

CITY OF GARY
GARY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2020
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

Benjamin Elliott, CPA
P.O. Box 262
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CITY OF GARY
GARY, SOUTH DAKOTA

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FOR THE ONE YEAR ENDING DECEMBER 31, 2020

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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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Governing Board
City of Gary
Gary, South Dakota

INDEPENDENT AUDITOR'S REPORT

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, 2020 and for the year then 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.

Management's Responsibility for the Financial Statements

The City's 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; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances. Management is responsible for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standard applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements 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, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I obtained is sufficient and appropriate to provide a basis for my audit opinions on governmental activities, business-type activities and each major fund.

Unmodified Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position on a modified cash basis of accounting of governmental activities, business-type activities and each major fund of the City of Gary, South Dakota, as of December 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting described in note 1c to these financial statements.

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.

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's financial statements.

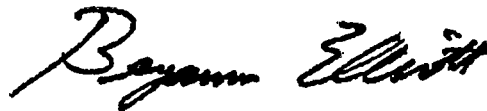
The management's discussion and analysis (page 3 to 8), budgetary comparison schedules (page 29 and 30) and pension schedules (page 31 and 32) listed in the table of contents as supplementary information, are presented for purposes of additional analysis and are not a required of the modified cash basis of accounting financial statements.

I have applied certain limited procedures to this 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 formation 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 this 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 (page 33) dated January 25, 2022 on my tests of City of Gary's compliance with certain provisions of laws, regulations, contracts and other matters and my consideration of its internal control over financial reporting. The purpose of that report is to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on compliance or internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting.

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



January 25, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the City of Gary's (City) financial report presents our discussion and analysis of the City's financial performance for the one year ending December 31, 2020 within the limitations of the City's modified cash basis of accounting. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS	2020
Receipts:	
Charges for goods and services	760,686
Operating grants	18,169
Capital grants	0
General receipts	150,298

Total	929,153

Disbursements:	
Governmental	366,267
Business-type	700,682

Total	1,066,949

(Decrease) in Net Position	(137,796)
Net Position:	
January 1, 2020	1,218,366

December 31, 2020	1,080,570
	=====
Governmental Funds:	
General	687,150
Library fines	295
Business-Type Funds:	
Liquor	75,127
Water	103,446
Sewer	210,198
Solid waste	4,354

Total	1,080,570
	=====

During 2020, the City:

- * Received \$51,573 from property taxes.
- * Received \$61,934 from sales taxes.
- * Had bar sales of \$550,924.
- * Had net video lottery sales of \$87,224.
- * Had water and sewer sales of \$88,561.
- * Received CARES grants of \$16,133.
- * Paid for an expansion of the City's bar and liquor store of \$143,204.
- * Paid for street repairs of \$118,492.
- * Made various community subsidies and donations for \$6,600.
- * Donated \$15,000 to the fire department, which was used to make a fire truck payment.
- * Transferred \$32,225 from the liquor fund to the general fund for operations.
- * The City had no debt in 2020.

Here is a summary of the major features of these financial statement.

	Government-wide Statements	-----Fund Statements-----	
		Governmental Funds	Enterprise Funds
Scope	Entire City	City activities except enterprise funds	Activities operated like a private business (ie: water)
Required Modified cash Basis	Statement of Net Position	Balance Sheet	Stmt. of Net Position
Financial Statements	Statement of Cash Activities	Stmt. of Cash Receipts Disbursements and Changes in Fund Balances	Stmt. of Cash Receipts, Disbursements and Changes in Net Position Stmt. of Cash Flows
Basis of Accounting	Modified Cash	Modified Cash	Modified Cash
Measurement Focus	Modified Cash	Modified Cash	Modified Cash
Types of assets	Cash, CDs Investments	Cash, CDs, Investments	Cash, CDs Investments
Liabilities	None reported	None reported	None reported
Types of Receipts and Disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements	Cash receipts Cash disbursements

BASIS OF ACCOUNTING

The City has elected to present its financial statements on the modified cash basis of accounting. This modified cash basis of accounting is a basis of accounting other than generally accepted accounting principles. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and their related assets and liabilities. Under the City's modified cash basis of accounting, revenues (receipts) and expenses (disbursements) are recorded when they come from cash transactions.

