

CITY OF GARY
GARY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2025
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
Madison, South Dakota 57042

CITY OF GARY
GARY, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2025

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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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Madison, South Dakota 57042
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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, 2025, and for the year ended, 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 my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and each major fund of the City of Gary as of December 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting.

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 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 audit opinions.

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

Auditor's 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 (GAAS) and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than 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'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'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 - Basis of Accounting:

I draw attention to note 1c of these financial statements, which describes the basis of accounting. These 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.

Supplementary Information (no opinion):

Accounting principles generally accepted in the United States of America allow the Budgetary Comparison Schedules (page 26 to 28), the City's Proportionate Share of Net Pension (Asset)/Liability (page 29), and the Schedule of the City's Contribution (page 29) be presented to supplement the basic financial statements.

Such information is the responsibility of management and, although not a part of the basic financial statements, is allowed by the Government Accounting Standards Board who considers it to be an essential part of financial reporting by placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the allowed 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

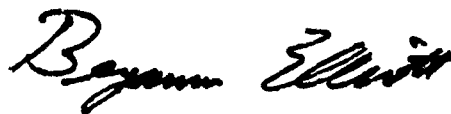
preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information 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 August 27, 2026 (page 31) on my consideration of City 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 of Gary's internal control over financial reporting and compliance.

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

August 27, 2026

A handwritten signature in black ink that reads "Benjamin Elliott". The signature is written in a cursive, flowing style.

CITY OF GARY

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

	Primary Government		

	Governmental	Business-	
	Activities	Type	
	Activities	Activities	Total
	-----	-----	-----
ASSETS:			
Change cash	125	3,000	3,125
Lottery cash		25,000	25,000
Checking	-180,542	372,691	192,149
Certificate of deposit	260,654		260,654
Investments - SD.FIT	1,378,767		1,378,767
	-----	-----	-----
Total assets	1,459,004	400,691	1,859,695
	=====	=====	=====
NET POSITION:			
Restricted for:			
3 rd Cent uses	30,954		30,954
Cemetery	70,450		70,450
Unrestricted	1,357,600	400,691	1,758,291
	-----	-----	-----
Total net position	1,459,004	400,691	1,859,695
	=====	=====	=====

See accompanying notes.

CITY OF GARY
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDING DECEMBER 31, 2025

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	119,664	5,781			-113,883		-113,883
Public safety	40,754				-40,754		-40,754
Public works	145,100	2,671			-142,429		-142,429
Health and welfare	3,277				-3,277		-3,277
Culture and recreation	52,414	2,419			-49,995		-49,995
Economic development	26,120				-26,120		-26,120
Total governmental activities	387,329	10,871	0	0	-376,458	0	-376,458
Business-type activities:							
Liquor	559,453	707,898				148,445	148,445
Water	69,546	55,158				-14,388	-14,388
Sewer	1,301,025	43,029		503,191	-754,805		-754,805
Solid waste	29,076	32,029				2,953	2,953
Total business-type activities	1,959,100	838,114	0	503,191	0	-617,795	-617,795
Total primary government	2,346,429	848,985	0	503,191	-376,458	-617,795	-994,253
General receipts:							
Taxes:							
Property taxes					59,674		59,674
Sales taxes					140,710		140,710
State shared receipts					27,773		27,773
County shared receipts					5,361		5,361
Interest and dividends received					71,892	29	71,921
Rents and franchise fees					2,149		2,149
Sale of surplus property					52	250	302
SRF CW-01 loan proceeds					0	739,256	739,256
Transfers					172,810	-172,810	0
Total general receipts and transfers					480,421	566,725	1,047,146
Change in net position					103,963	-51,070	52,893
Net position:							
January 1, 2025					1,355,041	451,761	1,806,802
December 31, 2025					1,459,004	400,691	1,859,695

See accompanying notes.

