

CITY OF GARY
GARY, SOUTH DAKOTA
FINANCIAL REPORT
FOR THE ONE YEAR ENDING DECEMBER 31, 2014
WITH INDEPENDENT AUDITOR'S REPORTS

INDEPENDENT AUDIT SERVICES, P.C.

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

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FOR THE ONE YEAR ENDING DECEMBER 31, 2014

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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, 2014 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, 2014, 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) and the budgetary comparison schedule (page 26 and 27) are presented for purposes of additional analysis and are not a required part 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 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 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 28) dated October 30, 2015 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

October 30, 2015



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, 2014 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	2014
Receipts:	
Charges for goods and services	645,077
Operating grants	1,935
Capital grants	0
General receipts	124,370

Total	771,382

Disbursements:	
Governmental	315,203
Business-type	513,430

Total	828,633

Decrease in Net Position	(57,251)
Net Position:	
January 1, 2014	1,096,466

December 31, 2014	1,039,215
	=====
Governmental Funds:	
General	829,692
Library fines	552
Business-Type Funds:	
Liquor	32,557
Water	65,972
Sewer	109,028
Solid waste	1,414

Total	1,039,215
	=====

During 2014, the City:

- * Received \$40,322 from property taxes.
- * Received \$51,225 from sales taxes.
- * Had bar sales of \$449,352.
- * Had net video lottery sales of \$94,222.
- * Had water and sewer sales of \$71,325.
- * Purchased a snow blower for \$5,784.
- * Purchased lawn mower for \$4,845 plus a trade-in of \$9,305 for a total cost of \$14,150.
- * Purchased bar equipment for \$6,304.
- * Paid \$18,343 for street chip sealing.
- * Paid \$50,000 from the general fund and \$27,231 from the sewer fund to Gates City Development for sewer project construction.
- * Paid \$14,051 to the fire department for a 2005 pumper truck loan payment.
- * Made various community subsidies and donations for \$18,532.
- * Transferred \$134,222 from the liquor fund to the general fund.
- * Transferred \$27,332 from the general fund to the sewer fund.
- * The City had no debt in 2014.

BRIEF DISCUSSION OF THE BASIC FINANCIAL STATEMENTS

This report consists of three parts: (1) management's discussion and analysis (this section), (2) the modified cash basis financial statements and (3) supplementary information. The modified cash basis financial statements include two kinds of statements that present the City from two different financial points of view.

Government-wide financial statements (View #1):

The first two statements are government-wide financial statements that provide information about the City's cash and overall receipts and disbursements.

Fund financial statements (View #2):

The remaining financial statements are fund financial statements that focus on individual parts of the City's operations: the governmental and enterprise activities of the City.

The governmental fund financial statements tell how general governmental services were financed in the short-term, as well as what remains for future spending. Governmental funds operated by the City in 2014 were the general and library funds.

The enterprise fund financial statements offer short-term and long-term financial information about the activities of the City that operate like a business. Enterprise funds operated by the City in 2014 were the liquor, water, sewer, and solid waste funds.

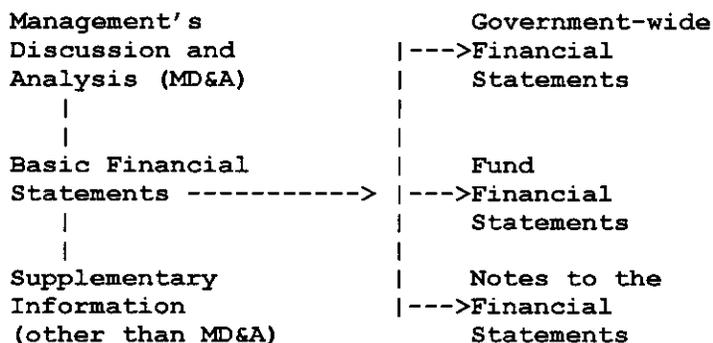
The fiduciary fund financial statements provide information about the financial status of activities in which the City acts solely as a trustee or agent for the benefit of those groups to whom these funds belong. In 2014 the City had no fiduciary funds.

The financial statements include notes that explain in more detail some of the information found in the financial statements. The financial statements are also followed by a section of supplementary information that presents a budgetary analysis for the general fund.