As a result of the use of the modified cash basis of accounting, certain assets (such as inventory and capital assets), liabilities (such as accounts payable and long-term debt) and expenses (such as depreciation) are *not recorded* in these financial statements. Therefore, when reviewing financial information presented in this report, the reader should keep in mind the limitations resulting from the use of this modified cash basis of accounting.

GOVERNMENT-WIDE STATEMENTS (reporting the City as a whole)

The government-wide statements (page 9 and 10) report information about the City as a whole using cash accounting methods similar to those used by private-sector companies. The statement of net position includes all of the City's cash. The statement of activities includes all of the year's receipts and disbursements.

The two government-wide statements report the City's net position and how it has changed. Net position is the City's change cash, lottery cash, checking accounts, and certificates of deposit. The change in these accounts is one way to measure the City's financial health. Increases or decreases in net position measures improvements or declines in the City's financial health. To assess the City's overall financial health you also need to consider other factors such as changes in the property tax base and sales tax receipts generated from local businesses.

The government-wide financial statements have two broad categories of information: governmental activity and business-type activity.

The governmental activities include basic services such as police and fire protection, maintenance of streets, parks and recreation. Property taxes, sales taxes, and interest received finance most of these activities.

The business-type activities account for the City's liquor, water, sewer, and solid waste activities. These services are funded by user fees. Bonds and federal and state grants help pay for capital improvements to the water and sewer systems.

The City has no component units. These are organizations which, because the nature and significance of their relationship to the City, would make the City's financial statements incomplete or misleading if they were excluded from the City's financial statements.

FUND FINANCIAL STATEMENTS

(reporting the City's most significant funds)

The fund financial statements (page 11 to 15) provide more detailed information about the City's most significant funds - not the City as a whole. Funds are accounting tools used to keep track of the City's receipts and disbursements. State law requires the use of some funds and the City Council establishes other funds to manage money for a specific purpose.

The fund financial statements show information in two broad categories: governmental and enterprise (business-type).

Governmental funds: Most of the City's basic services are included in the governmental funds, which focus on (1) how cash flows in and out of that fund, and (2) cash balances left at year-end which are available for spending in the next year. The governmental funds financial statements provide detail that helps you determine whether there is more or fewer cash resources available for spending in the near future to finance City programs. The general fund and the library fines fund are the only governmental funds maintained by the City.

Enterprise fund: Services for which the City charges the customer a fee are generally reported in enterprise funds. These funds account for cash and the receipt and disbursement of cash, the same as the governmental funds. The liquor, water, sewer, and solid waste funds are the only enterprise funds maintained by the City.

MATERIAL CHANGES IN STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

(Material changes for governmental activities = changes greater than \$20,000)

(Material changes for business-type activities = changes greater than \$50,000)

== 2020 ==	Increase (Decrease)	Reason
Governmental Activities:		
Cash	(153,586)	Excess of disbursements over receipts plus transfer out of \$39,140 to liquor fund.
Public works	71,696	Street repair work.
Culture, recreation	24,387	Purchased lawn mower and power grader
Transfers	(41,040)	Reduced net transfers because of bar remodel
Business-type Activities:		
Charges for services	84,294	Increased liquor sales.
Liquor expenses	155,814	Capital improvements.
Transfers	41,040	Reduced net transfers because of bar remodel

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's general fund budget of \$475,492 for the 2020 year is an increase of \$123,492 or 35.08% from 2019. The increase was mainly in streets. There was one supplemental appropriation in 2020. See page 29 for more information.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Significant capital asset activity is reported above.

SIGNIFICANT LONG-TERM DEBT ACTIVITY

The City had no debt in 2020.

CURRENTLY KNOWN FACTS

In June 2021 the City approved the instillation of a water level indicator on the water tower.

