



Office of Missouri State Auditor
Nicole Galloway, CPA

City of Rich Hill



Nicole Galloway, CPA
Missouri State Auditor

CITIZENS SUMMARY

Findings in the audit of the City of Rich Hill

Monitoring Financial Condition	<p>The Board of Aldermen (Board) has not been monitoring the financial condition of the city closely. Transfers from some utility funds are being made to subsidize the Police and Street Funds, which had negative balances, and restricted street revenues are being placed in the General Fund rather than the Street Fund. The Board is not receiving detailed information about cash balances for each fund throughout the year and there is no documentation to support discussion of cash flow problems or the reasons for transferring monies from the utility funds.</p>
Utilities	<p>Periodic formal cost studies of utility rates have not been performed and rates have not been increased or decreased for any utility services for the past several years. Controls over non-monetary adjustments posted to customers utility accounts need improvement. During 2015, the city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for any of the utility services. City personnel are not always following the city's ordinances regarding late utility payments and utility shut off. Exceptions occurred for an employee in 2015 and relatives of some elected officials. City personnel are not sending applicable accounts to a collection agency or making other efforts to collect old accounts receivables before reclassifying the accounts as inactive and writing off the balance due. The city does not reconcile the list of customer utility deposits to city accounting records.</p>
Accounting Controls	<p>Several city funds had negative cash balances at December 31, 2015. The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city office personnel are performed. Bank reconciliations were either not performed or were not retained for the city's 2 checking accounts (operating and perpetual care) during 2015. The city does not properly account for all manual receipt slips issued. Receipt slips are not issued for some monies received and the change fund is not kept at \$100 as set by city policy.</p>
Disbursements	<p>The Board's approval process for disbursements is not adequate and the Board is not presented adequate financial reports by city personnel when making spending decisions. The city does not always receive or retain supporting documentation for disbursements. The city does not always solicit competitive bids or proposals for goods and services and the city ordinance for procurement needs to be clarified to indicate when bidding is required. The city uses unsupported estimates to allocate payroll costs among various funds and there is no documentation to explain the allocation of some disbursements among restricted city funds. The city does not have written contracts with some service providers and certain outside parties, or could not locate the contracts. In January 2015, the city purchased approximately 8 acres, along with various buildings and garages from the Missouri Department of Transportation for \$15,000, plus some utility costs, without obtaining an appraisal. The Board has not adequately documented its plans for utilizing the buildings and land.</p>
Restricted Monies	<p>The city receipts some restricted street monies in the General Fund, rather than the Street Fund, does not track these restricted monies within the General Fund, and did not spend any money during 2015 from the General</p>

Fund for street purposes. The city did not accurately allocate property taxes among various city funds.

Financial Reporting	City personnel have not filed annual financial reports with the State Auditor's Office as required by state law. The city did not comply with state law regarding publishing financial statements.
Sunshine Law	On multiple occasions open meeting minutes documented a topic to be discussed in a closed meeting that was not addressed in the meeting. Board meeting minutes are not signed. In addition, the President of the Board was selected by the Mayor at the September 22, 2015, meeting, rather than by the Board, and the minutes do not indicate approval of this action.
Mayoral Powers	The Mayor improperly removed the former Fire Chief from office and appointed another individual to that position without approval from the Board, in violation of city ordinance and state law.
City Library	City library monies are held in the custody of both the city and the Library Board. Library property taxes received by the city are not always remitted timely to the Library Board. The Mayor has not been appointing new members to the Library Board annually but rather the Library Board has been making the appointments. The annual report filed with the Library Board and Board of Alderman does not contain all elements required by state law and has not been filed with the State Library as required.
Ordinances and Budgets	Some current city practices conflict with city ordinance and ordinances could not be located to support restrictions placed on some city funds through the passage of property and sales taxes. City budgets do not include all statutorily required elements and are not always approved timely.
City Vehicle and Fuel Usage	The city has not established effective monitoring procedures over fuel and vehicle and equipment use, and an accurate listing of all vehicles and equipment was not maintained.
Electronic Data Security	The city has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data. Employees are not required to change passwords on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password. In addition, backup of financial data is performed, but is stored on site in a fireproof safe.

In the areas audited, the overall performance of this entity was **Poor**.*

*The rating(s) cover only audited areas and do not reflect an opinion on the overall operation of the entity. Within that context, the rating scale indicates the following:

- Excellent:** The audit results indicate this entity is very well managed. The report contains no findings. In addition, if applicable, prior recommendations have been implemented.
- Good:** The audit results indicate this entity is well managed. The report contains few findings, and the entity has indicated most or all recommendations have already been, or will be, implemented. In addition, if applicable, many of the prior recommendations have been implemented.
- Fair:** The audit results indicate this entity needs to improve operations in several areas. The report contains several findings, or one or more findings that require management's immediate attention, and/or the entity has indicated several recommendations will not be implemented. In addition, if applicable, several prior recommendations have not been implemented.
- Poor:** The audit results indicate this entity needs to significantly improve operations. The report contains numerous findings that require management's immediate attention, and/or the entity has indicated most recommendations will not be implemented. In addition, if applicable, most prior recommendations have not been implemented.

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City of Rich Hill

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NICOLE GALLOWAY, CPA

Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Rich Hill, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Rich Hill. We have audited certain operations of the city in fulfillment of our duties. The city engaged DSWA, Certified Public Accountants, P.C., (CPAs), to audit the city's financial statements for the year ended December 31, 2014. To minimize duplication of effort, we reviewed the report of the CPA firm for the year ending December 31, 2014, since the audit for the year ending December 31, 2015, had not been completed. The scope of our audit included, but was not necessarily limited to, the year ended December 31, 2015. The objectives of our audit were to:

1. Evaluate the city's internal controls over significant management and financial functions.
2. Evaluate the city's compliance with certain legal provisions.
3. Evaluate the economy and efficiency of certain management practices and procedures, including certain financial transactions.

