constraints, the City has decided to continue having the auditor draft the financial statements and accompanying notes to the financial statements.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Gary's response to the finding identified in my audit and described in the above Schedule of Findings and Responses. The City of Gary's response was not subject to the other auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on the response.