

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2765

ANNUAL FINANCIAL REPORT

2005

CITY OF SALEM

WASHINGTON COUNTY, INDIANA



FILED
10/30/2006

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger	01-01-04 to 12-31-07
Mayor	Judy K. Chastain	01-01-04 to 12-31-07
President of the Board of Public Works	Judy K. Chastain	01-01-05 to 12-31-06
President of the Common Council	Ginger B. Morris	01-01-05 to 12-31-06
Superintendent of Water Utility	Rick Houge	01-01-05 to 12-31-06
Superintendent of Wastewater Utility	John Smedley	01-01-05 to 12-31-06
Superintendent of Trash Utility	Thomas Voyles	01-01-05 to 12-31-06



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

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 (City), as of and for the year ended December 31, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note I, the City prepares its financial statements on the prescribed basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash and investment balances of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 2005, and the respective cash receipts and cash disbursements during the year then ended on the basis of accounting described in Note I.

In accordance with Government Auditing Standards, we have also issued a report dated October 16, 2006, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Our report on compliance and on internal control over financial reporting should be read along with this report.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
(Continued)

The Schedules of Funding Progress and Schedule of Contributions From the Employer and Other Contributing Entities as listed in the table of contents, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The City has not presented Management's Discussion and Analysis or Budgetary Comparison Schedules that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining Schedules, as listed in the table of contents, Schedule of Capital Assets, and Schedule of Long-Term Debt are presented for additional analysis and are not a required part of the basic financial statements. The Combining Schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Schedule of Capital Assets and Schedule of Long-Term Debt have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

October 16, 2006



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

TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

We have audited the financial statements of the City of Salem (City), as of and for the year ended December 31, 2005, and have issued our report thereon dated October 16, 2006. 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.

Compliance

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

October 16, 2006

CITY OF SALEM
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH AND INVESTMENT BASIS
For The Year Ended December 31, 2005

Functions/Programs	Program Receipts				Net (Disbursement) Receipt and Changes in Net Assets		
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Primary government:							
Governmental activities:							
General government	\$ 1,820,363	\$ 124,857	\$ 4,280	\$ 376,628	\$ (1,314,598)	\$ -	\$ (1,314,598)
Public safety	1,638,833	90,957	4,576	-	(1,543,300)	-	(1,543,300)
Highways and streets	510,784	923	248,158	-	(261,703)	-	(261,703)
Culture and recreation	231,790	49,524	14,209	-	(168,057)	-	(168,057)
Total governmental activities	4,201,770	266,261	271,223	376,628	(3,287,658)	-	(3,287,658)
Business-type activities:							
Water	3,253,462	1,870,747	2,420	-	-	(1,380,295)	(1,380,295)
Wastewater	3,787,389	1,166,101	1,197	429,863	-	(2,190,228)	(2,190,228)
Trash	395,441	177,345	1,011	-	-	(217,085)	(217,085)
Total business-type activities	7,436,292	3,214,193	4,628	429,863	-	(3,787,608)	(3,787,608)
Total primary government	\$ 11,638,062	\$ 3,480,454	\$ 275,851	\$ 806,491	(3,287,658)	(3,787,608)	(7,075,266)
General receipts:							
Property taxes					1,801,874	174,080	1,975,954
Other local sources					1,011,642	90,850	1,102,492
Bonds and loans					-	3,433,001	3,433,001
Unrestricted investment earnings					35,170	24,643	59,813
Transfers					70,000	(70,000)	-
Total general receipts and transfers					2,918,686	3,652,574	6,571,260
Change in net assets					(368,972)	(135,034)	(504,006)
Net assets - beginning					2,734,362	3,889,752	6,624,114
Net assets - ending					\$ 2,365,390	\$ 3,754,718	\$ 6,120,108
<u>Assets</u>							
Cash and investments					\$ 1,699,277	\$ 193,119	\$ 1,892,396
Restricted assets:							
Cash and investments					666,113	3,561,599	4,227,712
Total assets					\$ 2,365,390	\$ 3,754,718	\$ 6,120,108
<u>Net Assets</u>							
Restricted for:							
General government					\$ 237,980	\$ -	\$ 237,980
Public safety					29,983	-	29,983
Highways and streets					194,371	-	194,371
Culture and recreation					61,652	-	61,652
Debt service					-	358,392	358,392
Capital improvements					-	3,182,211	3,182,211
Customer deposits					-	11,010	11,010
Other purposes					142,127	9,986	152,113
Unrestricted					1,699,277	193,119	1,892,396
Total net assets					\$ 2,365,390	\$ 3,754,718	\$ 6,120,108

The notes to the financial statements are an integral part of this statement.

