
CITY OF SALEM, MISSOURI

AUDIT REPORT

JUNE 30, 2015

**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, 2015, 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.

K DeLuca Audit Services LLC

PO Box 132 • St. James, MO 65559

Kristen DeLuca, CPA • (573) 263-5552 • kristen@kdaudit.com

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, 2015, 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 budgetary comparison information, schedule of changes in net pension liability and related ratios and schedule of LAGERS contributions 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 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 February 5, 2016, 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
February 5, 2016

BASIC FINANCIAL STATEMENTS

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
JUNE 30, 2015

Statement 1

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 641,602	\$ 1,205,923	\$ 1,847,525
Certificates of deposit	140,772	1,128,160	1,268,932
Restricted assets	1,020,636	-	1,020,636
Accounts receivable, net	178,154	1,266,581	1,444,735
Grants receivable	-	42,552	42,552
Due from external parties	-	42,723	42,723
Inventories	-	340,867	340,867
Prepaid expenses	-	263,671	263,671
Capital assets--			
Land and construction in progress	90,150	414,398	504,548
Other capital assets, net of depreciation	4,295,919	3,038,320	7,334,239
Total assets	<u>6,367,233</u>	<u>7,743,195</u>	<u>14,110,428</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension related resources	268,028	157,414	425,442
Total deferred outflows of resources	<u>268,028</u>	<u>157,414</u>	<u>425,442</u>
<u>LIABILITIES</u>			
Accounts payable and accrued expenses	37,541	422,058	459,599
Internal balances	43,230	(43,230)	-
Post-closure liability	-	244,018	244,018
Net pension liability	203,691	119,628	323,319
Long-term liabilities			
Due within one year	78,475	33,060	111,535
Due in more than one year	215,458	58,692	274,150
Total liabilities	<u>578,395</u>	<u>834,226</u>	<u>1,412,621</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension related resources	11,469	6,736	18,205
Total deferred inflows of resources	<u>11,469</u>	<u>6,736</u>	<u>18,205</u>
<u>NET POSITION</u>			
Invested in capital assets, net of related debt	4,185,686	3,408,971	7,594,657
Restricted			
Expendable	728,875	-	728,875
Nonexpendable	291,761	-	291,761
Unrestricted	839,075	3,650,676	4,489,751
Total net position	<u>\$ 6,045,397</u>	<u>\$ 7,059,647</u>	<u>\$ 13,105,044</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, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
Primary government			
Governmental activities---			
Safety services	\$ 1,268,712	\$ -	\$ -
Health and social services	46,909	-	-
Leisure services	361,324	43,381	31,913
Utility	224,786	-	-
Transportation services	1,192,379	-	18,742
Administrative services	664,483	42,828	135,815
Interest on long-term debt	2,220	-	-
Total governmental activities	<u>3,760,813</u>	<u>86,209</u>	<u>186,470</u>
Business-type activities---			
Electric	4,811,616	6,064,269	-
Water	561,252	534,898	61,620
Airport	150,048	38,917	198,363
Sewerage system	561,709	373,087	-
Landfill	48	-	-
Nonmajor enterprise funds	381,943	283,180	-
Total business-type activities	<u>6,466,616</u>	<u>7,294,351</u>	<u>259,983</u>
Total primary government	<u>\$ 10,227,429</u>	<u>\$ 7,380,560</u>	<u>\$ 446,453</u>

General revenues---

Taxes---

 Property taxes

 Sales taxes

 Sur taxes

 Franchise taxes

 Other taxes

Interest and investment earnings

Miscellaneous income

Capital contributions

Transfers

 Total general revenues and transfers

 Change in net position

Net position --- beginning (restated)

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
\$ (1,268,712)	\$ -	\$ (1,268,712)
(46,909)	-	(46,909)
(286,030)	-	(286,030)
(224,786)	-	(224,786)
(1,173,637)	-	(1,173,637)
(485,840)	-	(485,840)
(2,220)	-	(2,220)
<u>(3,488,134)</u>	<u>-</u>	<u>(3,488,134)</u>
-	1,252,653	1,252,653
-	35,266	35,266
-	87,232	87,232
-	(188,622)	(188,622)
-	(48)	(48)
-	(98,763)	(98,763)
-	<u>1,087,718</u>	<u>1,087,718</u>
<u>(3,488,134)</u>	<u>1,087,718</u>	<u>(2,400,416)</u>
306,049	-	306,049
1,851,223	-	1,851,223
51,468	-	51,468
252,710	-	252,710
2,277	-	2,277
5,573	6,928	12,501
63,781	89,464	153,245
(122,529)	122,529	-
1,137,467	(1,137,467)	-
<u>3,548,019</u>	<u>(918,546)</u>	<u>2,629,473</u>
<u>59,885</u>	<u>169,172</u>	<u>229,057</u>
<u>5,985,512</u>	<u>6,890,475</u>	<u>12,875,987</u>
<u>\$ 6,045,397</u>	<u>\$ 7,059,647</u>	<u>\$ 13,105,044</u>

**CITY OF SALEM, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2015**

	<u>General Fund</u>	<u>Street</u>	<u>Capital Improvements</u>	<u>Other Governmental Funds</u>	<u>Permanent Fund</u>
<u>ASSETS</u>					
Cash	\$ -	\$ 637,865	\$ -	\$ -	\$ -
Restricted assets	-	-	447,643	-	572,993
Receivables, net	20	-	4,071	1,260	-
Due from other funds	-	108,327	20,493	-	-
Taxes receivable	122,578	-	50,225	-	-
Total assets	\$ 122,598	\$ 746,192	\$ 522,432	\$ 1,260	\$ 572,993
<u>LIABILITIES</u>					
Accounts payable	\$ (2,356)	\$ -	\$ 1,110	\$ 8,298	\$ -
Accrued payroll	24,011	-	1,209	5,269	-
Due to other funds	118,276	-	9,637	44,137	-
Total liabilities	139,931	-	11,956	57,704	-
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Unavailable revenue	22,128	-	-	-	-
Total deferred inflows of resources	22,128	-	-	-	-
<u>FUND BALANCES</u>					
Nonspendable	-	-	-	-	291,761
Restricted	-	-	510,476	-	281,232
Assigned	-	746,192	-	-	-
Unassigned	(39,461)	-	-	(56,444)	-
Total fund balances	(39,461)	746,192	510,476	(56,444)	572,993
Total liabilities and fund balances	\$ 122,598	\$ 746,192	\$ 522,432	\$ 1,260	\$ 572,993

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, 2015**

Statement 3

Total Governmental Funds	Total Governmental Fund Balances	\$ 1,733,756
	<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
\$ 637,865		
1,020,636		
5,351	Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	4,386,069
128,820		
172,803		
<u>\$ 1,965,475</u>	Net pension liability and deferred outflows/inflows of pension related resources are not recognized in the fund statements because they are not financial resources.	52,868
\$ 7,052		
30,489	Revenue that is deferred in the funds financial statement because it is not available and recognized as revenue in the government-wide financial statements.	22,128
172,050		
<u>209,591</u>		
	Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:	
	Capital lease payable	(200,383)
	Accrued compensated absences	(93,550)
22,128		
<u>22,128</u>		
	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.	144,509
291,761		
791,708		
746,192		
(95,905)		
<u>1,733,756</u>	Net Position of Governmental Funds	<u>\$ 6,045,397</u>
<u>\$ 1,965,475</u>		

**CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Street	Capital Improvements	Other Governmental Funds	Permanent Fund
Revenues—					
Taxes	\$ 1,723,994	\$ 191,697	\$ 553,175	\$ -	\$ -
Intergovernmental	-	-	20,128	134,429	-
Charges for services	-	-	-	43,381	-
Interest and investment earnings	5,077	-	-	-	496
Licenses and permits	42,828	-	-	-	-
Miscellaneous	26,660	-	23,182	45,852	-
	<u>1,798,559</u>	<u>191,697</u>	<u>596,485</u>	<u>223,662</u>	<u>496</u>
Expenditures--					
Current operations:					
Safety services	1,226,784	-	-	12,464	-
Health and social services	40,316	-	-	-	-
Leisure services	-	-	87	314,098	-
Utility services	72,729	-	153,486	-	-
Transportation services	593,306	8,730	99,737	-	-
Administrative services	598,954	-	-	10,355	-
Capital outlay/fixed assets	9,100	359,119	63,125	150,794	-
Debt service:					
Principal	30,091	6,516	-	-	-
Interest	1,831	389	-	-	-
	<u>2,571,111</u>	<u>374,754</u>	<u>316,435</u>	<u>487,711</u>	<u>-</u>
Excess Revenues Over (Under) Expenditures	<u>(772,552)</u>	<u>(183,057)</u>	<u>280,050</u>	<u>(264,049)</u>	<u>496</u>
Other Financing Sources (Uses)—					
Proceeds from debt issuance	-	125,320	-	-	-
Transfers in	1,197,215	6,905	106,817	263,122	-
Transfers out	(397,126)	-	(161,356)	(639)	-
	<u>800,089</u>	<u>132,225</u>	<u>(54,539)</u>	<u>262,483</u>	<u>-</u>
Net change in fund balance	27,537	(50,832)	225,511	(1,566)	496
Fund balances at beginning of year, restated	<u>(66,998)</u>	<u>797,024</u>	<u>284,965</u>	<u>(54,878)</u>	<u>572,497</u>
Fund balances at end of year	<u>\$ (39,461)</u>	<u>\$ 746,192</u>	<u>\$ 510,476</u>	<u>\$ (56,444)</u>	<u>\$ 572,993</u>

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

CITY OF SALEM, MISSOURI
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, 2015

Statement 4

<p>Total Governmental Funds</p> <hr/> <p>\$ 2,468,866 154,557 43,381 5,573 42,828 95,694 <u>2,810,899</u></p>	<p>Net Change in Fund Balances---Total Governmental Funds \$ 201,146</p> <p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>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:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Capital outlay</td> <td style="width: 20%; text-align: right;">582,138</td> <td style="width: 20%;"></td> </tr> <tr> <td>Depreciation expense</td> <td style="text-align: right;"><u>(671,182)</u></td> <td style="text-align: right;">(89,044)</td> </tr> </table> <p>Some revenues not collected as of the year end are not considered available revenues in the governmental funds. This is the change in the amounts that were not considered available in the current year. (5,140)</p> <p>Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 36,607</p> <p>Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. (125,320)</p> <p>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. 1,523</p> <p>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:</p> <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Compensated absences</td> <td style="width: 20%; text-align: right;">(3,160)</td> <td style="width: 20%;"></td> </tr> <tr> <td>Pension costs</td> <td style="text-align: right;"><u>43,273</u></td> <td></td> </tr> </table> <p>Changes in Net Position of Governmental Activities <u>\$ 59,885</u></p>	Capital outlay	582,138		Depreciation expense	<u>(671,182)</u>	(89,044)	Compensated absences	(3,160)		Pension costs	<u>43,273</u>	
Capital outlay	582,138												
Depreciation expense	<u>(671,182)</u>	(89,044)											
Compensated absences	(3,160)												
Pension costs	<u>43,273</u>												
<p>1,239,248 40,316 314,185 226,215 701,773 607,309 582,138</p> <hr/> <p>36,607 2,220 <u>3,750,011</u></p> <p>(939,112)</p> <p>125,320 1,574,059 (559,121) <u>1,140,258</u></p> <p>201,146</p> <hr/> <p>1,532,610</p> <hr/> <p><u>\$ 1,733,756</u></p>													

**CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

	<u>Business-type</u>			
	<u>Electric</u>	<u>Water</u>	<u>Airport</u>	<u>Sewer</u>
<u>Assets</u>				
Current Assets--				
Cash	\$ 489,887	\$ 492,275	\$ 20,077	\$ 19,158
Certificates of deposit	2,344	463,907	-	413,131
Accounts receivable, net	1,032,345	101,043	-	91,769
Grants receivable	-	-	42,552	-
Due from external parties	30,730	8,915	-	-
Due from other funds	47,566	60,476	3,115	-
Inventories	177,629	126,166	-	37,072
Total Current Assets	1,780,501	1,252,782	65,744	561,130
Noncurrent Assets--				
Prepaid expenses	263,671	-	-	-
Capital assets				
Land and construction in progress	95,440	20,000	215,757	-
Other capital assets, net of depreciation	359,105	960,135	661,062	1,044,396
Total Noncurrent Assets	718,216	980,135	876,819	1,044,396
Total Assets	2,498,717	2,232,917	942,563	1,605,526
<u>Deferred Outflows of Resources</u>				
Deferred Outflows of Resources--				
Pension related resources	68,071	46,799	-	29,781
Total Deferred Outflows of Resources	68,071	46,799	-	29,781
<u>Liabilities</u>				
Current Liabilities--				
Accounts payable	331,592	5,249	61,205	18,850
Accrued payroll	1,231	1,325	-	240
Due to other funds	3,115	69,095	69	2,179
Post closure liability	-	-	-	-
Current portion of noncurrent liabilities	23,301	9,759	-	-
Total Current Liabilities	359,239	85,428	61,274	21,269
Noncurrent Liabilities--				
Compensated absences	10,020	3,394	-	7,203
Net pension liability	51,731	35,565	-	22,632
Lease payable	23,599	10,389	-	-
Total Noncurrent Liabilities	85,350	49,348	-	29,835
Total Liabilities	444,589	134,776	61,274	51,104
<u>Deferred Inflows of Resources</u>				
Deferred Inflows of Resources--				
Pension related resources	2,913	2,003	-	1,274
Total Deferred Inflows of Resources	2,913	2,003	-	1,274
<u>Net Position</u>				
Net Position--				
Invested in capital assets, net of related debt	430,946	959,987	876,819	1,044,396
Unrestricted	1,688,340	1,182,950	4,470	538,533
Total Net Position	\$ 2,119,286	\$ 2,142,937	\$ 881,289	\$ 1,582,929