CITY OF GARY

BALANCE SHEET -- MODIFIED CASH BASIS
ALL GOVERNMENTAL FUNDS
AS OF DECEMBER 31, 2025

	General Fund	3 rd Cent Fund	Total
	-----	-----	-----
ASSETS:			
Change cash	125		125
Checking	-211,496	30,954	-180,542
Certificate of deposit	260,654		260,654
Investments - SD.FIT	1,378,767		1,378,767
	-----	-----	-----
Total assets	1,428,050	30,954	1,459,004
	=====	=====	=====
FUND BALANCE:			
Nonspendable			0
Restricted	70,450	30,954	101,404
Committed			0
Assigned	125		125
Unassigned	1,357,475		1,357,475
	-----	-----	-----
Total fund balances	1,428,050	30,954	1,459,004**
	=====	=====	=====

** 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, 2025

	General Fund	Library Fines Fund	3 rd Cent Fund	Total
	-----	-----	-----	-----
Receipts:				
Local sources:				
Taxes:				
Ad valorem taxes	59,674			59,674
General sales taxes	118,728		21,982	140,710
Licenses and permits:	3,790			3,790
Intergovernmental:				
State shared revenue:				
Bank franchise tax	381			381
Commercial prorate	1,838			1,838
Liquor tax reversion	1,603			1,603
5% motor vehicle licenses	8,764			8,764
Highway and bridge	15,187			15,187
County shared revenue	5,361			5,361
Charges for goods and services:				
General government	1,991			1,991
Sanitation (rubble site)	971			971
Cemetery	1,700			1,700
Library	1,579			1,579
Recreation	840			840
Fines:				0
Miscellaneous:				
Interest received	71,892			71,892
Rents and franchise	2,149			2,149
Total receipts	296,448	0	21,982	318,430
Disbursements:				
Current:				
General government:				
Mayor and Council	24,151			24,151
Elections	21			21
Financial administration	54,688			54,688
Other	40,804			40,804
Public safety:				
Police	7,060			7,060
Fire	11,194			11,194
Public works:				
Highways and streets	83,076			83,076
Sanitation	2,584			2,584
Cemetery	7,300			7,300
Water tower	22,137			22,137
Health and welfare:				
West Nile	3,277			3,277
Culture and recreation:				
Recreation	6,658			6,658
Parks	26,700			26,700
Library	10,450		8,606	19,056
Conservation and development:				
Economic development	11,220		3,400	14,620
Donations	11,500			11,500
Capital outlay	52,503			52,503
Total disbursements	375,323	0	12,006	387,329
Excess of receipts over (under) disbursements	-78,875	0	9,976	-68,899
Other financing sources (uses):				
Sale of surplus property	52			52
Transfer in - liquor	148,746			148,746
Transfer in - water	24,064			24,064
Net change in fund balance	93,987	0	9,976	103,963**
Fund balance:				
January 1, 2025	1,333,120	943	20,978	1,355,041
Library fund closed to general fund	943	-943		0
January 1, 2025, restated	1,334,063	0	20,978	1,355,041
December 31, 2025	1,428,050	0	30,954	1,459,004
	=====	=====	=====	=====

** Equals change in net position on
Statement of Activities
See accompanying notes.

CLOSED

CITY OF GARY

STATEMENT OF NET POSITION
MODIFIED CASH BASIS
ENTERPRISE FUNDS
AS OF DECEMBER 31, 2025

	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	11,246	115,771	237,680	7,994	372,691
	-----	-----	-----	-----	-----
Total assets	39,246	115,771	237,680	7,994	400,691
	=====	=====	=====	=====	=====
 NET POSITION					
Unrestricted	39,246	115,771	237,680	7,994	400,691
	-----	-----	-----	-----	-----
Total net position	39,246	115,771	237,680	7,994	400,691
	=====	=====	=====	=====	=====

