CITY OF SALEM, MISSOURI

AUDIT REPORT

JUNE 30, 2013

VERKAMP & MALONE
CERTIFIED PUBLIC ACCOUNTANTS
401 W. 5TH STREET
ROLLA, MISSOURI 65401

CITY OF SALEM, MISSOURI
TABLE OF CONTENTS

		Page
INDEPENDENT AUDITOR'S REPORT		1-2
BASIC FINANCIAL STATEMENTS:		3
Statement		
	Government-wide Financial Statements:	
1	Statement of Net Position	4
2	Statement of Activities	5-6
	Fund Financial Statements:	
3	Balance Sheet—Governmental Funds	7-8
4	Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds	9-10
5	Statement of Net Position—Proprietary Funds	11-12
6	Statement of Revenues, Expenses, and Changes in Net Position—Proprietary Funds	13-14
7	Statement of Cash Flows—Proprietary Funds	15-16
8	Statement of Fiduciary Net Position	17
9	Statement of Changes in Fiduciary Net Position	18
	Notes to Basic Financial Statements	19-35
REQUIRED SUPPLEMENTARY INFORMATION:		36
Exhibit		
1	Budgetary Comparison Schedule – General Fund	37-41
2	Budgetary Comparison Schedule – Major Special Revenue Funds	42-45
SUPPLEMENTARY INFORMATION:		46
	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*	47-49

VERKAMP & MALONE, LLC

Certified Public Accountants

DAVE VERKAMP, CPA, CFP
MOLLY MALONE, CPA

Accounting
Auditing
Tax Services
Management Services

INDEPENDENT AUDITORS' 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, 2013, 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.

P.O. Box 32 • 401 W. 5th Street • Rolla, Missouri 65402
(573) 364-2246 • FAX (573) 341-3546 • vmcpa@fidnet.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, 2013, 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 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 October 23, 2014, 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.

Verkamp & Malone

Verkamp & Malone, LLC
Rolla, Missouri
October 23, 2014

BASIC FINANCIAL STATEMENTS

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 1,097,418	$ 482,299	$ 1,579,717
Certificates of deposit	145,749	1,542,973	1,688,722
Restricted assets	1,336,979	-	1,336,979
Accounts receivable, net	180,986	1,139,928	1,320,914
Grants receivable	-	3,115	3,115
Due from external parties	-	26,762	26,762
Inventories	-	302,264	302,264
Prepaid expenses	-	263,671	263,671
Capital assets---			
Land and construction in progress	90,150	198,641	288,791
Other capital assets, net of depreciation	4,349,570	3,450,877	7,800,447
Total assets	$ 7,200,852	$ 7,410,530	$ 14,611,382
LIABILITIES			
Accounts payable and accrued expenses	$ 187,994	$ 401,197	$ 589,191
Internal balances	91,191	(91,191)	-
Post-closure liability	-	289,122	289,122
Long-term liabilities			
Due within one year	16,739	-	16,739
Due in more than one year	90,390	24,704	115,094
Total liabilities	$ 386,314	$ 623,832	$ 1,010,146
NET POSITION			
Invested in capital assets, net of related debt	$ 4,422,981	$ 3,649,518	$ 8,072,499
Restricted			
Expendable	1,045,218	-	1,045,218
Nonexpendable	291,761	-	291,761
Unrestricted	1,054,578	3,137,180	4,191,758
Total net position	$ 6,814,538	$ 6,786,698	$ 13,601,236

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

CITY OF SALEM, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions
Primary government			
Governmental activities---			
Safety services	$ 1,209,737	$ -	$ 9,492
Health and social services	45,975	-	-
Leisure services	334,571	48,316	-
Utility	277,476	-	-
Transportation services	1,105,872	-	152,664
Administrative services	671,915	33,584	-
Interest on long-term debt	821	-	-
Total governmental activities	3,646,367	81,900	162,156
Business-type activities---			
Electric	4,932,074	5,877,328	-
Water	540,939	553,364	-
Airport	126,023	36,387	-
Sewerage system	607,360	356,506	-
Other	365,861	283,187	-
Total business-type activities	6,572,257	7,106,772	-
Total primary government	$ 10,218,624	$ 7,188,672	$ 162,156

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
$ (1,200,245)	$ -	$ (1,200,245)
(45,975)	-	(45,975)
(286,255)	-	(286,255)
(277,476)	-	(277,476)
(953,208)	-	(953,208)
(638,331)	-	(638,331)
(821)	-	(821)
(3,402,311)	-	(3,402,311)
-	945,254	945,254
-	12,425	12,425
-	(89,636)	(89,636)
-	(250,854)	(250,854)
-	(82,674)	(82,674)
-	534,515	534,515
(3,402,311)	534,515	(2,867,796)
301,040	-	301,040
1,849,742	-	1,849,742
49,754	-	49,754
219,301	-	219,301
10,623	-	10,623
5,529	4,125	9,654
31,577	82,478	114,055
(167,320)	167,320	-
1,013,656	(1,013,656)	-
3,313,902	(759,733)	2,554,169
(88,409)	(225,218)	(313,627)
6,902,947	7,011,916	13,914,863
$ 6,814,538	$ 6,786,698	$ 13,601,236

CITY OF SALEM, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2013

	General Fund	Street	Capital Improvements	Other Governmental Funds	Permanent Fund
ASSETS					
Cash	$ 368,338	$ 744,074	$ -	$ (20,731)	$ -
Restricted assets	-	-	765,221	-	571,758
Receivables, net	-	-	4,071	1,260	-
Due from other funds	-	-	10,856	-	-
Sales tax receivable	99,123	-	49,264	-	-
Total assets	$ 467,461	$ 744,074	$ 829,412	$ (19,471)	$ 571,758
LIABILITIES					
Accounts payable	$ -	$ -	$ 173,107	$ 5,902	$ -
Accrued payroll	6,083	-	1,209	1,122	-
Due to other funds	94,425	-	-	7,622	-
Total liabilites	100,508	-	174,316	14,646	-
FUND BALANCES					
Nonspendable	-	-	-	-	291,761
Restricted	-	-	655,096	-	279,997
Assigned	-	744,074	-	26,596	-
Unassigned	366,953	-	-	(60,713)	-
Total fund balances	366,953	744,074	655,096	(34,117)	571,758
Total liabilities and fund balances	$ 467,461	$ 744,074	$ 829,412	$ (19,471)	$ 571,758