In August 2021 the City finished remodeling its bar and liquor store.

In September 2021 the City was allocated \$40,951 of Coronavirus Relief funds.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Gary's finance office at P.O. Box 127, Gary, SD 57237 or telephone us at 605.272.5651.

CITY OF GARY

TABLE 1 - NET POSITION (condensed)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2020 AND DECEMBER 31, 2019

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Assets:						
Change cash	125	125	3,000	3,000	3,125	3,125
Lottery cash			25,000	25,000	25,000	25,000
Checking	468,996	622,582	365,125	349,335	834,121	971,917
Certificates of deposit	218,324	218,324			218,324	218,324
Total	687,445	841,031	393,125	377,335	1,080,570	1,218,366
Net position:						
Restricted	295	378			295	378
Unrestricted	687,150	840,653	393,125	377,335	1,080,275	1,217,988
Total	687,445	841,031	393,125	377,335	1,080,570	1,218,366

TABLE 2 - CHANGES IN NET POSITION (condensed)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020 AND DECEMBER 31, 2019

	Governmental Activities		Business-Type Activities		Total Government	
	2020	2019	2020	2019	2020	2019
Receipts:						
Program receipts:						
Charges for services	11,989	7,689	748,697	664,403	760,686	672,092
Operating grants and contributic	18,169	1,097			18,169	1,097
Capital grants and contributions		11,739			0	11,739
General receipts:						
Property taxes	51,573	50,857			51,573	50,857
Sales taxes	61,934	53,430			61,934	53,430
Amusement tax	204	192			204	192
State shared receipts	24,671	24,224			24,671	24,224
County shared receipts	4,298	4,313			4,298	4,313
Interest/dividends received	4,828	9,656			4,828	9,656
Rents and franchise fees	2,266	2,315			2,266	2,315
Miscellaneous	524	913			524	913
Total receipts	180,456	166,425	748,697	664,403	929,153	830,828
Disbursements:						
General government	96,955	81,659			96,955	81,659
Public safety	21,992	27,597			21,992	27,597
Public works	193,800	122,104			193,800	122,104
Health and welfare	1,374	2,044			1,374	2,044
Culture and recreation	45,259	20,872			45,259	20,872
Economic development	6,887	9,052			6,887	9,052
Liquor			604,003	448,189	604,003	448,189
Water			44,935	49,552	44,935	49,552
Sewer			30,321	16,215	30,321	16,215
Solid waste			21,423	20,887	21,423	20,887
Total disbursements	366,267	263,328	700,682	534,843	1,066,949	798,171
Receipts over (under) disburse:	(185,811)	(96,903)	48,015	129,560	(137,796)	32,657
Sale of surplus property		7,360			0	7,360
Transfers	32,225	73,265	(32,225)	(73,265)	0	0
Change in net position	(153,586)	(16,278)	15,790	56,295	(137,796)	40,017
Net position:						
December 31, 2018		857,309		321,040		1,178,349
December 31, 2019	841,031	841,031	377,335	377,335	1,218,366	1,218,366
December 31, 2020	687,445		393,125		1,080,570	

CITY OF GARY

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2020

	Primary Government		
	Governmental	Business-	Total
	Activities	Type	
	-----	-----	-----
ASSETS:			
Change cash	125	3,000	3,125
Lottery cash		25,000	25,000
Checking	468,996	365,125	834,121
Certificates of deposit	218,324		218,324
	-----	-----	-----
Total assets	687,445	393,125	1,080,570
	=====	=====	=====
NET POSITION:			
Restricted for:			
Library	295		295
Unrestricted	687,150	393,125	1,080,275
	-----	-----	-----
Total net position	687,445	393,125	1,080,570
	=====	=====	=====

See accompanying notes.