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, 2025

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Operating receipts:					
Charges for goods and services	599,483	55,158	42,883	32,029	729,553
Surcharge			146		146
Games	4,669				4,669
Lottery sales, net	103,746				103,746
	-----	-----	-----	-----	-----
Total operating receipts	707,898	55,158	43,029	32,029	838,114
	-----	-----	-----	-----	-----
Operating disbursements:					
Personal services	206,370	23,096	25,854		255,320
Other current services	47,624	8,903	22,723		79,250
Cost of goods sold	291,511	21,731		29,076	342,318
	-----	-----	-----	-----	-----
Total operating disbursements	545,505	53,730	48,577	29,076	676,888
	-----	-----	-----	-----	-----
Excess operating receipts (disbursements)	162,393	1,428	-5,548	2,953	161,226
Nonoperating receipts (disbursements):					
Interest received			29		29
Sale of supplies		250			250
SRF CW-01 issue cost			-20,158		-20,158
	-----	-----	-----	-----	-----
Total nonoperating receipts (disbur	0	250	-20,129	0	-19,879
Excess receipts (disbursements) before grants, loan proceeds, capital costs and transfers	162,393	1,678	-25,677	2,953	141,347
Capital grants (forgiven)			503,191		503,191
SRF CW-01 loan proceeds			739,256		739,256
Capital costs	-13,948	-15,816	-1,232,290		-1,262,054
Net transfer (out) - general	-148,746	-24,064			-172,810
	-----	-----	-----	-----	-----
Change in net position	-301	-38,202	-15,520	2,953	-51,070
Net position:					
January 1, 2025	39,547	153,973	253,200	5,041	451,761
	-----	-----	-----	-----	-----
December 31, 2025	39,246	115,771	237,680	7,994	400,691
	=====	=====	=====	=====	=====

See accompanying notes.

CITY OF GARY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2025

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Cash flows from:					
Operating activities:					
Receipts from customers	707,898	53,404	42,152	31,737	835,191
Receipts interfund services		1,754	877	292	2,923
Payments to employees	-206,370	-23,096	-25,854		-255,320
Payments to suppliers	-336,825	-30,634	-22,723	-29,076	-419,258
Pymts interfund services	-2,310				-2,310
Net cash provided (used) by operating activities	----- 162,393	----- 1,428	----- -5,548	----- 2,953	----- 161,226
Noncapital financing activities:					
Sale of supplies		250			250
SRF CW-01 loan issue cost			-20,158		-20,158
Transfers (out) - general	-148,746	-24,064			-172,810
Capital financing activities:					
Capital grant (forgiven)			503,191		503,191
SRF CW-01 loan proceeds			739,256		739,256
Cash paid for improvements	-13,948	-15,816	-1,232,290		-1,262,054
Investing activities:					
Interest received			29		29
Net increase (decrease) in cash and cash equivalents	----- -301	----- -38,202	----- -15,520	----- 2,953	----- -51,070
Cash and cash equivalents:					
January 1, 2025	39,547	153,973	253,200	5,041	451,761
December 31, 2025	----- 39,246	----- 115,771	----- 237,680	----- 7,994	----- 400,691
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	162,393	1,428	-5,548	2,953	161,226
Net cash provided (used) by operating activities	----- 162,393	----- 1,428	----- -5,548	----- 2,953	----- 161,226
Noncash investing, capital and financing activities: None					

See accompanying notes.

CITY OF GARY
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2025

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, 2025 are:

Mayor:	Finance Officer:
Larry Stoks	Joni Kjelden
Governing Board:	Attorney:
Doug Nelson, President	Reed Mahlke of Helsper, McCarty & Rasmussen, PC
Jessica Christians	
Darwyn Engesser	
Jay Grabow	
Mike Nosbush	
Neil Schumacher	

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 goods 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 officials 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 meet 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 funds:

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 was closed into the general fund on January 1, 2025.

3rd Cent Sales Tax Fund - A fund established by SDCL 10-52A, to account for the collection of a 1% tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including promotion and advertising of the City. The 3rd cent sales tax 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 Gary. This fund is a major fund.

