CITY OF SALEM, MISSOURI

AUDIT REPORT

JUNE 30, 2014

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

CITY OF SALEM, MISSOURI
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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, 2014, 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
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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, 2014, 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 April 30, 2015, 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
April 30, 2015

BASIC FINANCIAL STATEMENTS

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
JUNE 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 627,288	$ 936,795	$ 1,564,083
Certificates of deposit	140,749	1,417,973	1,558,722
Restricted assets	849,480	-	849,480
Accounts receivable, net	206,933	1,113,283	1,320,216
Grants receivable	93,987	138,637	232,624
Due from external parties	-	37,482	37,482
Inventories	-	299,976	299,976
Prepaid expenses	18,827	273,959	292,786
Capital assets---			
Land and construction in progress	425,615	358,599	784,214
Other capital assets, net of depreciation	4,049,498	2,980,669	7,030,167
Total assets	$ 6,412,377	$ 7,557,373	$ 13,969,750
LIABILITIES			
Accounts payable and accrued expenses	$ 183,941	$ 404,181	$ 588,122
Internal balances	43,231	(43,231)	-
Post-closure liability	-	288,482	288,482
Long-term liabilities			
Due within one year	36,607	9,569	46,176
Due in more than one year	165,453	44,852	210,305
Total liabilities	$ 429,232	$ 703,853	$ 1,133,085
NET POSITION			
Invested in capital assets, net of related debt	$ 4,363,443	$ 3,309,551	$ 7,672,994
Restricted			
Expendable	557,719	-	557,719
Nonexpendable	291,761	-	291,761
Unrestricted	770,222	3,543,969	4,314,191
Total net position	$ 5,983,145	$ 6,853,520	$ 12,836,665

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

CITY OF SALEM, MISSOURI
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions
Primary government			
Governmental activities---			
Safety services	$ 1,256,700	$ -	$ -
Health and social services	48,014	-	-
Leisure services	323,270	52,960	-
Utility	335,432	-	-
Transportation services	1,191,214	-	-
Administrative services	729,599	43,171	133,780
Interest on long-term debt	1,946	-	-
Total governmental activities	3,886,175	96,131	133,780
Business-type activities---			
Electric	5,124,984	5,894,587	-
Water	593,712	514,501	132,380
Airport	120,209	31,338	27,578
Sewerage system	624,115	336,605	-
Other	381,837	281,924	-
Total business-type activities	6,844,857	7,058,955	159,958
Total primary government	$ 10,731,032	$ 7,155,086	$ 293,738

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
$ (1,256,700)	$ -	$ (1,256,700)
(48,014)	-	(48,014)
(270,310)	-	(270,310)
(335,432)	-	(335,432)
(1,191,214)	-	(1,191,214)
(552,648)	-	(552,648)
(1,946)	-	(1,946)
(3,656,264)	-	(3,656,264)
-	769,603	769,603
-	53,169	53,169
-	(61,293)	(61,293)
-	(287,510)	(287,510)
-	(99,913)	(99,913)
-	374,056	374,056
(3,656,264)	374,056	(3,282,208)
300,297	-	300,297
1,900,414	-	1,900,414
50,755	-	50,755
222,759	-	222,759
8,403	-	8,403
1,997	10,553	12,550
46,504	58,380	104,884
(221,490)	221,490	-
530,000	(530,000)	-
2,839,639	(239,577)	2,600,062
(816,625)	134,479	(682,146)
6,799,770	6,719,041	13,518,811
$ 5,983,145	$ 6,853,520	$ 12,836,665

CITY OF SALEM, MISSOURI
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

	General Fund	Street	Capital Improvements	Other Governmental Funds	Permanent Fund
ASSETS					
Cash	$ -	$ 625,051	$ -	$ -	$ -
Restricted assets	-	-	276,983	-	572,497
Receivables, net	-	-	4,071	95,247	-
Prepaid expenditures	17,417	-	-	1,410	-
Due from other funds	3,555	171,973	20,493	-	-
Taxes receivable	143,491	-	58,111	-	-
Total assets	$ 164,463	$ 797,024	$ 359,658	$ 96,657	$ 572,497
LIABILITIES					
Accounts payable	$ 2,328	$ -	$ 63,847	$ 102,859	$ -
Accrued payroll	11,120	-	1,209	2,578	-
Due to other funds	183,517	-	9,637	46,098	-
Total liabilites	196,965	-	74,693	151,535	-
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue	27,268	-	-	-	-
Total deferred inflows of resources	27,268	-	-	-	-
FUND BALANCES					
Nonspendable	-	-	-	-	291,761
Restricted	-	-	284,965	-	280,736
Assigned	-	797,024	-	20,400	-
Unassigned	(59,770)	-	-	(75,278)	-
Total fund balances	(59,770)	797,024	284,965	(54,878)	572,497
Total liabilities and fund balances	$ 164,463	$ 797,024	$ 359,658	$ 96,657	$ 572,497

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

Statement 3

CITY OF SALEM, MISSOURI
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE
TO NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2014