Supplementary Information:

The Management's Discussion and Analysis (page 3 to 8) and the Budgetary Comparison Schedule (page 26 and 27) is financial information required to be presented by Governmental Accounting Standards Board. The information provides readers of this report with additional data that supplements the government-wide statements and fund financial statements. The Budgetary Comparison Schedule is presented on a budgetary basis of accounting, which reports capital expenditures within their respective expenditure function rather than as a separate capital outlay expenditure.

Here is an overview of the required components of the City's financial statements.



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

	Government-wide	-----Fund Statements-----	
	Statements	Governmental	Enterprise
		Funds	Funds
Scope	Entire City	City activities except enterprise funds	Activities operated like a private business (ie: water)
Required Modified cash Basis Financial Statements	Statement of Net Position Statement of Cash Activities	Balance Sheet Stmt. of Cash Receipts Disbursements and Changes in Fund Balances	Stmt. of Net Position 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 \$30,000)

== 2014 ==	Increase (Decrease)	Reason
Governmental Activities:		
Cash	(74,383)	Excess disbursements over receipts
Public works	(67,838)	Less street work
Culture and recreation	24,060	Construction of a concession stand
Economic development	67,182	Sewer line development subsidy
Transfers	(55,278)	Less transfers in from liquor in 2014
Business-type Activities:		
Charges for services	(54,966)	Liquor and lottery sales down
Water costs	(29,510)	No capital improvements in 2014.
Transfers	55,278	Less transfers out from liquor in 2014

SIGNIFICANT VARIATIONS BETWEEN ORIGINAL AND FINAL GENERAL FUND BUDGET

The City's general fund budget of \$375,051 for the 2014 year is a decrease of \$81,774 or 17.90% from 2013. The decrease was mainly in the street budget line. There were two supplemental appropriations totaling \$64,051 for economic development in 2014. See page 26 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 2014.

CURRENTLY KNOWN FACTS

Effective July 2015 the monthly base rate for water and sewer will increase from \$10.00 to \$10.50, water usage will increase from \$4.00/thousand gallons to \$4.50/thousand gallons, and the sewer usage will increase from \$3.00/thousand to \$3.50/thousand gallons.

In September 2015 the City purchased a 2005 Dodge Ram pick-up from the Federal Property Agency for \$12,700. The City's 1992 Chev pick-up was declared surplus property.

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, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Assets:						
Change cash	125	125	3,000	3,000	3,125	3,125
Lottery cash			25,000	25,000	25,000	25,000
Checking	611,795	686,178	180,971	163,839	792,766	850,017
Certificates of deposit	218,324	218,324			218,324	218,324
Total	830,244	904,627	208,971	191,839	1,039,215	1,096,466
Net position:						
Restricted	552	699			552	699
Unrestricted	829,692	903,928	208,971	191,839	1,038,663	1,095,767
Total	830,244	904,627	208,971	191,839	1,039,215	1,096,466

TABLE 2 - CHANGES IN NET POSITION (condensed)
 BASED ON GOVERNMENT-WIDE FINANCIAL STATEMENTS
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014 AND DECEMBER 31, 2013

	Governmental Activities		Business-Type Activities		Total Government	
	2014	2013	2014	2013	2014	2013
Receipts:						
Program receipts:						
Charges for services	7,625	10,061	637,452	692,418	645,077	702,479
Operating grants and contributions	1,935	10,644			1,935	10,644
Capital grants and contributions					0	0
General receipts:						
Property taxes	40,322	39,146			40,322	39,146
Sales taxes	51,225	52,868			51,225	52,868
Amusement tax	252	288			252	288
State shared receipts	22,363	19,810			22,363	19,810
County shared receipts	389	389			389	389
Interest/dividends received	2,378	2,373			2,378	2,373
Rents and franchise fees	1,835	1,687			1,835	1,687
Donations	0	500			0	500
Miscellaneous	2,391	31			2,391	31
Total receipts	130,715	137,797	637,452	692,418	768,167	830,215
Disbursements:						
General government	67,141	69,091			67,141	69,091
Public safety	15,639	12,749			15,639	12,749
Public works	86,094	153,932			86,094	153,932
Health and welfare	1,865				1,865	0
Culture and recreation	61,731	37,671			61,731	37,671
Economic development	82,733	15,551			82,733	15,551
Liquor			410,232	403,236	410,232	403,236
Water			34,235	63,745	34,235	63,745
Sewer			46,363	27,657	46,363	27,657
Solid waste			22,600	22,566	22,600	22,566
Total disbursements	315,203	288,994	513,430	517,204	828,633	806,198
Receipts over (under) disbursements	(184,488)	(151,197)	124,022	175,214	(60,466)	24,017
Transfers	106,890	162,168	(106,890)	(162,168)	0	0
Sale of surplus property	3,215				3,215	0
Change in net position	(74,383)	10,971	17,132	13,046	(57,251)	24,017
Net position:						
December 31, 2012		893,656		178,793		1,072,449
December 31, 2013	904,627	904,627	191,839	191,839	1,096,466	1,096,466
December 31, 2014	830,244		208,971		1,039,215	