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, 2013

Statement 3

Total Governmental Funds		
	Total Governmental Fund Balances	$ 2,303,764
	Amounts reported for governmental activities in the statement of net position are different because:	
$ 1,091,681		
1,336,979		
5,331	Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	4,439,720
10,856		
148,387		
$ 2,593,234	Revenue that is deferred in the funds financial statement because it is not available and recognized as revenue in the government-wide financial statements.	27,268
	Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:	
$ 179,009	Capital lease payable	(16,739)
8,414	Accrued interest	(571)
102,047	Accrued compensated absences	(90,390)
289,470		
	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.	151,486
291,761		
935,093		
770,670		
306,240		
2,303,764		
$ 2,593,234	*Net Position of Governmental Funds*	$ 6,814,538

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	General Fund	Street	Capital Improvements	Other Governmental Funds	Permanent Fund
Revenues---					
Taxes	$ 1,698,446	$ 178,010	$ 557,245	$ -	$ -
Intergovernmental	-	152,664	-	9,492	-
Charges for services	-	-	-	48,316	-
Interest and investment earnings	662	1,617	2,176	66	1,008
Licenses and permits	33,584	-	-	-	-
Miscellaneous	29,971	-	-	1,606	-
	1,762,663	332,291	559,421	59,480	1,008
Expenditures---					
Current operations:					
Safety services	1,170,338	-	-	6,764	-
Health and social services	37,500	-	-	-	-
Leisure services	-	-	2,616	277,814	-
Utility services	61,308	-	216,168	-	-
Transportation services	542,535	2,995	102,267	-	-
Administrative services	527,193	-	51,335	20,510	-
Capital outlay/fixed assets	-	162,664	10,000	-	-
Debt service:					
Principal	22,881	37,110	-	-	-
Interest	715	2,123	-	-	-
	2,362,470	204,892	382,386	305,088	-
Excess Revenues Over (Under) Expenditures	(599,807)	127,399	177,035	(245,608)	1,008
Other Financing Sources (Uses)---					
Transfers in	1,119,760	27,401	-	243,948	-
Transfers out	(336,456)	-	(208,317)	-	-
	783,304	27,401	(208,317)	243,948	-
Net change in fund balance	183,497	154,800	(31,282)	(1,660)	1,008
Fund balances at beginning of year, restated	183,456	589,274	686,378	(32,457)	570,750
Fund balances at end of year	$ 366,953	$ 744,074	$ 655,096	$ (34,117)	$ 571,758

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, 2013

Statement 4

Total Governmental Funds			
	Net Change in Fund Balances---Total Governmental Funds		$ 306,363
	Amounts reported for governmental activities in the statement of activities are different because:		
$ 2,433,701			
162,156	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:		
48,316			
5,529			
33,584			
31,577	Capital outlay	172,664	
2,714,863	Depreciation expense	(607,174)	(434,510)
	Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		59,991
1,177,102			
37,500	Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(3,239)
280,430			
277,476			
647,797	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.		(911)
599,038			
172,664			
59,991			
2,838	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:		
3,254,836			
	Accrued interest		2,017
(539,973)	Compensated absences		(18,120)
1,391,109	Changes in Net Position of Governmental Activities		$ (88,409)
(544,773)			
846,336			
306,363			
1,997,401			
$ 2,303,764			

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	Business-type			
	Electric	Water	Airport	Sewer
Assets				
Current Assets--				
Cash	$ 15,280	$ -	$ 8,595	$ 249,627
Certificates of deposit	2,341	484,154	-	807,667
Accounts receivable, net	940,617	93,066	-	63,016
Grants receivable	-	-	3,115	-
Due from external parties	20,265	5,295	-	-
Due from other funds	30,496	-	-	265,323
Inventories	187,719	90,393	-	24,152
Total Current Assets	1,196,718	672,908	11,710	1,409,785
Noncurrent Assets--				
Prepaid expenses	263,671	-	-	-
Capital assets---				
Land and construction in progress	95,440	20,000	-	-
Other capital assets, net of depreciation	516,698	809,030	810,709	1,300,765
Total Noncurrent Assets	875,809	829,030	810,709	1,300,765
Total Assets	$ 2,072,527	$ 1,501,938	$ 822,419	$ 2,710,550
Liabilities and Net Position				
Current Liabilities---				
Accounts payable	$ 336,688	$ 1,800	$ 2,941	$ 55,684
Accrued payroll	1,231	1,325	-	240
Due to other funds	-	209,465	69	-
Post closure liability	-	-	-	-
Total Current Liabilities	337,919	212,590	3,010	55,924
Noncurrent Liabilities---				
Compensated absences	10,020	3,394	-	7,203
Total Noncurrent Liabilities	10,020	3,394	-	7,203
Net Position---				
Invested in capital assets, net of related debt	612,138	829,030	810,709	1,300,765
Unrestricted	1,112,450	456,924	8,700	1,346,658
Total Net Position	1,724,588	1,285,954	819,409	2,647,423
Total Liabilities and Net Position	$ 2,072,527	$ 1,501,938	$ 822,419	$ 2,710,550

CITY OF SALEM, MISSOURI
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2013