CITY OF GARY

STATEMENT OF ACTIVITIES

MODIFIED CASH BASIS

FOR THE YEAR ENDING DECEMBER 31, 2020

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	96,955	4,556			(92,399)		(92,399)
Public safety	21,992				(21,992)		(21,992)
Public works	193,800	6,207			(187,593)		(187,593)
Health and welfare	1,374		17,169		15,795		15,795
Culture and recreation	45,259	1,226	1,000		(43,033)		(43,033)
Economic development	6,887				(6,887)		(6,887)
Total governmental activities	366,267	11,989	18,169	0	(336,109)	0	(336,109)
Business-type activities:							
Liquor	604,003	638,148				34,145	34,145
Water	44,935	48,792				3,857	3,857
Sewer	30,321	39,769				9,448	9,448
Solid waste	21,423	21,988				565	565
Total business-type activities	700,682	748,697	0	0	0	48,015	48,015
Total primary government	<u>1,066,949</u>	<u>760,686</u>	<u>18,169</u>	<u>0</u>	<u>(336,109)</u>	<u>48,015</u>	<u>(288,094)</u>
General receipts:							
Taxes:							
					51,573		51,573
					61,934		61,934
					204		204
					24,671		24,671
					4,298		4,298
					4,828		4,828
					2,266		2,266
					524		524
					32,225	(32,225)	0
					182,523	(32,225)	150,298
					(153,586)	15,790	(137,796)
Net position:							
					841,031	377,335	1,218,366
					687,445	393,125	1,080,570

See accompanying notes.

CITY OF GARY

BALANCE SHEET -- MODIFIED CASH BASIS
 ALL GOVERNMENTAL FUNDS
 AS OF DECEMBER 31, 2020

	General Fund	Library Fines Fund	Total
	-----	-----	-----
ASSETS:			
Change cash	125		125
Checking	468,701	295	468,996
Certificates of deposit	218,324		218,324
	-----	-----	-----
Total assets	687,150	295	687,445
	=====	=====	=====
FUND BALANCE:			
Nonspendable			0
Restricted		295	295
Committed			0
Assigned			0
Unassigned	687,150		687,150
	-----	-----	-----
Total fund balances	687,150	295	687,445 **
	=====	=====	=====

** 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, 2020

	General Fund	Library Fines Fund	Total
	-----	-----	-----
Receipts:			
Local sources:			
Taxes:			
Ad valorem taxes	51,573		51,573
General sales taxes	61,934		61,934
Amusement taxes	204		204
Licenses and permits:	3,380		3,380
Intergovernmental:			
Federal shared revenue - CARES	16,133		16,133
State shared revenue:			
Grant - mosquito	1,037		1,037
Grant - trees	1,000		1,000
Bank franchise tax	311		311
Commercial prorate	1,515		1,515
Liquor tax reversion	1,571		1,571
5% motor vehicle licenses	7,761		7,761
Highway and bridge	13,513		13,513
County shared revenue	4,298		4,298
Charges for goods and services:			
General government	1,176		1,176
Sanitation (rubble site)	3,102		3,102
Cemetery	3,104		3,104
Recreation (golf)	1,226		1,226
Miscellaneous:			
Interest received	4,828		4,828
Rents and franchise	2,266		2,266
Other	524		524
	-----	-----	-----
Total receipts	180,456	0	180,456
	-----	-----	-----
Disbursements:			
Current:			
General government:			
Mayor and Council	19,856		19,856
Elections	456		456
Financial administration	36,481		36,481
Other	38,152		38,152
Public safety:			
Police	5,998		5,998
Fire	15,994		15,994
Public works:			
Highways and streets	71,909		71,909
Sanitation	1,077		1,077
Cemetery	2,322		2,322
Health and welfare:			
West Nile	1,374		1,374
Culture and recreation:			
Recreation	2,301		2,301
Parks	27,926		27,926
Library	7,381	83	7,464
Conservation and development:			
Economic development	287		287
Donation	6,600		6,600
Capital outlay	128,070		128,070
	-----	-----	-----
Total disbursements	366,184	83	366,267
	-----	-----	-----
Excess of receipts over (under) disbursements	(185,728)	(83)	(185,811)
Other financing sources (uses):			
Net transfer in - liquor	32,225		32,225
	-----	-----	-----
Net change in fund balance	(153,503)	(83)	(153,586) **
Fund balance:			
January 1, 2020	840,653	378	841,031
	-----	-----	-----
December 31, 2020	687,150	295	687,445
	=====	=====	=====