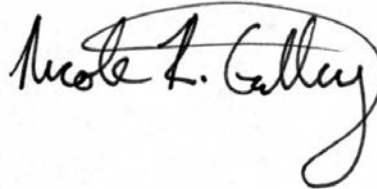
Our methodology included reviewing minutes of meetings, written policies and procedures, financial records, and other pertinent documents; interviewing various personnel of the city, as well as certain external parties; and testing selected transactions. We obtained an understanding of internal controls that are significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of applicable contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Organization and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in our audit of the city.

For the areas audited, we identified (1) deficiencies in internal controls, (2) noncompliance with legal provisions, and (3) the need for improvement in management practices and procedures. The accompanying Management Advisory Report presents our findings arising from our audit of the City of Rich Hill.

An additional report, No. 2016-062, *Twenty-Seventh Judicial Circuit, City of Rich Hill Municipal Division*, was issued in August 2016.

A handwritten signature in black ink, reading "Nicole R. Galloway". The signature is fluid and cursive, with the first name "Nicole" and last name "Galloway" clearly legible.

Nicole R. Galloway, CPA
State Auditor

The following auditors participated in the preparation of this report:

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City of Rich Hill

Management Advisory Report

State Auditor's Findings

1. Monitoring Financial Condition

The Board of Aldermen (Board) has not been monitoring the financial condition of the city closely, is not receiving detailed information showing cash balances for each fund, and has relied on transfers from some utility funds to balance the city's budget in recent years.

The Electric and Refuse Funds have been used to subsidize the Police and Street Funds in recent years. During 2014, the city transferred \$83,000 to the Police Fund and \$40,000 to the Street Fund from the Electric Fund, while \$27,940 was transferred from the Refuse Fund to the Street Fund. City personnel provided no justification for these transfers of restricted utility monies. The General Fund should be used to cover shortfalls in other funds because those monies are unrestricted, but the city did not have a sufficient fund balance in the General Fund during 2014 to make these transfers. The 2015 budget shows similar transfers were again planned to the Police and Street Funds from the Electric and Refuse Funds, along with smaller planned transfers from the Electric Fund to the Fire and Cemetery Funds. There were also planned transfers from the General Fund totaling \$43,960 to a variety of funds, including the Police and Street Funds. However, these transfers were not made by fiscal year end because city personnel were unable to post the transfers to the accounting system.

In addition, city officials placed \$51,000 of restricted street monies in the General Fund during 2015, rather than the Street Fund. Had the planned transfers been made and this restricted street money placed in the correct fund, the General Fund would not have had a sufficient balance to cover the Police Fund deficit. Both the Police and Street Funds were operating at a deficit at the end of 2015 and those deficits increased during the first half of 2016 as shown in the following table:

Fund	Cash Balance	
	December 31, 2015	June 30, 2016
General Fund	\$ 122,291	168,961
Police Fund	(74,135)	(117,002)
Street Fund	(3,676)	(23,190)

While the 2015 transfers were budgeted and approved by the Board, the budgets do not contain cash balances and financial reports showing fund balances are not prepared and provided to Board members at their meetings. Without having adequate financial data, it is apparent the Board is not monitoring the financial condition of the various city funds throughout the year. There is no documentation to support discussion of these cash flow problems or the reasons for transferring the monies from the utility funds.

In August 2016, subsequent to the end of our audit fieldwork, the city transferred another \$160,000 and \$130,000 from the Electric Fund to the Police and Street Funds, respectively, to cover deficits in those funds. No



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documentation or justification for these transfers was provided, other than city personnel indicating the money was necessary to cover the deficits in those funds.

Numerous internal control weaknesses, lax controls over expenditures, poor budgeting practices, and lack of financial reporting to the Board have been identified and discussed in more detail throughout our Management Advisory Report (MAR). These weaknesses and lack of monitoring by the Board have put the city in financial difficulty.

It is essential the Board address the financial condition of the various city funds in both the immediate and long-term future. Restricted utility funds should not be used to subsidize other funds. The Board should reduce spending where possible, evaluate controls and management practices to ensure efficient use of resources, monitor detailed financial data that includes cash balances for each fund, and closely monitor budgets.

Recommendation

The Board of Aldermen ensure monthly detailed financial data is provided to them, perform long-term planning and closely monitor and take necessary steps to improve the financial condition of the various city funds. In addition, the Board of Aldermen should discontinue subsidizing city funds with utility monies.

Auditee's Response

The Board is now provided additional financial data monthly and we are working with the City Clerk to closely monitor the financial condition of all city funds. We will discontinue subsidizing operations with utility monies and plan to develop a more effective method of allocating costs among the various city funds.

2. Utilities

There are significant weaknesses in the city's utility operations. The city provides water, wastewater, electric, and refuse services, and accounts for the financial activity of each in a separate fund. The city collected approximately \$1.8 million in utilities revenues during the year ended December 31, 2015.

2.1 Rates

Periodic formal cost studies of utility rates have not been performed and rates have not been increased or decreased for any utility services for the past several years. Although utility rates have not been changed, the Electric and Refuse Funds continue to subsidize other city funds while still having large accumulated cash balances. The Electric Fund and Refuse Fund had accumulated balances of approximately \$600,000 and \$157,000, respectively, as of June 30, 2016. Electric, water and wastewater, and refuse rates have not been adjusted since 2007, 2008, and 2012, respectively. The city should perform and document a detailed cost study of its various utility costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits.



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Section 67.042, RSMo, provides that fees may be increased if supported by a statement of costs that shows the increase is necessary to cover costs of providing the service. To ensure utility rates are set to cover the cost of providing the related services, the city should perform and document a periodic detailed cost study of each of its utility costs, including depreciation, and establish rates to cover the total cost of operations without generating excessive profits.