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ 130,822	$ 77,975	$ 482,299	$ 5,737
246,325	2,486	1,542,973	145,749
-	43,229	1,139,928	-
-	-	3,115	-
-	1,202	26,762	-
-	4,906	300,725	-
-	-	302,264	-
377,147	129,798	3,798,066	151,486
-	-	263,671	-
-	83,201	198,641	-
-	13,675	3,450,877	-
-	96,876	3,913,189	-
$ 377,147	$ 226,674	$ 7,711,255	$ 151,486
$ -	$ 963	$ 398,076	$ -
-	325	3,121	-
-	-	209,534	-
289,122	-	289,122	-
289,122	1,288	899,853	-
-	4,087	24,704	-
-	4,087	24,704	-
-	96,876	3,649,518	-
88,025	124,423	3,137,180	151,486
88,025	221,299	6,786,698	151,486
$ 377,147	$ 226,674	$ 7,711,255	$ 151,486

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, 2013

	Business-type			
	Electric	Water	Airport	Sewer
Operating Revenues---				
Charges for services	$ 5,877,328	$ 553,364	$ 36,387	$ 356,506
Other	65,273	694	-	257
	5,942,601	554,058	36,387	356,763
Operating expenses---				
Personnel services	489,143	253,905	-	186,119
Operations and maintenance	4,325,544	159,732	52,020	180,520
Depreciation and amortization	117,387	127,302	74,003	240,721
	4,932,074	540,939	126,023	607,360
Operating Income (Loss)	1,010,527	13,119	(89,636)	(250,597)
Non-operating Revenues---				
Interest	3,042	716	65	134
Income (Loss) Before Capital Contributions and Transfers	1,013,569	13,835	(89,571)	(250,463)
Capital contributions	-	-	-	167,320
Transfers in (out)	(924,230)	(81,098)	-	(90,836)
Change in Net Position	89,339	(67,263)	(89,571)	(173,979)
Net Position at beginning of year (restated)	1,635,249	1,353,217	908,980	2,821,402
Net Position at end of year	$ 1,724,588	$ 1,285,954	$ 819,409	$ 2,647,423

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ -	$ 283,187	$ 7,106,772	$ -
11,964	4,290	82,478	-
11,964	287,477	7,189,250	-
-	108,699	1,037,866	-
-	249,313	4,967,129	922
-	7,849	567,262	-
-	365,861	6,572,257	922
11,964	(78,384)	616,993	(922)
122	46	4,125	11
12,086	(78,338)	621,118	(911)
-	-	167,320	-
-	82,508	(1,013,656)	-
12,086	4,170	(225,218)	(911)
75,939	217,129	7,011,916	152,397
$ 88,025	$ 221,299	$ 6,786,698	$ 151,486

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, 2013

				Business-type
	Electric	Water	Airport	Sewer
Cash Flows from Operating Activities---				
Cash received from customers	$ 5,881,461	$ 530,196	$ 36,387	$ 340,377
Cash payments to suppliers	(4,567,665)	(150,856)	(48,335)	(129,864)
Cash payments to employees	(486,775)	(252,459)	-	(183,388)
Other receipts (payments)	257	(46,499)	69	(15,946)
Net Cash Provided (Used) by Operating Activities	827,278	80,382	(11,879)	11,179
Cash Flows from Noncapital Financing Activities---				
Transfers in (out)	(924,230)	(81,098)	-	(90,836)
Net Cash Provided (Used) by Noncapital Financing Activities	(924,230)	(81,098)	-	(90,836)
Cash Flows from Capital and Related Financing Activities---				
Acquisition and construction of fixed assets	-	-	-	(68,207)
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	-	(68,207)
Cash Flows from Investing Activities---				
Interest received	3,042	716	65	134
Net Cash Provided (Used) by Investing Activities	3,042	716	65	134
Net Increase (Decrease) in cash and cash equivalents	(93,910)	-	(11,814)	(147,730)
Cash and Cash Equivalents at beginning of year	109,190	-	20,409	397,357
Cash and Cash Equivalents at end of year	$ 15,280	$ -	$ 8,595	$ 249,627
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 1,010,527	$ 13,119	$ (89,636)	$ (250,597)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	117,387	127,302	74,003	240,721
Prior period adjustment	17,880	13,050	744	2,052
Changes in assets and liabilities---				
Accounts receivable	(61,140)	(23,862)	-	(16,386)
Inventory	37,806	-	-	-
Due from other funds	257	(61,731)	-	(17,867)
Prepaid expenses	(263,671)	-	-	-
Accounts payable	(34,136)	(4,174)	2,941	48,604
Accruals	2,368	1,446	-	2,731
Due to other funds	-	15,232	69	1,921
Net Cash Provided (Used) by Operating Activities	$ 827,278	$ 80,382	$ (11,879)	$ 11,179

CITY OF SALEM, MISSOURI
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ -	$ 287,199	$ 7,075,620	$ -
-	(264,489)	(5,161,209)	(922)
-	(107,585)	(1,030,207)	-
-	1,158	(60,961)	-
-	(83,717)	823,243	(922)
-	82,508	(1,013,656)	-
-	82,508	(1,013,656)	-
-	-	(68,207)	-
-	-	(68,207)	-
122	46	4,125	11
122	46	4,125	11
122	(1,163)	(254,495)	(911)
130,700	79,138	736,794	6,648
$ 130,822	$ 77,975	$ 482,299	$ 5,737
$ 11,964	$ (78,384)	$ 616,993	$ (922)
-	7,849	567,262	-
	2,429	36,155	-
-	(278)	(101,666)	-
-	-	37,806	-
-	3,529	(75,812)	-
-	-	(263,671)	-
-	(17,605)	(4,370)	-
(11,964)	1,114	(4,305)	-
-	(2,371)	14,851	-
$ -	$ (83,717)	$ 823,243	$ (922)

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

CITY OF SALEM, MISSOURI
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	Deferred Compensation Trust Fund	Agency Fund
Assets:		
Cash	$ -	$ 69,882
Certificates of deposit	-	325,918
Investments	186,970	-
Other assets	-	14,121
Total assets	$ 186,970	$ 409,921
Liabilities:		
Utility deposits payable	$ -	$ 217,638
Accounts payable	-	26,762
Total liabilities	-	244,400
Net Position:		
Held in Trust	186,970	165,521
Unreserved	-	-
Total net position	186,970	165,521
Total liabilities and net position	$ 186,970	$ 409,921

See accompanying notes to the basic financial statements.