** 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, 2020

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total Enterprise Funds
	-----	-----	-----	-----	-----
ASSETS					
Current assets:					
Change cash	3,000				3,000
Lottery cash	25,000				25,000
Checking	47,127	103,446	210,198	4,354	365,125
	-----	-----	-----	-----	-----
Total assets	75,127	103,446	210,198	4,354	393,125
	=====	=====	=====	=====	=====
NET POSITION					
Unrestricted	75,127	103,446	210,198	4,354	393,125
	-----	-----	-----	-----	-----
Total net position	75,127	103,446	210,198	4,354	393,125
	=====	=====	=====	=====	=====

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, 2020

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Operating receipts:					
Charges for goods and services	550,924	48,792	39,769	21,988	661,473
Lottery sales, net	87,224				87,224
	-----	-----	-----	-----	-----
Total operating receipts	638,148	48,792	39,769	21,988	748,697
	-----	-----	-----	-----	-----
Operating disbursements:					
Personal services	173,009	16,242	16,242		205,493
Other current services	23,420	10,010	14,079		47,509
Cost of goods sold	264,370	18,683		21,423	304,476
Capital costs	143,204				143,204
	-----	-----	-----	-----	-----
Total operating disbursements	604,003	44,935	30,321	21,423	700,682
	-----	-----	-----	-----	-----
Excess operating receipts (disbursements)	34,145	3,857	9,448	565	48,015
Nonoperating receipts (disbursements):					
None					0
	-----	-----	-----	-----	-----
Total nonoperating receipts (disbur)	0	0	0	0	0
	-----	-----	-----	-----	-----
Excess receipts (disbursements) before transfers	34,145	3,857	9,448	565	48,015
Net transfer (out) - general	(32,225)				(32,225)
	-----	-----	-----	-----	-----
Change in net position	1,920	3,857	9,448	565	15,790
Net position:					
January 1, 2020	73,207	99,589	200,750	3,789	377,335
	-----	-----	-----	-----	-----
December 31, 2020	75,127	103,446	210,198	4,354	393,125
	=====	=====	=====	=====	=====

See accompanying notes.

CITY OF GARY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2020

	Liquor Fund -----	Water Fund -----	Sewer Fund -----	Solid Waste Fund -----	Total -----
Cash flows from:					
Operating activities:					
Receipts from customers	638,148	47,460	39,103	21,766	746,477
Receipts for interfund services		1,332	666	222	2,220
Payments to employees	(173,009)	(16,242)	(16,242)		(205,493)
Payments to suppliers	(285,851)	(28,693)	(14,079)	(21,423)	(350,046)
Payments for interfund services	(1,939)				(1,939)
Net cash provided (used) by operating activities	----- 177,349	----- 3,857	----- 9,448	----- 565	----- 191,219
Noncapital financing activities:					
Net transfers (out) - general	(32,225)				(32,225)
Capital financing activities:					
Cash paid for building	(139,700)				(139,700)
Cash paid for equipment	(3,504)				(3,504)
Investing activities:					
None					0
Net increase (decrease) in cash and cash equivalents	----- 1,920	----- 3,857	----- 9,448	----- 565	----- 15,790
Cash and cash equivalents:					
January 1, 2020	73,207	99,589	200,750	3,789	377,335
December 31, 2020	----- <u>75,127</u>	----- <u>103,446</u>	----- <u>210,198</u>	----- <u>4,354</u>	----- <u>393,125</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	34,145	3,857	9,448	565	48,015
Add back capital purchases	143,204				143,204
Net cash provided (used) by operating activities	----- <u>177,349</u>	----- <u>3,857</u>	----- <u>9,448</u>	----- <u>565</u>	----- <u>191,219</u>
Noncash investing, capital and financing activities: None					

See accompanying notes.