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

**CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2015**

Statement 5

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
\$ 130,556	\$ 53,970	\$ 1,205,923	\$ 3,737
246,292	2,486	1,128,160	140,772
-	41,424	1,266,581	-
-	-	42,552	-
-	3,078	42,723	-
-	8,858	120,015	-
-	-	340,867	-
<u>376,848</u>	<u>109,816</u>	<u>4,146,821</u>	<u>144,509</u>
-	-	263,671	-
-	83,201	414,398	-
-	13,622	3,038,320	-
-	96,823	3,716,389	-
<u>376,848</u>	<u>206,639</u>	<u>7,863,210</u>	<u>144,509</u>
-	12,763	157,414	-
-	12,763	157,414	-
-	890	417,786	-
-	1,476	4,272	-
-	2,327	76,785	-
244,018	-	244,018	-
-	-	33,060	-
<u>244,018</u>	<u>4,693</u>	<u>775,921</u>	<u>-</u>
-	4,087	24,704	-
-	9,700	119,628	-
-	-	33,988	-
-	13,787	178,320	-
<u>244,018</u>	<u>18,480</u>	<u>954,241</u>	<u>-</u>
-	546	6,736	-
-	546	6,736	-
-	96,823	3,408,971	-
132,830	103,553	3,650,676	144,509
<u>\$ 132,830</u>	<u>\$ 200,376</u>	<u>\$ 7,059,647</u>	<u>\$ 144,509</u>

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-type			
	<u>Electric</u>	<u>Water</u>	<u>Airport</u>	<u>Sewer</u>
Operating Revenues---				
Charges for services	\$ 6,064,269	\$ 534,898	\$ 38,917	\$ 373,087
Intergovernmental	-	61,620	198,363	-
Other	32,798	6,809	219	861
	<u>6,097,067</u>	<u>603,327</u>	<u>237,499</u>	<u>373,948</u>
Operating Expenses---				
Personnel services	487,074	279,954	-	210,587
Operations and maintenance	4,210,987	159,215	75,224	173,805
Depreciation and amortization	113,555	121,492	74,824	177,317
	<u>4,811,616</u>	<u>560,661</u>	<u>150,048</u>	<u>561,709</u>
Operating Income (Loss)	<u>1,285,451</u>	<u>42,666</u>	<u>87,451</u>	<u>(187,761)</u>
Non-operating Revenue (Expense)---				
Interest revenue	5,918	381	128	534
Interest expense	-	(591)	-	-
	<u>5,918</u>	<u>(210)</u>	<u>128</u>	<u>534</u>
Income (Loss) Before Capital Contributions and Transfers	1,291,369	42,456	87,579	(187,227)
Capital contributions	-	10,160	-	112,369
Transfers in (out)	<u>(1,114,926)</u>	<u>(106,817)</u>	<u>-</u>	<u>-</u>
Change in Net Position	176,443	(54,201)	87,579	(74,858)
Net Position at beginning of year (restated)	1,942,843	2,197,138	793,710	1,657,787
Net Position at end of year	<u>\$ 2,119,286</u>	<u>\$ 2,142,937</u>	<u>\$ 881,289</u>	<u>\$ 1,582,929</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, 2015

Statement 6

Activities			Governmental
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
\$ -	\$ 283,180	\$ 7,294,351	\$ -
-	-	259,983	-
44,464	4,313	89,464	7,500
<u>44,464</u>	<u>287,493</u>	<u>7,643,798</u>	<u>7,500</u>
-	117,828	1,095,443	-
48	256,749	4,876,028	6,000
-	7,366	494,554	-
<u>48</u>	<u>381,943</u>	<u>6,466,025</u>	<u>6,000</u>
<u>44,416</u>	<u>(94,450)</u>	<u>1,177,773</u>	<u>1,500</u>
(33)	-	6,928	23
-	-	(591)	-
<u>(33)</u>	<u>-</u>	<u>6,337</u>	<u>23</u>
44,383	(94,450)	1,184,110	1,523
-	-	122,529	-
<u>-</u>	<u>84,276</u>	<u>(1,137,467)</u>	<u>-</u>
44,383	(10,174)	169,172	1,523
88,447	210,550	6,890,475	142,986
<u>\$ 132,830</u>	<u>\$ 200,376</u>	<u>\$ 7,059,647</u>	<u>\$ 144,509</u>

CITY OF SALEM, MISSOURI
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015

	Business-type					Activities
	Electric	Water	Airport	Sewer	Landfill	
Cash Flows from Operating Activities—						
Cash received from customers	\$ 5,985,080	\$ 723,278	\$ 201,204	\$ 343,736	\$ -	-
Cash payments to suppliers	(4,230,045)	(188,783)	(19,287)	(164,463)	-	-
Cash payments to employees	(498,064)	(287,509)	-	(215,396)	-	-
Other receipts (payments)	(3,415)	(1,300)	-	25,018	-	(48)
Net Cash Provided (Used) by Operating Activities	<u>1,253,556</u>	<u>245,686</u>	<u>181,917</u>	<u>(11,105)</u>	<u>(48)</u>	<u>(48)</u>
Cash Flows from Noncapital Financing Activities--						
Transfers in (out)	(1,114,926)	(106,817)	-	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(1,114,926)</u>	<u>(106,817)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows from Capital and Related Financing Activities--						
Acquisition and construction of fixed assets	(76,900)	(207,205)	(188,180)	(135,719)	-	-
Proceeds from lease purchase agreement	46,900	-	-	-	-	-
Principal payment on capital debt	-	(9,569)	-	-	-	-
Interest paid on capital debt	-	(591)	-	-	-	-
Capital transfers from other funds	-	10,160	-	112,369	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(30,000)</u>	<u>(207,205)</u>	<u>(188,180)</u>	<u>(23,350)</u>	<u>-</u>	<u>-</u>
Cash Flows from Investing Activities--						
Interest receipts/purchase of investments	5,915	381	128	534	-	-
Proceeds from sale and maturity of investments	-	20,247	-	269,536	-	-
Net Cash Provided (Used) by Investing Activities	<u>5,915</u>	<u>20,628</u>	<u>128</u>	<u>270,070</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in cash and cash equivalents	114,545	(47,708)	(6,135)	235,615	(48)	(48)
Cash and Cash Equivalents at beginning of year	375,342	539,983	26,212	(216,457)	130,604	130,604
Cash and Cash Equivalents at end of year	<u>\$ 489,887</u>	<u>\$ 492,275</u>	<u>\$ 20,077</u>	<u>\$ 19,158</u>	<u>\$ 130,556</u>	<u>\$ 130,556</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 1,285,451	\$ 42,666	\$ 87,451	\$ (187,761)	\$ 44,416	\$ 44,416
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	113,555	121,492	74,824	177,317	-	-
Changes in assets and liabilities—						
Accounts receivable	(111,987)	119,951	(36,295)	(30,212)	-	-
Inventory	-	(27,971)	-	(4,575)	-	-
Due from other governments	(3,415)	(1,300)	-	-	-	-
Due from other funds	-	-	-	25,018	-	-
Prepaid expenses	3,992	2,820	-	2,443	-	-
Pension accruals	(10,990)	(7,555)	-	(4,809)	-	-
Accounts payable	(23,050)	(4,417)	55,937	11,474	-	-
Accrued liabilities	-	-	-	-	-	(44,464)
Net Cash Provided (Used) by Operating Activities	<u>\$ 1,253,556</u>	<u>\$ 245,686</u>	<u>\$ 181,917</u>	<u>\$ (11,105)</u>	<u>\$ (48)</u>	<u>\$ (48)</u>