CITY OF SALEM, MISSOURI
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2013

	Deferred Compensation Trust Fund
ADDITIONS:	
Contributions	$ 8,970
Net increase in the fair value of investments	17,130
Total additions	26,100
DEDUCTIONS:	
Distributions	1,642
Total deductions	1,642
Change in net position	24,458
Net position - beginning of year	162,512
Net position - end of year	$ 186,970

See accompanying notes to the basic financial statements.

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

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.

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.

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 Services 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.

Receivables

Taxes receivable consists of property, utility and real estate excise taxes. No allowance was considered necessary for taxes receivable as of June 30, 2013. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. As of June 30, 2013, net utility receivables include an allowance for doubtful accounts of $348,000.

Inventories

Inventories at June 30, 2013, 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 vacation pay of $115,093 at June 30, 2013.

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.

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, 2013, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned – all other spendable amounts.

As of June 30, 2013, 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	-	-	655,096	-	-	655,096
Cemetery	-	-	-	-	279,997	279,997
Assigned:						
Transportation	-	744,074	-	-	-	744,074
Leisure	-	-	-	26,596	-	26,596
Unassigned	366,953	-	-	(60,713)	-	306,240
	$ 366,953	$ 744,074	$ 655,096	$ (34,117)	$ 571,758	$ 2,303,764

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, 2013, the City incurred a fund balance deficit in the Other Governmental funds of $19,471.

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 2013, the City's cash and cash equivalents consist of cash on hand, demand deposits and short-term investments with original maturities of three months or less.

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

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

Custodial credit risk: The City shall have a depository contract and pledge agreement with each safekeeping bank that will comply with the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA). This will ensure that the City's security interest in collateral pledged to secure deposits is enforceable against the receiver of a failed financial institution. At June 30, 2013, 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. As of June 30, 2013, internal balances that resulted from various interfund transactions were as follows:

	Due From Other Funds	Due To Other Funds
General Fund	$ -	$ 94,425
Street	10,856	-
Non-major Gov't Funds	-	7,622
Electric	30,496	-
Water	-	209,465
Airport	-	69
Sewer	265,323	-
Non-major Bus-Type Funds	4,906	-
	$ 311,581	$ 311,581

Interfund transfers during the year ended June 30, 2013 were as follows:

	Transfer From Other Funds	Transfer To Other Funds
General Fund	$ 783,304	$ -
Street	27,401	-
Capital Improvement Funds	-	208,317
Non-major Gov't Funds	243,948	-
Electric	-	924,230
Water	-	81,098
Sewer	76,484	-
Non-major Bus-Type Funds	82,508	-
	$ 1,213,645	$ 1,213,645

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.

NOTE 6 – LONG-TERM DEBT

The following is a summary of long-term debt activity of the City for the year ended June 30, 2013:

	Long-term Obligations at 7/1/2012	Additions	Reductions	Long-term Obligations at 6/30/2013	Due Within One Year
Governmental Activities:					
Capital lease	$ 76,730	$ -	$ 59,991	$ 16,739	$ 16,739
Compensated absences	72,270	18,120	-	90,390	-
	$ 149,000	$ 18,120	$ 59,991	$ 107,129	$ 16,739
Business-Type Activities:					
Compensated absences	$ 17,045	$ 7,658	$ -	$ 24,703	$ -
	$ 17,045	$ 7,658	$ -	$ 24,703	$ -

Capital Leases

In the governmental activities, property and equipment carried at approximately $67,000, with approximately $41,500 in accumulated depreciation, are currently held under capital lease arrangements.

The City is obligated under capital lease agreements to make the following aggregate annual lease payments:

Fiscal Year	Governmental Activities
2014	17,366
Total minimum lease payments	17,366
Less interest	627
Present value of minimum payments	$ 16,739

NOTE 7 – FIXED ASSETS

Capital asset activity for the year ended June 30, 2013 was as follows:

	Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 90,150	$ -	$ -	$ 90,150
Construction in process	35,773	-	(35,773)	-
Total capital assets not being depreciated	125,923	-	(35,773)	90,150
Capital assets being depreciated:				
Buildings	494,438	-	-	494,438
Improvements	1,702,825	208,437	-	1,911,262
Equipment	1,862,498	-	-	1,862,498
Infrastructure	14,019,902	-	-	14,019,902
Total capital assets being depreciated	18,079,663	208,437	-	18,288,100
Less accumulated depreciation:				
Buildings	(135,708)	(14,335)	-	(150,043)
Improvements	(593,938)	(92,295)	-	(686,233)
Equipment	(1,088,595)	(150,741)	-	(1,239,336)
Infrastructure	(11,513,115)	(349,803)	-	(11,862,918)
Total accumulated depreciation	(13,331,356)	(607,174)	-	(13,938,530)
Total capital assets being depreciated, net	4,748,307	(398,737)	-	4,349,570
Governmental Activities Capital assets, net	$ 4,874,230	$ (398,737)	$ (35,773)	$ 4,439,720

