
CITY OF SALEM, MISSOURI

AUDIT REPORT

JUNE 30, 2021

**K DELUCA AUDIT SERVICES LLC
CERTIFIED PUBLIC ACCOUNTANT
PO BOX 132
ST. JAMES, MISSOURI 65559**

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Governmental and Non-Profit Audit & Consulting Services

INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
City of Salem, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Missouri (the "City"), as of and for the year ended June 30, 2021, 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 judgment, including the assessment of the risks 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 entity'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 entity's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis and budgetary comparison schedules that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 8, 2022, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

K DeLuca Audit Services LLC

K DeLuca Audit Services LLC
St. James, Missouri
August 8, 2022

BASIC FINANCIAL STATEMENTS

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
JUNE 30, 2021

Statement 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,109,970	\$ 3,037,471	\$ 4,147,441
Restricted assets	719,508	2,122,471	2,841,979
Accounts receivable, net	451,586	2,721,445	3,173,031
Grants receivable	19,924	75,018	94,942
Due from external parties	-	10,232	10,232
Inventories	-	326,807	326,807
Prepaid expenses	-	358,034	358,034
Net pension asset	1,943,609	1,143,400	3,087,009
Capital assets---			
Land and construction in progress	513,483	7,038,397	7,551,880
Other capital assets, net of depreciation	6,338,143	2,968,158	9,306,301
Total assets	<u>11,096,223</u>	<u>19,801,433</u>	<u>30,897,656</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension related resources	157,866	94,249	252,115
Total deferred outflows of resources	<u>157,866</u>	<u>94,249</u>	<u>252,115</u>
<u>LIABILITIES</u>			
Accounts payable and accrued expenses	127,445	662,612	790,057
Internal balances	(260,594)	260,594	-
Post-closure liability	-	216,867	216,867
Long-term liabilities			
Due within one year	60,740	596,869	657,609
Due in more than one year	1,751,133	7,119,208	8,870,341
Total liabilities	<u>1,678,724</u>	<u>8,856,150</u>	<u>10,534,874</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension related resources	1,535,565	912,119	2,447,684
Total deferred inflows of resources	<u>1,535,565</u>	<u>912,119</u>	<u>2,447,684</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	5,148,264	5,648,696	10,796,960
Restricted			
Expendable	427,747	-	427,747
Nonexpendable	291,761	-	291,761
Unrestricted	2,172,028	4,478,717	6,650,745
Total net position	<u>\$ 8,039,800</u>	<u>\$ 10,127,413</u>	<u>\$ 18,167,213</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SALEM, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary government			
Governmental activities---			
Safety services	\$ 1,155,779	\$ 13,180	\$ -
Health and social services	15,047	-	-
Leisure services	444,890	114,202	16,306
Utility	56,128	-	-
Transportation services	972,558	-	42,066
Administrative services	894,072	22,419	-
Interest on long-term debt	61,326	-	-
Total governmental activities	<u>3,599,800</u>	<u>149,801</u>	<u>58,372</u>
Business-type activities---			
Electric	5,829,240	5,222,330	-
Water	681,213	997,705	-
Airport	169,026	7,909	94,897
Sewerage system	551,121	915,283	-
Nonmajor enterprise funds	477,478	391,454	-
Total business-type activities	<u>7,708,078</u>	<u>7,534,681</u>	<u>94,897</u>
Total primary government	<u>\$ 11,307,878</u>	<u>\$ 7,684,482</u>	<u>\$ 153,269</u>
General revenues---			
Taxes---			
Property taxes			
Sales taxes			
Sur taxes			
Franchise taxes			
Other taxes			
Interest and investment earnings			
Miscellaneous income			
Transfers			
Total general revenues and transfers			
Change in net position			
Net position --- beginning			
Net position --- ending			

The accompanying notes are an integral part of these financial statements.

**Net (Expenses) Revenue and
Changes in Net Position**

Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,142,599)	\$ -	\$ (1,142,599)
(15,047)	-	(15,047)
(314,382)	-	(314,382)
(56,128)	-	(56,128)
(930,492)	-	(930,492)
(871,653)	-	(871,653)
(61,326)	-	(61,326)
<u>(3,391,627)</u>	<u>-</u>	<u>(3,391,627)</u>
-	(606,910)	(606,910)
-	316,492	316,492
-	(66,220)	(66,220)
-	364,162	364,162
-	(86,024)	(86,024)
-	(78,500)	(78,500)
<u>(3,391,627)</u>	<u>(78,500)</u>	<u>(3,470,127)</u>
341,303	-	341,303
2,648,735	-	2,648,735
53,836	-	53,836
106,447	-	106,447
2,398	-	2,398
9,605	19,617	29,222
129,392	62,730	192,122
1,086,300	(1,086,300)	-
<u>4,378,016</u>	<u>(1,003,953)</u>	<u>3,374,063</u>
986,389	(1,082,453)	(96,064)
7,053,411	11,209,866	18,263,277
<u>\$ 8,039,800</u>	<u>\$ 10,127,413</u>	<u>\$ 18,167,213</u>

**CITY OF SALEM, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2021**

	<u>General Fund</u>	<u>Park Fund</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Permanent Fund</u>
<u>ASSETS</u>					
Cash	\$ 202,355	\$ 213,469	\$ 185,259	\$ 364,992	\$ -
Restricted assets	-	112,681	-	-	606,827
Receivables, net	-	14,155	11,100	-	-
Due from other funds	-	19,361	304,957	-	-
Taxes receivable	244,336	86,537	115,382	-	-
Total assets	<u>446,691</u>	<u>446,203</u>	<u>616,698</u>	<u>364,992</u>	<u>606,827</u>
<u>LIABILITIES</u>					
Accounts payable	84,694	10,056	5,023	2,156	-
Accrued payroll	16	-	-	-	-
Building permit deposit	-	-	-	15,810	-
Due to other funds	46,583	7,503	9,637	-	-
Total liabilities	<u>131,293</u>	<u>17,559</u>	<u>14,660</u>	<u>17,966</u>	<u>-</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable revenue	19,521	-	-	-	-
Total deferred inflows of resources	<u>19,521</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>FUND BALANCES</u>					
Nonspendable	-	-	-	-	291,761
Restricted	-	112,681	602,038	317,675	315,066
Assigned	-	315,963	-	29,351	-
Unassigned	295,877	-	-	-	-
Total fund balances	<u>\$ 295,877</u>	<u>\$ 428,644</u>	<u>\$ 602,038</u>	<u>\$ 347,026</u>	<u>\$ 606,827</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SALEM, MISSOURI
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2021**