Total Governmental Funds		
	Total Governmental Fund Balances	$ 1,539,838
	Amounts reported for governmental activities in the statement of net position are different because:	
$ 625,051		
849,480		
99,318	Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.	4,475,113
18,827		
196,021		
201,602	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
$ 1,990,299		
	Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds:	
$ 169,034	Capital lease payable	(111,670)
14,907	Accrued compensated absences	(90,390)
239,252		
423,193		
	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.	142,986
27,268		
27,268		
291,761		
565,701	*Net Position of Governmental Funds*	$ 5,983,145
817,424		
(135,048)		
1,539,838		
$ 1,990,299		

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	General Fund	Street	Capital Improvements	Other Governmental Funds	Permanent Fund
Revenues---					
Taxes	$ 1,727,903	$ 181,880	$ 572,845	$ -	$ -
Intergovernmental	-	-	-	133,780	-
Charges for services	-	-	-	52,960	-
Interest and investment earnings	1,258	-	-	-	739
Licenses and permits	43,171	-	-	-	-
Miscellaneous	17,168	832	557	27,947	-
	1,789,500	182,712	573,402	214,687	739
Expenditures---					
Current operations:					
Safety services	1,216,666	-	-	4,898	-
Health and social services	39,538	-	-	-	-
Leisure services	-	-	3,201	270,403	-
Utility services	67,110	-	268,322	-	-
Transportation services	603,192	3,897	124,314	-	-
Administrative services	615,148	-	-	44,195	-
Capital outlay/fixed assets	124,033	151,758	269,664	130,850	-
Debt service:					
Principal	31,922	23,644	-	-	-
Interest	-	2,517	-	-	-
	2,697,609	181,816	665,501	450,346	-
Excess Revenues Over (Under) Expenditures	(908,109)	896	(92,099)	(235,659)	739
Other Financing Sources (Uses)---					
Proceeds from debt issuance	124,033	26,464	-	-	-
Transfers in	660,952	25,590	-	214,897	-
Transfers out	(314,897)	-	(278,032)	-	-
	470,088	52,054	(278,032)	214,897	-
Net change in fund balance	(438,021)	52,950	(370,131)	(20,762)	739
Fund balances at beginning of year, restated	378,251	744,074	655,096	(34,116)	571,758
Fund balances at end of year	$ (59,770)	$ 797,024	$ 284,965	$ (54,878)	$ 572,497

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

Statement 4

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, 2014

Total Governmental Funds			
	Net Change in Fund Balances---Total Governmental Funds		$ (775,225)
	Amounts reported for governmental activities in the statement of activities are different because:		
$ 2,482,628			
133,780	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:		
52,960			
1,997			
43,171			
46,504	Capital outlay	676,305	
2,761,040	Depreciation expense	(614,845)	61,460
	Repayment of loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		55,566
1,221,564			
39,538	Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		(150,497)
273,604			
335,432			
731,403	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.		(8,500)
659,343			
676,305			
55,566			
2,517	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:		
3,995,272			
	Accrued interest		571
(1,234,232)			
150,497			
901,439	Changes in Net Position of Governmental Activities		$ (816,625)
(592,929)			
459,007			
(775,225)			
2,315,063			
$ 1,539,838			

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Business-type			
	Electric	Water	Airport	Sewer
Assets				
Current Assets--				
Cash	$ 375,342	$ -	$ 26,212	$ 348,544
Certificates of deposit	2,341	484,154	-	682,667
Accounts receivable, net	920,358	88,614	-	61,557
Grants receivable	-	132,380	6,257	-
Due from external parties	27,315	7,615	-	-
Due from other funds	47,566	60,476	3,115	180,085
Prepaid expenses	3,992	2,820		2,443
Inventories	177,629	98,195	-	24,152
Total Current Assets	1,554,543	874,254	35,584	1,299,448
Noncurrent Assets--				
Prepaid expenses	263,671	-	-	-
Capital assets---				
Land and construction in progress	95,440	152,380	27,578	-
Other capital assets, net of depreciation	395,760	742,042	735,885	1,085,994
Total Noncurrent Assets	754,871	894,422	763,463	1,085,994
Total Assets	$ 2,309,414	$ 1,768,676	$ 799,047	$ 2,385,442
Liabilities and Net Position				
Current Liabilities---				
Accounts payable	$ 354,642	$ 9,666	$ 28,242	$ 7,376
Accrued payroll	1,231	1,325	-	240
Due to other funds	3,115	249,180	69	2,179
Post closure liability	-	-	-	-
Current portion of noncurrent liabilities	-	9,569	-	-
Total Current Liabilities	358,988	269,740	28,311	9,795
Noncurrent Liabilities---				
Compensated absences	10,020	3,394	-	7,203
Lease payable	-	20,148	-	-
Total Noncurrent Liabilities	10,020	23,542	-	7,203
Net Position---				
Invested in capital assets, net of related debt	491,200	864,705	763,463	1,085,994
Unrestricted	1,449,206	610,689	7,273	1,282,450
Total Net Position	1,940,406	1,475,394	770,736	2,368,444
Total Liabilities and Net Position	$ 2,309,414	$ 1,768,676	$ 799,047	$ 2,385,442