	Balance 6/30/2012	Increases	Decreases	Balance 6/30/2013
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 198,641	$ -	$ -	$ 198,641
Construction in process	228,698	-	(228,698)	-
Total capital assets not being depreciated	427,339	-	(228,698)	198,641
Capital assets being depreciated:				
Buildings	122,109	-	-	122,109
Improvements	5,720,454	396,018	-	6,116,472
Equipment	4,252,210	68,207	(56,620)	4,263,797
Infrastructure	2,132,818	-	-	2,132,818
Total capital assets being depreciated	12,227,591	464,225	(56,620)	12,635,196
Less accumulated depreciation:				
Buildings	(76,885)	(944)	-	(77,829)
Improvements	(3,584,352)	(319,067)	-	(3,903,419)
Equipment	(3,239,985)	(143,453)	56,620	(3,326,818)
Infrastructure	(1,772,456)	(103,798)	-	(1,876,254)
Total accumulated depreciation	(8,673,678)	(567,262)	56,620	(9,184,320)
Total capital assets being depreciated, net	3,553,913	(103,037)	-	3,450,876
Business-Type Activities Capital assets, net	$ 3,981,252	$ (103,037)	$ (228,698)	$ 3,649,517

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

Administrative	$ 68,552
Street	453,523
Safety	24,344
Leisure	52,280
Health & Social Services	8,475
Total governmental activities	$ 607,174

NOTE 8 – PENSION PLAN

The City of Salem participates in the Missouri Local Government Employees Retirement Systems (LAGERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agency for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability, and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statue, section RSMo. 70.600-70.755. As such, it is the system's 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 it is tax exempt.

The Missouri Local Government Employees Retirement system issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

Funding Status

Full-time employees of the City contribute 4% of their gross pay to the pension plan. The June 30th statutorily required contribution rates are 16.5% (general) and 12.6% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	$ 306,921
Interest on net pension obligation	1,555
Adjustment to annual required contribution	(1,432)
Annual pension cost	307,044
Actual contributions	303,238
Increase (decrease) in NPO	3,806
NPO beginning of year	21,445
NPO end of year	$ 25,251

The annual required contribution (ARC) was determined as part of the February 28, 2011 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2013 included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 year for men and 0 years for women. The actuarial

value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The amortization period as of February 28, 2011 was 19 years for the General division and 30 years for the Police division.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2011	$ 296,004	95.3%	$ 13,912
6/30/2012	$ 299,804	97.5%	$ 21,445
6/30/2013	$ 307,044	98.8%	$ 25,251

REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
2/28/2011	$ 3,682,913	$ 5,498,788	$ 1,815,875	67%	$ 1,888,673	96%
2/29/2012	4,039,730	5,611,666	1,571,936	72%	1,838,381	86%
2/28/2013	3,918,703	5,341,732	1,423,029	73%	1,843,817	77%

NOTE: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

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 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 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 $765,221 as of June 30, 2013.

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 $571,758 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 in 2009 for the 2009-2013 tax years.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Pending Litigation

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

Risk Management

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

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

NOTE 14 – LANDFILL POST-CLOSURE CARE COST

The City owned and operated a landfill site that stopped accepting waste on October 9, 1993. Upon the closure activities being completed, the post-closure period began. Initially, the post-closure costs were estimated at $419,130 and have since been reduced to $289,122. 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, 2013, 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 $289,122 has also been recorded to reflect the estimated post-closure costs payable upon termination of this agreement.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $246,238 was made to remove the accrual for severance pay as the employee was never terminated. This adjustment increased beginning net position in the General fund by $246,238.

In addition, the City received refunds in fiscal year 2013 upon changing insurance providers because the premiums were prepaid in fiscal year 2012. A prior period adjustment was recorded to properly account for the prepaid expenses from the prior year. This adjustment resulted in an increase to the beginning balances of net position of the various funds as follows: General - $51,275; Park - $5,781; Electric - $17,880; Water - $41,635; Airport - $744; Sewer - $2,053; Non-major business-type - $2,429.

NOTE 16 – SUBSEQUENT EVENTS

In January 2013, the City entered into a cost share agreement with the Missouri Highways and Transportation Commission for significant road improvements in fiscal year 2014. Total project costs are estimated at nearly $985,000; however, the City's portion is approximately $590,000. The City was awarded a $200,000 grant from the Delta Regional Authority in fiscal year 2013 to assist with this project. The rest of the City's share will be paid for with capital improvement funds.

The City entered into three lease purchase agreements for approximately $190,000 for various vehicles in fiscal year 2014.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Resources (Inflows):				
Taxes:				
City taxes collected by county	$ 292,000	$ 292,000	$ 295,324	$ 3,324
Sales tax	1,076,000	1,076,000	1,110,524	34,524
Financial institution tax	8,000	8,000	9,009	1,009
Railroad & utility tax	1,700	1,700	1,614	(86)
Franchise tax	81,000	81,000	78,694	(2,306)
Telecommunications license tax	160,000	160,000	139,259	(20,741)
Sur tax	51,000	51,000	49,754	(1,246)
Penalties on delinquent taxes	7,000	7,000	8,955	1,955
Total taxes	1,676,700	1,676,700	1,693,133	16,433
Fines, licenses, permits				
Filing fees	150	150	125	(25)
Pit bull fee	500	500	400	(100)
Fines - municipal court	28,000	28,000	19,801	(8,199)
Liquor licenses	4,500	4,500	2,775	(1,725)
Merchants licenses	9,000	9,000	9,907	907
Total permits, fees and licenses	42,150	42,150	33,008	(9,142)
Miscellaneous:				
Rent - water tower	600	600	750	150
Sale of fixed assets	5,000	5,000	-	(5,000)
Special police services	1,500	1,500	1,462	(38)
Super NOW interest	600	600	545	(55)
Library service fee	1,000	1,000	1,000	-
Insuf. check charge	-	-	20	20
Rents/royalties - auditorium	5,000	5,000	3,209	(1,791)
Rents/royalties - Freedom Activity Center	2,000	2,000	825	(1,175)
Miscellaneous income	5,000	5,000	21,768	16,768
Police copy money	825	825	630	(195)
Total miscellaneous	21,525	21,525	30,209	8,684
Operating transfers in	1,000,000	1,000,000	1,084,708	84,708
Amounts available	2,740,375	2,740,375	2,841,058	100,683