Statement 3

<p>Total Governmental Funds</p> <hr/> <p>\$ 966,075 719,508 25,255 324,318 446,255</p> <hr/> <p>2,481,411</p> <p>101,929 16 15,810 63,723</p> <hr/> <p>181,478</p> <p>19,521</p> <hr/> <p>19,521</p> <hr/> <p>291,761 1,347,460 345,314 295,877</p> <hr/> <p>\$ 2,280,412</p> <hr/>	<p>Total Governmental Fund Balances</p> <p style="margin-top: 20px;"><i>Amounts reported for governmental activities in the statement of net position are different because:</i></p> <p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.</p> <p>Net pension asset (liability) and deferred outflows/inflows of pension related resources are not recognized in the fund statements because they are not financial resources.</p> <p>Revenue that is deferred in the fund financial statement because it is not available and recognized as revenue in the government-wide financial statements.</p> <p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:</p> <p style="margin-left: 40px;">Capital lease payable</p> <p style="margin-left: 40px;">Accrued interest</p> <p style="margin-left: 40px;">Certificates of participation</p> <p style="margin-left: 40px;">Accrued compensated absences</p> <p>Internal services funds are used by management to charge costs of employee health insurance, worker's compensation benefits, liability insurance, and fleet and equipment maintenance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.</p> <p><i>Net Position of Governmental Funds</i></p>	<p>\$ 2,280,412</p> <p>6,851,626</p> <p>565,910</p> <p>19,521</p> <p>(33,362) (9,690) (1,670,000) (108,512)</p> <p>143,895</p> <p><u>\$ 8,039,800</u></p>
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CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

	<u>General Fund</u>	<u>Park Fund</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>
Revenues---				
Taxes	\$ 1,814,232	\$ 491,424	\$ 655,124	\$ 191,939
Intergovernmental	-	16,306	42,066	-
Charges for services	-	114,202	-	9,700
Interest and investment earnings	2,249	1,096	978	1,076
Licenses and permits	28,151	-	-	-
Miscellaneous	126,063	599	-	2,730
	<u>1,970,695</u>	<u>623,627</u>	<u>698,168</u>	<u>205,445</u>
Expenditures---				
Current operations:				
Safety services	1,285,844	-	7,150	166
Health and social services	53,521	-	-	-
Leisure services	-	341,612	-	-
Utility services	74,200	-	-	-
Transportation services	630,685	-	193,022	19,815
Administrative services	840,677	-	51,183	40,066
Capital outlay	-	71,027	381,242	-
Debt service:				
Principal	-	45,000	-	10,378
Interest	-	59,973	-	1,529
	<u>2,884,927</u>	<u>517,612</u>	<u>632,597</u>	<u>71,954</u>
Excess Revenues Over (Under) Expenditures	<u>(914,232)</u>	<u>106,015</u>	<u>65,571</u>	<u>133,491</u>
Other Financing Sources (Uses)---				
Transfers in	1,215,000	-	25,000	14,000
Transfers out	(128,000)	(25,000)	(14,700)	-
	<u>1,087,000</u>	<u>(25,000)</u>	<u>10,300</u>	<u>14,000</u>
Net change in fund balance	172,768	81,015	75,871	147,491
Fund balances at beginning of year	<u>123,109</u>	<u>347,629</u>	<u>526,167</u>	<u>199,535</u>
Fund balances at end of year	<u>\$ 295,877</u>	<u>\$ 428,644</u>	<u>\$ 602,038</u>	<u>\$ 347,026</u>

The accompanying notes are an integral part of these financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021**

Permanent Fund	Total Governmental Funds		
		Net Change in Fund Balances---Total Governmental Funds	\$ 481,351
		Amounts reported for governmental activities in the statement of activities are different because:	
\$ -	\$ 3,152,719	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period:	
-	58,372	Capital outlay	452,269
-	123,902	Depreciation expense	(544,749)
4,206	9,605		(92,480)
-	28,151		
-	129,392		
4,206	3,502,141		
		Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	55,378
-	1,293,160	Internal service funds are used by management to charge costs of employee health insurance, worker's compensation benefits, liability insurance, and fleet and equipment maintenance to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	(2,252)
-	53,521		
-	341,612	Some items reported in the statement of activities do not involve current financial resources and, therefore, are not reported as expenditures in the governmental funds. These activities are:	
-	74,200	Accrued interest	176
-	843,522	Compensated absences	2,795
-	931,926	Pension costs	541,421
-	452,269		
-	55,378		
-	61,502		
-	4,107,090		
4,206	(604,949)	Changes in Net Position of Governmental Activities	\$ 986,389
-	1,254,000		
-	(167,700)		
-	1,086,300		
4,206	481,351		
602,621	1,799,061		
\$ 606,827	\$ 2,280,412		

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021

Statement 5

	<u>Business-type</u>			
	<u>Electric</u>	<u>Water</u>	<u>Airport</u>	<u>Sewer</u>
<u>Assets</u>				
Current Assets--				
Cash and cash equivalents	\$ 593,441	\$ 1,296,011	\$ 161,304	\$ 559,616
Restricted assets	-	-	-	2,122,471
Accounts receivable, net	1,882,989	386,534	-	350,726
Grants receivable	-	-	75,018	-
Due from external parties	7,615	1,365	-	-
Due from other funds	314,228	390,778	3,115	25,000
Inventories	174,962	136,333	-	15,512
Total Current Assets	<u>2,973,235</u>	<u>2,211,021</u>	<u>239,437</u>	<u>3,073,325</u>
Noncurrent Assets--				
Prepaid expenses	263,671	-	-	94,363
Net pension asset	537,492	265,926	-	203,732
Capital assets				
Land and construction in progress	95,440	40,640	238,025	6,581,091
Other capital assets, net of depreciation	133,721	698,796	1,297,626	803,671
Total Noncurrent Assets	<u>1,030,324</u>	<u>1,005,362</u>	<u>1,535,651</u>	<u>7,682,857</u>
Total Assets	<u>4,003,559</u>	<u>3,216,383</u>	<u>1,775,088</u>	<u>10,756,182</u>
<u>Deferred Outflows of Resources</u>				
Deferred Outflows of Resources--				
Pension related resources	31,314	38,974	-	26,418
Total Deferred Outflows of Resources	<u>31,314</u>	<u>38,974</u>	<u>-</u>	<u>26,418</u>
<u>Liabilities</u>				
Current Liabilities--				
Accounts payable	447,601	9,113	96	167,398
Accrued payroll	1,101	(256)	-	256
Accrued interest	-	-	-	33,338
Due to other funds	3,115	69,095	328,894	599,143
Post closure liability	-	-	-	-
Current portion of noncurrent liabilities	291,492	10,377	-	295,000
Total Current Liabilities	<u>743,309</u>	<u>88,329</u>	<u>328,990</u>	<u>1,095,135</u>
Noncurrent Liabilities--				
Compensated absences	13,463	3,891	-	2,390
MMMPEP payable	919,910	-	-	-
Capital lease	-	22,986	-	-
Certificates of participation payable	-	-	-	6,151,967
Total Noncurrent Liabilities	<u>933,373</u>	<u>26,877</u>	<u>-</u>	<u>6,154,357</u>
Total Liabilities	<u>1,676,682</u>	<u>115,206</u>	<u>328,990</u>	<u>7,249,492</u>
<u>Deferred Inflows of Resources</u>				
Deferred Inflows of Resources--				
Pension related resources	423,881	223,160	-	166,709
Total Deferred Inflows of Resources	<u>423,881</u>	<u>223,160</u>	<u>-</u>	<u>166,709</u>
<u>Net Position</u>				
Net Position--				
Invested in capital assets, net of related debt	229,161	706,073	1,535,651	3,060,266
Unrestricted	1,705,149	2,210,918	(89,553)	306,133
Total Net Position	<u>\$ 1,934,310</u>	<u>\$ 2,916,991</u>	<u>\$ 1,446,098</u>	<u>\$ 3,366,399</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2021**