CITY OF SALEM, MISSOURI
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ 130,604	$ 56,093	$ 936,795	$ 2,237
246,325	2,486	1,417,973	140,749
-	42,754	1,113,283	-
-	-	138,637	-
-	2,552	37,482	-
-	8,859	300,101	-
	1,033	10,288	-
-	-	299,976	-
376,929	113,777	4,254,535	142,986
-	-	263,671	-
-	83,201	358,599	-
-	20,988	2,980,669	-
-	104,189	3,602,939	-
$ 376,929	$ 217,966	$ 7,857,474	$ 142,986
$ -	$ 1,134	$ 401,060	$ -
-	325	3,121	-
-	2,327	256,870	-
288,482	-	288,482	-
-	-	9,569	-
288,482	3,786	959,102	-
-	4,087	24,704	-
-	-	20,148	-
-	4,087	44,852	-
-	104,189	3,309,551	-
88,447	105,904	3,543,969	142,986
88,447	210,093	6,853,520	142,986
$ 376,929	$ 217,966	$ 7,857,474	$ 142,986

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, 2014

	Business-type			
	Electric	Water	Airport	Sewer
Operating Revenues---				
Charges for services	$ 5,894,587	$ 514,501	$ 31,338	$ 336,605
Intergovernmental	-	132,380	27,578	-
Other	47,397	2,407	3,661	80
	5,941,984	649,288	62,577	336,685
Operating expenses---				
Personnel services	473,958	285,895	-	200,286
Operations and maintenance	4,541,761	189,067	45,385	200,608
Depreciation and amortization	109,265	118,750	74,824	223,221
	5,124,984	593,712	120,209	624,115
Operating Income (Loss)	817,000	55,576	(57,632)	(287,430)
Non-operating Revenues---				
Interest	10,490	-	63	-
Income (Loss) Before Capital Contributions and Transfers	827,490	55,576	(57,569)	(287,430)
Capital contributions	-	146,055	8,896	52,245
Transfers in (out)	(600,000)	-	-	-
Change in Net Position	227,490	201,631	(48,673)	(235,185)
Net Position at beginning of year (restated)	1,712,916	1,273,763	819,409	2,603,629
Net Position at end of year	$ 1,940,406	$ 1,475,394	$ 770,736	$ 2,368,444

CITY OF SALEM, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ -	$ 281,924	$ 7,058,955	$ -
-	-	159,958	-
422	4,413	58,380	-
422	286,337	7,277,293	-
-	113,360	1,073,499	-
-	261,497	5,238,318	8,500
-	6,980	533,040	-
-	381,837	6,844,857	8,500
422	(95,500)	432,436	(8,500)
-	-	10,553	-
422	(95,500)	442,989	(8,500)
-	14,294	221,490	-
-	70,000	(530,000)	-
422	(11,206)	134,479	(8,500)
88,025	221,299	6,719,041	151,486
$ 88,447	$ 210,093	$ 6,853,520	$ 142,986

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, 2014

	Business-type			
	Electric	Water	Airport	Sewer
Cash Flows from Operating Activities---				
Cash received from customers	$ 5,962,244	$ 521,360	$ 56,320	$ 338,144
Cash payments to suppliers	(4,517,709)	(191,823)	(20,084)	(251,358)
Cash payments to employees	(473,958)	(285,895)	-	(200,286)
Other receipts (payments)	(21,005)	(23,081)	-	87,417
Net Cash Provided (Used) by Operating Activities	949,572	20,561	36,236	(26,083)
Cash Flows from Noncapital Financing Activities---				
Transfers in (out)	(600,000)	-	-	-
Net Cash Provided (Used) by Noncapital Financing Activities	(600,000)	-	-	-
Cash Flows from Capital and Related Financing Activities---				
Acquisition and construction of fixed assets	-	(196,333)	(27,578)	(52,245)
Proceeds from lease purchase agreement	-	39,877	-	-
Principal payment on capital debt	-	(10,160)	-	-
Capital transfers from other funds	-	146,055	8,896	52,245
Net Cash Provided (Used) by Capital and Related Financing Activities	-	(20,561)	(18,682)	-
Cash Flows from Investing Activities---				
Interest received	10,490	-	63	-
Proceeds from sale and maturity of investments	-	-	-	125,000
Net Cash Provided (Used) by Investing Activities	10,490	-	63	125,000
Net Increase (Decrease) in cash and cash equivalents	360,062	-	17,617	98,917
Cash and Cash Equivalents at beginning of year	15,280	-	8,595	249,627
Cash and Cash Equivalents at end of year	$ 375,342	$ -	$ 26,212	$ 348,544
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	$ 817,000	$ 55,576	$ (57,632)	$ (287,430)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation and amortization	109,265	118,750	74,824	223,221
Changes in assets and liabilities---				
Accounts receivable	13,210	(130,248)	(6,257)	1,459
Inventory	10,090	(7,802)	-	-
Due from other funds	(17,070)	(60,476)	-	89,856
Prepaid expenses	(3,992)	(2,820)	-	(2,443)
Accounts payable	17,954	7,866	25,301	(48,307)
Due to other funds	3,115	39,715	-	(2,439)
Net Cash Provided (Used) by Operating Activities	$ 949,572	$ 20,561	$ 36,236	$ (26,083)