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, 2020 are:

Acting Mayor:	Finance Officer:
Albert Bekaert	Shirley Pederson
Governing Board:	Attorney:
Albert Bekaert, President	Vince Foley
Clark Dessler	
Darwyn Engesser	
John Jenson	
Joni Kjelden	
David Peterson	

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 2020.

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 financials 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, 2020 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 "Net Position Held in Fiduciary Capacity."

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	Library	Statute	295
Committed	None		0
Assigned	None		0
Unassigned	General		687,150

			687,445

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 12

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

None reported.

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, 2020 were as follows: Insured \$468,324, Collateralized ** \$648,399, for a total of \$1,116,723.

** 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, 2020 was \$1,080,570 held as follows.

Deuel County National Bank (Gary):	
Checking	834,121
Certificates of deposit	218,324

	1,052,445
Petty cash - general	125
Petty cash - liquor	3,000
Petty cash - lottery	25,000

	1,080,570
	=====

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, 2020.

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, 2020, 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
Library services	Statute	295	none

6. INTERFUND TRANSACTIONS

During 2020 the liquor fund transferred \$32,225 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 liability (assets), 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 equal to or greater than 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, 2020, 2019, and 2018 were \$11,733, \$9,541 and \$9,568 respectively (employer's share) equal to the required contribution each year.

Pension (Assets)/Liabilities:

At June 30, 2020 SDRS is 100.04% 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, 2020 and reported by the City as of December 31, 2020 are as follows:

Proportionate share of total pension liability	\$ 1,019,766
Less: Proportionate share of net position restricted for pension benefits	(1,020,126)

Proportionate share of net pension (asset)/liability	\$ (360)
	=====

The net pension (asset)/liability was measured as of June 30, 2020 and the total pension (asset)/liability used to calculate the net pension (asset)/liability 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, 2020, the City's proportion was .000082955 which is an increase of .000007421 over its proportion measured as of June 30, 2019.

Actuarial Assumptions:

The total pension (asset)/liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25%
Salary Increases	Graded by years of service from 6.50% at entry to 3.00% after 25 years of service
Discount Rate	6.50% net of plan investment expense
Future COLAs	1.41%

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.

Actuarial assumptions used in the June 30, 2020 valuation were based on results of an actuarial experience study for the period of July 1, 2011 to June 30, 2016.

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)/liability.

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	\$139,762	\$(360)	\$(114,977)

Investments

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which my 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, 2020 (see the discussion of the pension plan's investment policy) are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	58.0%	5.1%
Fixed Income	30.0%	1.5%
Real Estate	10.0%	6.2%
Cash	2.0%	1.0%

	100.0%	

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, 2020 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 a claims-made policy and the premiums are accrued based on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage. The City pays an annual premium to the pool to provide coverage for general liability, auto liability, auto damage, property damage.

Effective January 1, 2018 the SDPAA revised the method of calculating the amount available to be refunded to a withdrawing member. Upon giving proper written notice to the SDPAA a member may withdraw. Within 120 days following withdrawal, or as soon thereafter as the next Annual Budget is completed, the SDPAA will advise the withdrawing member of its total calculated portion of contributions made to the SDPAA that shall be refunded. Refunds are calculated based on the pool's total contributions, along with the member's total contributions, current losses, unpaid losses, and loss expenses, the member's loss ratio, and number of membership years.

A member who withdraws from the SDPAA shall receive a calculated portion of their contributions refunded for unpaid casualty losses, based on the following schedule:

Years	1	2	3	4	5	6+
Percentage	55%	50%	40%	35%	30%	20%

All refunds shall be paid to the withdrawing member over a 5 year term.

As of December 31, 2020, the City's balance available to be refunded per the SDPAA was \$35,525, which was an increase of \$1,179 from December 31, 2019. The change in the amount available for refund is not reported in the current period because these financial statements are on the modified cash basis of accounting.

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, 2020 and none are expected in 2021.