Statement 5

<u>Activities</u>		<u>Governmental</u>
<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Activities Internal Service Funds</u>
\$ 427,099	\$ 3,037,471	\$ 143,895
-	2,122,471	-
101,196	2,721,445	-
-	75,018	-
1,252	10,232	-
8,859	741,980	-
-	326,807	-
<u>538,406</u>	<u>9,035,424</u>	<u>143,895</u>
-	358,034	-
136,250	1,143,400	-
83,201	7,038,397	-
34,344	2,968,158	-
<u>253,795</u>	<u>11,507,989</u>	<u>-</u>
<u>792,201</u>	<u>20,543,413</u>	<u>143,895</u>
<u>(2,457)</u>	<u>94,249</u>	<u>-</u>
<u>(2,457)</u>	<u>94,249</u>	<u>-</u>
3,965	628,173	-
-	1,101	-
-	33,338	-
2,327	1,002,574	-
216,867	216,867	-
-	596,869	-
<u>223,159</u>	<u>2,478,922</u>	<u>-</u>
4,601	24,345	-
-	919,910	-
-	22,986	-
-	6,151,967	-
<u>4,601</u>	<u>7,119,208</u>	<u>-</u>
<u>227,760</u>	<u>9,598,130</u>	<u>-</u>
98,369	912,119	-
<u>98,369</u>	<u>912,119</u>	<u>-</u>
117,545	5,648,696	-
346,070	4,478,717	143,895
<u>\$ 463,615</u>	<u>\$ 10,127,413</u>	<u>\$ 143,895</u>

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

Statement 6

	Business-type			
	Electric	Water	Airport	Sewer
Operating Revenues---				
Charges for services	\$ 5,222,330	\$ 997,705	\$ 7,909	\$ 915,283
Intergovernmental	-	-	94,897	-
Other	2,449	59,587	-	264
	<u>5,224,779</u>	<u>1,057,292</u>	<u>102,806</u>	<u>915,547</u>
Operating Expenses---				
Personnel services	381,398	260,937	-	180,527
Operations and maintenance	5,397,931	301,034	46,720	270,261
Depreciation and amortization	45,046	119,242	122,306	99,084
	<u>5,824,375</u>	<u>681,213</u>	<u>169,026</u>	<u>549,872</u>
Operating Income (Loss)	<u>(599,596)</u>	<u>376,079</u>	<u>(66,220)</u>	<u>365,675</u>
Non-operating Revenue (Expense)---				
Interest revenue	6,925	5,464	132	4,515
Interest expense	(4,865)	-	-	(1,249)
	<u>2,060</u>	<u>5,464</u>	<u>132</u>	<u>3,266</u>
Income (Loss) Before Capital Contributions and Transfers	(597,536)	381,543	(66,088)	368,941
Transfers in (out)	<u>(1,215,000)</u>	<u>-</u>	<u>14,700</u>	<u>-</u>
Change in Net Position	(1,812,536)	381,543	(51,388)	368,941
Net position at beginning of year	3,746,846	2,535,448	1,497,486	2,997,458
Net position at end of year	<u>\$ 1,934,310</u>	<u>\$ 2,916,991</u>	<u>\$ 1,446,098</u>	<u>\$ 3,366,399</u>

The accompanying notes are an integral part of these financial statements.

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

Statement 6

Activities		Governmental Activities
Nonmajor Enterprise Funds	Totals	Internal Service Funds
\$ 391,454	\$ 7,534,681	\$ -
-	94,897	-
430	62,730	4,500
<u>391,884</u>	<u>7,692,308</u>	<u>4,500</u>
106,762	929,624	-
362,345	6,378,291	7,500
8,371	394,049	-
<u>477,478</u>	<u>7,701,964</u>	<u>7,500</u>
<u>(85,594)</u>	<u>(9,656)</u>	<u>(3,000)</u>
2,581	19,617	748
-	(6,114)	-
<u>2,581</u>	<u>13,503</u>	<u>748</u>
(83,013)	3,847	(2,252)
<u>114,000</u>	<u>(1,086,300)</u>	<u>-</u>
30,987	(1,082,453)	(2,252)
432,628	11,209,866	146,147
<u>\$ 463,615</u>	<u>\$ 10,127,413</u>	<u>\$ 143,895</u>

CITY OF SALEM, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021

Statement 7

	Business-type			
	Electric	Water	Airport	Sewer
Cash Flows from Operating Activities---				
Cash received from customers	\$ 5,253,895	\$ 849,805	\$ 102,806	\$ 755,915
Cash payments to suppliers	(5,226,551)	(278,346)	(507,049)	(203,856)
Cash payments to employees	(526,660)	(340,843)	-	(242,783)
Other receipts (payments)	(98,026)	(2,498)	145,489	550,649
Net Cash Provided (Used) by Operating Activities	<u>(597,342)</u>	<u>228,118</u>	<u>(258,754)</u>	<u>859,925</u>
Cash Flows from Noncapital Financing Activities---				
Proceeds from issuance of debt	1,401,147	-	-	-
Principal payment on noncapital debt	(189,745)	-	-	-
Interest paid on noncapital debt	(4,865)	-	-	-
Transfers in (out)	(1,215,000)	-	14,700	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(8,463)</u>	<u>-</u>	<u>14,700</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities---				
Acquisition and construction of fixed assets	(67,798)	(74,996)	(119,297)	(1,084,723)
Principal payment on capital debt	-	(10,377)	-	(287,699)
Interest paid on capital debt	-	-	-	(2,005)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(67,798)</u>	<u>(85,373)</u>	<u>(104,597)</u>	<u>(1,374,427)</u>
Cash Flows from Investing Activities---				
Interest receipts/purchase of investments	6,925	5,464	132	4,515
Proceeds from sale and maturity of investments	2,457	223,735	-	-
Net Cash Provided (Used) by Investing Activities	<u>9,382</u>	<u>229,199</u>	<u>132</u>	<u>4,515</u>
Net Increase (Decrease) in cash and cash equivalents				
	(664,221)	371,944	(348,519)	(509,987)
Cash and Cash Equivalents at beginning of year	1,257,662	924,067	509,823	3,192,074
Cash and Cash Equivalents at end of year	<u>\$ 593,441</u>	<u>\$ 1,296,011</u>	<u>\$ 161,304</u>	<u>\$ 2,682,087</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (599,596)	\$ 376,079	\$ (66,220)	\$ 365,675
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	45,046	119,242	122,306	99,084
Changes in assets and liabilities---				
Accounts receivable	29,116	(207,487)	344,526	(159,632)
Inventory	-	23,060	-	-
Due from other governments	125	-	-	-
Due to (from) other funds	(98,151)	(2,498)	(199,037)	550,649
Prepaid expenses	-	-	-	5,897
Pension accruals	(146,097)	(77,346)	-	(60,158)
Accounts payable	171,380	(372)	(460,329)	60,508
Accrued liabilities	835	(2,560)	-	(2,098)
Net Cash Provided (Used) by Operating Activities	<u>\$ (597,342)</u>	<u>\$ 228,118</u>	<u>\$ (258,754)</u>	<u>\$ 859,925</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SALEM, MISSOURI
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2021**