2.2 Non-monetary adjustments

Controls over non-monetary adjustments posted to customer utility accounts need improvement. Non-monetary adjustments are any transactions where monies are not received; however, the account balance has been changed in the accounting records, such as waiving customer late charges, adjusting usage for inaccurate meter readings, or reducing a balance due to water leaks. Non-monetary adjustments posted to the system are not always reviewed and approved by an independent person and documentation of reasons these adjustments are necessary is not always retained. In addition, a comparison of approved adjustments to adjustments actually made to the system is not performed by an independent person.

Non-monetary adjustments should be verified and approved by a person independent of the person posting these transactions to ensure they are legitimate. Considering the risks associated with non-monetary adjustments, the Board should consider monitoring all such transactions.

2.3 Accounts receivable reconciliations

During 2015, the city did not perform monthly reconciliations of total amounts billed, payments received, and amounts unpaid for any of the utility services.

Monthly reconciliations are necessary to ensure accounting records balance, transactions are properly recorded, and errors or discrepancies are detected and corrected timely.

2.4 Shut off procedures and late charges

City personnel are not following the city's ordinances regarding late utility payments and utility shut off. Electric, water, and wastewater services are combined for billing purposes. City ordinances require a late payment fee of 10 percent if all charges have not been paid by the 16th of the month following the billing, and for utilities to be disconnected if all charges are not paid by the 20th of the month following the billing.

We tested accounts of residents, office personnel, elected city officials, and some relatives of elected officials. Our test identified noncompliance with city ordinances for a former employee and some relatives of elected officials as follows.

- Utility services of a city employee (now former city employee) were not shut off in 7 instances during 2015 when payment was not received until after the 20th of the month following the billing.



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- The spouse of current Board member Pilcher had an electric account established for a property and this service was only in the spouse's name. We identified 3 instances during 2015 where payment was not received until after the 20th of the month following the billing but the electric service for this property was not shut off in any of these instances.
- Late charges were not assessed to the Mayor's father when payment for October 2014 utility services did not occur until January 2015. Services had already been disconnected by the city because the Mayor's father had requested services be shut off in October 2014, but late charges should have been assessed.

It is not good public policy to make exceptions to city ordinances for city officials or family members and failing to enforce city ordinances reduces the incentive for customers to make timely payments.

2.5 Inactive accounts

City personnel are not sending applicable accounts to a collection agency or making other efforts to collect old accounts receivable before reclassifying the accounts as inactive and writing off the balance due. As of February 23, 2016, the city had 488 inactive utility accounts with amounts due totaling approximately \$135,000. The current City Clerk stated city records indicate delinquent accounts had been sent to a collection agency in prior years but that had not occurred since approximately 2012. We identified no other efforts to collect on these inactive accounts.

Good business practices require adequate collection procedures be established to ensure accounts are collected timely and bad debts are kept to a minimum.

2.6 Utility deposits

The city does not reconcile the list of customer utility deposits to city accounting records. The city maintains a list of utility deposits and accounts for the utility deposits in multiple restricted cash accounts. As of December 31, 2015, the restricted cash accounts totaled \$55,286, but the list of utility deposits totaled \$50,767, a difference of \$4,519.

Periodic reconciliation of the customer utility deposit accounting records to the available cash balance is necessary to ensure sufficient funds are available for potential utility deposit liabilities. Such reconciliations would allow for prompt detection of discrepancies.

Recommendations

The Board of Aldermen:

- 2.1 Ensure formal reviews of utility rates are performed periodically to ensure revenues are sufficient to cover all costs of providing the service without generating excessive profits.



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- 2.2 Ensure all non-monetary adjustments are properly approved and compared to actual changes posted to the computer system, and documentation of all non-monetary adjustments are retained.
- 2.3 Ensure monthly reconciliations of amounts billed to amounts collected and delinquent accounts are performed.
- 2.4 Ensure utility shutoff procedures are followed and late charges are assessed in compliance with city ordinances for all utility customers, including elected officials and city personnel.
- 2.5 Ensure sufficient procedures are developed to collect accounts receivable.
- 2.6 Periodically reconcile customer deposits per accounting records to the available cash balance for customer deposits and promptly investigate any differences.

Auditee's Response

- 2.1 *A formal review of electric rates is currently being performed and we will prepare cost studies for the other utility funds during the budget process and set rates accordingly.*
- 2.2 *We agree and will implement this recommendation.*
- 2.3 *We agree and plan to do this in the future.*
- 2.4 *We agree and will follow the ordinance in the future.*
- 2.5 *We have already reviewed this listing and are in the process of taking action to collect amounts due.*
- 2.6 *The City Clerk identified the cause of this difference while updating financial records and reconciling accounts, and these records now reconciled as of the end of December 2015. A reconciliation of customer deposits on hand to amounts held in the bank is now performed monthly.*

3. Accounting Controls

Accounting controls need improvement. The city received monies for utility payments, taxes, merchant licenses, and other miscellaneous items.

3.1 Negative balances

In addition to the funds previously identified in MAR finding number 1, the following funds had negative cash balances at December 31, 2015.



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Fund	Cash Balance at December 31, 2015
Fire	\$ (5,180)
Animal Control	(4,028)
Public Health	(3,051)
Cemetery	(9,765)

The city had budgeted transfers from other city funds to cover these deficiencies, but these transfers did not occur. The former City Clerk indicated this happened because she did not know how to input the transfers in the city's financial system.

The city needs to take steps to ensure all funds have positive cash balances throughout the year.

3.2 Segregation of duties

The Board has not adequately segregated accounting duties or ensured documented supervisory or independent reviews of work performed by city office personnel are performed. The City Clerk and 2 Deputy City Clerks, one of which also serves as the Court Clerk, can all receipt and deposit monies and post transactions to the accounting system, including adjustments to customer account balances. The City Clerk is primarily responsible for making purchases, preparing checks, and reconciling the bank accounts. No reviews of the detailed accounting and bank records are performed by other city personnel or Board members.

Proper segregation of duties helps ensure all transactions are accounted for properly and assets are adequately safeguarded. If proper segregation of duties cannot be achieved, documented independent or supervisory reviews of accounting and bank records should be performed.