10. TAX ABATEMENTS

As of December 31, 2020 the City did not provide any tax abatement incentives through a Tax Increment Financing District Project (of which the City has none) or through other agreements that are considered tax abatements in accordance with the provisions of GASB Statement No. 77.

11. LITIGATION

The City can be a party to litigation. No determination can be made at this time regarding the potential outcome of possible matters. However, as discussed in the risk management note above, the City has liability coverage for itself and its employees. Therefore, any litigation is not expected to have a potential material effect on the City's financial statements.

12. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

During 2020 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 June 2021 the City approved the instillation of a water level indicator on the water tower.

In August 2021 the City finished remodeling its bar and liquor store.

In September 2021 the City was allocated \$40,951 of Coronavirus Relief funds.

CITY OF GARY
 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2020

GENERAL FUND	Budgeted Amounts			Actual (Modified Cash Basis)	Variance Positive (Negative)	
	Original	Contingency Transfers	Supplemental: Final			
Receipts:						
Receipts from local sources:						
Taxes:						
Ad valorem taxes	52,000		52,000	51,573	(427)	
General sales and use taxes	55,000		55,000	61,934	6,934	
Other taxes	5,000		5,000	204	(4,796)	
Licenses and permits:	5,600		5,600	3,380	(2,220)	
Intergovernmental receipts:						
Federal shared receipts: CARES			0	16,133	16,133	
State shared receipts:	40,000		40,000		(40,000)	
Grants	10,000		10,000	2,037	(7,963)	
Bank franchise tax			0	311	311	
Commercial prorate			0	1,515	1,515	
Liquor tax reversion			0	1,571	1,571	
5% motor vehicle licenses			0	7,761	7,761	
Highway and bridge			0	13,513	13,513	
County shared receipts:	15,000		15,000	4,298	(10,702)	
Charges for goods and services:	9,000		9,000		(9,000)	
General government			0	1,176	1,176	
Sanitation (rubble site)			0	3,102	3,102	
Cemetery			0	3,104	3,104	
Recreation (golf)			0	1,226	1,226	
Miscellaneous receipts:	8,500		8,500		(8,500)	
Interest received			0	4,828	4,828	
Rents and franchise fees			0	2,266	2,266	
Other			0	524	524	
Total receipts	200,100	0	0	200,100	180,456	(19,644)
Disbursements:						
General government:						
Mayor and Council	24,000	10,000	34,000	19,856	14,144	
Contingency	40,000		40,000		40,000	
Amount transferred		(40,000)	(40,000)		(40,000)	
Elections	500		500	456	44	
Financial administration	47,000		47,000	38,491	8,509	
Other	35,000	15,000	50,000	38,152	11,848	
Public safety:						
Police	10,000		10,000	5,998	4,002	
Fire	20,000		20,000	15,994	4,006	
Public works:						
Highways and streets	111,500		118,492	229,992	190,401	39,591
Sanitation (rubble site)	2,000		2,000	1,077	923	
Cemetery	2,500		2,500	2,322	178	
Health and welfare:						
West Nile	2,000		2,000	1,374	626	
Culture and recreation:						
Recreation (golf)	3,000		3,000	2,301	699	
Parks	39,400	15,000	54,400	35,494	18,906	
Library	10,000		10,000	7,381	2,619	
Economic development:	10,100		10,100	6,887	3,213	
Total disbursements	357,000	0	118,492	475,492	366,184	109,308
Excess of receipts over (under) disbursements	(156,900)	0	(118,492)	(275,392)	(185,728)	89,664
Other financing sources (uses):						
Transfers in	160,000		160,000	32,225	(127,775)	
Net change in fund balance	3,100	0	(118,492)	(115,392)	(153,503)	(38,111)
Fund balance:						
January 1, 2020	840,653		840,653	840,653	0	
December 31, 2020	843,753	0	(118,492)	725,261	687,150	(38,111)

CITY OF GARY

NOTES TO SUPPLEMENTARY INFORMATION - BUDGETS

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL
FUND FOR THE ONE YEAR ENDING DECEMBER 31, 2020