Statement 7

<u>Activities</u>		<u>Governmental</u>
<u>Nonmajor</u>		<u>Activities</u>
<u>Enterprise</u>		<u>Internal</u>
<u>Funds</u>	<u>Totals</u>	<u>Service</u>
		<u>Funds</u>
\$ 346,681	\$ 7,309,102	\$ -
(363,619)	(6,579,421)	(7,500)
(141,620)	(1,251,906)	-
-	595,614	4,500
<u>(158,558)</u>	<u>73,389</u>	<u>(3,000)</u>
-	1,401,147	-
-	(189,745)	-
-	(4,865)	-
114,000	(1,086,300)	-
<u>114,000</u>	<u>120,237</u>	<u>-</u>
-	(1,346,814)	-
-	(298,076)	-
-	(2,005)	-
<u>-</u>	<u>(1,632,195)</u>	<u>-</u>
2,581	19,617	748
258,968	485,160	-
<u>261,549</u>	<u>504,777</u>	<u>748</u>
216,991	(933,792)	(2,252)
210,108	6,093,734	146,147
<u>\$ 427,099</u>	<u>\$ 5,159,942</u>	<u>\$ 143,895</u>
\$ (85,594)	\$ (9,656)	\$ (3,000)
8,371	394,049	-
(45,203)	(38,680)	-
-	23,060	-
-	125	-
-	250,963	-
-	5,897	-
(34,376)	(317,977)	-
(1,274)	(230,087)	-
(482)	(4,305)	-
<u>\$ (158,558)</u>	<u>\$ 73,389</u>	<u>\$ (3,000)</u>

CITY OF SALEM, MISSOURI
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2021

Statement 8

	Deferred Compensation Trust Fund	Agency Fund
Assets:		
Cash	\$ -	\$ 470,922
Investments	379,257	-
Other assets	-	5
Total assets	\$ 379,257	\$ 470,927
Liabilities:		
Accounts payable	\$ -	\$ 10,357
Utility deposits payable	-	286,184
Total liabilities	-	296,541
Net Position:		
Held in Trust	379,257	174,386
Unreserved	-	-
Total net position	379,257	174,386
Total liabilities and net position	\$ 379,257	\$ 470,927

The accompanying notes are an integral part of these financial statements.

CITY OF SALEM, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2021

Statement 9

	Deferred Compensation Trust Fund
ADDITIONS:	
Contributions	\$ 96,655
Net increase in the fair value of investments	87,836
Total additions	184,491
DEDUCTIONS:	
Distributions	198,558
Total deductions	198,558
Change in net position	(14,067)
Net position - beginning of year	393,324
Net position - end of year	\$ 379,257

The accompanying notes are an integral part of these financial statements.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Salem, Missouri (the “City”) is a fourth class city that operates under a Mayor-Board of Aldermen form of government and provides the following services: public safety (police), streets, sanitation, culture and recreation, public improvements, planning and zoning, and general administrative services. Other services include utility operations.

The City complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

On the government-wide statement of net position and the statement of activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a) All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b) The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net position.
- c) Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting

In the government-wide statement of net position and statement of activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, and fees and fines, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise and internal service funds include the cost of operations and maintenance, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City’s policy to use restricted resources first, then unrestricted resources as they are needed.

The Reporting Entity

The City, for financial purposes, includes all of the funds and account groups relevant to the operation of the City. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City.

Basis of Presentation

Government-wide Financial Statements:

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the City or meets the following criteria:

- Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The major funds of the financial reporting entity are described below:

Governmental Funds

General Fund

The General fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Special Revenue Fund

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for certain purposes. The City's major special revenue fund is the Park Fund.

Capital Improvement Fund

The Capital Improvement fund is used to account for the financial resources that are restricted, committed, or assigned to expenditure for capital outlay, including the acquisition or construction of capital facilities and other capital assets.

Permanent Fund

The Permanent fund is used to account for resources that are legally restricted by a formal agreement and only the earnings may be used for purposes that benefit the City's cemetery.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Proprietary Funds

Enterprise Funds

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The City's major enterprise funds include Electric, Water, Airport and Sewer funds.

Internal Service Fund

The Internal Service Fund is used to account for the financing of services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The City's Internal Service Fund consists of a self-insurance fund.

Fiduciary Funds

Trust and Agency Funds are used to account for various assets held by the City in a trustee capacity or as an agent for individuals, other governments and/or other funds. The reporting entity includes the following fiduciary funds: Utility Deposits and Deferred Compensation Plan.

Internal Balances

On the fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "due to/from other funds." Internal balances are eliminated in the statement of net position.

Receivables

Taxes receivable consists of property, utility and real estate excise taxes. No allowance was considered necessary for taxes receivable as of June 30, 2021. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. As of June 30, 2021, net utility receivables include an allowance for doubtful accounts of \$826,690.

Inventories

Inventories at June 30, 2021, are recorded at the lower of cost or market on a first-in, first-out basis. Enterprise fund inventories are recorded with inventory variations included in the expense accounts.

Property and Equipment

Property, plant and equipment in the Enterprise Funds are recorded at historical cost or estimated historical cost if actual historical cost is not available.

The costs of normal maintenance and repairs are charged to operations as incurred. Renewals and betterments are capitalized.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Depreciation is provided on the straight-line basis over the estimated useful lives of the respective assets, which range from five to twenty years. Where actual acquisition dates were not available, estimates have been used.

Compensated Absences

The City's employees had an accumulation of unpaid compensated absences of \$132,856 at June 30, 2021.

Revenue Recognition – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and are due and payable at that time. All unpaid taxes levied November 1 become delinquent January 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided.

The assessed valuation of the tangible property for the calendar year 2020 was \$49,101,371 for real estate and personal property. The tax levy per \$100 assessed valuation of tangible taxable property for the calendar year 2020 was \$0.6726 for the general fund.

Deferred Outflows/Inflows or Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category in the government-wide statement of net position. This amount is outflows related to the pension.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The government has one item that qualifies for reporting in this category. This item is deferred inflows related to the pension.

Equity Classifications

Government-wide Statements and Proprietary Fund Statements

Equity is classified as net position and displayed in three components:

- a. Invested in capital assets, net of related debt—Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

- b. Restricted net position—Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position—All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Governmental Fund Statements

As of June 30, 2021, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Board of Aldermen. The Board of Aldermen is the highest level of decision making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned – all other spendable amounts.

As of June 30, 2021, fund balances are composed of the following:

	General	Park	Capital Improvements	Other Governmental Funds	Permanent Fund	Total Governmental Funds
Nonspendable:						
Cemetery	\$ -	\$ -	\$ -	\$ -	\$ 291,761	\$ 291,761
Restricted:						
Capital projects	-	-	602,038	-	-	602,038
Debt service	-	112,681	-	-	-	112,681
Transportation	-	-	-	317,675	-	317,675
Cemetery	-	-	-	-	315,066	315,066
Assigned:						
Leisure	-	315,963	-	-	-	315,963
Other gov't activities	-	-	-	29,351	-	29,351
Unassigned	295,877	-	-	-	-	295,877
	<u>\$ 295,877</u>	<u>\$ 428,644</u>	<u>\$ 602,038</u>	<u>\$ 347,026</u>	<u>\$ 606,827</u>	<u>\$ 2,280,412</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed unless the Board of Aldermen has provided otherwise in its commitment or assignment actions.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri Local Government Employees Retirement System (LAGERS) and additions to/deductions from LAGERS fiduciary net position have been determined on the same basis as they are reported by LAGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 2 – CASH AND CASH EQUIVALENTS

The City is authorized to invest funds in, among other things, financial institutions and direct obligations of the Federal Government. During fiscal year 2021, the City's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less.