3.3 Bank reconciliations

Bank reconciliations were either not performed or were not retained for the city's 2 checking accounts (operating and perpetual care) during 2015. The computer system used does not save prior bank reconciliations, therefore the city must print the bank reconciliations to document their completion. A former City Clerk indicated bank reconciliations were performed; however, none were provided to us.

The preparation and retention of formal monthly bank reconciliations is necessary to ensure accounting records are accurate and in balance and to identify errors timely.

3.4 Manual receipt slips

The city does not properly account for all manual receipt slips issued. The city uses two manual receipt slip books concurrently and several receipt slips issued were missing from each book. In addition, the city does not have a procedure to determine if all manual receipts slips issued have been posted to the accounting system and the method of payment (cash, check, or money order) is not always marked on the manual receipt slip. We identified



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one manual receipt slip issued for \$21 in April 2015 that was not posted to the accounting system or deposited. City personnel indicated the city sponsored an animal clinic to provide rabies shots, and they believe this receipt was given directly to the animal clinic providing the shots. Nothing was written on the receipt slip to explain the handling of these monies.

To reduce the risk that loss, theft, or misuse of monies could occur and go undetected, the numerical sequence of all manual receipt slips issued should be accounted for and the method of payment should be noted on the receipt slip. In addition, the composition of receipts should be reconciled to the composition of deposits and a method should be developed to ensure all manual receipt slips are posted to the accounting system.

3.5 Receipts slips and change fund

Receipt slips are not issued for some monies received and the change fund is not kept at \$100 as set by city policy. We performed two cash counts, the first on January 21, 2016, and another on February 23, 2016. During the first cash count the change fund was short \$50, and during the second cash count the change fund was short \$35. In an attempt to make up the shortage, a Deputy City Clerk stated he received money for copies and placed it in the change fund and did not issue receipt slips or post the transactions to the accounting system.

Failure to implement adequate receipting, recording and depositing procedures increase the risk of loss, theft, or misuse of monies received will go undetected and accounting records will contain errors. To safeguard against possible loss, theft, or misuse of funds, change funds should be maintained at the established amount, and a procedure established to reconcile to this amount every time a deposit is made.

Recommendations

The Board of Aldermen:

- 3.1 Monitor fund balances throughout the year and take steps to ensure negative cash balances do not occur.
- 3.2 Segregate the accounting duties of the city office personnel. If proper segregation cannot be achieved, ensure a documented independent or supervisory review of detailed accounting and bank records is performed.
- 3.3 Prepare and retain formal bank reconciliations monthly.
- 3.4 Ensure the numerical sequence of all manual receipts slips is accounted for, note the method of payment on receipt slips, and retain copies of all manual receipt slips issued. In addition, develop a method to ensure all manual receipts slips are posted to the accounting system.



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Auditee's Response

- 3.5 Require issuance of prenumbered receipt slips for all monies received, record receipts in the computerized accounting system, and ensure the change fund is maintained at the established amount.
- 3.1 *We have adopted procedures to monitor fund cash balances and will ensure negative cash balances do not occur in the future.*
- 3.2 *We will find an independent person to review accounting and bank records monthly and will ensure this review is documented.*
- 3.3 *This recommendation has been implemented.*
- 3.4 *The city is now using only one manual receipt slip book and the City Clerk is taking steps to ensure the remainder of this recommendation is implemented.*
- 3.5 *This recommendation has been implemented and the change fund is now maintained at the established amount.*

4. Disbursements

Controls and procedures over city disbursements need improvement.

4.1 Approval process

The Board's approval process for disbursements is not adequate and the Board is not presented adequate financial reports by city personnel when making spending decisions. The list of bills approved by the Board each month does not include payroll disbursements, which are approximately \$50,000 per month, or payments made through the city's electronic bill payment system. While the Mayor indicated she reviews payroll records each month, this review is not documented. We also identified 4 check payments, 2 of which occurred in January 2015 and the others in May and June 2015, that were not included on a listing of bills approved by the Board.

In addition, our review of electronic disbursements determined they are not recorded in the accounting system. As a result, financial reports generated from the accounting system are not complete and accurate and cannot be relied upon by city officials when making decisions.

City personnel do not present the Board with financial reports showing the available cash balance of each fund when approving monthly disbursements. A budget to actual schedule is presented, but as mentioned above, these are not accurate because electronic payments are not entered into the financial system.

To ensure disbursements are appropriate, including electronic payments, the Board should require a complete and accurate listing of all disbursements be provided for its review and approval. In addition, additional financial



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information, including cash balances of each fund, should be presented to the Board to allow them to make informed spending decisions.

4.2 Supporting documentation

The city does not always receive or retain supporting documentation for disbursements. For 8 of the 20 items tested city personnel could not provide supporting documentation. For example, the city had no support for a payment of \$8,412 for fireworks or a payment of \$358 to the local supermarket in June 2015.

All disbursements should include proper supporting documentation to ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds.

4.3 Bidding and documentation

The city does not always solicit competitive bids or proposals for goods and services and the city ordinance for procurement needs to be clarified to indicate when bidding is required. Ordinance 1502.1 states the city will negotiate any purchase exceeding \$4,500 and shall provide ample opportunity for competitive bidding, but does not clearly state when bidding or solicitation of proposals is required. Examples of significant purchases of goods or services for which bids or proposals were not solicited include insurance (\$47,106), a fire department command vehicle (\$5,000), and city attorney services (\$10,275). The city should consider revising its ordinance to indicate the threshold where purchases of goods or services must be bid or proposals solicited.

Formal bidding procedures for major purchases or services provide a framework for economic management of city resources and help ensure the city receives fair value by contracting with the lowest or best bidders. Competitive bidding also helps ensure all parties are given an equal opportunity to participate in city business. Soliciting proposals for professional services is a good business practice, helps provide a range of possible choices, and allows the city to make better-informed decisions to ensure necessary services are obtained from the best qualified provider after taking expertise, experience, and cost into consideration.