Fiduciary Funds:

Fiduciary funds are never considered to be major funds. The City had no fiduciary funds in 2024.

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, 2025 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 as (1) operating receipts and disbursements, (2) nonoperating receipts and disbursements including interest and noncapital capital and financing activities, and (3) capital and related financing activities and transfers.

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 restricted 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 Classifications</u>	<u>Account or Fund</u>	<u>Authority or Action</u>	<u>Amount</u>
Nonspendable	None		0
Redtricted	General - Cemetery	Bequest	70,450
Restricted	3 rd Cent	Statute	30,954
Committed	None		0
Assigned	General - change	Finance officer	125
Unassigned	General		1,357,475

			1,459,004

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:
* 3 rd Cent	City promotion	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. Reported budget overdrafts are:

2025: General fund/General government/Mayor and Council	251
/Public works/water tower	22,137
/Culture and Recreation/library	450
3 rd Cent fund/Culture and Recreation/library	8,606

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. These budget overdrafts are not considered a material or significant finding with respect to these financial statements.

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, 2025 were as follows: Insured \$500,000, Collateralized ** \$23,890, for a total of \$523,890.

** 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, 2025 was \$480,928 held as follows.

Deuel County National Bank (Gary):

Checking	192,149
Certificate of deposit	260,654
Petty cash - general	125
Petty cash - liquor	3,000
Petty cash - lottery	25,000

	480,928
	=====

Certificates of deposit, 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.

Fair Value Measurement - 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.

City has the following recurring fair value measurements as of December 31, 2025:

WI Treasury Bill	Level 1	Market value reported by an independent third-party pricing service.
US Treasury Note	Level 1	Market value reported by an independent third-party pricing service.

At December 31, 2025, the City had the following investment:

	Credit Rating	Maturities	Fair Value	Interest Rate Risk
South Dakota FIT:				
Govt. Cash Reserve Money Market Market (38.94%)	Unrated	NA	536,942	notes 1,2,3
US Treasury N/B (7.17%)	NA	4-15-2026	98,803	fixed rate
US Treasury N/B (18.07%)	NA	7-31-2026	249,187	fixed rate
US Treasury N/B (18.08%)	NA	8-15-2026	249,206	fixed rate
US Treasury N/B (17.74%)	NA	1-15-2027	244,629	fixed rate
			841,825	

notes

1. Fixed principal. Interest rate varies. Not subject to interest rate risk.
2. South Dakota Public Fund Investment Trust (SD.FIT) is an external investment pool created for South Dakota local government investing purposes. It is regulated by a nine-member board with representation from municipalities, school districts, and counties. The net asset value of the SD.FIT money market account (GCR) is kept at one dollar per share by adjusting the rate of return on a daily basis. Earnings are credited to each account on a monthly basis.
3. Because the City has access to these funds on demand, they are considered to be a "cash equivalent."
4. Because these financial statement are on a modified cash basis of accounting, reporting is based on cost and not fair value.

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, 2025, 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 DNB 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
General - Cemetery	Bequest	70,450	none
3 rd Cent	Statute	30,954	none

6. INTERFUND TRANSACTIONS

During 2025 the liquor fund transferred \$148,746 to the general fund for operations and the water fund transferred \$24,064 to the general fund for operations. Also, the library fund was closed and its cash of \$943 was transferred to the general fund.

7. LONG-TERM LIABILITIES (see schedule one)

A summary of changes in long-term liabilities is presented as supplementary information on page 25. The Town has no: (a) unused lines-of-credit, (b) short-term debt, (c) debt extinguishments, defeasances, refundings or troubled debt restructuring, (d) special assessment debt, (e) conduit debt, (f) derivatives or hedging of variable rate debt, (g) debt related to claims and judgments, or (h) other than the collateral specified, terms in debt agreements related to significant (1) events of default with finance-related consequences, (2) termination events with finance-related consequences or (3) subjective acceleration clauses.