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Charges (Outflows):				
Animal Control:				
Labor	29,040	29,040	27,941	1,099
Employee benefits	11,885	11,885	11,469	416
State unemployment taxes	208	208	216	(8)
Maintenance	3,500	3,500	2,755	745
Supplies	1,750	1,750	580	1,170
Utilities	8,215	8,215	10,994	(2,779)
Miscellaneous	5,885	5,885	4,548	1,337
Total animal control	60,483	60,483	58,503	1,980
Attorney:				
Memberships	50	50	-	50
Supervision	25,000	25,000	25,000	-
FICA	1,913	1,913	1,913	-
Office supplies	200	200	244	(44)
Travel	400	400	-	400
Workman's compensation	62	62	-	62
Unemployment tax	-	-	211	(211)
Total attorney	27,625	27,625	27,368	257
City Collector:				
Office supplies	250	250	175	75
Special services - Dent County	15,759	15,759	15,837	(78)
Telephone	1	1	1	-
Total city collector	16,010	16,010	16,013	(3)
City Treasurer:				
Personnel - clerical	2,000	2,000	1,962	38
FICA	153	153	150	3
Workers Comp	4	4	-	4
Retirement	330	330	248	82
Bonds & insurance	100	100	200	(100)
Total city treasurer	2,587	2,587	2,560	27
Civil Defense:				
Advertising	100	100	-	100
FICA	-	-	21	(21)
Maintenance - equipment	500	500	-	500
Personnel	-	-	283	(283)
Special services	500	500	782	(282)
Total civil defense	1,100	1,100	1,086	14

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Municipal Court:				
FICA	477	477	588	(111)
Personnel - clerical	6,240	6,240	7,684	(1,444)
Unemployment tax	103	103	119	(16)
Workmen's compensation	14	14	-	14
Miscellaneous	1,566	1,566	-	1,566
Total municipal court	8,400	8,400	8,391	9
City Engineer:				
Employee insurance	-	-	1,117	(1,117)
Retirement	-	-	948	(948)
Telephone	-	-	39	(39)
Total engineering	-	-	2,104	(2,104)
City Administrator:				
Personnel - Supervision	70,000	70,000	78,329	(8,329)
Employee insurance	6,890	6,890	23,875	(16,985)
FICA	5,355	5,355	5,992	(637)
Bond & insurance	100	100	-	100
Office supplies	200	200	20	180
Unemployment tax	208	208	220	(12)
Retirement	11,550	11,550	13,379	(1,829)
Telephone	1,050	1,050	1,083	(33)
Tools/computer	500	500	-	500
Wearing apparel	300	300	417	(117)
Travel	1,500	1,500	2,798	(1,298)
Workmen's comp	3,453	3,453	-	3,453
Training	-	-	2,540	(2,540)
Memberships	200	200	120	80
Total city administrator	101,306	101,306	128,773	(27,467)
City Clerk:				
Labor	53,125	53,125	51,327	1,798
Employee benefits	15,139	15,139	15,307	(168)
Unemployment tax	208	208	226	(18)
Maintenance	500	500	544	(44)
Supplies	1,050	1,050	1,247	(197)
Utilities	900	900	904	(4)
Miscellaneous	2,165	2,165	1,387	778
Total city clerk	73,087	73,087	70,942	2,145

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Sidewalk Construction Department:				
Employee benefits	29,429	29,429	17,328	12,101
State unemployment taxes	416	416	470	(54)
Maintenance	4,800	4,800	2,708	2,092
Supplies	1,550	1,550	213	1,337
Utilities	2,230	2,230	2,221	9
Miscellaneous	8,500	8,500	5,747	2,753
Total sidewalk construction dept	46,925	46,925	28,687	18,238
Maintenance Department:				
Labor	39,969	39,969	40,343	(374)
Employee benefits	14,139	14,139	13,480	659
Unemployment tax	208	208	229	(21)
Maintenance	1,900	1,900	1,146	754
Supplies	5,400	5,400	10,121	(4,721)
Utilities	720	720	714	6
Miscellaneous	2,300	2,300	677	1,623
Total maintenance dept	64,636	64,636	66,710	(2,074)
Mayor and Board:				
Labor	33,910	33,910	34,556	(646)
Employee benefits	69	69	-	69
Maintenance	200	200	10	190
Supplies	200	200	789	(589)
Utilities	475	475	480	(5)
Miscellaneous	1,800	1,800	191	1,609
Total mayor and board	36,654	36,654	36,026	628
Non-departmental:				
Capital improvement	4,400	4,400	5,284	(884)
Labor	64,288	64,288	60,114	4,174
Employee benefits	22,478	22,478	(560)	23,038
Unemployment tax	416	416	1,391	(975)
Maintenance	6,200	6,200	6,599	(399)
Supplies	6,650	6,650	5,558	1,092
Utilities	26,900	26,900	33,946	(7,046)
Miscellaneous	111,550	111,550	78,235	33,315
Total non-departmental	242,882	242,882	190,567	52,315

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Police				
Labor	682,195	682,195	695,825	(13,630)
Employee benefits	224,836	224,836	208,062	16,774
Unemployment taxes	3,744	3,744	4,074	(330)
Maintenance	25,000	25,000	39,511	(14,511)
Supplies	12,950	12,950	10,385	2,565
Utilities	15,250	15,250	15,117	133
Miscellaneous	75,800	75,800	44,682	31,118
Total Police	1,039,775	1,039,775	1,017,656	22,119
Street				
Labor	308,327	308,327	294,213	14,114
Employee benefits	119,301	119,301	102,920	16,381
Unemployment taxes	1,850	1,850	1,879	(29)
Maintenance	76,700	76,700	70,361	6,339
Supplies	5,700	5,700	2,079	3,621
Utilities	4,750	4,750	5,818	(1,068)
Miscellaneous	58,000	58,000	37,358	20,642
Total Street	574,628	574,628	514,628	60,000
Freedom Center				
Utilities	20,690	20,690	17,085	3,605
Miscellaneous	5,550	5,550	4,114	1,436
Total Freedom Center	26,240	26,240	21,199	5,041
Operating transfers out	385,000	385,000	385,000	-
Total charges	2,707,338	2,707,338	2,576,213	131,125
Excess Receipts Over/(Under) Expenses	$ 33,037	$ 33,037	$ 264,845	$ 231,808

Explanation of differences between budgetary revenue and expenditures and GAAP revenue and expenditures.