4.4 Allocation of salaries and disbursements

The city uses unsupported estimates to allocate payroll costs among various funds and there is no documentation to explain the allocation of some disbursements among restricted city funds. During the year ended December 31, 2015, city personnel allocated \$621,856 in salaries.

The city splits payroll costs between funds based upon an annual estimation of percentages that staff perform work related to each fund. These estimations are not based upon a study of personnel time or actual time spent on specific tasks. Additionally, certain other disbursements are allocated amongst city funds without documentation to explain the allocations. For example, we reviewed a disbursements for attorney services totaling \$750, and the city allocated \$150 to the Police, Water, Wastewater,



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Refuse, and Electric Funds, although the invoice indicated no utility work was performed.

It is essential the city properly allocate disbursements among funds to accurately determine the results of operations of specific activities, thus enabling the city to establish the level of taxation and/or user fees necessary to meet operational costs.

4.5 Written contracts

The city does not have written contracts with some service providers and certain outside parties, or could not locate the contracts.

- City personnel stated there was a written contract with the city attorney for legal services; however, neither city personnel nor the attorney could locate the 2015 contract. During 2015 the city paid \$10,275 for legal services.
- The city has a written contract with the Bates County Sheriff for dispatch services; however, city personnel could not locate the contract. During 2015 the city paid \$14,605 to the Bates County Sheriff for dispatch services.
- The city does not have a written contract for agreements made with the 4th of July Committee for its use of city parks/streets for its annual fundraiser or its agreement to donate a partial reimbursement to the city for the purchase of fireworks.

Clear and detailed written contracts, including reporting requirements and provisions to allow for proper monitoring, are necessary to ensure all parties are aware of their duties and responsibilities, prevent misunderstandings, and ensure city monies are used appropriately and effectively. Section 432.070, RSMo, requires contracts for political subdivisions to be in writing.

4.6 MoDOT building

In January 2015, the city purchased approximately 8 acres, along with various buildings and garages from the Missouri Department of Transportation (MoDOT) for \$15,000, plus some utility costs, without obtaining an appraisal. The Board has not adequately documented its plans for utilizing the buildings and land. As part of the purchase agreement the MoDOT retains ownership of another 2 acres and buildings located adjacent to the purchased property, but the city is required to pay the utilities (water, gas, and electric) for 10 years for buildings located on the MoDOT property. The city did not estimate the cost of the utilities to determine the total purchase price. Based on city utility records, we estimate utility costs will be in excess of \$32,000 over the 10 year period, bringing the total projected cost of this arrangement to more than \$47,000 for the property.



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While the Board has had numerous discussions regarding the use of the purchased buildings and land, no decision has been made and the city-owned portion of the property currently sits vacant.

Because the city did not project total costs of this purchase and obtain an appraisal and had no plan for use of the land and buildings, there is less assurance the city made a wise purchase.

Recommendations

The Board of Aldermen:

- 4.1 Ensure all payments made are included in the listing of bills presented for approval and posted to the accounting system. In addition, the Board of Aldermen should be receiving detailed financial reports showing cash balances for each fund to help facilitate the approval of bills.
- 4.2 Require detailed supporting documentation be obtained and retained for all disbursements.
- 4.3 Solicit bids and proposals for all applicable purchases and clarify city code to indicate when bidding or solicitation of proposals is required.
- 4.4 Ensure payroll costs and other disbursements are properly allocated to the applicable city funds and allocations are supported by adequate documentation.
- 4.5 Enter into written contracts defining services provided and benefits received, and retain the contracts.
- 4.6 Obtain independent appraisals and properly evaluate all related costs before purchasing real estate, and develop a plan to utilize the property purchased.

Auditee's Response

- 4.1 *This recommendation has been implemented and detailed financial reports are now being presented to us for review when approving bills to be paid.*
- 4.2 *We agree and this recommendation has been implemented.*
- 4.3 *We will clarify city code and ensure bids or proposals are solicited when appropriate in the future.*
- 4.4 *The city is in the process of implementing new allocation procedures to ensure costs are fairly allocated among city funds.*



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4.5 *We will ensure contracts are obtained/retained in the future.*

4.6 *We will ensure appraisals are obtained for all future real estate purchases and will evaluate all associated costs. We will develop a plan to utilize this property in the next year.*

5. Restricted Monies

The city's procedures for accounting for restricted monies need improvement.

5.1 Motor vehicles monies

The city receipts some restricted street monies in the General Fund, rather than the Street Fund, does not track these monies within the General Fund, and did not spend any money during 2015 from the General Fund for street purposes. During the year ended December 31, 2015, the city posted \$51,569 in motor vehicle-related revenues received from the state to the General Fund. These revenues should be posted to the Street Fund to ensure they are spent for appropriate purposes.

Missouri Constitution, Article IV, Section 30(a) and 30(b), requires motor vehicle-related revenues apportioned by the state of Missouri be expended for street purposes only.

5.2 Allocation of property taxes

The city did not accurately allocate property taxes among various city funds. The city receives property taxes for the General, Parks and Recreation, Library, and Public Health Funds. Annually the city sets the tax levies and the Bates County Collector collects and remits the property taxes to the city.

The Bates County Collector provided city personnel an example in 2013 showing how to allocate the property taxes to the various city funds using each fund's tax levy as compared to total tax levies. City personnel did not update the formula and allocated 2015 property taxes received based on the 2013 tax levies, which have changed, causing errors in the allocation of property taxes among the various funds. For example, the city posted \$46,384 in property taxes to the General Fund, rather than \$44,098 based on our calculations; resulting in \$2,286 being incorrectly posted to the General Fund that should have gone to other funds. These allocations should be recalculated and plans should be developed to correct any errors.

It is essential the city properly allocate property tax revenues among funds to ensure restricted revenues are spent for approved purposes.