8. 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 Information:

All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS). SDRS is a hybrid defined benefit plan designed with several defined contribution plan type provisions and is administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and

survivor benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to SDRS, PO Box 1098, Pierre, SD 57501-1098 or 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 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.

Legislation enacted in 2021 reduced the minimum COLA from .05 percent to 0.0 percent. All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:

Per SDCL 3-12, 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, 2025, 2024 and 2023 were \$14,096, \$14,025, and \$12,183 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflow of Resources to Pensions:

At June 30, 2025 SDRS is 100.1% 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, 2025 and reported by the City as of December 31, 2025 are as follows:

Proportionate share of total pension liability	\$ 1,179,983
Less: Proportionate share of net position restricted for pension benefits	(1,180,641)

Proportionate share of net pension (asset)/liability	\$ (658)
	=====

The net pension (asset) was measured as of June 30, 2025 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 contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2025, the City's proportion was .00007731 which is a decrease of .00000109 over its proportion measured as of June 30, 2024.

Actuarial Assumptions:

The total pension (asset) in the June 30, 2025 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary Increases	Graded by years of service, from 7.66% at entry to 3.15% after 25 years of service
Discount Rate	6.50% net of plan investment expense. This is composed of an average inflation rate of 2.50% and real return of 4.00%
Future COLAs	1.56%
Mortality rates:	All mortality rates based on Pub-2010 amount-weighted mortality tables, projected generationally with improvement scale MP-2020

Active and Terminated Vested Members:

Teachers, Certified Regents, and Judicial: Pub T-2010

Other Class A Members: Pub G-2010

Public Safety Members: Pub S-2010

Teachers, Certified Regents, and Judicial Retirees:

Pub T-2010, 108% of rates above age 65

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

Public Safety Retirees: Pub S-2010, 102% of rate at all ages

Pub G-2010 contingent survivor mortality table

Disabled Members:

Public Safety: Pub S-2010 disabled member mortality table

Others: Pub G-2010 disabled member mortality table

The actuarial assumptions used in the June 30, 2025 valuation were based on the results of an actuarial experience study for the period of July 1, 2016 to June 30, 2021.

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, 2025 (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
Public Equity	56.3%	3.8%
Investment grade debt	22.8%	2.3%
High Yield debt	7.0%	2.9%
Real Estate	12.0%	4.0%
Cash	1.9	0.8%

	100.0%	
	=====	

Discount Rate:

The discount rate used to measure the total pension asset was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member 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 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	\$161,147	\$(658)	\$(133,214)

Pension Plan Fiduciary Net Position:

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

9. 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 installments 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: Amounts 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.

10. 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, 2025 the City managed its risks as follows:

Employee Health Insurance

The City purchased health insurance for its employees from a commercial carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

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

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 one year ending December 31, 2025 and none are expected in 2026.

11. LITIGATION

At December 31, 2025 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, 2025 the City did not provide any tax abatement incentives through agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

13. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

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 March 2024 the Board of Water and Natural Resources approved a \$2,015,822 Clean Water SRF loan which includes 40.5 percent Principal Forgiveness not to exceed \$815,000, for the Gary Wastewater Improvements project. The term of the loan is 3.75% for 30 years. There were total draws of \$1,242,447 on this loan in 2025.

In 2026 SD.DOT requested that the Lac Qui Parle Street and Second Avenue bridge projects be bid at the same time.

CITY OF GARY
NOTES TO THE FINANCIAL STATEMENTS
SCHEDULED OF CHANGES IN LONG-TERM LIABILITIES
FOR THE ONE YEAR ENDING DECEMBER 31, 2025

	Beginning 12-31-24	2025 Additions	2025 (Deletions)	Governmental Ending 12-31-25	Business-Type Ending 12-31-25	Principal Payments Due In 2026