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 2020. See page 29 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 SEVEN YEARS ENDING DECEMBER 31, 2020

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, 2020	0.0082955%	(360)	182,067	(00.20%)	100.04%
June 30, 2019	0.0075534%	(800)	160,600	(00.50%)	100.09%
June 30, 2018	0.0075320%	(176)	156,583	(00.11%)	100.02%
June 30, 2017	0.0075303%	(683)	153,000	(00.45%)	100.10%
June 30, 2016	0.0076512%	25,845	145,483	17.76%	96.89%
June 30, 2015	0.0073661%	(31,242)	134,483	(23.23%)	104.10%
June 30, 2014	0.0074764%	(53,864)	130,733	(41.20%)	107.30%

(1) The amounts presented for each fiscal year were determined as of the collective net pension liability (asset) which 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 SEVEN YEARS ENDING DECEMBER 31, 2020

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, 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, 2020

Changes of Prior Valuation:

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

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

Benefit Provision Changes:

Legislation enacted in 2020 established a Qualified Benefit Preservation Arrangement (QBPA) under Section 415(m) of the Internal Revenue Code (IRC). The QBPA is effective July 1, 2020 and pays a portion of SDRS benefits that are restricted by IRC Section 415(b). The total benefits paid from SDRS and the QBPA will be limited to the applicable 415(b) annual limit, reduced for early commencement if Members retire prior to age 62 and actuarially increased for late retirement up to age 70 if Members retire after age 65. The Actuarial Valuation considers benefits payable from both SDRS and the QBPA.

Legislation enacted in 2020 also brought the assets and the liabilities of the South Dakota Department of Labor and Regulation Plan into SDRS effective July 1, 2020. With the exception of the accounting results presented in Section 6 of this report, all exhibits include the assets, liabilities, and member counts of the former Department of Labor and Regulation Plan Members.

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 0.5% 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 FCFR equal to or exceeding 100%. The condition existed as of June 30, 2019 and exists again this year as of June 30, 2020. Future COLAs are assumed to equal the current restricted maximum COLA which was 1.88% as of June 30, 2019 and is 1.41% as of June 30, 2020.

The changes in actuarial assumptions due to the 1.41% restricted maximum COLA decreased the Actuarial Accrued Liability by \$595 million, or 4.6% of the Actuarial Accrued Liability based on the 1.88% 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 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
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*

Governing Board
City of Gary
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 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, 2020 and for the year then ended, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued my report thereon dated January 25, 2022 which was unmodified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 determination of financial statement amounts. 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

I did note a minor matter involving compliance that I reported to the governing body and management of the City of Gary in a separate Letter of Comments dated January 25, 2022.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Gary's internal control over financial reporting (internal control) to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statement, 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 the 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 of Gary'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be a material weakness. However, material weaknesses may exist that have not been identified.

I did identify a deficiency in internal control, described in the accompanying schedule of current audit findings and responses, that I consider to be a significant deficiency. I consider the deficiency described in the accompanying schedule of current audit findings and responses as item 2020-01 to be a significant deficiency.

I did note other 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 January 25, 2022.

Management's Response to Finding

Management's response to the finding identified in my audit is described in the accompanying schedule of current audit findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

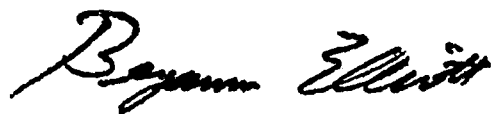
Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of compliance and internal control over financial reporting, and the results of that testing, and not to provide an opinion on the effectiveness of the City's compliance or internal control over financial reporting. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's compliance and internal control over financial reporting. 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

January 25, 2022



SCHEDULE OF PRIOR AUDIT FINDINGS

Prior Federal Compliance Audit Findings:

There are no prior year federal compliance audit findings.

Prior Other Audit Findings:

2004-01 [Segregation of Duties] Repeated below as 2020-01

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2020-01: Lack of Proper Segregation of Duties
(internal control)

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 processed most revenue transactions from beginning to end. 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 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.

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.