CITY OF SALEM
STATEMENT OF ASSETS AND FUND BALANCES AND RECEIPTS,
DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
GOVERNMENTAL FUNDS
For The Year Ended December 31, 2005

	General	Other Governmental Funds	Totals
Receipts:			
Taxes	\$ 1,446,577	\$ 355,297	\$ 1,801,874
Licenses and permits	14,211	3,355	17,566
Intergovernmental	875,832	677,342	1,553,174
Charges for services	99,697	141,826	241,523
Fines and forfeits	2,733	552	3,285
Other	49,825	54,301	104,126
	<u>2,488,875</u>	<u>1,232,673</u>	<u>3,721,548</u>
Disbursements:			
General government	1,239,683	210,260	1,449,943
Public safety	1,317,356	18,702	1,336,058
Highways and streets	-	464,450	464,450
Culture and recreation	-	231,790	231,790
Capital outlay:			
General government	65,699	263,909	329,608
Public safety	224,757	78,018	302,775
Highways and streets	-	46,334	46,334
	<u>2,847,495</u>	<u>1,313,463</u>	<u>4,160,958</u>
Deficiency of receipts over disbursements	<u>(358,620)</u>	<u>(80,790)</u>	<u>(439,410)</u>
Other financing sources (uses)			
Interfund loans received	(982)	982	-
Interfund loans repaid	70,982	(982)	70,000
Transfers in	-	26,070	26,070
Transfers out	-	(26,070)	(26,070)
	<u>70,000</u>	<u>-</u>	<u>70,000</u>
Deficiency of receipts and other financing sources over disbursements and other financing uses	<u>(288,620)</u>	<u>(80,790)</u>	<u>(369,410)</u>
Cash and investment fund balance - beginning	<u>1,543,739</u>	<u>1,189,636</u>	<u>2,733,375</u>
Cash and investment fund balance - ending	<u>\$ 1,255,119</u>	<u>\$ 1,108,846</u>	<u>2,363,965</u>
Amounts reported for governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis are different because:			
Internal services funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Activities and Net Assets - Cash and Investment Basis.			
			<u>1,425</u>
Net assets of governmental activities			<u>\$ 2,365,390</u>
<u>Cash and Investment Assets - December 31</u>			
Cash and investments	\$ 1,255,119	\$ 444,158	\$ 1,699,277
Restricted assets:			
Cash and investments	-	664,688	664,688
Total cash and investment assets - December 31	<u>\$ 1,255,119</u>	<u>\$ 1,108,846</u>	<u>\$ 2,363,965</u>
<u>Cash and Investment Fund Balance - December 31</u>			
Restricted for:			
General government	\$ -	\$ 237,980	\$ 237,980
Public safety	-	29,983	29,983
Highways and streets	-	194,371	194,371
Culture and recreation	-	61,652	61,652
Other purposes	-	140,702	140,702
Unrestricted	<u>1,255,119</u>	<u>444,158</u>	<u>1,699,277</u>
Total cash and investment fund balance - December 31	<u>\$ 1,255,119</u>	<u>\$ 1,108,846</u>	<u>\$ 2,363,965</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SALEM
STATEMENT OF ASSETS AND FUND BALANCES AND
RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
PROPRIETARY FUNDS
As of and for the Year Ended December 31, 2005