BUSINESS-TYPE - DIRECT BORROWING						
2025 Clean Water SRF Loan (CW-01):						
Loan amount of \$2,015,822						
Forgivable at 40.5% up to \$815,000						
Maturing on May 15, 2057						
Interest fixed at 3.75%						
Supported by a surcharge						
Quarterly payments of \$28,054						
with no forgiveness		1,242,447	proceeds			
Paid by sewer fund	0	-503,191	forgiven		739,256	None

SCHEDULE OF PAYMENTS FOR LONG-TERM LIABILITIES
AT DECEMBER 31, 2025

	Total Payment	Principal	Interest	Balance

2025 Clean Water SRF Loan (CW-01):				
2026		773,375	proceeds	1,512,631
2026		-311,809	forgiven	1,200,822
Repayment:				
2027	182,565	15,000	167,565	1,185,822
2028	67,134	22,666	44,468	1,163,156
2029	67,134	23,515	43,619	1,139,641
2030	67,134	24,397	42,737	1,115,244
2031-2035	335,669	136,416	199,253	978,828
2036-2040	335,669	163,986	171,683	814,842
2041-2045	335,669	197,127	138,542	617,715
2046-2050	335,669	236,966	98,703	380,749
2051-2055	335,669	284,857	50,812	95,892
2056-2057	100,700	95,892	4,808	0

Totals	2,163,012	1,662,388	962,190	
=====				

CITY OF GARY
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE YEAR ENDING DECEMBER 31, 2025

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			59,674	1,674
General sales and use taxes	120,000			118,728	-1,272
Licenses and permits:	4,500			3,790	-710
Intergovernmental receipts:					
State shared receipts:	28,000				-28,000
Bank franchise tax				381	381
Commercial prorate				1,838	1,838
Liquor tax reversion				1,603	1,603
5% motor vehicle licenses				8,764	8,764
Highway and bridge				15,187	15,187
County shared receipts:	5,000			5,361	361
Charges for goods and services:	5,000				-5,000
General government				1,991	1,991
Streets					0
Sanitation (rubble site)				971	971
Cemetery				1,700	1,700
Recreation				2,419	2,419
Fines:					0
Miscellaneous receipts:	3,000				-3,000
Interest received				71,892	71,892
Rents and franchise fees				2,149	2,149
Total receipts	223,500	0	0	296,448	72,948
Disbursements:					
General government:					
Mayor and Council	22,000	1,900		24,151	-251
Contingency	40,000				40,000
Amount transferred		-16,927			-16,927
Elections	500			21	479
Financial administration	53,000	4,000		54,688	2,312
Other	40,000		15,000	40,804	14,196
Public safety:					
Police	8,000			7,060	940
Fire	20,000		15,000	33,694	1,306
Public works:					
Highways and streets	121,000	1,100		113,079	9,021
Sanitation (rubble site)	3,000			2,584	416
Cemetery	6,000	1,350		7,300	50
Water tower				22,137	-22,137
Health and welfare:					
West Nile	2,000	1,277		3,277	0
Culture and recreation:					
Recreation	6,000	700		6,658	42
Parks	42,000			26,700	15,300
Library	10,000			10,450	-450
Conservation and development:					
Economic development:	5,500		6,000	11,220	280
Donations	5,000	6,600		11,500	100
Total disbursements	384,000	0	36,000	375,323	44,677
Excess of receipts over (under) disbursements	-160,500	0	-36,000	-78,875	117,625
Other financing sources (uses):					
Sale of surplus property				52	52
Compensation for damaged property					0
Transfers in	180,000			172,810	-7,190
Net change in fund balance	19,500	0	-36,000	93,987	110,487
Fund balance:					
January 1, 2025, restated	1,334,063			1,334,063	0
December 31, 2025	1,353,563	0	-36,000	1,428,050	110,487

CITY OF GARY
SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
FOR THE YEAR ENDING DECEMBER 31, 2025