Recommendations

The Board of Aldermen:

5.1 Ensure restricted street monies are posted to the Street Fund and spent for allowable purposes only and develop plans to repay the amounts owed to the Street Fund.



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5.2 Ensure the amount of property taxes posted to each fund is accurate based upon the tax levies approved by the Board. In addition, allocations of 2015 taxes should be recalculated and corrected.

5.1 *We are now putting these restricted monies in the Street Fund and will discuss this recommendation and determine if repaying these monies is feasible.*

5.2 *We are allocating property tax revenues to the various funds correctly now and will discuss the need to correct the allocations made in 2015.*

6. Financial Reporting

The city's financial reporting procedures need improvement.

6.1 Filing of financial reports

City personnel have not filed annual financial reports timely with the State Auditor's Office as required by state law. The city last submitted an annual financial report in May 2016 for the year ended December 31, 2014, although it was due by June 30, 2015. No report was filed for 2013. Also, a report has not been filed as of August 2016 for the year ended December 31, 2015, which was due by June 30, 2016.

Section 105.145, RSMo, requires each political subdivision to file annual reports of its financial transactions with the State Auditor's Office.

6.2 Published financial statements

The city did not comply with state law regarding publishing financial statements. Financial statements for the 6 months ending June 30, 2015, did not include a full and detailed account of receipts and disbursements. Instead the city published summary statements of receipts and disbursements. Additionally, the city published the January 31, 2015, beginning cash balances rather than the January 1, 2015, cash balances, resulting in the published financial statements being mathematically inaccurate.

Section 79.160, RSMo, requires the Board to prepare and publish financial statements semiannually that include a full and detailed account of the receipts, disbursements, and indebtedness of the city.

Recommendations

The Board of Aldermen:

6.1 Submit annual financial reports to the State Auditor's Office as required by state law.

6.2 Ensure the city's published semiannual financial statements present all financial information required by state law and are mathematically accurate.



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- 6.1 *We will ensure this is done timely in the future.*
- 6.2 *A statement for the first 6 months of 2016 has been published already and we will ensure these statements are accurate in the future.*

7. Sunshine Law

7.1 Closed meetings

Discussion in closed meetings are not always as announced in open meetings, and minutes are not signed.

On multiple occasions open meeting minutes documented a topic to be discussed in a closed meeting that was not addressed in the meeting. For example, there were multiple meetings where the city cited the purpose of a closed meeting was to discuss legal actions; however, closed meeting minutes do not document a discussion of legal actions occurred.

Section 610.022, RSMo, requires a closed meeting, record, or vote to be held only for the specific reasons announced publicly at an open meeting. In addition, this law provides that public governmental bodies shall not discuss any other business during the meeting that differs from the specific reason used to justify such meeting, record, or vote.

7.2 Meeting minutes

Board meeting minutes are not signed. In addition, the President of the Board was selected by the Mayor at the September 22, 2015, meeting, rather than by the Board, and the minutes do not indicate approval of this action.

Section 610.020, RSMo, requires meeting minutes be maintained as a record of business conducted and to provide an official record of Board actions and decisions. The meeting minutes should be signed by the City Clerk as preparer and subsequently approved by the Board to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the meetings. In addition, Section 79.090, RSMo, states the board shall elect one of their own number as "acting president of the board of aldermen."

Recommendations

The Board of Aldermen:

- 7.1 Ensure topics announced in the open session are actually discussed in closed session and documented in the minutes.
- 7.2 Ensure Board meeting minutes are signed by the Mayor and City Clerk to attest to the completeness and accuracy, and minutes document actions and votes taken.

Auditee's Response

These recommendations have been implemented.



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8. Mayoral Powers

The Mayor improperly removed the former Fire Chief from office and appointed another individual to that position without approval from the Board, in violation of city ordinance and state law.

On November 11, 2015, the Mayor sent a letter to the former Fire Chief explaining that he had committed nepotism by appointing his son to the position of Fire Captain and he was being removed from his appointed position. This issue was not brought before the Board for a vote at the November 10, 2015, Board meeting. We saw no evidence that an investigation was performed by the Mayor and the former Fire Chief was not given the opportunity to speak before the Board or bring witnesses on his behalf before he was informed of his removal by the Mayor.

In December 2015 the Mayor appointed a new Fire Chief and this appointment was done without Board consent. The Mayor sought a written opinion in November 2015 from the city attorney regarding the Mayor's ability to appoint someone to this position and if such action required the approval of the Board. The written opinion from the attorney indicated the appointment did not require the advice and consent of the Board.

Ordinance number 1389, Section 1, states the Mayor, with the consent of the Board of Aldermen, shall appoint the Fire Chief. Section 79.240, RSMo, states the mayor may, with consent of a majority of all the members elected to the board of aldermen remove from office any appointive officer of the city. Section 79.230, RSMo, states the mayor, with the consent and approval of a majority of the members of the board of aldermen shall have the power to appoint officers as they may be authorized by ordinance to appoint.

Recommendation

The Board of Aldermen and the Mayor ensure the removal or appointment of a city official is done in compliance with city ordinance and state law.

Auditee's Response

We agree and will ensure these situations are handled properly in the future.

9. City Library

Changes in the operations of the city library are necessary to be in compliance with state law.

City library monies are held in the custody of both the city and the Library Board. The city receives the library tax monies from the Bates County Collector and distributes the money to the Library Board periodically, but as of December 31, 2015, was still holding approximately \$2,300 of library monies. These monies should be disbursed to the Library Board according to state law. The Library Board maintains its own bank accounts and approves and pays bills associated with operating the library. In addition,



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the Mayor has not been appointing the Library Board members, but rather the Library Board has been making the appointments.

State law requires the librarian file an annual report with the Library Board stating the condition of the library and its services, all amounts received and from what sources, and the amount of money spent and for what purpose. This report is to be filed with the Board of Aldermen and the State Library. The report currently being filed with the city does not indicate all monies received or how much money was spent and the purpose of the expenditures and this report was not filed with the State Library as required.