	Water Utility	Wastewater Utility	Trash Utility	Total	Internal Service Fund
Operating receipts:					
Unmetered water receipts	\$ 3,042	\$ -	\$ -	\$ 3,042	\$ -
Metered water receipts	1,756,674	-	-	1,756,674	-
Fire protection receipts	89,275	-	-	89,275	-
Other water receipts	58,532	-	-	58,532	-
Flat rate receipts	-	-	175,867	175,867	-
Measured revenue	-	1,125,643	-	1,125,643	-
Other wastewater receipts	-	73,904	-	73,904	-
Other trash receipts	-	-	200,814	200,814	-
Employer contributions	-	-	-	-	20,752
Employee contributions	-	-	-	-	20,498
Total operating receipts	1,907,523	1,199,547	376,681	3,483,751	41,250
Operating disbursements:					
Equipment and capital improvements	329,992	1,274,084	2,500	1,606,576	-
Source of supply and water treatment disbursements - operations and maintenance	559,764	-	-	559,764	-
Transmission and distribution	297,744	-	-	297,744	-
Collection system - operations and maintenance	-	146,189	-	146,189	-
Treatment and disposal disbursements - operations and maintenance	-	282,160	-	282,160	-
Operations and maintenance	-	-	154,437	154,437	-
Customer accounts	136,120	52,386	2,358	190,864	-
Contractual services	335,517	93,014	138,235	566,766	-
Administration and general	155,464	78,846	-	234,310	-
Insurance claims and premiums	61,463	50,764	17,218	129,445	-
Other	176,785	22,570	54,693	254,048	-
Insurance benefits	-	-	-	-	40,812
Total operating disbursements	2,052,849	2,000,013	369,441	4,422,303	40,812
Excess (deficiency) of operating receipts over operating disbursements	(145,326)	(800,466)	7,240	(938,552)	438
Nonoperating receipts (disbursements):					
Bond proceeds	-	2,548,001	-	2,548,001	-
Note proceeds	-	885,000	-	885,000	-
Interest and investment receipts	22,012	2,282	349	24,643	-
Debt service of principal	(1,075,000)	(1,615,000)	(25,265)	(2,715,265)	-
Interest and investment disbursement	(125,613)	(172,376)	(735)	(298,724)	-
Total nonoperating receipts (disbursements)	(1,178,601)	1,647,907	(25,651)	443,655	-
Excess (deficiency) of receipts over disbursements and nonoperating receipts (disbursements)	(1,323,927)	847,441	(18,411)	(494,897)	438
Capital contributions	-	429,863	-	429,863	-
Interfund loan repaid	(70,000)	-	-	(70,000)	-
Excess (deficiency) of receipts, contributions and transfers in over disbursements and transfers out	(1,393,927)	1,277,304	(18,411)	(135,034)	438
Cash and investment fund balance - beginning	3,344,711	389,425	155,616	3,889,752	987
Cash and investment fund balance - ending	<u>\$ 1,950,784</u>	<u>\$ 1,666,729</u>	<u>\$ 137,205</u>	<u>\$ 3,754,718</u>	<u>\$ 1,425</u>
<u>Cash and Investment Assets - December 31</u>					
Cash and investments	\$ 32,265	\$ 23,649	\$ 137,205	\$ 193,119	\$ -
Restricted assets:					
Cash and investments	1,918,519	1,643,080	-	3,561,599	1,425
Total cash and investment assets - December 31	<u>\$ 1,950,784</u>	<u>\$ 1,666,729</u>	<u>\$ 137,205</u>	<u>\$ 3,754,718</u>	<u>\$ 1,425</u>
<u>Cash and Investment Fund Balance - December 31</u>					
Restricted for:					
Debt service	\$ 134,031	\$ 224,361	\$ -	\$ 358,392	\$ -
Capital improvements	1,763,492	1,418,719	-	3,182,211	-
Customer deposits	11,010	-	-	11,010	-
Other purposes	9,986	-	-	9,986	1,425
Unrestricted	32,265	23,649	137,205	193,119	-
Total cash and investment fund balance - December 31	<u>\$ 1,950,784</u>	<u>\$ 1,666,729</u>	<u>\$ 137,205</u>	<u>\$ 3,754,718</u>	<u>\$ 1,425</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SALEM
STATEMENT OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
FIDUCIARY FUNDS
For The Year Ended December 31, 2005