CITY OF SALEM, MISSOURI
COMBINING STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Activities			Governmental Activities
Landfill	Nonmajor Enterprise Funds	Totals	Internal Service Funds
$ -	$ 286,812	$ 7,164,880	$ -
-	(262,358)	(5,243,332)	(8,500)
-	(113,360)	(1,073,499)	-
(218)	(2,976)	40,137	-
(218)	(91,882)	888,186	(8,500)
-	70,000	(530,000)	-
-	70,000	(530,000)	-
-	(14,294)	(290,450)	-
-	-	39,877	-
-	-	(10,160)	-
-	14,294	221,490	-
-	-	(39,243)	-
-	-	10,553	-
-	-	125,000	5,000
-	-	135,553	5,000
(218)	(21,882)	454,496	(3,500)
130,822	77,975	482,299	5,737
$ 130,604	$ 56,093	$ 936,795	$ 2,237
$ 422	$ (95,500)	$ 432,436	$ (8,500)
-	6,980	533,040	-
-	(875)	(122,711)	-
-	-	2,288	-
-	(3,953)	8,357	-
-	(1,033)	(10,288)	-
(640)	172	2,346	-
-	2,327	42,718	-
$ (218)	$ (91,882)	$ 888,186	$ (8,500)

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

CITY OF SALEM, MISSOURI
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	Deferred Compensation Trust Fund	Agency Fund
Assets:		
Cash	$ -	$ 75,666
Certificates of deposit	-	325,918
Investments	218,324	-
Other assets	-	9,566
Total assets	$ 218,324	$ 411,150
Liabilities:		
Utility deposits payable	$ -	$ 37,482
Accounts payable	-	212,703
Total liabilities	-	250,185
Net Position:		
Held in Trust	218,324	160,965
Unreserved	-	-
Total net position	218,324	160,965
Total liabilities and net position	$ 218,324	$ 411,150

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, 2014

	Deferred Compensation Trust Fund
ADDITIONS:	
Contributions	$ 12,498
Net increase in the fair value of investments	24,048
Total additions	36,546
DEDUCTIONS:	
Distributions	5,192
Total deductions	5,192
Change in net position	31,354
Net position - beginning of year	186,970
Net position - end of year	$ 218,324

The accompanying notes are an integral part of these 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, 2014. Customer accounts receivable consists of amounts owed from private individuals or organizations for goods and services. As of June 30, 2014, net utility receivables include an allowance for doubtful accounts of $401,000.

Inventories

Inventories at June 30, 2014, 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 $115,093 at June 30, 2014.

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, 2014, 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, 2014, 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	-	-	284,965	-	-	284,965
Cemetery	-	-	-	-	280,736	280,736
Assigned:						
Transportation	-	797,024	-	-	-	797,024
Leisure	-	-	-	20,400	-	20,400
Unassigned	(59,770)	-	-	(75,278)	-	(135,048)
	$ (59,770)	$ 797,024	$ 284,965	$ (54,878)	$ 572,497	$ 1,539,838

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, 2014, the City incurred a fund balance deficit in the General fund of $59,770 and in Other Governmental funds of $54,878.

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 2014, 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, 2014, 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, 2014, internal balances that resulted from various interfund transactions were as follows:

	Due From Other Funds	Due To Other Funds
General	$ -	$ 179,962
Street	171,973	-
Capital improvements	10,856	-
Non-major Gov't Funds	-	46,098
Electric	44,451	-
Water	-	188,704
Airport	3,046	-
Sewer	177,906	-
Non-major Bus-Type Funds	6,532	-
	$ 414,764	$ 414,764

Interfund transfers during the year ended June 30, 2014 were as follows:

	Transfer From Other Funds	Transfer To Other Funds
General Fund	$ 346,055	$ -
Street	25,590	-
Capital Improvement Funds	-	278,032
Non-major Gov't Funds	214,897	-
Electric	-	600,000
Water	146,055	-
Airport	8,896	-
Sewer	52,245	-
Non-major Bus-Type Funds	84,294	-
	$ 878,032	$ 878,032

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, 2014:

	Long-term Obligations at 7/1/2013	Additions	Reductions	Long-term Obligations at 6/30/2014	Due Within One Year
Governmental Activities:					
Capital lease	$ 16,739	$ 150,497	$ 55,566	$ 111,670	$ 36,607
Compensated absences	90,390	-	-	90,390	-
	$ 107,129	$ 150,497	$ 55,566	$ 202,060	$ 36,607
Business-Type Activities:					
Capital lease	$ -	$ 39,877	$ 10,160	$ 29,717	$ 9,569
Compensated absences	24,704	-	-	24,704	-
	$ 24,704	$ 39,877	$ 10,160	$ 54,421	$ 9,569

Capital Leases

The City has property and equipment carried at approximately $190,000, with approximately $19,500 in accumulated depreciation, which are currently held under capital lease arrangements.