The City adopted an investment policy to establish the guidelines and requirements for investing of all City operating funds and other funds as appropriate. The risks identified in this policy are:

Interest rate risk: The City will minimize the risk that the market value of investments will fall due to changes in general interest rates by investing operating funds in shorter-term securities. Investments will be limited to a period of 12 months to assure cash requirements for ongoing operations will be readily available.

Custodial credit risk: The City shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). This will ensure that the City's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution. At June 30, 2021, the City's deposits in cash and cash equivalents were fully insured.

Market risk: The City shall comply with state statutes as to the types of investments that will be made. The standard investment type will be Collateralized Public Deposits (certificates of deposit) but can also include United States treasury securities, United States agency securities, repurchase agreements and others as allowed by state statute.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 3 – FIXED ASSETS

Capital asset activity for the year ended June 30, 2021 was as follows:

	Balance 6/30/2020	Increases	Decreases	Balance 6/30/2021
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 513,483	\$ -	\$ -	\$ 513,483
Construction in process	-	-	-	-
Total capital assets not being depreciated	513,483	-	-	513,483
Capital assets being depreciated:				
Buildings	771,530	135,565	-	907,095
Improvements	6,344,715	216,487	-	6,561,202
Equipment	2,662,245	100,217	-	2,762,462
Infrastructure	14,037,357	-	-	14,037,357
Total capital assets being depreciated	23,815,847	452,269	-	24,268,116
Less accumulated depreciation:				
Buildings	(287,718)	(26,944)	-	(314,662)
Improvements	(2,389,602)	(259,264)	-	(2,648,866)
Equipment	(1,886,147)	(186,849)	-	(2,072,996)
Infrastructure	(12,821,757)	(71,692)	-	(12,893,449)
Total accumulated depreciation	(17,385,224)	(544,749)	-	(17,929,973)
Total capital assets being depreciated, net	6,430,623	(92,480)	-	6,338,143
Governmental Activities Capital assets, net	<u>\$ 6,944,106</u>	<u>\$ (92,480)</u>	<u>\$ -</u>	<u>\$ 6,851,626</u>

Depreciation expense was charged to programs of the primary government as follows:

Administrative	\$ 70,235
Street	245,660
Safety	71,478
Leisure	145,329
Health & Social Services	12,047
Total governmental activities	<u>\$ 544,749</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

	Balance 6/30/2020	Increases	Decreases	Balance 6/30/2021
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 436,666	\$ 20,640	\$ -	\$ 457,306
Construction in process	5,526,556	1,063,087	-	6,589,643
Total capital assets not being depreciated	5,963,222	1,083,727	-	7,046,949
Capital assets being depreciated:				
Buildings	80,079	-	-	80,079
Improvements	8,084,862	158,953	-	8,243,815
Equipment	4,911,837	89,434	-	5,001,271
Infrastructure	2,121,762	-	-	2,121,762
Total capital assets being depreciated	15,198,540	248,387	-	15,446,927
Less accumulated depreciation:				
Buildings	(80,078)	-	-	(80,078)
Improvements	(5,755,585)	(241,251)	-	(5,996,836)
Equipment	(4,240,171)	(143,258)	-	(4,383,429)
Infrastructure	(2,017,438)	(9,540)	-	(2,026,978)
Total accumulated depreciation	(12,093,272)	(394,049)	-	(12,487,321)
Total capital assets being depreciated, net	3,105,268	(145,662)	-	2,959,606
Business-Type Activities Capital assets, net	<u>\$ 9,068,490</u>	<u>\$ 938,065</u>	<u>\$ -</u>	<u>\$ 10,006,555</u>

NOTE 4 – LONG-TERM DEBT

Capital Leases

The City has property and equipment carried at approximately \$109,531, with approximately \$39,118 in accumulated depreciation, which are currently held under capital lease arrangements. The City is obligated under capital lease agreements to make the following aggregate annual lease payments:

Fiscal Year	Governmental Activities	Business-Type Activities
2022	11,908	11,908
2023	11,908	11,909
2024	11,909	11,908
Total minimum lease payments	35,725	35,725
Less interest	2,363	2,362
Present value of minimum payments	<u>\$ 33,362</u>	<u>\$ 33,363</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Series 2017 Certificates of Participation

In April 2017, the City issued \$7,335,000 of Series 2017 certificates of participation. The certificates of participation were issued to pay the costs of installation of automatic meter reading infrastructure, sewer system extensions and upgrades to the wastewater treatment facility. The certificates of participation bear interest from 1.2% to 3.7% and are due on November 1, 2037.

The annual debt service requirements on the Series 2017 certificates of participation at June 30, 2021 are as follows:

For the Year Ending June 30	Principal	Interest	Total
2022	\$ 295,000	\$ 201,817	\$ 496,817
2023	305,000	195,960	500,960
2024	315,000	189,214	504,214
2025	320,000	181,670	501,670
2026	330,000	173,215	503,215
2027-2031	1,805,000	710,668	2,515,668
2032-2036	2,130,000	380,572	2,510,572
2037-2041	970,000	36,260	1,006,260
	<u>\$ 6,470,000</u>	<u>\$ 2,069,376</u>	<u>\$ 8,539,376</u>

Series 2017B Certificates of Participation

In December 2017, the City issued \$1,780,000 of Series 2017B certificates of participation. The certificates of participation were issued to pay for pool renovations. The certificates of participation bear interest from 2.0% to 3.8% and are due on November 1, 2041.

The annual debt service requirements on the Series 2017B certificates of participation at June 30, 2021 are as follows:

For the Year Ending June 30	Principal	Interest	Total
2022	\$ 50,000	\$ 58,782	\$ 108,782
2023	50,000	57,458	107,458
2024	50,000	56,057	106,057
2025	50,000	54,582	104,582
2026	55,000	52,980	107,980
2027-2031	300,000	236,370	536,370
2032-2036	355,000	178,001	533,001
2037-2041	435,000	104,322	539,322
2042-2046	325,000	14,915	339,915
	<u>\$ 1,670,000</u>	<u>\$ 813,467</u>	<u>\$ 2,483,467</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

MMMPEP Payable

In February 2021, severe winter weather caused extraordinary short term increases in energy prices. The City was able to obtain financing to allow approximately \$1.4 million of the energy costs incurred in February 2021 to be paid over time, rather than as a single lump sum. Under the terms of the Municipal Utility Emergency Loan Program offered by the Missouri Department of Natural Resources, the funds are to be paid back within 5 years at 0% interest. As of June 30, 2021, the remaining balance due was \$1,211,402 and payments are to be made as follows:

For the Year Ending June 30	
2022	\$ 291,492
2023	234,871
2024	234,871
2025	234,871
2026	215,297
	\$ 1,211,402

Summary of Long-term Debt

The following is a summary of long-term debt activity of the City for the year ended June 30, 2021:

	Long-term Obligations at 7/1/2020	Additions	Reductions	Long-term Obligations at 6/30/2021	Due Within One Year
<u>Governmental Activities:</u>					
Capital lease	\$ 43,740	\$ -	\$ 10,378	\$ 33,362	\$ 10,740
Certificates of participation	1,715,000	-	45,000	1,670,000	50,000
Compensated absences	111,306	-	2,795	108,511	-
	\$ 1,870,046	\$ -	\$ 58,173	\$ 1,811,873	\$ 60,740
<u>Business-Type Activities:</u>					
Capital lease	\$ 43,740	\$ -	\$ 10,377	\$ 33,363	\$ 10,377
Certificates of participation	6,734,666	2,301	290,000	6,446,967	295,000
MMMPEP payable	-	1,401,147	189,745	1,211,402	291,492
Compensated absences	20,412	3,933	-	24,345	-
	\$ 6,798,818	\$ 1,407,381	\$ 490,122	\$ 7,716,077	\$ 596,869

NOTE 5 – RESTRICTED ASSETS

The cemetery endowment fund is restricted for operation and maintenance of the cemetery and consists of a checking account. At June 30, 2021, the balance totaled \$606,827 and is shown as restricted on the Statement of Net Position.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

As of June 30, 2021, the Park fund had \$112,681 restricted for debt service and the Sewer fund had \$2,122,471 restricted for capital projects and debt service.