3 rd CENT FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)
	Original	Supplemental:	Final		
Receipts:					
Receipts from local sources:					
Taxes:					
General sales and use taxes	12,000		12,000	21,982	9,982
Total receipts	12,000	0	12,000	21,982	9,982
Disbursements:					
Culture and recreation:					
Library			0	8,606	-8,606
Conservation and Development:					
Promoting the City	12,000		12,000	3,400	8,600
Total disbursements	12,000	0	12,000	12,006	-6
Excess of receipts over (under) disbursements	0	0	0	9,976	9,976
Other financing sources (uses):					
None			0		0
Net change in fund balance	0	0	0	9,976	9,976
Fund balance:					
January 1, 2025	20,978		20,978	20,978	0
December 31, 2025	20,978	0	20,978	30,954	9,976

CITY OF GARY
NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL
FUND AND 3RD CENT FUND FOR THE ONE YEAR ENDING December 31, 2025

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 was one supplemental budget in 2025. See page 26 for more information.
- e. Formal budgetary integration is employed as a management control device for the general fund and 3rd cent fund.
- f. Budgets for the general and 3rd cent funds are 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 TEN YEARS ENDING DECEMBER 31, 2025

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, 2025	0.0077310%	-658	230,017	(0.29%)	100.10%
June 30, 2024	0.0078400%	-317	219,950	(0.14%)	100.00%
June 30, 2023	0.0074740%	-729	192,783	(0.38%)	100.10%
June 30, 2022	0.0076020%	-718	181,517	(0.40%)	100.10%
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%

(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.

CITY OF GARY
FOR THE TEN YEARS ENDING DECEMBER 31, 2025

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, 2025	14,096	14,096	0	234,933	6.00%
December 31, 2024	14,025	14,025	0	233,750	6.00%
December 31, 2023	12,183	12,183	0	203,050	6.00%
December 31, 2022	10,795	10,795	0	179,917	6.00%
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%

Note: This schedule is intended to show information for ten years.

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 ONE YEAR ENDING DECEMBER 31, 2025

Changes of Prior Valuation:

The June 30, 2025 Actuarial Valuation reflects no changes to the plan provisions or actuarial methods and one change to the actuarial assumptions from the June 30, 2024, Actuarial Valuation.

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

Benefit Provision Changes:

During the 2025 Legislative Session no significant SDRS benefit changes were made.

Actuarial Method Changes:

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

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% and no greater than 3.5%. However, if the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (currently 2.25%) is less than 100%, the maximum COLA payable will be limited to the increase that if assumed on a long-term basis, results in a FVFR equal to or exceeding 100%.

As of June 30, 2024, the FVFR assuming the long-term COLA is equal to the baseline COLA assumption (2.25%) was less than 100% and the July 2025 SDRS COLA was limited to a restricted maximum of 1.71%. For the June 30, 2024, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA assumption of 1.71%

As of June 30, 2025, the FVFR assuming future COLAs equal to the baseline COLA assumption of 2.25% is again less than 100% and the July 2026 SDRS COLA is limited to a restricted maximum of 1.56%. The July 2026 SDRS COLA will equal inflation, between 0% and 1.56%. For this June 30, 2025, Actuarial Valuation, future COLAs were assumed to equal the restricted maximum COLA of 1.56%.

Actuarial assumptions are reviewed for reasonability annually and reviewed in depth periodically, with the next experience analysis anticipated before the June 30, 2027, Actuarial Valuation and any recommended changes approved by the Board of Trustees are anticipated to be first implemented in the June 30, 2027, Actuarial 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, 2025 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City of Gary's basic cash basis financial statements and have issued my report thereon dated August 27, 2026 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 2025-01 and 2025-02 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 August 27, 2026.

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 August 27, 2026.

Purpose of this Report

The purpose of this 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's internal control over financial reporting 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



August 27, 2026

SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:

There are no prior year federal compliance audit findings.

Prior Other Audit Findings:

2024-01 [Segregation of Duties] Repeated below as 2025-01
2024-02 [Preparation of Financial Statements] Repeated below as 2025-02

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2025-01: 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, 2025
SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES (continued)

Finding 2025-02: 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.