CITY OF GARY

STATEMENT OF NET POSITION
 MODIFIED CASH BASIS
 AS OF DECEMBER 31, 2014

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Change cash	125	3,000	3,125
Lottery cash		25,000	25,000
Checking	611,795	180,971	792,766
Certificates of deposit	218,324		218,324
Total assets	830,244	208,971	1,039,215
NET POSITION:			
Restricted for:			
Library	552		552
Unrestricted	829,692	208,971	1,038,663
Total net position	830,244	208,971	1,039,215

See accompanying notes.

CITY OF GARY

STATEMENT OF ACTIVITIES
 MODIFIED CASH BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014

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	67,141	2,718			(64,423)		(64,423)
Public safety	15,639				(15,639)		(15,639)
Public works	86,094	3,386			(82,708)		(82,708)
Health and welfare	1,865		1,935		70		70
Culture and recreation	61,731	1,521			(60,210)		(60,210)
Economic development	82,733				(82,733)		(82,733)
Total governmental activities	315,203	7,625	1,935	0	(305,643)	0	(305,643)
Business-type activities:							
Liquor	410,232	543,574				133,342	133,342
Water	34,235	39,564				5,329	5,329
Sewer	46,363	31,761				(14,602)	(14,602)
Solid waste	22,600	22,553				(47)	(47)
Total business-type activities	513,430	637,452	0	0	0	124,022	124,022
Total primary government	828,633	645,077	1,935	0	(305,643)	124,022	(181,621)
General receipts:							
Taxes:							
					40,322		40,322
					51,225		51,225
					252		252
					22,363		22,363
					389		389
					2,378		2,378
					1,835		1,835
					2,391		2,391
					3,215		3,215
					106,890	(106,890)	0
					231,260	(106,890)	124,370
					(74,383)	17,132	(57,251)
Net position:							
					904,627	191,839	1,096,466
					830,244	208,971	1,039,215

See accompanying notes.

CITY OF GARY

BALANCE SHEET -- MODIFIED CASH BASIS
 ALL GOVERNMENTAL FUNDS
 AS OF DECEMBER 31, 2014

	General Fund	Library Fines Fund	Total
	-----	-----	-----
ASSETS:			
Change cash	125		125
Checking	611,243	552	611,795
Certificates of deposit	218,324		218,324
	-----	-----	-----
Total assets	829,692	552	830,244
	=====	=====	=====
 FUND BALANCE:			
Nonspendable			0
Restricted		552	552
Committed			0
Assigned			0
Unassigned	829,692		829,692
	-----	-----	-----
Total fund balances	829,692	552	830,244 **
	=====	=====	=====