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

**CITY OF SALEM, MISSOURI
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Nonmajor Enterprise Funds</u>	<u>Totals</u>	<u>Governmental Activities Internal Service Funds</u>
\$ 288,824	\$ 7,542,122	\$ -
(255,960)	(4,858,538)	-
(118,737)	(1,119,706)	-
(526)	19,729	1,500
<u>(86,399)</u>	<u>1,583,607</u>	<u>1,500</u>
84,276	(1,137,467)	-
84,276	(1,137,467)	-
-	(608,004)	-
-	46,900	-
-	(9,569)	-
-	(591)	-
-	122,529	-
-	(448,735)	-
-	6,958	23
-	289,783	-
-	296,741	23
(2,123)	294,146	1,523
56,093	911,777	2,237
<u>\$ 53,970</u>	<u>\$ 1,205,923</u>	<u>\$ 3,760</u>
\$ (94,450)	\$ 1,177,773	\$ 1,500
7,366	494,554	-
1,330	(57,213)	-
-	(32,546)	-
(525)	(5,240)	-
-	25,018	-
1,033	10,288	-
(2,060)	(25,414)	-
(244)	39,700	-
1,151	(43,313)	-
<u>\$ (86,399)</u>	<u>\$ 1,583,607</u>	<u>\$ 1,500</u>

CITY OF SALEM, MISSOURI
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2015

Statement 8

	Deferred Compensation Trust Fund	Agency Fund
Assets:		
Cash	\$ -	\$ 77,481
Certificates of deposit	-	325,928
Investments	242,478	-
Other assets	-	6,691
Total assets	\$ 242,478	\$ 410,100
Liabilities:		
Utility deposits payable	\$ -	\$ 42,722
Accounts payable	-	209,278
Total liabilities	-	252,000
Net Position:		
Held in Trust	242,478	158,100
Unreserved	-	-
Total net position	242,478	158,100
Total liabilities and net position	\$ 242,478	\$ 410,100

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, 2015

Statement 9

	Deferred Compensation Trust Fund
ADDITIONS:	
Contributions	\$ 12,982
Net increase in the fair value of investments	12,159
Total additions	25,141
DEDUCTIONS:	
Distributions	987
Total deductions	987
Change in net position	24,154
Net position - beginning of year	218,324
Net position - end of year	\$ 242,478

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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 utilities 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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

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

The Street fund is used to account for the proceeds of special revenues sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specific purposes.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Capital Improvement Funds

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.

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, Sewer and Landfill 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.

Budgets and Budgetary Accounting

The reported budgetary amounts represent the final approved budget after any amendments as adopted by the Board of Aldermen. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. The budget is prepared on the cash basis of accounting.

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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Receivables

Taxes receivable consists of property, utility and real estate excise taxes. No allowance was considered necessary for taxes receivable as of June 30, 2015. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. As of June 30, 2015, net utility receivables include an allowance for doubtful accounts of \$390,000.

Inventories

Inventories at June 30, 2015, 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.

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 \$118,254 at June 30, 2015.

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 receivable 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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.
- 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, 2015, 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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

As of June 30, 2015, fund balances are composed of the following:

	General	Street	Capital Improvements	Other Governmental Funds	Permanent Fund	Total Governmental Funds
Nonspendable:						
Cemetery	\$ -	\$ -	\$ -	\$ -	\$ 291,761	\$ 291,761
Restricted:						
Capital projects	-	-	510,476	-	-	510,476
Cemetery	-	-	-	-	281,232	281,232
Assigned:						
Transportation	-	746,192	-	-	-	746,192
Unassigned	(39,461)	-	-	(56,444)	-	(95,905)
	<u>\$ (39,461)</u>	<u>\$ 746,192</u>	<u>\$ 510,476</u>	<u>\$ (56,444)</u>	<u>\$ 572,993</u>	<u>\$ 1,733,756</u>

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.

Net Position/Fund Equity Deficit Prohibition

Missouri Revised Statute 67.010 prohibits the creation of a deficit fund balance in any individual fund. For the year ended June 30, 2015, the City incurred a fund balance deficit in the General fund of \$39,461 and in Other Governmental funds of \$56,444.

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 2015, 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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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, 2015, the carrying amount of 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.

NOTE 3 – 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 4 – 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.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

As of June 30, 2015, internal balances that resulted from various interfund transactions were as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ -	\$ 118,276
Street	108,327	-
Capital improvements	10,856	-
Non-major Gov't Funds	-	44,137
Electric	44,451	-
Water	-	8,619
Airport	3,046	-
Sewer	-	2,179
Non-major Bus-Type Funds	6,531	-
	<u>\$ 173,211</u>	<u>\$ 173,211</u>

Interfund transfers during the year ended June 30, 2015 were as follows:

	<u>Transfer From Other Funds</u>	<u>Transfer To Other Funds</u>
General Fund	\$ 800,089	\$ -
Street	6,905	-
Capital Improvement Funds	-	54,539
Non-major Gov't Funds	262,483	-
Electric	-	1,114,926
Water	-	96,657
Sewer	112,369	-
Non-major Bus-Type Funds	84,276	-
	<u>\$ 1,266,122</u>	<u>\$ 1,266,122</u>

NOTE 5 – 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 held in a certificate of deposit and is recorded in the internal service fund.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt activity of the City for the year ended June 30, 2015:

	Long-term Obligations at 7/1/2014	Additions	Reductions	Long-term Obligations at 6/30/2015	Due Within One Year
Governmental Activities:					
Capital lease	\$ 111,670	\$ 125,320	\$ 36,607	\$ 200,383	\$ 78,475
Compensated absences	90,390	3,160	-	93,550	-
	<u>\$ 202,060</u>	<u>\$ 128,480</u>	<u>\$ 36,607</u>	<u>\$ 293,933</u>	<u>\$ 78,475</u>
Business-Type Activities:					
Capital lease	\$ 29,717	\$ 46,900	\$ 9,569	\$ 67,048	\$ 33,060
Compensated absences	24,704	-	-	24,704	-
	<u>\$ 54,421</u>	<u>\$ 46,900</u>	<u>\$ 9,569</u>	<u>\$ 91,752</u>	<u>\$ 33,060</u>