	<u>Pension Trust Funds</u>	<u>Private-Purpose Trust Fund</u>	<u>Agency Fund</u>
Additions:			
Contributions:			
Employer	\$ 116,517	\$ -	\$ -
Plan members	<u>91,073</u>	<u>-</u>	<u>-</u>
Total contributions	<u>207,590</u>	<u>-</u>	<u>-</u>
Investment earnings:			
Interest	<u>241</u>	<u>84</u>	<u>-</u>
Agency fund additions	<u>-</u>	<u>-</u>	<u>3,771,816</u>
Total additions	<u>207,831</u>	<u>84</u>	<u>3,771,816</u>
Deductions:			
Benefits	175,995	-	-
Administrative and general	168	-	-
Agency fund deductions	<u>-</u>	<u>-</u>	<u>3,765,956</u>
Total deductions	<u>176,163</u>	<u>-</u>	<u>3,765,956</u>
Excess of total additions over total deductions	31,668	84	5,860
Cash and investment fund balance - beginning	<u>104,851</u>	<u>15,290</u>	<u>50,942</u>
Cash and investment fund balance - ending	<u>\$ 136,519</u>	<u>\$ 15,374</u>	<u>\$ 56,802</u>

The notes to the financial statements are an integral part of this statement.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, trash, and urban redevelopment and housing.

The City's financial reporting entity is composed of the following:

Primary Government: City of Salem

In determining the financial reporting entity, the City complies with the provisions of GASB Statement No. 14, *The Financial Reporting Entity*.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The Statement of Activities and Net Assets – Cash and Investment Basis displays information about the reporting government as a whole. It includes all funds of the reporting entity except for fiduciary funds. The statement distinguishes between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange 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 constitutes its assets, liabilities, fund equity, receipts, and disbursements. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental fund:

The general fund is the primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary funds:

The water utility fund accounts for the operation of the water distribution system.

The wastewater utility fund accounts for the operation of the wastewater treatment plant, pumping stations and collection systems.

The trash utility fund accounts for the operation of trash collection system.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

Additionally, the City reports the following fund types:

The internal service fund accounts for self-insurance claims.

The pension trust funds account for the activities of the 1925 police and 1937 fire pension funds, which accumulate resources for pension benefit payments.

The private-purpose trust fund reports a trust arrangement under which principal and income benefit the primary government's cemetery maintenance.

The agency fund accounts for assets held by the City as an agent for the City for its employees and serves as a control of accounts for certain cash transactions during the time they are a liability to the City.

C. Measurement Focus and Basis of Accounting

The government-wide, governmental fund, proprietary fund and fiduciary fund financial statements are reported using the basis of accounting that demonstrates compliance with the cash and investment basis and budget laws of the State of Indiana, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The cash and investment basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash rather than when earned and disbursements are recognized when paid rather than when a liability is incurred. Investment transactions are not presented on the financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the enterprise fund statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City and the utilities. Elimination of these charges would distort the direct costs and program receipts reported for the various functions concerned.

Enterprise funds distinguish operating receipts and disbursements from nonoperating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating receipts of the enterprise funds are charges to customers for sales and services. Operating disbursements for enterprise funds include the cost of sales and services and administrative costs. All receipts and disbursements not meeting this definition are reported as nonoperating receipts and disbursements. Internal service funds are used to account for activities provided to other departments or agencies primarily with the government.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

D. Assets and Cash and Investment Balances

1. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as interest receipts in the year of the sale of the investment.

2. Capital Assets

Capital assets arising from cash transactions acquired for use in governmental or proprietary fund operations are accounted for as capital outlay disbursements of the fund upon acquisition.

3. Long-Term Debt

Long-term debt arising from cash basis transactions of governmental and proprietary funds is not reported as liabilities in the basic financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest is reported as disbursements.

4. Equity Classification

Government-Wide Statements

Equity is classified as net assets and displayed in two components:

- a. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
- b. Unrestricted net assets – All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when a disbursement is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Financial Statements

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

E. Receipts and Disbursements

1. Program Receipts

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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

2. Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds and the similar discretely presented component unit result from providing services and producing and delivering goods and/or services. They also include all receipts and disbursements not related to capital and related financing, noncapital financing, or investing activities.