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

Fiscal Year	Governmental Activities	Business-Type Activities
2015	38,827	10,160
2016	38,826	10,160
2017	38,479	10,597
Total minimum lease payments	116,132	30,917
Less interest	4,462	1,200
Present value of minimum payments	$ 111,670	$ 29,717

NOTE 7 – FIXED ASSETS

Capital asset activity for the year ended June 30, 2014 was as follows:

	Balance 6/30/2013	Increases	Decreases	Balance 6/30/2014
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	90,150	335,465	-	425,615
Capital assets being depreciated:				
Buildings	494,438	-	-	494,438
Improvements	2,792,111	125,294	-	2,917,405
Equipment	1,182,489	215,546	-	1,398,035
Infrastructure	13,819,062	-	-	13,819,062
Total capital assets being depreciated	18,288,100	340,840	-	18,628,940
Less accumulated depreciation:				
Buildings	(150,034)	(14,334)	-	(164,368)
Improvements	(1,121,474)	(159,064)	-	(1,280,538)
Equipment	(949,892)	(88,616)	-	(1,038,508)
Infrastructure	(11,743,197)	(352,831)	-	(12,096,028)
Total accumulated depreciation	(13,964,597)	(614,845)	-	(14,579,442)
Total capital assets being depreciated, net	4,323,503	(274,005)	-	4,049,498
Governmental Activities Capital assets, net	$ 4,413,653	$ 61,460	$ -	$ 4,475,113

	Balance 6/30/2013	Increases	Decreases	Balance 6/30/2014
Business-Type Activities:				
Capital assets not being depreciated:				
Land	$ 198,641	$ -	$ -	$ 198,641
Construction in process	-	159,958	-	159,958
Total capital assets not being depreciated	198,641	159,958	-	358,599
Capital assets being depreciated:				
Buildings	80,079	-	-	80,079
Improvements	6,260,519	52,245	-	6,312,764
Equipment	4,285,600	77,851	-	4,363,451
Infrastructure	2,009,392	-	-	2,009,392
Total capital assets being depreciated	12,635,590	130,096	-	12,765,686
Less accumulated depreciation:				
Buildings	(77,805)	(892)	-	(78,697)
Improvements	(4,168,799)	(288,907)	-	(4,457,706)
Equipment	(3,341,609)	(139,447)	-	(3,481,056)
Infrastructure	(1,663,764)	(103,794)	-	(1,767,558)
Total accumulated depreciation	(9,251,977)	(533,040)	-	(9,785,017)
Total capital assets being depreciated, net	3,383,613	(402,944)	-	2,980,669
Business-Type Activities Capital assets, net	$ 3,582,254	$ (242,986)	$ -	$ 3,339,268

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

Administrative	$ 61,756
Street	459,811
Safety	35,136
Leisure	49,666
Health & Social Services	8,476
Total governmental activities	$ 614,845

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 15.0% (general) and 13.6% (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	$ 322,419
Interest on net pension obligation	1,831
Adjustment to annual required contribution	(1,745)
Annual pension cost	322,505
Actual contributions	319,840
Increase (decrease) in NPO	2,665
NPO beginning of year	25,251
NPO end of year	$ 27,916

The annual required contribution (ARC) was determined as part of the February 29, 2012 annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014 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 29, 2012 was 20 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
6/30/2012	$ 299,804	97.5%	$ 21,445
6/30/2013	$ 307,044	98.8%	$ 25,251
6/30/2014	$ 322,505	99.2%	$ 27,916

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
2/29/2012	$ 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%
2/28/2014	4,593,445	5,921,987	1,328,542	78%	2,173,270	61%

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 $276,983 as of June 30, 2014.

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 $572,497 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 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 $288,482. 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, 2014, 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 $288,482 has also been recorded to reflect the estimated post-closure costs payable upon termination of this agreement.

NOTE 15 – MUNICIPAL COURT TRAFFIC VIOLATION FINES AND COSTS

Missouri House Bill No. 103 amending RSMo Section 302.341.2 became effective on August 28, 2013. The amendments to the statute now require municipalities to report an accounting of the percent of "annual general operating revenue" from fines and costs for traffic violations. The City was not required to and did not account for the fines and court cost for traffic violations separately from the total fines and court costs prior to August 28, 2013. Therefore, the City cannot provide the percent related specifically to traffic violations for the entire fiscal year ending June 30, 2014. Total fines and court cost revenues for the fiscal year, which include fines and court costs related to traffic violations, summed to $27,674. "Annual general operating revenue of the City" is not defined in the amended statute and may or may not include various sources of the City's revenues. The City is defining "annual general operating revenues of the City" as total General fund revenue less grant funds received for a specific purpose.