Capital Leases

The City has property and equipment carried at approximately \$443,000, with approximately \$86,736 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:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2016	82,067	34,136
2017	81,723	34,573
2018	43,241	-
Total minimum lease payments	207,031	68,709
Less interest	6,648	1,661
Present value of minimum payments	<u>\$ 200,383</u>	<u>\$ 67,048</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 7 – FIXED ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	Balance 6/30/2014	Increases	Decreases	Balance 6/30/2015
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 90,150	\$ -	\$ -	\$ 90,150
Construction in process	335,465	-	(335,465)	-
Total capital assets not being depreciated	<u>425,615</u>	<u>-</u>	<u>(335,465)</u>	<u>90,150</u>
Capital assets being depreciated:				
Buildings	494,438	258,831	-	753,269
Improvements	2,917,405	181,624	-	3,099,029
Equipment	1,398,035	258,853	-	1,656,888
Infrastructure	13,819,062	218,295	-	14,037,357
Total capital assets being depreciated	<u>18,628,940</u>	<u>917,603</u>	<u>-</u>	<u>19,546,543</u>
Less accumulated depreciation:				
Buildings	(164,368)	(17,570)	-	(181,938)
Improvements	(1,280,538)	(168,593)	-	(1,449,131)
Equipment	(1,038,508)	(126,841)	-	(1,165,349)
Infrastructure	(12,096,028)	(358,178)	-	(12,454,206)
Total accumulated depreciation	<u>(14,579,442)</u>	<u>(671,182)</u>	<u>-</u>	<u>(15,250,624)</u>
Total capital assets being depreciated, net	<u>4,049,498</u>	<u>246,421</u>	<u>-</u>	<u>4,295,919</u>
Governmental Activities Capital assets, net	<u>\$ 4,475,113</u>	<u>\$ 246,421</u>	<u>\$ (335,465)</u>	<u>\$ 4,386,069</u>

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

Administrative	\$ 64,736
Street	499,553
Safety	44,538
Leisure	53,879
Health & Social Services	8,476
Total governmental activities	<u>\$ 671,182</u>

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

	Balance 6/30/2014	Increases	Decreases	Balance 6/30/2015
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 198,641	\$ -	\$ -	\$ 198,641
Construction in process	159,958	188,179	(132,380)	215,757
Total capital assets not being depreciated	358,599	188,179	(132,380)	414,398
Capital assets being depreciated:				
Buildings	80,079	-	-	80,079
Improvements	6,312,764	68,455	-	6,381,219
Equipment	4,363,451	76,900	-	4,440,351
Infrastructure	2,009,392	406,850	-	2,416,242
Total capital assets being depreciated	12,765,686	552,205	-	13,317,891
Less accumulated depreciation:				
Buildings	(78,697)	(856)	-	(79,553)
Improvements	(4,457,706)	(236,200)	-	(4,693,906)
Equipment	(3,481,056)	(148,822)	-	(3,629,878)
Infrastructure	(1,767,558)	(108,676)	-	(1,876,234)
Total accumulated depreciation	(9,785,017)	(494,554)	-	(10,279,571)
Total capital assets being depreciated, net	2,980,669	57,651	-	3,038,320
Business-Type Activities Capital assets, net	\$ 3,339,268	\$ 245,830	\$ (132,380)	\$ 3,452,718

NOTE 8 – 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 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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

	2015 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, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	34
Inactive employees entitled to but not yet receiving benefits	10
Active employees	59
	103

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 13.5% (General) and 11.6% (Police) of annual covered payroll.

Net Pension Liability. The employer's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 28, 2015.

Actuarial assumptions. The total pension liability in the February 28, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5% wage inflation; 3.0% price inflation
Salary increase	3.5% to 6.8% including wage inflation
Investment rate of return	7.25%, net of investment and administrative expenses

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

Mortality rates were based on the 1994 Group Annuity Mortality Table set back 0 years for both males and females.

The actuarial assumptions used in the February 28, 2015 valuation were based on the results of an actuarial experience study for the period March 1, 2005 through February 28, 2010.

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>
Equity	48.50%	5.50%
Fixed Income	25.00%	2.25%
Real Assets	20.00%	4.50%
Strategic Assets	6.50%	7.50%

Discount rate. The discount rate used to measure the total pension liability is 7.25%. 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 investments was applied to all periods of projected benefit payment to determine the total pension liability.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balances at 6/30/2014	9,248,115	9,263,347	(15,232)
Changes for the year:			
Service cost	283,978	-	283,978
Interest	669,795	-	669,795
Difference between expected and actual experience	10,891	-	10,891
Contributions - employer	-	322,783	(322,783)
Contributions - employee	-	91,238	(91,238)
Net investment income	-	178,898	(178,898)
Benefit payments, including refunds	(303,445)	(303,445)	-
Administrative expense	-	(8,947)	8,947
Other changes	-	42,141	(42,141)
Net changes	661,219	322,668	338,551
Balances at 6/30/2015	9,909,334	9,586,015	323,319

Sensitivity of the net position liability to changes in the discount rate. The following presents the Net Position Liability(Asset) of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Position Liability(Asset) would be using a discount rate that is 1 percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

Current Single Discount		
1% Decrease	Rate Assumption	1% Increase
1,719,959	323,319	(839,344)

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

For the year ended June 30, 2015, the employer recognized pension expense of \$254,097. 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	\$ 27,190	\$ 18,205
Excess (deficit) investment returns	398,252	-
Total	\$ 425,442	\$ 18,205

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
2016	\$ 101,470
2017	101,470
2018	101,470
2019	101,466
2020	1,361
Thereafter	-
Total	\$ 407,237

Payable to the Pension Plan

At June 30, 2015, the City had no outstanding amount of contributions to the pension plan required for the year ended June 30, 2015.

NOTE 9 – 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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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

NOTE 10 – 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, 2018.

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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 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 11 – RESTRICTED CASH AND FUND BALANCE

The Capital Improvement Sales Tax fund is restricted for capital expenditures and the account had a balance of \$447,643 as of June 30, 2015.

The cemetery endowment fund is restricted for operation and maintenance of the cemetery and consists of a certificate of deposit and a checking account. At year-end, these two accounts totaled \$572,993 and are shown as restricted on the Statement of Net Position.

NOTE 12 – TAX COLLECTION AGREEMENT

The City has an agreement with the Dent County administration for the County Collector to provide tax collection services for the City. The City pays the County \$15,000 per tax year for the service. The agreement was renewed for tax years through 2019.

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

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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 \$244,018. 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 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, 2015, the contract was still in effect and a certificate of deposit in the amount of approximately \$246,000 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 \$244,018 has also been recorded to reflect the estimated post-closure costs payable upon termination of this agreement.

CITY OF SALEM, MISSOURI
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 15 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was made to reclassify an interfund transfer that was recorded by mistake in fiscal year 2006. This adjustment increased beginning net position in the Water fund and decreased the beginning net position in the Sewer fund by \$720,068.

In addition, the City noted an error in the calculation of sewer inventory in the previous year. A prior period adjustment was recorded to correct this issue, resulting in an increase to the beginning net position in the Sewer fund of \$8,345.