NOTE 6 – OPERATING LEASE COMMITMENTS

The City is committed under a noncancelable operating lease for equipment in the Other Governmental funds. Future minimum operating lease commitments are as follows:

For the Year Ending June 30	
2022	\$ 14,668
2023	14,668
2024	14,668
2025	3,667
	<u>\$ 47,671</u>

Rent expenditures were \$14,815 for the year ended June 30, 2021.

NOTE 7 – CONTRACTS

The City has a contract in force for the right of a business in the Masters Industrial Park to use the City's land. The contract was initiated May 14, 1987, and under the terms of the contract, the business must pay the City \$1 per year on May 1 of each year. There is an option to renew the contract every two years and the contract's duration may not exceed 100 years. The City also has a contract in force with the local cable company. The contract was initiated December 20, 1985, and under the terms of the contract, the cable company must pay the City pole rental of \$1.50 per utility pole.

NOTE 8 – SELF INSURANCE

The City has established a vehicle self-insurance fund. The purpose of this fund was to pay for damage to the City's vehicles. The City no longer self-insures its vehicles; however, the money transferred in the past for this purpose is still recorded in the internal service fund.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

NOTE 9 – INTERFUND TRANSACTIONS

Occasionally, interfund transfers are needed to temporarily support operations of a particular fund. These transfers are to be paid back as the funds become available. Therefore, these transfers are reported as due to/from other funds in the financial statements. As of June 30, 2021, internal balances that resulted from various interfund transactions were as follows:

	Due From Other Funds	Due To Other Funds
General	\$ -	\$ 46,584
Park	11,858	-
Capital improvements	295,320	-
Electric	311,113	-
Water	321,683	-
Airport	-	325,779
Sewer	-	574,143
Non-major Bus-Type Funds	6,532	-
	<u>\$ 946,506</u>	<u>\$ 946,506</u>

Interfund transfers during the year ended June 30, 2021 were as follows:

	Transfer From Other Funds	Transfer To Other Funds
General Fund	\$ 1,215,000	\$ 128,000
Park	-	25,000
Capital Improvement Funds	25,000	14,700
Non-major Gov't Funds	14,000	-
Electric	-	1,215,000
Airport	14,700	-
Non-major Bus-Type Funds	114,000	-
	<u>\$ 1,382,700</u>	<u>\$ 1,382,700</u>

NOTE 10 – PENSION PLAN

General Information about the Pension Plan

Plan description. The City's defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Missouri Local Government Employees Retirement System (LAGERS). LAGERS is an agent multiple-employer, statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operations and administration of LAGERS is vested in the LAGERS Board of Trustees

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

consisting of seven persons. LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the LAGERS website at www.molagers.org.

Benefits provided. LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of the employer, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 (55 for police) with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55 (50 for police) and receive a reduced allowance.

	2021 Valuation
Benefit Multiplier	2.00%
Final Average Salary	3 years
Member Contributions	4.00%

Benefit terms provide for annual post retirement adjustments to each member’s retirement allowance subsequent to the member’s retirement date. The annual adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year.

Employees covered by benefit terms. At June 30, 2021, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	45
Inactive employees entitled to but not yet receiving benefits	11
Active employees	55
	111

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the employer contribute 4% of their gross pay to the pension plan. Employer contribution rates are 12.4% (General) and 9.9% (Police) of annual covered payroll.

Net Pension Liability(Asset). The employer’s net pension liability(asset) was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability(asset) was determined by an actuarial valuation as of February 28, 2021.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Actuarial assumptions. The total pension liability in the February 28, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% wage inflation; 2.25% price inflation
Salary increase	2.75% to 6.75% including wage inflation
Investment rate of return	7.00%, net of investment expenses

The healthy retiree mortality tables, for post-retirement mortality, were 115% of the PubG-2010 Retiree Mortality Table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were 115% of the PUBNS-2010 Disabled Retiree Mortality Table for males and females. The pre-retirement mortality tables used were 75% of the PubG-2010 Employee Mortality Table for males and females of general groups and 75% of the PubS-2010 Employee Mortality Table for males and females of police, fire, and public safety groups.

Mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scale to the above described tables.

The actuarial assumptions used in the February 28, 2021 valuation were based on the results of an actuarial experience study for the period March 1, 2015 through February 29, 2020.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Alpha	15.00%	3.67%
Equity	35.00%	4.78%
Fixed Income	31.00%	1.41%
Real Assets	36.00%	3.29%
Strategic Assets	8.00%	5.25%
Cash/Leverage	-25.00%	-0.29%

Discount rate. The discount rate used to measure the total pension liability is 7.00%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

investments was applied to all periods of projected benefit payment to determine the total pension liability.

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability(Asset)
	(a)	(b)	(a) - (b)
Balances at 6/30/2020	13,067,306	12,899,385	167,921
Changes for the year:			
Service cost	302,786	-	302,786
Interest	935,213	-	935,213
Difference between expected and actual experience	216,228	-	216,228
Changes in assumptions	(264,344)	-	(264,344)
Contributions - employer	-	260,721	(260,721)
Contributions - employee	-	100,638	(100,638)
Net investment income	-	4,016,297	(4,016,297)
Benefit payments, including refunds	(644,386)	(644,386)	-
Administrative expense	-	(11,091)	11,091
Other changes	-	78,249	(78,249)
Net changes	545,497	3,800,428	(3,254,931)
Balances at 6/30/2021	13,612,803	16,699,813	(3,087,010)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the Net Pension Liability(Asset) of the employer, calculated using the discount rate of 7.00%, as well as what the employer's Net Pension Liability(Asset) would be using a discount rate that is 1 percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate.

Current Single Discount		
1% Decrease	Rate Assumption	1% Increase
(1,211,911)	(3,087,010)	(4,637,826)

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2021, the employer recognized pension expense of (\$598,677). The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in experience	\$ 252,115	\$ (123,996)
Change in assumptions	-	(207,492)
Excess (deficit) investment returns	-	(2,116,196)
Total	<u>\$ 252,115</u>	<u>\$ (2,447,684)</u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Net Deferred Outflows of Resources
2022	\$ (618,562)
2023	(481,374)
2024	(468,489)
2025	(627,144)
2026	-
Thereafter	-
Total	<u>\$ (2,195,569)</u>

Payable to the Pension Plan

At June 30, 2021, the City reported a payable of approximately \$8,000 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2021.