Total court fines and costs (all case types)	$	27,674
Total general operating revenue of the City	$	1,789,500
Court fines and costs as a percentage of total general operating revenues		1.55%

NOTE 16 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $11,298 was made to remove the old payroll checking account which was consolidated with pooled cash in the previous year. This adjustment increased beginning net position in the General fund by $11,298.

In addition, the City noted an error in the calculation of accumulated depreciation in the previous year. A prior period adjustment was recorded for the additional depreciation to correct this issue. The adjustment resulted in a decrease to the City's beginning net position as follows: Governmental funds $26,067, Electric $11,672, Water $12,191 and Sewer $43,794.

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Resources (Inflows):				
Taxes:				
City taxes collected by county	$ 292,000	$ 292,000	$ 292,537	$ 537
Sales tax	1,072,216	1,072,216	1,127,995	55,779
Financial institution tax	8,500	8,500	6,791	(1,709)
Railroad & utility tax	1,700	1,700	1,612	(88)
Franchise tax	80,000	80,000	79,605	(395)
Telecommunications license tax	150,000	150,000	122,570	(27,430)
Sur tax	50,000	50,000	50,755	755
Penalties on delinquent taxes	7,200	7,200	7,760	560
Total taxes	1,661,616	1,661,616	1,689,625	28,009
Fines, licenses, permits				
Filing fees	175	175	150	(25)
Pit bull fee	500	500	600	100
Fines - municipal court	25,000	25,000	23,727	(1,273)
Liquor licenses	4,875	4,875	3,825	(1,050)
Merchants licenses	9,400	9,400	10,072	672
Total permits, fees and licenses	39,950	39,950	38,374	(1,576)
Miscellaneous:				
Rent - water tower	1,200	1,200	1,550	350
Sale of fixed assets	5,000	5,000	600	(4,400)
Special police services	1,500	1,500	2,707	1,207
Super NOW interest	753	753	1,170	417
Library service fee	1,000	1,000	1,000	-
Rents/royalties - City Hall	3,500	3,500	2,845	(655)
Rents/royalties - Freedom Activity Center	1,000	1,000	-	(1,000)
Miscellaneous income	5,500	5,500	7,891	2,391
Police copy money	800	800	853	53
Total miscellaneous	20,253	20,253	18,616	(1,637)
Operating transfers in	1,093,498	1,093,498	600,000	(493,498)
Amounts available	2,815,317	2,815,317	2,346,615	(468,702)
Charges (Outflows):				
Animal Control:				
Personnel	46,915	46,915	48,509	(1,594)
Maintenance	3,800	1,925	824	1,101
Supplies	3,450	3,450	1,298	2,152
Utilities	10,315	10,315	11,635	(1,320)
Miscellaneous	6,800	6,800	4,314	2,486
Total animal control	71,280	69,405	66,580	2,825
Attorney:				
Personnel	32,581	32,581	27,113	5,468
Office supplies	200	200	95	105
Miscellaneous	250	250	-	250
Total attorney	33,031	33,031	27,208	5,823

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
City Collector:				
Office supplies	250	250	-	250
Special services - Dent County	15,759	15,759	15,000	759
Total city collector	16,009	16,009	15,000	1,009
City Treasurer:				
Personnel	2,153	2,153	2,442	(289)
Miscellaneous	100	100	100	-
Total city treasurer	2,253	2,253	2,542	(289)
Civil Defense:				
Supplies	-	-	94	(94)
Maintenance - equipment	2,500	2,500	824	1,676
Miscellaneous	-	-	448	(448)
Total civil defense	2,500	2,500	1,366	1,134
Municipal Court:				
Personnel	8,218	8,218	4,116	4,102
Miscellaneous	182	182	4,284	(4,102)
Total municipal court	8,400	8,400	8,400	-
City Administrator:				
Personnel	118,511	118,511	136,433	(17,922)
Supplies	700	700	677	23
Maintenance	600	600	232	368
Miscellaneous	5,635	5,635	3,345	2,290
Utilities	1,400	1,400	1,682	(282)
Total city administrator	126,846	126,846	142,369	(15,523)
City Clerk:				
Personnel	64,872	64,872	74,155	(9,283)
Maintenance	1,000	1,000	426	574
Supplies	1,050	1,050	593	457
Utilities	900	900	921	(21)
Miscellaneous	3,765	3,765	3,590	175
Total city clerk	71,587	71,587	79,685	(8,098)
Sidewalk Construction Department:				
Personnel	32,503	32,503	24,877	7,626
Maintenance	11,500	11,500	5,639	5,861
Supplies	2,350	2,350	1,211	1,139
Utilities	2,016	2,016	429	1,587
Miscellaneous	10,100	10,100	6,014	4,086
Total sidewalk construction dept	58,469	58,469	38,170	20,299