** 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, 2014

	General Fund	Library Fines Fund	Total
	-----	-----	-----
Receipts:			
Local sources:			
Taxes:			
Ad valorem taxes	40,322		40,322
General sales taxes	51,225		51,225
Amusement taxes	252		252
Licenses and permits:	2,650		2,650
Intergovernmental:			
State shared revenue:			
Grant - Mosquito	1,935		1,935
Bank franchise tax	158		158
Commercial prorate	1,287		1,287
Liquor tax reversion	1,596		1,596
5% motor vehicle licenses	5,617		5,617
Highway and bridge	13,705		13,705
County shared revenue	389		389
Charges for goods and services:			
General government	68		68
Sanitation (rubble site)	1,286		1,286
Cemetery	2,100		2,100
Recreation (golf)	1,521		1,521
Miscellaneous:			
Interest received	2,378		2,378
Rents and franchise	1,835		1,835
Other	2,391		2,391
	-----	-----	-----
Total receipts	130,715	0	130,715
	-----	-----	-----
Disbursements:			
Current:			
General government:			
Mayor and Council	11,623		11,623
Financial administration	34,004		34,004
Other	21,514		21,514
Public safety:			
Police	10,218		10,218
Fire	5,421		5,421
Public works:			
Highways and streets	77,106		77,106
Sanitation	1,538		1,538
Cemetery	1,666		1,666
Health and welfare:			
West Nile	1,865		1,865
Culture and recreation:			
Recreation	2,628		2,628
Parks	31,254		31,254
Library	7,625	147	7,772
Conservation and development:			
Economic development	32,733		32,733
Capital outlay	75,861		75,861
	-----	-----	-----
Total disbursements	315,056	147	315,203
	-----	-----	-----
Excess of receipts over (under) disbursements	(184,341)	(147)	(184,488)
Other financing sources (uses):			
Sale of surplus property	3,215		3,215
Transfer in - liquor	134,222		134,222
Transfer (out) - sewer	(27,332)		(27,332)
	-----	-----	-----
Net change in fund balance	(74,236)	(147)	(74,383) **
Fund balance:			
January 1, 2014	903,928	699	904,627
	-----	-----	-----
December 31, 2014	829,692	552	830,244
	=====	=====	=====

** 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, 2014

	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	4,557	65,972	109,028	1,414	180,971
	-----	-----	-----	-----	-----
Total assets	32,557	65,972	109,028	1,414	208,971
	=====	=====	=====	=====	=====
 NET POSITION					
Unrestricted	32,557	65,972	109,028	1,414	208,971
	-----	-----	-----	-----	-----
Total net position	32,557	65,972	109,028	1,414	208,971
	=====	=====	=====	=====	=====

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, 2014

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Operating receipts:					
Charges for goods and services	543,574	39,564	31,761	22,553	637,452
Total operating receipts	543,574	39,564	31,761	22,553	637,452
Operating disbursements:					
Personal services	136,567	11,711	11,711		159,989
Other current services	33,954	7,297	7,421		48,672
Cost of goods sold	233,407	15,227		22,600	271,234
Capital assets	6,304		27,231		33,535
Total operating disbursements	410,232	34,235	46,363	22,600	513,430
Excess operating receipts (disbursements)	133,342	5,329	(14,602)	(47)	124,022
Nonoperating receipts (disbursements):					
None					0
Total nonoperating receipts (disbur	0	0	0	0	0
Excess receipts (disbursements) before transfers	133,342	5,329	(14,602)	(47)	124,022
Transfers in - general			27,332		27,332
Transfers (out) - general	(134,222)				(134,222)
Change in net position	(880)	5,329	12,730	(47)	17,132
Net position:					
January 1, 2014	33,437	60,643	96,298	1,461	191,839
December 31, 2014	32,557	65,972	109,028	1,414	208,971

See accompanying notes.

CITY OF GARY

STATEMENT OF CASH FLOWS-- MODIFIED CASH BASIS
 ENTERPRISE FUNDS
 FOR THE YEAR ENDING DECEMBER 31, 2014

	Liquor Fund	Water Fund	Sewer Fund	Solid Waste Fund	Total
	-----	-----	-----	-----	-----
Cash flows from:					
Operating activities:					
Receipts from customers	543,574	38,604	31,281	22,393	635,852
Receipts for interfund services		960	480	160	1,600
Payments to employees	(136,567)	(11,711)	(11,711)		(159,989)
Payments to suppliers	(265,761)	(22,524)	(7,421)	(22,600)	(318,306)
Payments for interfund services	(1,600)				(1,600)
Payments for capital assets	(6,304)		(27,231)		(33,535)
Net cash provided (used) by operating activities	----- 133,342	----- 5,329	----- (14,602)	----- (47)	----- 124,022
Noncapital financing activities:					
Transfer in (out)	(134,222)		27,332		(106,890)
Capital financing activities:					
None					0
Investing activities:					
None					0
Net increase (decrease) in cash and cash equivalents	----- (880)	----- 5,329	----- 12,730	----- (47)	----- 17,132
Cash and cash equivalents:					
January 1, 2014	33,437	60,643	96,298	1,461	191,839
December 31, 2014	----- 32,557	----- 65,972	----- 109,028	----- 1,414	----- 208,971
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	133,342	5,329	(14,602)	(47)	124,022
Net cash provided (used) by operating activities	----- 133,342	----- 5,329	----- (14,602)	----- (47)	----- 124,022
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, 2014 are:

Mayor:	Finance Officer:
Jeff Engesser	Shirley Pederson

Governing Board:	Attorney:
John Jenson, President	Todd Boyd
Albert Bekaert	
Mary Peterson	
Robert Engeseth	
Clark Dessler	
Darwyn Engesser	

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.