F. Internal and Interfund Balances and Activities

In the process of aggregating the financial information for the government-wide Statement of Activities and Net Assets – Cash and Investment Basis, some amounts reported as interfund activity and balances in the fund financial statements have been eliminated or reclassified.

Fund Financial Statements

1. Interfund services – Sales or purchases of goods and services between funds are reported as receipts and disbursements.
2. Interfund reimbursements – Repayments from funds responsible for certain disbursements to the funds that initially paid for them are not reported as reimbursements but as adjustments to disbursements in the respective funds.
3. Interfund transfers – Flow of assets from one fund to another where repayment is not expected is reported as transfers in and out.

Government-Wide Financial Statements

Interfund activity and balances, if any, are eliminated or reclassified in the government-wide financial statements as follows:

Internal activities – Amounts reported as interfund transfers in the fund financial statements are eliminated in the government-wide Statement of Activities and Net Assets – Cash and Investment Basis except for the net amount of transfers between governmental and business-type activities, which are reported as Transfers – Internal Activities. The effects of interfund services between funds, if any, are not eliminated in the Statement of Activities – Cash and Investment Basis.

II. Stewardship, Compliance and Accountability

Budgetary Information

Annual budgets are adopted on the cash basis, which is not consistent with accounting principles generally accepted in the United States of America. All annual appropriations lapse at calendar year end.

On or before August 31, the fiscal officer of the City submits to the governing board a proposed operating budget for the year commencing the following January 1. Prior to adoption, the budget is advertised and public hearings are conducted by the governing board to obtain taxpayer comments. In September of each year, the governing board, through the passage of a resolution/ordinance, approves the budget for the next year. Copies of the budget resolution/ordinance and the advertisement for funds for which

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

property taxes are levied or highway use taxes are received are sent to the Indiana Department of Local Government Finance. The budget becomes legally enacted after the fiscal officer of the City receives approval of the Indiana Department of Local Government Finance.

The City's management cannot transfer budgeted appropriations between object classifications of a budget without approval of the governing board. The Indiana Department of Local Government Finance must approve any revisions to the appropriations for any fund or any department of the General Fund. The legal level of budgetary control is by object and department within the fund for the General Fund and by object within the fund for all other budgeted funds.

III. Detailed Notes on All Funds

A. Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. Indiana Code 5-13-8-1 allows a political subdivision of the State of Indiana to deposit public funds in a financial institution only if the financial institution is a depository eligible to receive state funds; and has a principal office or branch that qualifies to receive public funds of the political subdivision. The bank balances were insured by the Federal Deposit Insurance Corporation or the Public Deposit Insurance Fund, which covers all public funds held in approved depositories.

B. Interfund Transfers

Interfund transfers for the year ended December 31, 2005, were as follows:

Transfer From	Transfer To	2005
Other governmental: Economic development income tax Cumulative capital development	Other governmental: Park and recreation Park and recreation	\$ 22,695 <u>3,375</u>
Total		<u>\$ 26,070</u>

The City typically uses transfers for cash flow purposes as provided by various statutory provisions.

IV. Other Information

A. 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; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents (excluding postemployment benefits); and natural disasters.

The risks of torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters are covered by commercial insurance from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance by major category of risk.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

Medical Benefits to Employees (Dental and Vision)

The City has chosen to establish a risk financing fund for risks associated with medical benefits to employees (dental and vision). The risk financing fund is accounted for in the Self-Insurance Fund, an internal service fund,) where assets are set aside for claim settlements. An excess policy through commercial insurance covers individual claims in excess of \$10,000 per year. Settled claims resulting from this risk did not exceed commercial insurance coverage in the past three years. A premium is charged to each fund that accounts for employee salaries and wages. The total charge allocated to each of the funds is calculated based on the number of employees paid from each fund.

Job Related Illness or Injuries to Employees

During 1992, the City joined a public entity risk pool, the Indiana Public Employer's Plan Inc., currently operating as a common risk management and insurance program for member governmental entities. This risk pool was formed in 1989 for the purpose of providing a medium for the funding and administration of workers compensation claims. The City pays an annual premium to the risk pool for its job related illness or injuries to employees coverage. The risk pool is considered a self-sustaining risk pool that will provide coverage for its members for up to \$1,000,000 per insured event.