NOTE 16 – ACCOUNTING CHANGES

As the result of implementing GASB Statement No. 68, the City has restated the beginning net position in the government-wide statement of net position, effectively increasing net position as of July 1, 2014 by \$9,596 in the governmental funds and \$5,636 in the business-type funds.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015

Exhibit 1

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final Budget</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (Inflows):				
Taxes:				
City taxes collected by county	\$ 292,000	\$ 292,000	\$ 303,247	\$ 11,247
Sales tax	1,100,000	1,100,000	1,122,122	22,122
Financial institution tax	8,500	8,500	414	(8,086)
Railroad & utility tax	2,000	2,000	1,863	(137)
Franchise tax	80,000	80,000	96,907	16,907
Telecommunications license tax	157,000	157,000	200,947	43,947
Sur tax	50,000	50,000	51,468	1,468
Penalties on delinquent taxes	7,200	7,200	7,942	742
Total taxes	<u>1,696,700</u>	<u>1,696,700</u>	<u>1,784,910</u>	<u>88,210</u>
Fines, licenses, permits				
Filing fees	100	100	100	-
Pit bull fee	500	500	400	(100)
Post commission reimbursement	500	500	500	-
Fines - municipal court	20,000	20,000	16,608	(3,392)
Liquor licenses	4,875	4,875	4,466	(409)
Board bills	5,500	5,500	8,794	3,294
Traffic fines	12,000	12,000	11,064	(936)
Bond Forfeiture	-	-	1,550	1,550
Merchants licenses	10,000	10,000	9,290	(710)
Total permits, fees and licenses	<u>53,475</u>	<u>53,475</u>	<u>52,772</u>	<u>(703)</u>
Miscellaneous:				
Rent - water tower	1,200	1,200	1,800	600
Sale of fixed assets	5,000	5,000	3,917	(1,083)
Special police services	2,200	2,200	2,170	(30)
Super NOW interest	750	750	5,077	4,327
Library service fee	1,000	1,000	1,000	-
Rents/royalties - City Hall	3,500	3,500	2,500	(1,000)
Miscellaneous income	2,000	2,000	4,241	2,241
Police copy money	800	800	823	23
Total miscellaneous	<u>16,450</u>	<u>16,450</u>	<u>21,528</u>	<u>5,078</u>
Operating transfers in	1,214,269	1,214,269	1,115,565	(98,704)
Amounts available	<u>2,980,894</u>	<u>2,980,894</u>	<u>2,974,775</u>	<u>(6,119)</u>
Charges (Outflows):				
Animal Control:				
Personnel	52,252	52,252	49,528	2,724
Maintenance	1,925	1,925	3,297	(1,372)
Supplies	3,450	3,450	1,947	1,503
Utilities	6,650	6,650	4,111	2,539
Miscellaneous	9,000	9,000	7,629	1,371
Total animal control	<u>73,277</u>	<u>73,277</u>	<u>66,512</u>	<u>6,765</u>
Attorney:				
Personnel	30,480	30,480	30,082	398
Office supplies	200	200	201	(1)
Maintenance	800	800	-	800
Miscellaneous	250	250	-	250
Total attorney	<u>31,730</u>	<u>31,730</u>	<u>30,283</u>	<u>1,447</u>

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

Exhibit 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
City Collector:				
Office supplies	250	250	212	38
Special services - Dent County	15,000	15,000	15,923	(923)
Total city collector	<u>15,250</u>	<u>15,250</u>	<u>16,135</u>	<u>(885)</u>
City Treasurer:				
Personnel	2,447	2,447	2,405	42
Miscellaneous	100	100	100	-
Total city treasurer	<u>2,547</u>	<u>2,547</u>	<u>2,505</u>	<u>42</u>
Civil Defense:				
Maintenance - equipment	3,000	3,000	1,165	1,835
Miscellaneous	-	-	558	(558)
Travel	500	500	500	-
Total civil defense	<u>3,500</u>	<u>3,500</u>	<u>2,223</u>	<u>1,277</u>
Municipal Court:				
Personnel	9,847	9,847	9,808	39
Miscellaneous	153	153	192	(39)
Total municipal court	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>-</u>
City Administrator:				
Personnel	98,823	98,823	95,982	2,841
Supplies	700	700	339	361
Maintenance	600	600	69	531
Miscellaneous	5,635	5,635	1,874	3,761
Utilities	1,400	1,400	1,024	376
Total city administrator	<u>107,158</u>	<u>107,158</u>	<u>99,288</u>	<u>7,870</u>
City Clerk:				
Personnel	74,747	74,747	80,026	(5,279)
Maintenance	2,500	2,500	-	2,500
Supplies	1,050	1,050	1,220	(170)
Utilities	900	900	1,803	(903)
Miscellaneous	3,765	3,765	2,018	1,747
Total city clerk	<u>82,962</u>	<u>82,962</u>	<u>85,067</u>	<u>(2,105)</u>
Sidewalk Construction Department:				
Personnel	29,595	29,595	22,305	7,290
Maintenance	9,500	9,500	9,486	14
Supplies	2,350	2,350	1,729	621
Utilities	1,716	1,716	1,796	(80)
Miscellaneous	8,800	8,800	3,278	5,522
Total sidewalk construction dept	<u>51,961</u>	<u>51,961</u>	<u>38,594</u>	<u>13,367</u>
Maintenance Department:				
Personnel	60,884	60,884	61,453	(569)
Maintenance	1,900	1,900	1,189	711
Supplies	6,800	6,800	7,801	(1,001)
Utilities	900	900	847	53
Miscellaneous	2,600	2,600	1,440	1,160
Total maintenance dept	<u>73,084</u>	<u>73,084</u>	<u>72,730</u>	<u>354</u>

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

Exhibit 1

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Mayor and Board:				
Personnel	37,873	37,873	38,306	(433)
Maintenance	200	200	-	200
Supplies	200	200	-	200
Utilities	500	500	510	(10)
Miscellaneous	2,000	2,000	125	1,875
Total mayor and board	40,773	40,773	38,941	1,832
Non-departmental:				
Personnel	94,095	94,095	95,157	(1,062)
Maintenance	5,700	5,700	13,649	(7,949)
Supplies	8,350	8,350	5,647	2,703
Utilities	34,375	34,375	28,433	5,942
Miscellaneous	148,370	148,370	130,582	17,788
Total non-departmental	290,890	290,890	273,468	17,422
Police				
Personnel	1,021,192	1,021,192	1,021,981	(789)
Maintenance	25,200	25,200	25,382	(182)
Supplies	9,300	9,300	7,558	1,742
Utilities	15,675	15,675	15,022	653
Miscellaneous	102,400	102,400	80,894	21,506
Capital improvements	10,500	10,500	9,100	1,400
Total police	1,184,267	1,184,267	1,159,937	24,330
Street				
Personnel	461,404	461,404	458,274	3,130
Maintenance	86,700	86,700	80,169	6,531
Supplies	12,000	12,000	15,622	(3,622)
Utilities	5,750	5,750	5,121	629
Miscellaneous	63,100	63,100	34,297	28,803
Total street	628,954	628,954	593,483	35,471