Agency funds: Agency funds are used to account for resources held by the City in a purely custodial capacity (assets equal liabilities). Since agency funds are custodial in nature they do not involve the measurement of results of operations. The City had no agency funds in 2014.

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, 2014 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.

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) (except for agency funds, which have no fund equity) 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	552
Committed	None		0
Assigned	None		0
Unassigned	General		829,692

			830,244

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

Budget Overdrafts:

The City is prohibited by statute from spending in excess of appropriated amounts by department within a fund. In 2014 the City went over its general fund/health and welfare budget by \$1,865.

In the future, the City expects to make contingency transfers or adopt supplemental appropriations to cover expenditures that will exceed their original appropriation. This budget overdraft is 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, 2014 were as follows: Insured \$468,324, Collateralized ** \$578,287, for a total of \$1,046,611.

** 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, 2014 was \$1,039,215 held as follows.

Deuel County National Bank (Gary):	
Checking	792,766
Certificates of deposit	218,324

	1,011,090
Petty cash - general	125
Petty cash - liquor	3,000
Petty cash - lottery	25,000

	1,039,215
	=====

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, 2014.

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, 2014, 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	522	none

6. INTERFUND TRANSACTIONS

During 2014 the liquor fund transferred \$134,222 to the general fund for operations. Also, the general fund transferred \$27,332 to the sewer fund to off-set the cost of sewer line construction.

7. RETIREMENT PLAN

South Dakota Retirement System (SDRS), is a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. 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.

General employees are required by statute to contribute 6% of their salary to the plan, while public safety and judicial employees contribute at 8% and 9%. 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 years ending December 31, 2014, 2013, and 2012 were \$7,974, \$7,731, and \$7,507 (employer's share) respectively, equal to the required contributions each year.

There are no deferred contributions.

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 cash basis of accounting, all property taxes received in cash are considered a receipt for the period in which it was collected.

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, 2014 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 City pays an annual premium to the pool to provide coverage for law enforcement liability, general liability, officials liability, and automobile insurance.

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 cost 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 an annual premium, to provide liability coverage detailed above, under a claims-made policy and the premiums are accrued on the ultimate cost of the experience to date of the SDPAA member, based on their exposure or type of coverage.

The agreement with the SDPAA provides that the above coverage's will be provided to a \$2,000,000 upper limit. Member premiums are used by the pool for payment of claims and to pay for reinsurance for claims in excess of \$250,000 for property coverage and \$500,000 for liability coverage to the upper limit. A portion of the member premiums are also allocated to a cumulative reserve fund. The City would be eligible to receive a refund for a percentage of the amount allocated to the cumulative reserve fund on the following basis: First year - 50%, Second year - 60%, Third year - 70%, Fourth year - 80%, Fifth year - 90%, Sixth year and thereafter - 100%. At December 31, 2014, the City has a vested balance in the cumulative reserve fund of \$7,772.

The City carries a \$500 maximum deductible for various coverages.

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, a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The City pays an annual premium to the pool to provide worker's compensation coverage for its employees. Coverage limits are set by state statute. The pool pays the first \$250,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$1,750,000 per individual per incident.

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 retrospective rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. The City may also be responsible for additional assessments in the event the pool is deter-

mined by its board of trustees to have inadequate reserves to satisfy current obligations or judgments. Additional assessments, if any, are to be determined on a prorated basis based upon each participant's percentage of contribution in relation to the total contributions to the pool of all participants for the year in which the shortfall occurs.

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.

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.

10. OTHER DISCLOSURES AND SUBSEQUENT EVENTS

During 2014 the City had no long-term debt, short-term, or conduit debt.

The City has no material unallowed related party activity.

The City is not involved in any significant litigation.

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.