Revenue:	
Actual total revenue budgetary basis	$ 2,841,058
Differences - Budget to GAAP	
Change in accounts receivable and other adjustments	6,313
Transfer in	35,052
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 2,882,423
Expenditures:	
Actual total expenditures budgetary basis	$ 2,576,213
Differences - Budget to GAAP	
Change in accrued liabilities and other adjustments	171,257
Transfer out	(48,544)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 2,698,926

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Street Fund				
Resources (Inflows):				
Super NOW interest	$ 1,875	$ 1,875	$ 1,617	$ (258)
Fee increase	21,100	21,100	21,335	235
Gas Tax	130,000	130,000	117,797	(12,203)
Sales Tax	30,000	30,000	38,876	8,876
Total Resources	182,975	182,975	179,625	(3,350)
Charges (Outflows):				
Streets	120,000	120,000	2,995	117,005
Truck & snow plow equipment lease	-	-	21,831	(21,831)
Crack Seal	8,000	8,000	-	8,000
Total Charges	128,000	128,000	24,826	95,174
Increase (Decrease) in Fund	$ 54,975	$ 54,975	$ 154,799	$ 91,824
Park Fund				
Resources (Inflows):				
Charges for services:				
Al Brown concession	$ 750	$ 750	$ 619	$ (131)
Ball sign-up fees	10,500	10,500	9,680	(820)
Little league concession	5,000	5,000	2,381	(2,619)
Grant receipts	9,363	9,363	8,220	(1,143)
Pool concession	5,400	5,400	4,829	(571)
Super NOW interest	100	100	-	(100)
Al Brown field user fees	2,530	2,530	1,985	(545)
Basketball user fees	2,740	2,740	1,660	(1,080)
Ball team sponsor	2,000	2,000	2,000	-
Basketball sponsor fees	2,000	2,000	-	(2,000)
Pavillion rentals	1,300	1,300	1,000	(300)
Pool receipts	15,000	15,000	14,928	(72)
Soccer user fees	3,600	3,600	4,340	740
Soccer sponsor fees	2,000	2,000	-	(2,000)
Flag football user fees	5,000	5,000	1,400	(3,600)
Flag football sponsor fee	2,000	2,000	-	(2,000)
Miscellaneous	-	-	316	316
Insufficent check charge	40	40	60	20
Total charges for services	69,323	69,323	53,418	(15,905)
Transfers in	215,000	215,000	215,000	-
Amounts available	284,323	284,323	268,418	(15,905)
Charges (Outflows):				
Labor	149,004	149,004	144,086	4,918
Employee benefits	30,167	30,167	21,791	8,376
Unemployment taxes	1,472	1,472	1,392	80
Maintenance	20,600	20,600	30,077	(9,477)
Supplies	13,950	13,950	19,935	(5,985)
Utilities	11,681	11,681	18,373	(6,692)
Miscellaneous	34,900	34,900	26,078	8,822
Total Outflows	261,774	261,774	261,732	42
Increase (Decrease) in Fund	$ 22,549	$ 22,549	$ 6,686	$ (15,863)

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Police Dept Law Enforcement Fund				
Resources (Inflows):				
Breathalizer reimbursement cost	$ 650	$ 650	$ 4,149	$ 3,499
Super NOW interest	2	2	-	(2)
Total Resources	652	652	4,149	3,497
Charges (Outflows):				
Travel & training	1,000	1,000	286	714
Miscellaneous	-	-	100	(100)
Total Outflows	1,000	1,000	386	614
Increase (Decrease) in Fund	$ (348)	$ (348)	$ 3,763	$ 4,111
Officers Training Fund				
Resources (Inflows):				
Special police services	$ 510	$ 510	$ 634	$ 124
Speical NOW interest	4	4	-	(4)
Total Resources	514	514	634	120
Charges (Outflows):				
Memberships	300	300	-	300
Travel	1,200	1,200	175	1,025
Total Outflows	1,500	1,500	175	1,325
Increase (Decrease) in Fund	$ (986)	$ (986)	$ 459	$ 1,445
Salem Fireworks Fund				
Resources (Inflows):				
Donations	$ 1,520	$ 1,520	$ -	$ (1,520)
Super NOW interest	7	7	2	(5)
Total Resources	1,527	1,527	2	(1,525)
Transfers In:	15,000	15,000	15,000	-
Amount Available	16,527	16,527	15,002	(1,525)
Charges (Outflows):				
Fireworks	15,000	15,000	15,500	(500)
Miscellaneous	1	1	-	1
Advertising	100	100	-	100
Janitorial	100	100	-	100
Special services	500	500	-	500
Total Outflows	15,701	15,701	15,500	201
Increase (Decrease) in Funds	$ 826	$ 826	$ (498)	$ (1,324)