B. Holding Corporation

The City has entered into a capital lease with the City of Salem, Indiana, Government Facility Building Corporation (the lessor). The lessor was organized as a not-for-profit corporation pursuant to state statute for the purpose of financing and constructing or reconstructing facilities for lease to the City. The City was not required to make any lease payments during the year. Lease payments are scheduled to begin in 2006.

C. Rate Structure – Enterprise Funds

Water Utility

The current rate structure was approved by the Indiana Utility Regulatory Commission on January 19, 2005.

Wastewater Utility

The current rate structure was approved by the Common Council on March 31, 2004.

Trash Utility

The current rate structure was approved by the Common Council on April 1, 1993.

D. Pension Plans

1. Agent Multiple-Employer and Single-Employer Defined Benefit Pension Plans

a. Public Employees' Retirement Fund

Plan Description

The City contributes to the Indiana Public Employees' Retirement Fund (PERF), a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

employees are eligible to participate in the defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the PERF Board, most requirements of the system and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of member's contributions, set by state statute at 3% of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

PERF administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. The report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for PERF are established by the Board of Trustees of PERF. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

Information to segregate the assets/liabilities and the actuarial study figures between the City and the Utilities is not available.

b. 1925 Police Officers' Pension Plan

Plan Description

The City contributes to the 1925 Police Officers' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute. The City's annual pension cost and related information as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

c. 1937 Firefighters' Pension Plan

Plan Description

The City contributes to the 1937 Firefighters' Pension Plan, which is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy and Annual Pension Cost

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute. The City's annual pension cost and related information, as provided by the actuary, is presented in this note.

The use of the pay-as-you-go actuarial cost method by the City results in significant underfunding of the plan. Therefore, the Net Pension Obligation (NPO) is not reflected in the financial statements of the pension trust funds.

Actuarial Information for the Above Plans

	<u>PERF</u>	<u>1925 Police Officers' Pension</u>	<u>1937 Firefighters' Pension</u>
Annual required contribution	\$ 110,595	\$ 68,800	\$ 213,100
Interest on net pension obligation	(5,261)	39,900	32,700
Adjustment to annual required contribution	<u>5,996</u>	<u>(69,700)</u>	<u>(57,200)</u>
Annual pension cost	111,330	39,000	188,600
Contributions made	<u>110,387</u>	<u>31,614</u>	<u>104,551</u>
Increase in net pension obligation	943	7,386	84,049
Net pension obligation, beginning of year	<u>(72,571)</u>	<u>591,406</u>	<u>485,147</u>
Net pension obligation, end of year	<u>\$ (71,628)</u>	<u>\$ 598,792</u>	<u>\$ 569,196</u>

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

	PERF	1925 Police Officers' Pension	1937 Firefighters' Pension
Contribution rates:			
City	6%	0%	24%
Plan members	3%	6%	6%
Actuarial valuation date	07-01-05	01-01-05	01-01-05
Actuarial cost method	Entry age	Entry age	Entry age
Amortization method	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed	Level percentage of projected payroll, closed
Amortization period	40 years	30 years	30 years
Amortization period (from date)	07-01-97	01-01-05	01-01-05
Asset valuation method	75% of expected Actuarial value plus 25% of Market value	4 year phase in of unrealized and realized capital	4 year phase in of unrealized and Realized capital

Actuarial Assumptions

Investment rate of return	7.25%	6%	6%
Projected future salary increases:			
Total	5%	4%	4%
Attributed to inflation	4%	4%	4%
Attributed to merit/seniority	1%	0%	0%
Cost-of-living adjustments	2%	2.75/4%*	2.75/4%*

* 2.75% converted members; 4% nonconverted members

Three Year Trend Information

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
PERF	06-30-03	\$ 98,431	98%	\$ (60,615)
	06-30-04	86,532	114%	(72,571)
	06-30-05	111,330	128%	(71,628)
1925 Police Officers' Pension Plan	12-31-02	87,000	31%	578,295
	12-31-03	40,100	67%	591,406
	12-31-04	39,000	81%	598,792
1937 Firefighters' Pension Plan	12-31-02	153,300	52%	359,122
	12-31-03	186,400	32%	485,147
	12-31-04	188,600	55%	569,196