Effective July 2015 the monthly base rate for water and sewer will increase from \$10.00 to \$10.50, water usage will increase from \$4.00/thousand gallons to \$4.50/thousand gallons, and the sewer usage will increase from \$3.00/thousand to \$3.50/thousand gallons.

In September 2015 the City purchased a 2005 Dodge Ram pick-up from the Federal Property Agency for \$12,700. The City's 1992 Chev pick-up was declared surplus property.

CITY OF GARY

 SUPPLEMENTARY INFORMATION
 BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
 FOR THE YEAR ENDING DECEMBER 31, 2014

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	44,100			40,322	(3,778)	
General sales and use taxes	50,000			51,225	1,225	
Amusement tax			0	252	252	
Licenses and permits:	3,000			2,650	(350)	
Intergovernmental receipts:						
State shared receipts:	19,000				(19,000)	
Grant - Mosquito			0	1,935	1,935	
Bank franchise tax			0	158	158	
Commercial prorate			0	1,287	1,287	
Liquor tax reversion			0	1,596	1,596	
5% motor vehicle licenses			0	5,617	5,617	
Highway and bridge			0	13,705	13,705	
County shared receipts:	700			389	(311)	
Charges for goods and services:	7,000				(7,000)	
General government			0	68	68	
Sanitation (rubble site)			0	1,286	1,286	
Cemetery			0	2,100	2,100	
Recreation (golf)			0	1,521	1,521	
Miscellaneous receipts:	10,000				(10,000)	
Interest received			0	2,378	2,378	
Rents and franchise fees			0	1,835	1,835	
Other			0	2,391	2,391	
Total receipts	133,800	0	0	133,800	130,715	(3,085)
Disbursements:						
General government:						
Mayor and Council	15,500	2,000		17,500	11,623	5,877
Contingency	40,000			40,000		40,000
Amount transferred		(40,000)		(40,000)		(40,000)
Elections	500			500		500
Financial administration	50,000			50,000	34,004	15,996
Other	30,000			30,000	21,514	8,486
Public safety:						
Police	11,000			11,000	10,218	782
Fire	7,000			7,000	5,421	1,579
Public works:						
Highways and streets	90,000			90,000	82,890	7,110
Street lighting	6,500			6,500		6,500
Sanitation (rubble site)	2,200			2,200	1,538	662
Cemetery	2,200			2,200	1,666	534
Health and welfare:						
West Nile			0		1,865	(1,865)
Culture and recreation:						
Recreation (golf)	3,500			3,500	2,628	872
Parks	32,000	28,000		60,000	51,331	8,669
Library	8,500			8,500	7,625	875
Economic development:	12,100	10,000	64,051	86,151	82,733	3,418
Total disbursements	311,000	0	64,051	375,051	315,056	59,995
Excess of receipts over (under) disbursements	(177,200)	0	(64,051)	(241,251)	(184,341)	56,910
Other financing sources (uses):						
Sale of surplus property				0	3,215	3,215
Transfers in - liquor	185,000			185,000	134,222	(50,778)
Transfers (out) - sewer	(27,332)			(27,332)	(27,332)	0
Net change in fund balance	(19,532)	0	(64,051)	(83,583)	(74,236)	9,347
Fund balance:						
January 1, 2014	903,928			903,928	903,928	0
December 31, 2014	884,396	0	(64,051)	820,345	829,692	9,347

CITY OF GARY

NOTES TO SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL
FUND FOR THE ONE YEAR ENDING DECEMBER 31, 2014

1. BUDGETS AND BUDGETARY ACCOUNTING

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

- a. At the first regular board meeting in September of each year or within ten days thereafter, the governing board introduces the annual appropriation ordinance for the ensuing fiscal year.
- b. After adoption by the governing board, the operating budget is legally binding and actual disbursements for each purpose cannot exceed the amounts budgeted, except as indicated in d.
- c. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the governing board to any other budget category that is deemed insufficient during the year.
- d. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets. There were two supplemental budgets in 2014. See page 26 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.

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, 2014 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 October 30, 2015 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 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 October 30, 2015.

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 2014-01 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 October 30, 2015.

Management's Response to Findings

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



October 30, 2015

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 2014-01

SCHEDULE OF CURRENT AUDIT FINDINGS AND RESPONSES

Finding 2014-01: 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 finance officer does not 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, 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.