NOTE 11 – DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan (the “Plan”), created in accordance with Internal Revenue Service Code Section 457. The Plan, available to all employees, permits the employees to defer a portion of their salary until future years. According to the Plan, all amounts of compensation deferred under the Plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property or rights, shall remain (until made available to the Participant or his Beneficiary) solely the property and rights of the City and shall be subject only to the claim of general creditors of the City. All assets and income of the Plan are held in trust for the exclusive benefit of the participants and their beneficiaries. The

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable emergency.

NOTE 12 – LONG TERM CONTRACT

The City is a member of the Missouri Joint Municipal Electric Utility Commission (MJMEUC). MJMEUC manages a power pool known as Mid-Missouri Municipal Power Energy Pool (“MMMPEP”), of which the City is a member. All MMMPEP members (including the City) have an agreement (the “MMMPEP Agreement”) with MJMEUC for the purchase of electric capacity and energy and transmission from MJMEUC. The MMMPEP Agreement requires MJMEUC to supply the full energy requirements of the City under the terms of a long term agreement expiring May 31, 2028.

MMMPEP operations are governed by a committee (“Pool Committee”) consisting of one representative from each MMMPEP member and is comprised of 12 members. The Pool Committee is charged with determining policy within the scope of the agreement; including setting rates for all services provided by MJMEUC to MMMPEP members. These rates must include recovery of all MJMEUC’s costs incurred in connection with acquiring, providing, arranging or financing the provision of full requirements service to MMMPEP members. These rates include capacity and energy charges MJMEUC incurs under supply and transmission agreements and MJMEUC’s related administrative costs.

The rates are established so as to charge each MMMPEP member its proportionate share of all costs associated with MJMEUC’s performance under the MMMPEP Agreement. Charges based on such rates are assessed and billed monthly.

MJMEUC billed the MMMPEP members, based upon their pro-rata share and an estimated monthly usage, a total of \$2,098,522 to fund working capital for MMMPEP activities. This amount is expected to be refunded to the members at the conclusion of the contract term upon final settlement of all charges.

To meet the power and energy requirements of the City and the other MMMPEP members, MJMEUC presently obtains power and energy from the following resources: (i) power purchased under long-term firm energy contracts, unit-contingent energy contracts and interruptible contracts; and (ii) spot market purchases. The City purchases its full energy requirements from MJMEUC pursuant to the MMMPEP Agreement, but does not have any ownership interest in MJMEUC’s resources.

In the event a MMMPEP member would cancel or default on the MMMPEP Agreement without first assigning its rights and interest to a new member accepted by MJMEUC, the member would remain responsible for the unavoidable costs owed by MJMEUC under supply and transmission service agreements, including its share of all remaining fixed costs and its share of must-take or minimum-take energy (MTE). If possible, MJMEUC would utilize or sell the member’s MTE in exchange for providing the member a credit or offset equal to the fair value of the MTE up to the amount of the member’s obligation. As a result, the member would have a financial obligation after cancellation or default in the event that the fair value of the MTE is less than the member’s allocated share of MJMEUC’s unavoidable costs with respect to the resource obligations at the

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

time of cancellation or default. Since the amount of the cancelling or defaulting member's obligation would depend on MJMEUC's unavoidable costs after cancellation or default and the fair value of the MTE at such times in the future, the amount of the obligation is not reasonably determinable. Currently, the City has no plans or intentions to begin cancellation proceedings or expects to default on its obligation.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Pending Litigation

The City is not party to any litigation that, in the opinion of management, would have a material effect on the financial statements. However, any outstanding legal matters that arise would be handled by the City's insurance company.

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and, natural disasters. Worker's compensation insurance premiums are retrospectively rated and could result in an amount due as a result of an audit of the insurance premiums. Adjustments from this audit cannot be reasonably estimated at this time and management estimates that any settlement amount would not materially affect the financial statements of the City.

The City continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

NOTE 14 – LANDFILL POST-CLOSURE CARE COST

The City owned and operated a landfill site that stopped accepting waste on October 9, 1993. Upon the closure activities being completed, the post-closure period began. Initially, the post-closure costs were estimated at \$419,130 and have since been reduced to \$216,867. According to the post-closure contract, the estimated post-closure costs were to be updated in 1997 and every five years until the post-closure period ends in 2024. The post-closure contract can be terminated in one of the following ways:

- a. The City desires to terminate the contract prior to completing proper post-closure care for the solid waste disposal area. A written notice of termination must be delivered to the Missouri Department of Natural Resources within 120 days before the termination date and the City must post with the Missouri Department of Natural Resources an acceptable alternative financial assurance instrument as provided by law within 90 days following the written notice of termination. To be considered effective, the City must receive a written acknowledgement of the receipt of the acceptable alternative financial instrument.
- b. If the City fails to properly provide post-closure care for the solid waste disposal area, the Missouri Department of Natural Resources can request that the Department of Revenue and State Treasurer withhold funds up to the post-closure obligation from

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2021

the City's tax remittances and the Department of Natural Resources will proceed with administrative and judicial review of the findings.

- c. Missouri Department of Natural Resources can terminate the agreement with written notice that the City is released from the requirements for a financial assurance instrument for post-closure.
- d. The post-closure period ends.

As of June 30, 2021, the contract was still in effect and approximately \$395,000 has been set aside to cover such costs, if they should arise. These funds are not restricted by external parties but have been designated by the Board of Aldermen to cover related costs. A liability of \$216,867 has also been recorded to reflect the estimated post-closure costs payable upon termination of this agreement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALEM, MISSOURI
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS

Fiscal year ending June 30,	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total Pension Liability							
Service Cost	\$ 302,786	\$ 283,663	\$ 292,995	\$ 294,549	\$ 286,391	\$ 290,776	\$ 283,978
Interest on Total Pension Liability	935,213	887,429	861,804	809,214	782,037	717,657	669,795
Difference between expected and actual experience	216,228	113,090	(242,497)	34,404	(362,680)	(206,963)	10,891
Changes in assumptions	(264,344)	-	-	-	-	409,466	-
Benefit payments, including refunds	(644,386)	(624,898)	(486,103)	(340,474)	(329,500)	(312,388)	(303,445)
Net change in total pension liability	545,497	659,284	426,199	797,693	376,248	898,548	661,219
Total pension liability - beginning	13,067,306	12,408,022	11,981,823	11,184,130	10,807,882	9,909,334	9,248,115
Total pension liability - ending	<u>\$ 13,612,803</u>	<u>\$ 13,067,306</u>	<u>\$ 12,408,022</u>	<u>\$ 11,981,823</u>	<u>\$ 11,184,130</u>	<u>\$ 10,807,882</u>	<u>\$ 9,909,334</u>
Plan Fiduciary Net Position							
Contributions - employer	\$ 260,721	\$ 269,563	\$ 254,158	\$ 289,759	\$ 271,811	\$ 299,388	\$ 322,783
Contributions - employee	100,638	99,380	91,385	91,036	89,412	91,764	91,238
Net investment income	4,016,297	187,227	827,209	1,369,194	1,158,130	(24,019)	178,898
Benefit payments, including refunds	(644,386)	(624,898)	(486,103)	(340,474)	(329,500)	(312,388)	(303,445)
Pension Plan Administrative Expense	(11,091)	(14,250)	(12,678)	(8,366)	(8,091)	(7,908)	(8,947)
Other (Net Transfer)	78,249	(3,293)	6,692	32,152	49,163	7,915	42,141
Net change in plan fiduciary net position	3,800,428	(86,271)	680,663	1,433,301	1,230,925	54,752	322,668
Plan fiduciary net position - beginning	12,899,385	12,985,656	12,304,993	10,871,692	9,640,767	9,586,015	9,263,347
Plan fiduciary net position - ending	<u>\$ 16,699,813</u>	<u>\$ 12,899,385</u>	<u>\$ 12,985,656</u>	<u>\$ 12,304,993</u>	<u>\$ 10,871,692</u>	<u>\$ 9,640,767</u>	<u>\$ 9,586,015</u>
Net pension liability(asset) - ending	\$ (3,087,010)	\$ 167,921	\$ (577,634)	\$ (323,170)	\$ 312,438	\$ 1,167,115	\$ 323,319
Plan fiduciary net position as a percentage of the total pension liability	122.68%	98.71%	104.66%	102.70%	97.21%	89.20%	96.74%
Covered-employee payroll	\$ 2,455,892	\$ 2,313,890	\$ 2,196,956	\$ 2,345,679	\$ 2,273,894	\$ 2,215,410	\$ 2,297,016
Net pension liability as a percentage of covered employee payroll	-125.70%	7.26%	-26.29%	-13.78%	13.74%	52.68%	14.08%