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2015**

Exhibit 1

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Freedom Center				
Supplies	2,250	2,250	1,767	483
Maintenance	5,000	5,000	4,906	94
Utilities	20,625	20,625	17,841	2,784
Miscellaneous	1,050	1,050	848	202
Total Freedom Center	<u>28,925</u>	<u>28,925</u>	<u>25,362</u>	<u>3,563</u>
Operating transfers out	<u>348,466</u>	<u>386,602</u>	<u>359,093</u>	<u>27,509</u>
Total charges	<u>2,973,744</u>	<u>3,011,880</u>	<u>2,873,621</u>	<u>138,259</u>
Excess Receipts Over/(Under) Expenses	<u>\$ 7,150</u>	<u>\$ (30,986)</u>	<u>\$ 101,154</u>	<u>\$ 132,140</u>
Explanation of differences between budgetary revenue and expenditures and GAAP revenue and expenditures.				
Revenue:				
Actual total revenue budgetary basis			\$ 2,974,775	
Differences - Budget to GAAP				
Change in accounts receivable and other adjustments			38,053	
Transfer in			<u>(17,054)</u>	
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund			<u>\$ 2,995,774</u>	
Expenditures:				
Actual total expenditures budgetary basis			\$ 2,873,621	
Differences - Budget to GAAP				
Change in accrued liabilities and other adjustments			56,583	
Transfer out			<u>38,033</u>	
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund			<u>\$ 2,968,237</u>	

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015**

Exhibit 2

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Street Fund				
Resources (Inflows):				
Super NOW interest	\$ 1,600	\$ 1,600	\$ -	\$ (1,600)
Fee increase	20,000	20,000	21,315	1,315
Gas Tax	125,000	125,000	130,811	5,811
Reserve from prior year	107,000	108,785	-	(108,785)
Grant receipts	-	-	194,000	194,000
Sales Tax	30,000	30,000	39,572	9,572
Total Resources	<u>283,600</u>	<u>285,385</u>	<u>385,698</u>	<u>100,313</u>
Charges (Outflows):				
Streets	283,600	285,385	242,529	42,856
Total Charges	<u>283,600</u>	<u>285,385</u>	<u>242,529</u>	<u>42,856</u>
Increase (Decrease) in Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 143,169</u>	<u>\$ 143,169</u>
Park Fund				
Resources (Inflows):				
Charges for services:				
Al Brown concession	\$ 750	\$ 750	\$ 476	\$ (274)
Ball sign-up fees	12,000	12,000	9,000	(3,000)
Little league concession	5,500	5,500	4,804	(696)
Little league field user fee	-	-	350	350
Pool concession	5,800	5,800	1,865	(3,935)
Super NOW interest	100	100	-	(100)
Al Brown field user fees	2,000	2,000	2,195	195
Basketball user fees	2,000	2,000	1,420	(580)
Ball team sponsor	2,000	2,000	2,000	-
Pavillion rentals	1,100	1,100	1,095	(5)
Pool receipts	15,000	15,000	11,647	(3,353)
Soccer user fees	5,000	5,000	1,890	(3,110)
Flag football user fees	2,000	2,000	1,380	(620)
Flag football sponsor fee	2,000	2,000	-	(2,000)
Recycling Grant	25,000	25,000	9,099	(15,901)
Sale of fixed assets	-	-	1,475	1,475
Miscellaneous	-	-	154	154
Reserves from prior year	15,000	15,000	-	(15,000)
Insufficient check charge	60	60	20	(40)
Total charges for services	<u>95,310</u>	<u>95,310</u>	<u>48,870</u>	<u>(46,440)</u>
Transfers in	<u>209,889</u>	<u>248,025</u>	<u>248,025</u>	<u>-</u>
Amounts available	<u>305,199</u>	<u>343,335</u>	<u>296,895</u>	<u>(46,440)</u>
Charges (Outflows):				
Capital improvements	\$ 3,298	\$ 3,298	\$ 3,861	\$ (563)
Personnel	219,051	219,051	226,681	(7,630)
Maintenance	24,100	24,100	26,245	(2,145)
Supplies	12,700	12,700	20,471	(7,771)
Utilities	17,000	17,000	10,032	6,968
Miscellaneous	29,050	29,050	26,580	2,470
Total Outflows	<u>305,199</u>	<u>305,199</u>	<u>313,870</u>	<u>(8,671)</u>
Increase (Decrease) in Fund	<u>\$ -</u>	<u>\$ 38,136</u>	<u>\$ (16,975)</u>	<u>\$ (55,111)</u>

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015**

Exhibit 2

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Police Dept Law Enforcement Fund				
Resources (Inflows):				
Breathalyzer reimbursement cost	\$ 4,000	\$ 4,000	\$ 2,435	\$ (1,565)
Reserves from prior year	7,900	7,900	-	(7,900)
Super NOW interest	5	5	-	(5)
Total Resources	<u>11,905</u>	<u>11,905</u>	<u>2,435</u>	<u>(9,470)</u>
Charges (Outflows):				
Travel & training	11,705	11,705	1,778	9,927
Miscellaneous	200	200	500	(300)
Total Outflows	<u>11,905</u>	<u>11,905</u>	<u>2,278</u>	<u>9,627</u>
Increase (Decrease) in Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157</u>	<u>\$ 157</u>
Officers Training Fund				
Resources (Inflows):				
Special police services	\$ 700	\$ 700	\$ 708	\$ 8
Reserves from prior year	1,795	1,795	-	(1,795)
Speical NOW interest	5	5	-	(5)
Total Resources	<u>2,500</u>	<u>2,500</u>	<u>708</u>	<u>(1,792)</u>
Charges (Outflows):				
Memberships	300	300	-	300
Travel	2,200	2,200	332	1,868
Total Outflows	<u>2,500</u>	<u>2,500</u>	<u>332</u>	<u>2,168</u>
Increase (Decrease) in Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 376</u>	<u>\$ 376</u>
Salem Fireworks Fund				
Resources (Inflows):				
Donations	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Super NOW interest	3	3	-	(3)
Total Resources	<u>1,003</u>	<u>1,003</u>	<u>-</u>	<u>(1,003)</u>
Transfers In:	<u>15,097</u>	<u>15,097</u>	<u>15,097</u>	<u>-</u>
Amount Available	<u>16,100</u>	<u>16,100</u>	<u>15,097</u>	<u>(1,003)</u>
Charges (Outflows):				
Fireworks	16,000	16,000	-	16,000
Miscellaneous	-	-	224	(224)
Advertising	100	100	-	100
Total Outflows	<u>16,100</u>	<u>16,100</u>	<u>224</u>	<u>15,876</u>
Increase (Decrease) in Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,873</u>	<u>\$ 14,873</u>