Section 182.200, RSMo, provides all monies received by the city for a city library shall be disbursed to the Library Board Treasurer at least monthly. Section 182.180, RSMo, states the mayor or other proper official shall appoint three members to the Library Board annually. In addition, Section 182.210, RSMo, states the librarian, within 8 weeks after the close of the fiscal year, shall make an annual report stating the condition of the library and its services on the last day of the fiscal year, the various sums of money received from the library fund and from other sources, and how the moneys have been expended and for what purposes. This report shall be submitted to the governing body of the city and the State Library.

Recommendation

The Board of Aldermen ensure all monies received for the library are disbursed monthly, appointments of Library Board members are made annually by the Mayor, and the annual report is complete and filed with the city and State Library as required by state law.

Auditee's Response

We will work with the Library Board to implement this recommendation.

10. Ordinances and Budgets

City ordinances are not complete, well organized, or up-to-date. Many ordinances are old and no longer relevant but have not been updated or rescinded by the Board. Additionally, the city could not locate ordinances regarding property tax levies.

10.1 Ordinances

Some current city practices conflict with city ordinance and ordinances could not be located to support restrictions placed on some city funds through the passage of property and sales taxes. For example, Ordinance 1423, Work Rules and Procedures adopted January 13, 2015, was not repealed when Ordinance 1505, Work Rules and Procedures was adopted on June 9, 2015. Therefore, the city has two active ordinances for this topic. We reviewed the 14 ordinances adopted by the Board during 2015 and for 7 the city could not locate the signed ordinance and they are not located in the ordinance book. The city provided unsigned versions of the ordinances for our review.

Additionally, the city has property tax levies for the Parks and Recreation, and Public Health Funds, however the city could not locate ordinances



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describing how the tax levies for these funds can be spent or if certain restrictions exist. We also identified sales taxes in place for the Police, Fire, Parks and Recreation, and Water Funds. The city did not have copies of the ballots or signed ordinances for any of these sales taxes describing the restrictions placed on these monies.

Because ordinances passed by the Board to govern the city and its residents have the force and effect of law, it is important ordinances be current and complete prior to the collection of new rates.

10.2 Budgets

City budgets do not include all statutorily required elements and are not always approved timely. The 2015 and 2016 budgets do not include a budget message or summary, the actual beginning and estimated ending cash balances, actual receipts and disbursements for the two preceding years, or city indebtedness information. In addition, the Board did not approve the 2016 budget until April 2016.

Section 67.010, RSMo, requires the budget present a complete financial plan for the ensuing budget year and sets specific guidelines for the format. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing specific financial expectations for each area of city operations. It also assists in setting tax levies and informing the public about city operations and current finances. In addition, Section 67.030, RSMo, states the governing body shall approve and adopt the annual budget prior to the beginning of the fiscal year.

Recommendations

The Board of Aldermen:

- 10.1 Ensure ordinances are maintained in a complete and up-to-date manner. In addition, adopt ordinances defining the restrictions for property tax levies for the Parks and Recreation and Public Health Funds.
- 10.2 Prepare annual budgets, which contain all information required by state law, and approve the budget prior to the beginning of the operating year.

Auditee's Response

- 10.1 *We have updated our ordinance book significantly in the last six months and will plan to adopt ordinances for the use of these restricted property taxes in the near future.*
- 10.2 *We agree and will ensure the 2017 budget is adopted timely and contains all elements required by state law.*



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11. City Vehicle and Fuel Usage

The city has not established effective monitoring procedures over fuel and vehicle and equipment use, and an accurate listing of all vehicles and equipment was not maintained. During the year ended December 31, 2015, the city incurred fuel costs of approximately \$34,000.

The original listing of vehicles and equipment provided by the city included several items the city no longer owned. City personnel updated the listing. The revised listing indicated the city maintains 24 vehicles and 16 major equipment items. The city maintains a bulk diesel tank to fuel equipment, and city personnel purchase fuel at local gas stations for the vehicles using fuel cards. Usage logs were not maintained for vehicles or equipment until December 2015, when city officials began requiring them. However, our review of logs determined they were only prepared for 6 city vehicles or pieces of equipment. In addition, a log of gallons pumped from the bulk tank is not maintained to allow for a reconciliation of gallons pumped to gallons recorded in usage logs.

For purchases made by fuel card, employees are required to submit fuel receipt slips to the City Clerk, who reconciles the fuel slips to the fuel credit card statements. The statements for June, October, November, or December 2015 were not retained.

Maintaining and reviewing vehicle usage logs and comparing these usage logs to fuel purchases or gallons pumped from bulk tanks is necessary to ensure vehicles and equipment are properly utilized, prevent paying vendors for improper billing amounts, and decrease the risk of theft or misuse of fuel occurring without detection. Usage logs should provide sufficient details to allow the city to effectively monitor vehicle use and fuel costs. In addition, fuel credit card statements should be retained to help document the comparison to fuel receipt slips and to ensure adequate supporting documentation for fuel charges is maintained.

Recommendation

The Board of Aldermen establish adequate records and procedures to effectively monitor vehicle and fuel use. In addition, fuel statements should be retained.

Auditee's Response

We are in the process of developing new procedures to monitor vehicle and fuel usage and will ensure documentation is reviewed more closely in the future. Fuel statements are now being retained.

12. Electronic Data Security

The city has not established adequate password controls to reduce the risk of unauthorized access to computer systems and electronic data. Employees are not required to change passwords on a periodic basis to help ensure they remain known only to the assigned user and to reduce the risk of a compromised password. In addition, backup of financial data is performed, but is stored on site in a fireproof safe.



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Passwords are required to authenticate access to computers. Passwords should be changed periodically to reduce the risk of unauthorized access to and use of systems and data. Without effective security controls, there is an increased risk of unauthorized access to systems and the unauthorized use, modification, or destruction of data. Backing up data is necessary to provide a means for recreating it if the original data is destroyed. Backup copies should be maintained and stored at an off-site location to provide increased assurance records can be recreated.