Notes:

Required supplemental information is not available for fiscal years prior to 2015.

The amounts noted above are as of the measurement date which is June 30th.

**CITY OF SALEM, MISSOURI
SCHEDULE OF PENSION CONTRIBUTIONS
LAST TEN FISCAL YEARS**

	For the Years Ended February 28									
	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially determined pension contribution	265,623	269,563	253,724	290,193	271,812	299,389	322,783	328,997	311,551	302,901
Contribution in relation to the actuarially determined contribution	265,623	269,564	253,724	290,194	271,812	299,389	322,783	319,840	303,238	292,271
Contribution deficiency (excess)	-	(1)	-	(1)	-	-	-	9,157	8,313	10,630
Covered employee payroll	2,563,284	2,484,476	2,281,334	2,279,203	2,235,315	2,294,095	2,280,963	2,179,746	1,946,965	1,870,364
Covered employee payroll contributions as a percentage of covered employee payroll	10.36%	10.85%	11.12%	12.73%	12.16%	13.05%	14.15%	14.67%	15.57%	15.63%

Notes to schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of February 28 prior to the end of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal and modified terminal funding
Amortization method	Level percent of payroll, closed
Remaining amortization period	Multiple bases from 13 to 17 years
Asset valuation method	5-year smoothed market; 20% corridor
Inflation	2.75% wage inflation; 2.25% price inflation
Salary increases	2.75% to 6.55% including wage inflation
Investment rate of return	7.00%, net of investment expenses
Retirement age	Experience-based table of rates that are specific to the type of eligibility condition
Mortality	The healthy retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 115% of the PubG-2010 Retiree Mortality Table for males and females. The disabled retiree mortality tables, for post-retirement mortality, used in evaluating allowances to be paid were 115% of the PubNS-2010 Disabled Retiree Mortality Table for males and females. The pre-retirement mortality tables used were 75% of the PubG-2010 Employee Mortality table for males and females of General groups and 75% of the PubS-2010 Employee Mortality Table for males and females of Police, Fire, and Public Safety groups. Mortality rates for a particular calendar year are determined by applying the MP-2020 mortality improvement scale to the above described tables.

Other information

None



Governmental and Non-Profit Audit & Consulting Services

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

To the Board of Aldermen
City of Salem, Missouri

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Missouri (the "City"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 8, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies to be material weaknesses:

Preparation and Review of Financial Statements in Accordance with GAAP

The internal control structure of the City has focused primarily on the objective of effectiveness and efficiency of operations. However, the system of internal control over the objectives of reliability of financial reporting contains deficiencies. A key element of financial reporting is the ability of management to select and apply the appropriate accounting principles to prepare financial statements in accordance with generally accepted accounting principles (GAAP). For the year ended June 30, 2021, there was no one on staff with sufficient knowledge to prepare GAAP-based financial statements. Therefore, certain adjustments were required to be made to the accounting records as a result of the audit process. Material adjustments included the following:

- Adjustment to inventory to agree with physical count at year end,
- Reclassification of principal payments on lease purchase agreements,
- Adjustments to accounts payable, accrued liabilities and accounts receivable,
- Adjustments to record interfund activity,
- Reclassification of long-term debt activity,
- Adjustments to record the effects of GASBS No. 68.

We recommend that management continue to weigh the cost versus benefit of obtaining additional training and qualified personnel to adequately address this issue.

Management's Response: The City will continue to review the cost and benefits of having its own staff, or someone independent on the City's behalf, review and prepare its financial statements. The results of the assessment will determine management's recommendation(s) regarding this issue going forward.

Segregation of Duties

Segregation of duties is normally difficult to accomplish within a small organization, but management should be mindful of areas that can easily be improved. Due to the limited number of people working in the office, many critical duties are combined and given to the available employees. To the extent possible, access, recording, and monitoring duties should be segregated to serve as a check and balance on the employee's integrity. Management should continue to evaluate job duty assignments to maintain the best control system possible.

Management's Response: Since hiring a Director of Finance in November 2021, the City has been able to segregate some of the accounting tasks. Management will continue to review duty assignments and staffing for opportunities to further separate duties.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency to be a significant deficiency:

Grant Administration

During fiscal year 2021, the City had multiple ongoing grant projects and, with the limited detail available in the general ledger, it was difficult to separate and track the receipts and disbursements for each grant. We recommend the City establish a system for tracking the receipts and disbursements for individual grant projects to ensure accurate reporting and that eligible reimbursements are requested timely.

Management's Response: The City has implemented procedures to ensure the timely and accurate tracking of individual grant awards, expenses, and reimbursements for FY 2022.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's responses to the findings identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

K DeLuca Audit Services LLC

K DeLuca Audit Services LLC

St. James, Missouri

August 8, 2022



Governmental and Non-Profit Audit & Consulting Services

August 8, 2022

To the Board of Aldermen
of the City of Salem, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Missouri (the “City”) for the year ended June 30, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, if applicable, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 25, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2021. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the City’s financial statements was:

Management’s estimate of the allowance for doubtful accounts is based on historical data and an analysis of the collectability of individual accounts. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of employee pension contributions and related liabilities are subject to actuarial assumptions provided by Missouri LAGERS, the City's plan administrator.

The disclosure of the landfill post-closure liability is based on a calculation as described by the Missouri Code of State Regulations and was provided by the Missouri Department of Natural Resources.

The disclosure of the long-term contract relating to the City's membership in the Missouri Joint Municipal Electric Utility Commission (MJMEUC) and its involvement in Mid-Missouri Municipal Power Energy Pool (MMMPEP) was prepared by MJMEUC.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following misstatements were detected as a result of our audit procedures and were corrected by management:

- Adjustment to inventory to agree with physical count at year end,
- Reclassification of principal payments on lease purchase agreements,
- Adjustments to accounts payable, accrued liabilities and accounts receivable,
- Adjustments to record interfund activity,
- Reclassification of long-term debt activity,
- Adjustments to record the effects of GASBS No. 68,

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 8, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Aldermen and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

K DeLuca Audit Services LLC

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