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015**

Exhibit 2

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Emergency Fund				
Resources (Inflows):				
Miscellaneous	\$ 7,000	\$ 20,584	\$ 20,672	\$ 88
Total Resources	<u>7,000</u>	<u>20,584</u>	<u>20,672</u>	<u>88</u>
Increase (Decrease) in Funds	<u>\$ 7,000</u>	<u>\$ 20,584</u>	<u>\$ 20,672</u>	<u>\$ 88</u>
CHDC Grant				
Resources (Inflows):				
Grant receipts	\$ 210,500	\$ 210,500	\$ 210,231	\$ (269)
Total Resources	<u>210,500</u>	<u>210,500</u>	<u>210,231</u>	<u>(269)</u>
Charges (Outflows):				
Renovations	<u>210,500</u>	<u>210,500</u>	<u>210,231</u>	<u>269</u>
Total Outflows	<u>210,500</u>	<u>210,500</u>	<u>210,231</u>	<u>269</u>
Increase (Decrease) in Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Building Permit				
Resources (Inflows):				
Building permits	\$ 5,500	\$ 5,500	\$ 3,422	\$ (2,078)
25% insurance - fire	-	-	9,095	9,095
Inspection fees	900	900	1,133	233
Super NOW interest	240	240	-	(240)
Reserve from prior year	6,222	6,222	-	(6,222)
Total Resources	<u>12,862</u>	<u>12,862</u>	<u>13,650</u>	<u>788</u>
Charges (Outflows):				
Supplies	200	200	523	(323)
Miscellaneous	12,660	12,660	9,206	3,454
Utilities	2	2	-	2
Total Outflows	<u>12,862</u>	<u>12,862</u>	<u>9,729</u>	<u>3,133</u>
Increase (Decrease) in Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,921</u>	<u>\$ 3,921</u>
Inmate Security Fund				
Resources (Inflows):				
Inmate security fees	\$ 650	\$ 650	\$ 704	\$ 54
Reserve from prior year	566	566	-	(566)
Super NOW interest	10	10	-	(10)
Total Resources	<u>1,226</u>	<u>1,226</u>	<u>704</u>	<u>(522)</u>
Charges (Outflows):				
Prisoner Sub.	<u>1,200</u>	<u>1,200</u>	<u>1,040</u>	<u>160</u>
Total Outflows	<u>1,200</u>	<u>1,200</u>	<u>1,040</u>	<u>160</u>
Increase (Decrease) in Funds	<u>\$ 26</u>	<u>\$ 26</u>	<u>\$ (336)</u>	<u>\$ (362)</u>

**CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2015**

Exhibit 2

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Local Law Enforcement Grant				
Resources (Inflows):				
Local law enforcement grant funds	\$ -	\$ -	\$ 9,087	\$ 9,087
Super NOW interest	-	-	52	52
Total Resources	<u>-</u>	<u>-</u>	<u>9,139</u>	<u>9,139</u>
Charges (Outflows):				
Equipment maintenance	-	-	3,198	(3,198)
Capital Improvements	-	-	5,616	(5,616)
Transfers	-	-	1,039	(1,039)
Total Outflows	<u>-</u>	<u>-</u>	<u>9,853</u>	<u>(9,853)</u>
Increase (Decrease) in Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (714)</u>	<u>\$ (714)</u>
Police Contribution Fund				
Resources (Inflows):				
Contributions	\$ 1,000	\$ 1,000	\$ -	\$ (1,000)
Interest	15	15	-	(15)
Total Resources	<u>1,015</u>	<u>1,015</u>	<u>-</u>	<u>(1,015)</u>
Charges (Outflows):				
Miscellaneous	500	500	-	500
Total Outflows	<u>500</u>	<u>500</u>	<u>-</u>	<u>500</u>
Increase (Decrease) in Funds	<u>\$ 515</u>	<u>\$ 515</u>	<u>\$ -</u>	<u>\$ (515)</u>
Explanation of differences between budgetary revenue and expenditures and GAAP revenue and expenditures.				
Revenue:				
Actual total revenue budgetary basis				\$ 955,229
Differences - Budget to GAAP				
Change in accounts receivable and other adjustments				(276,748)
Proceeds from debt issuance				125,320
Transfer in				6,905
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds				<u>\$ 810,706</u>
Expenditures:				
Actual total expenditures budgetary basis				\$ 790,086
Differences - Budget to GAAP				
Change in accrued liabilities and other adjustments				73,018
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds				<u>\$ 863,104</u>

**CITY OF SALEM, MISSOURI
SCHEDULE OF CHANGES IN NET PENSION LIABILITY
AND RELATED RATIOS
ULTIMATELY 10 FISCAL YEARS WILL BE DISPLAYED**

Fiscal year ending June 30,	<u>2015</u>
Total Pension Liability	
Service Cost	\$ 283,978
Interest on Total Pension Liability	669,795
Difference between expected and actual experience	10,891
Benefit payments, including refunds	<u>(303,445)</u>
Net change in total pension liability	661,219
Total pension liability - beginning	<u>9,248,115</u>
Total pension liability - ending	<u><u>\$ 9,909,334</u></u>
Plan Fiduciary Net Position	
Contributions - employer	\$ 322,783
Contributions - employee	91,238
Net investment income	178,898
Benefit payments, including refunds	(303,445)
Pension Plan Administrative Expense	(8,947)
Other (Net Transfer)	<u>42,141</u>
Net change in plan fiduciary net position	322,668
Plan fiduciary net position - beginning	<u>9,263,347</u>
Plan fiduciary net position - ending	<u><u>\$ 9,586,015</u></u>
Net pension liability(asset) - ending	\$ 323,319
Plan fiduciary net position as a percentage of the total pension liability	96.74%
Covered-employee payroll	\$ 2,297,016
Net pension liability as a percentage of covered employee payroll	14.08%

**CITY OF SALEM, MISSOURI
SCHEDULE OF LAGERS CONTRIBUTIONS
LAST 10 FISCAL YEARS**

FISCAL YEAR	ACTUARIALLY DETERMINED CONTRIBUTION	CONTRIBUTION IN RELATION	CONTRIBUTION DEFICIENCY	COVERED EMPLOYEE PAYROLL	CONTRIBUTION AS PERCENTAGE
2006	\$ 160,159	\$ 185,019	\$ (24,860)	\$ 1,684,620	10.98%
2007	\$ 191,538	\$ 191,538	\$ -	\$ 1,818,267	10.53%
2008	\$ 183,270	\$ 183,270	\$ -	\$ 1,901,516	9.64%
2009	\$ 182,391	\$ 182,391	\$ -	\$ 1,886,006	9.67%
2010	\$ 175,270	\$ 262,748	\$ (87,478)	\$ 1,932,741	13.59%
2011	\$ 330,933	\$ 282,092	\$ 48,841	\$ 1,935,040	14.58%
2012	\$ 302,901	\$ 292,271	\$ 10,630	\$ 1,870,364	15.63%
2013	\$ 311,551	\$ 303,238	\$ 8,313	\$ 1,946,965	15.57%
2014	\$ 328,997	\$ 319,840	\$ 9,157	\$ 2,179,746	14.67%
2015	\$ 322,783	\$ 322,784	\$ (1)	\$ 2,280,963	14.15%

SUPPLEMENTARY INFORMATION



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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated February 5, 2016.

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. 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 deficiencies to be material weaknesses:

K DeLuca Audit Services LLC

PO Box 132 • St. James, MO 65559

Kristen DeLuca, CPA • (573) 263-5552 • kristen@kdaudit.com

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, 2015, 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 and accounts receivable,
- Adjustments to record interfund activity,
- Adjustments to record the effects of GASBS No. 68,
- Prior period adjustment to reclassify interfund transfers,
- Adjustment to record noncash donations received during the fiscal year.

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. Presently, a single individual prepares checks, reconciles bank accounts, performs payroll duties as well as maintains the general ledger. To the extent possible, access and recording/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: Management will review duty assignments and staffing for opportunities to further separate duties.

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
February 5, 2016