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2013

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Emergency Fund				
Resources (Inflows):				
Super NOW interest	$ 175	$ 175	$ 63	$ (112)
Total Resources	175	175	63	(112)
Increase (Decrease) in Funds	$ 175	$ 175	$ 63	$ (112)
Post Commission Fund				
Resources (Inflows):				
Post commission reimbursement	$ 500	$ 500	$ 500	$ -
Super NOW interest	3	3	47	44
Total Resources	503	503	547	44
Charges (Outflows):				
Travel	500	500	500	-
Total Outflows	500	500	500	-
Increase (Decrease) in Funds	$ 3	$ 3	$ 47	$ 44
Building Permit				
Resources (Inflows):				
Building permits	$ 3,350	$ 3,350	$ 2,945	$ (405)
Inspection fees	850	850	550	(300)
Miscellaneous	10	10	-	(10)
Super NOW interest	215	215	40	(175)
Special assessments	500	500	-	(500)
Total Resources	4,925	4,925	3,535	(1,390)
Charges (Outflows):				
Office supplies	200	200	25	175
Advertising	600	600	261	339
Books & periodicals	1,000	1,000	211	789
Telephone	-	-	2	(2)
Special services	6,000	6,000	4,009	1,991
Travel	-	-	377	(377)
Memberships	150	150	125	25
Total Outflows	7,950	7,950	5,010	2,940
Increase (Decrease) in Funds	$ (3,025)	$ (3,025)	$ (1,475)	$ 1,550
Inmate Security Fund				
Resources (Inflows):				
Inmate security fees	$ 525	$ 525	$ 596	$ 71
Super NOW interest	10	10	4	(6)
Total Resources	535	535	600	65
Charges (Outflows):				
Prisoner Sub.	3,000	3,000	-	3,000
Total Outflows	3,000	3,000	-	3,000
Increase (Decrease) in Funds	$ (2,465)	$ (2,465)	$ 600	$ 3,065

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2013

	Budget Amounts Original	Budget Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
CDBG Stormwater Grant				
Resources (Inflows):				
CDBG Grant	$ 176,926	$ 176,926	$ 152,664	$ (24,262)
Transfers in	-	-	10,000	10,000
Total Resources	176,926	176,926	162,664	(14,262)
Charges (Outflows):				
Capital improvements	157,926	157,926	162,664	(4,738)
Total Outflows	157,926	157,926	162,664	(4,738)
Increase (Decrease) in Funds	$ 19,000	$ 19,000	$ -	$ (19,000)
Local Law Enforcement Grant				
Resources (Inflows):				
Local law enforcement grant funds	$ 5,000	$ 5,000	$ 9,492	$ 4,492
Super NOW interest	-	-	19	19
Total Resources	5,000	5,000	9,511	4,511
Charges (Outflows):				
Equipment maintenance	-	-	10,352	(10,352)
Radios - base	5,000	5,000	-	5,000
Total Outflows	5,000	5,000	10,352	(5,352)
Increase (Decrease) in Funds	$ -	$ -	$ (841)	$ (841)
Police Contribution Fund				
Resources (Inflows):				
Contributions	$ 1,000	$ 1,000	$ -	$ (1,000)
Interest	15	15	-	(15)
Total Resources	1,015	1,015	-	(1,015)
Charges (Outflows):				
Miscellaneous-equipment	-	-	-	-
Total Outflows	-	-	-	-
Increase (Decrease) in Funds	$ 1,015	$ 1,015	$ -	$ (1,015)

Explanation of differences between budgetary revenue and expenditures and GAAP revenue and expenditures.

Revenue:	
Actual total revenue budgetary basis	$ 644,748
Differences - Budget to GAAP	
Change in accounts receivable and other adjustments	(12,977)
Transfer in	31,349
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds	$ 663,120
Expenditures:	
Actual total expenditures budgetary basis	$ 481,145
Differences - Budget to GAAP	
Change in accrued liabilities and other adjustments	28,835
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds	$ 509,980

SUPPLEMENTARY INFORMATION

VERKAMP & MALONE, LLC

Certified Public Accountants

DAVE VERKAMP, CPA, CFP
MOLLY MALONE, CPA

Accounting
Auditing
Tax Services
Management 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 23, 2014.

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:

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

P.O. Box 32 • 401 W. 5th Street • Rolla, Missouri 65402
(573) 364-2246 • FAX (573) 341-3546 • vmcpa@fidnet.com

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, 2013, 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 recording adjustments to agree inventory balances to the physical count at year end, reclassifying principal payments made on lease purchase agreements, adjustments to accounts payable and accrued liabilities, recording revenues and expenses for the fiscal year and adjustments for inter-fund activity. 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 financial burden that would be placed on the City of Salem to either hire a full-time, in-house accountant or procure the services of an outside independent certified public accountant for the purposes of reviewing and preparing the City's financial statements significantly outweighs the benefit. Therefore, management does not recommend the procurement of accounting services. Rather, management recommends continuing to have the financial statements completed as part of the audit.

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: Several payroll and accounts payable duties have already been assigned to other staff members. Individual duties will continue to be reviewed for additional opportunities to further segregate duties within available staffing.

Timely Reconciliation of Bank Accounts

Timely reconciliation of all bank accounts is imperative for making informed financial decisions for the City. During the audit, we discovered that the bank accounts had not been reconciled since a new accounting software was implemented in August 2012 and significant adjustments were required to reconcile the general ledger with the bank statements. We strongly recommend that all bank accounts be reconciled with the bank statements shortly after they are received to allow for the identification and correction of errors, if any, and promote accurate financial reporting.

Management's Response: The City changed general ledger software programs in September 2012. With the City's fiscal year starting in July, the 2013 fiscal year involved the use of two different general ledger systems.

Changing software programs in the course of a fiscal year presented challenges. The 2013 audit will represent the first audit since switching to the new general ledger system and reconciliations of bank accounts have since been completed and are now current.

Staff workload and duty assignments will be reviewed and monitored so that going forward reconciliations will be completed within ten (10) business days of when the statements are received.

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.

Verkamp & Malone

Verkamp & Malone, LLC
Rolla, Missouri
October 23, 2014