Exhibit 1

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Maintenance Department:				
Personnel	59,275	59,275	60,659	(1,384)
Maintenance	1,900	1,900	513	1,387
Supplies	3,400	3,400	3,070	330
Utilities	760	760	852	(92)
Miscellaneous	2,150	2,150	2,016	134
Total maintenance dept	67,485	67,485	67,110	375
Mayor and Board:				
Personnel	32,042	32,042	38,583	(6,541)
Maintenance	200	200	-	200
Supplies	200	200	68	132
Utilities	500	500	560	(60)
Miscellaneous	2,200	2,200	740	1,460
Total mayor and board	35,142	35,142	39,951	(4,809)
Non-departmental:				
Personnel	92,492	92,492	85,011	7,481
Maintenance	4,200	4,200	5,581	(1,381)
Supplies	6,650	6,650	6,016	634
Utilities	34,375	34,375	31,569	2,806
Miscellaneous	125,450	125,450	87,497	37,953
Total non-departmental	263,167	263,167	215,674	47,493
Police				
Personnel	921,035	921,035	994,894	(73,859)
Maintenance	22,000	23,875	23,683	192
Supplies	8,732	8,732	7,676	1,056
Utilities	14,675	14,675	14,910	(235)
Miscellaneous	83,400	83,400	64,027	19,373
Capital improvements	30,000	30,000	29,894	106
Total Police	1,079,842	1,081,717	1,135,084	(53,367)
Street				
Personnel	438,219	438,219	445,292	(7,073)
Maintenance	71,700	71,215	90,094	(18,879)
Supplies	5,700	5,700	12,767	(7,067)
Utilities	5,750	5,750	5,778	(28)
Miscellaneous	63,000	63,000	49,084	13,916
Total Street	584,369	583,884	603,015	(19,131)

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2014

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Freedom Center				
Supplies	1,500	1,500	2,030	(530)
Maintenance	3,000	3,000	6,937	(3,937)
Utilities	17,625	17,625	19,018	(1,393)
Miscellaneous	1,050	1,050	3,122	(2,072)
Total Freedom Center	23,175	23,175	31,107	(7,932)
Operating transfers out	371,609	381,916	311,342	70,574
Total charges	2,815,164	2,824,986	2,784,603	40,383
Excess Receipts Over/(Under) Expenses	$ 153	$ (9,669)	$ (437,988)	$ (428,319)

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

Revenue:	
Actual total revenue budgetary basis	$ 2,346,615
Differences - Budget to GAAP	
Change in accounts receivable and other adjustments	42,885
Proceeds from debt issuance	124,033
Transfer in	60,952
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 2,574,485
Expenditures:	
Actual total expenditures budgetary basis	$ 2,784,603
Differences - Budget to GAAP	
Change in accrued liabilities and other adjustments	224,348
Transfer out	3,555
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 3,012,506

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Street Fund				
Resources (Inflows):				
Super NOW interest	$ 1,600	$ 1,600	$ -	$ (1,600)
Fee increase	21,100	21,100	20,217	(883)
Gas Tax	130,000	130,000	125,986	(4,014)
Sales Tax	30,000	30,000	35,677	5,677
Total Resources	182,700	182,700	181,880	(820)
Charges (Outflows):				
Streets	128,000	128,000	129,191	(1,191)
Total Charges	128,000	128,000	129,191	(1,191)
Increase (Decrease) in Fund	$ 54,700	$ 54,700	$ 52,689	$ (2,011)
Park Fund				
Resources (Inflows):				
Charges for services:				
Al Brown concession	$ 750	$ 750	$ 1,049	$ 299
Ball sign-up fees	9,000	9,000	11,310	2,310
Little league concession	5,500	5,500	3,782	(1,718)
Pool concession	5,800	5,800	3,470	(2,330)
Super NOW interest	100	100	2	(98)
Al Brown field user fees	2,500	2,500	1,570	(930)
Basketball user fees	1,800	1,800	1,840	40
Ball team sponsor	2,000	2,000	2,180	180
Basketball sponsor fees	2,000	2,000	-	(2,000)
Pavillion rentals	1,100	1,100	915	(185)
Pool receipts	19,000	19,000	9,537	(9,463)
Soccer user fees	4,400	4,400	4,640	240
Soccer sponsor fees	2,000	2,000	-	(2,000)
Flag football user fees	1,700	1,700	1,980	280
Flag football sponsor fee	2,000	2,000	2,000	-
Insufficent check charge	60	60	-	(60)
Total charges for services	59,710	59,710	44,275	(15,435)
Transfers in	194,459	203,486	200,000	(3,486)
Amounts available	254,169	263,196	244,275	(18,921)
Charges (Outflows):				
Personnel	189,969	189,969	181,696	8,273
Maintenance	16,100	16,100	20,828	(4,728)
Supplies	12,700	12,700	14,500	(1,800)
Utilities	14,500	14,500	15,462	(962)
Miscellaneous	35,900	35,900	30,273	5,627
Total Outflows	269,169	269,169	262,759	6,410
Increase (Decrease) in Fund	$ (15,000)	$ (5,973)	$ (18,484)	$ (12,511)