Recommendation

The Board of Aldermen require passwords for each employee that are periodically changed to prevent unauthorized access to the city's computers and data and ensure backup of financial data is stored at an off-site location.

Auditee's Response

We will establish new procedures for changing passwords periodically. Backup of financial data is now being stored at an off-site location.

City of Rich Hill

Organization and Statistical Information

The City of Rich Hill is located in Bates County. The city was incorporated in 1880 and is currently a fourth-class city. The city employed 17 full-time employees and 5 part-time employees on December 31, 2015.

City operations include fire protection services, law enforcement services, utilities (electric, refuse, water, and wastewater), street maintenance, city parks, a library, and a city cemetery.

Mayor and Board of Aldermen

The city government consists of a mayor and 4-member board of aldermen. The members are elected for 2-year terms. The mayor is elected for a 2-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor and Board of Aldermen, at December 31, 2015, are identified below. The Mayor is paid \$350 per month plus \$7 for each special meeting and Board of Aldermen members are paid \$90 per month plus \$7 for each special meeting. The compensation of these officials is established by ordinance.

Jennifer Perkey-Ewing, Mayor
Diane Kassner, South Ward Alderwoman
Patricia Pilcher, South Ward Alderwoman
Robert Dahman, North Ward Alderman

The city had one vacant Aldermen position as of December 31, 2015.

Other Principal Officials

The City Clerk, City Superintendent, City Marshall, Fire Chief, and City Attorney are appointed positions. The city's principal officials at December 31, 2015, are identified below:

Racheal Epperson, City Clerk (1)
Chris Foster, City Superintendent
Clinton Leer, City Marshall (2)
Dustin Miller, Fire Chief
Diana Thomas, City Attorney

(1) Racheal Epperson resigned her position in April 2016 and Brittany Schenker was appointed to this position in May 2016.

(2) Clinton Leer served as City Marshall until his resignation on December 31, 2015. Jack Bearce became the acting City Marshall in January 2016.

Financial Activity

A summary of the city's financial activity for the year ended December 31, 2015, follows:

Appendix A

City of Rich Hill

Schedule of Receipts, Disbursements and Changes in Cash Balances - Governmental Funds

Year Ended December 31, 2015

	General Fund	Fire Fund	Animal Control Fund	Police Fund	Streets Fund	Parks and Recreation Fund	Public Health Fund	Cemetery Fund	Library Fund	Total Governmental Funds
RECEIPTS										
Taxes	\$ 131,461	20,243	1,149	40,486	42,604	37,977	12,892	0	15,996	302,808
Charges for services	1,451	10,105	0	40	2,322	0	0	15,250	0	29,168
Court	0	0	0	21,616	1,664	0	0	0	0	23,280
Miscellaneous	22,587	4,255	0	5,356	0	4,199	729	1,282	2,224	40,632
Total Receipts	155,499	34,603	1,149	67,498	46,590	42,176	13,621	16,532	18,220	395,888
DISBURSEMENTS										
General government	58,348	30,018	2,580	52,667	54,565	15,212	3,811	9,589	0	226,790
Payroll	25,376	10,980	3,222	98,422	29,238	7,497	8,121	22,047	9,128	214,031
Capital outlay	15,000	5,256	0	500	840	6,374	0	0	0	27,970
Miscellaneous	0	0	0	0	0	0	0	672	13,020	13,692
Total Disbursements	98,724	46,254	5,802	151,589	84,643	29,083	11,932	32,308	22,148	482,483
RECEIPTS OVER (UNDER) DISBURSEMENTS	56,775	(11,651)	(4,653)	(84,091)	(38,053)	13,093	1,689	(15,776)	(3,928)	(86,595)
CASH BALANCE, JANUARY 1, 2015	65,516	6,471	625	9,956	34,377	15,441	(4,740)	6,011	8,949	142,606
CASH BALANCE, DECEMBER 31, 2015	\$ 122,291	(5,180)	(4,028)	(74,135)	(3,676)	28,534	(3,051)	(9,765)	5,021	56,011

Appendix B

City of Rich Hill

Schedule of Receipts, Disbursements and Changes in Cash Balances - Proprietary Funds

Year Ended December 31, 2015

	Water Fund	Wastewater Fund	Refuse Fund	Electric Fund	Total Proprietary Funds
RECEIPTS					
Charges for services	\$ 356,435	244,028	185,201	1,015,303	1,800,967
Sales tax	40,481	0	0	0	40,481
Miscellaneous	22,616	4,800	10	17,237	44,663
Total Receipts	419,532	248,828	185,211	1,032,540	1,886,111
DISBURSEMENTS					
Operations	260,052	115,957	70,879	709,076	1,155,964
Payroll	199,572	75,194	75,320	103,281	453,367
Capital outlay	7,553	42,545	0	70,099	120,197
Debt service	0	57,234	0	0	57,234
Total Disbursements	467,177	290,930	146,199	882,456	1,786,762
RECEIPTS OVER (UNDER) DISBURSEMENTS	(47,645)	(42,102)	39,012	150,084	99,349
CASH BALANCE, JANUARY 1, 2015	375,046	369,694	96,132	254,909	1,095,781
CASH BALANCE, DECEMBER 31, 2015	\$ 327,401	327,592	135,144	404,993	1,195,130

Appendix C

City of Rich Hill

Statement of Receipts, Disbursement and Changes in Cash Balances - Fiduciary Fund

Year Ended December 31, 2015

	Perpetual Care Fund
RECEIPTS	
Charges for services	\$ 3,141
Total Receipts	<u>3,141</u>
DISBURSEMENTS	
Miscellaneous	<u>0</u>
Total Disbursements	<u>0</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>3,141</u>
CASH BALANCE, JANUARY 1, 2015	<u>139,873</u>
CASH BALANCE, DECEMBER 31, 2015	<u><u>\$ 143,014</u></u>