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Police Dept Law Enforcement Fund				
Resources (Inflows):				
Breathalizer reimbursement cost	$ 4,000	$ 4,000	$ 4,054	$ 54
Super NOW interest	5	5	-	(5)
Total Resources	4,005	4,005	4,054	49
Charges (Outflows):				
Travel & training	1,000	1,000	1,021	(21)
Miscellaneous	-	-	450	(450)
Total Outflows	1,000	1,000	1,471	(471)
Increase (Decrease) in Fund	$ 3,005	$ 3,005	$ 2,583	$ (422)
Officers Training Fund				
Resources (Inflows):				
Special police services	$ 700	$ 700	$ 692	$ (8)
Speical NOW interest	5	5	-	(5)
Total Resources	705	705	692	(13)
Charges (Outflows):				
Memberships	300	300	-	300
Travel	1,200	1,200	547	653
Total Outflows	1,500	1,500	547	953
Increase (Decrease) in Fund	$ (795)	$ (795)	$ 145	$ 940
Salem Fireworks Fund				
Resources (Inflows):				
Donations	$ 1,000	$ 1,000	$ -	$ (1,000)
Super NOW interest	3	3	-	(3)
Total Resources	1,003	1,003	-	(1,003)
Transfers In:	14,897	16,177	14,897	(1,280)
Amount Available	15,900	17,180	14,897	(2,283)
Charges (Outflows):				
Fireworks	15,800	15,800	15,500	300
Miscellaneous	-	-	677	(677)
Advertising	100	100	-	100
Total Outflows	15,900	15,900	16,177	(277)
Increase (Decrease) in Funds	$ -	$ 1,280	$ (1,280)	$ (2,560)

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Emergency Fund				
Resources (Inflows):				
Miscellaneous	$ 7,000	$ 20,584	$ 20,672	$ 88
Total Resources	7,000	20,584	20,672	88
Increase (Decrease) in Funds	$ 7,000	$ 20,584	$ 20,672	$ 88
CHDC Grant				
Resources (Inflows):				
Grant receipts	$ -	$ -	$ 39,500	$ 39,500
Total Resources	-	-	39,500	39,500
Charges (Outflows):				
Renovations	-	-	39,500	(39,500)
Total Outflows	-	-	39,500	(39,500)
Increase (Decrease) in Funds	$ -	$ -	$ -	$ -
Building Permit				
Resources (Inflows):				
Building permits	$ 5,500	$ 5,500	$ 7,126	$ 1,626
Inspection fees	900	900	866	(34)
Miscellaneous	-	21,750	21,950	200
Super NOW interest	240	240	-	(240)
Special assessments	-	-	250	250
Total Resources	6,640	28,390	30,192	1,802
Charges (Outflows):				
Supplies	200	200	1,475	(1,275)
Maintenance	-	-	407	(407)
Miscellaneous	12,660	34,410	25,729	8,681
Utilities	2	2	-	2
Total Outflows	12,862	34,612	27,611	7,001
Increase (Decrease) in Funds	$ (6,222)	$ (6,222)	$ 2,581	$ 8,803
Inmate Security Fund				
Resources (Inflows):				
Inmate security fees	$ 650	$ 650	$ 695	$ 45
Super NOW interest	10	10	-	(10)
Total Resources	660	660	695	35
Charges (Outflows):				
Prisoner Sub.	-	2,880	2,880	-
Total Outflows	-	2,880	2,880	-
Increase (Decrease) in Funds	$ 660	$ (2,220)	$ (2,185)	$ 35

Exhibit 2

CITY OF SALEM, MISSOURI
BUDGETARY COMPARISON SCHEDULE
SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2014

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Local Law Enforcement Grant				
Resources (Inflows):				
Local law enforcement grant funds	$ -	$ -	$ 293	$ 293
Super NOW interest	-	-	3	3
Transfers	-	-	400	400
Total Resources	-	-	696	696
Charges (Outflows):				
Equipment maintenance	-	-	8,984	(8,984)
Total Outflows	-	-	8,984	(8,984)
Increase (Decrease) in Funds	$ -	$ -	$ (8,288)	$ (8,288)
Police Contribution Fund				
Resources (Inflows):				
Contributions	$ 1,000	$ 1,000	$ 1,000	$ -
Interest	15	15	-	(15)
Total Resources	1,015	1,015	1,000	(15)
Charges (Outflows):				
Miscellaneous	-	-	806	(806)
Total Outflows	-	-	806	(806)
Increase (Decrease) in Funds	$ 1,015	$ 1,015	$ 194	$ (821)

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

Revenue:	
Actual total revenue budgetary basis	$ 538,553
Differences - Budget to GAAP	
Change in accounts receivable and other adjustments	73,743
Proceeds from debt issuance	26,464
Transfer in	25,590
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds	$ 664,350
Expenditures:	
Actual total expenditures budgetary basis	$ 489,926
Differences - Budget to GAAP	
Change in accrued liabilities and other adjustments	142,036
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - Special Revenue Funds	$ 631,962

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated April 30, 2015.

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, 2014, 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, accounts receivable and the related revenue/expense accounts, 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 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
April 30, 2015