CITY OF SALEM
NOTES TO FINANCIAL STATEMENTS
(Continued)

Membership in the 1925 Police Officers' Pension Plan and the 1937 Firefighters' Pension Plan at January 1, 2005, was comprised of the following:

	1925 Police Officers' Pension	1937 Firefighters' Pension
Retires and beneficiaries currently receiving benefits	4	6
Terminated employees entitled to but not yet receiving benefits	-	-
Current active employees	-	-

2. Cost-Sharing Multiple-Employer Defined Benefit Pension Plan

1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The City contributes to the 1977 Police Officers' and Firefighters' Pension and Disability Fund, a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Employees' Retirement Plan (PERF) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting and requirements for contributions by employers and by employees. Covered employees may retire at age 55 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 55. The plan also provides for death and disability benefits.

PERF issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Public Employees' Retirement Fund
Harrison Building, Room 800
143 West Market Street
Indianapolis, IN 46204
Ph. (317) 233-4162

Funding Policy and Annual Pension Costs

Plan members are required to contribute 6% of the first-class police officers' and firefighters' salary and the City is to contribute at an actuarially determined rate. The current rate, which has not changed since the inception of the plan, is 21% of the first-class police officers' and firefighters' salary. The contribution requirements of plan members and the City are established by the Board of Trustees of PERF. The City's contributions to the plan for the years ending December 31, 2005, 2004, and 2003, were \$160,367, \$155,272, and \$146,496, respectively, equal to the required contributions for each year.

CITY OF SALEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF FUNDING PROGRESS

Public Employees' Retirement Fund

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
07-01-03	\$ 1,715,494	\$ 1,877,621	\$ (162,127)	91%	\$ 1,649,975	(10%)
07-01-04	1,750,929	2,025,163	(274,234)	86%	1,873,439	(15%)
07-01-05	1,838,164	2,125,353	(287,189)	86%	1,802,581	(16%)

1925 Police Officers' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 120,978	\$ 938,000	\$ (817,022)	13%	\$ 30,100	(2,714%)
01-01-01	104,066	946,300	(842,234)	11%	30,600	(2,752%)
01-01-02	113,567	970,800	(857,233)	12%	31,600	(2,713%)
01-01-03	100,938	606,600	(505,662)	17%	32,700	(1,546%)
01-01-04	75,937	602,900	(526,963)	13%	33,700	(1,564%)
01-01-05	38,941	594,100	(555,159)	7%	-	*

*No covered payroll for the years noted.

1937 Firefighters' Pension Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	Unfunded AAL as a Percentage of Covered Payroll ((a-b)/c)
01-01-00	\$ 59,420	\$ 1,594,400	\$ (1,534,980)	4%	\$ -	*
01-01-01	52,140	1,572,800	(1,520,660)	3%	-	*
01-01-02	106,055	1,575,700	(1,469,645)	7%	-	*
01-01-03	115,600	1,771,300	(1,655,700)	7%	-	*
01-01-04	98,184	1,802,900	(1,704,716)	5%	-	*
01-01-05	65,910	1,781,800	(1,715,890)	4%	-	*

*No covered payroll for the years noted.

CITY OF SALEM
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULES OF CONTRIBUTIONS FROM THE
 EMPLOYER AND OTHER CONTRIBUTING ENTITIES

	Year Ending	Annual Required Contribution (ARC)	Percentage of ARC Contributed	
			City	State
1925 Police Officers' Pension Plan	12-31-99	\$ 92,200	0%	35%
	12-31-00	97,400	0%	20%
	12-31-01	101,700	0%	45%
	12-31-02	108,000	0%	26%
	12-31-03	66,200	0%	41%
	12-31-04	68,800	0%	46%
1937 Firefighters' Pension Plan	12-31-99	\$ 150,000	22%	31%
	12-31-00	155,400	28%	26%
	12-31-01	158,600	32%	60%
	12-31-02	164,900	33%	36%
	12-31-03	202,600	10%	30%
	12-31-04	213,100	24%	25%

CITY OF SALEM
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005

	Motor Vehicle Highway	Local Road and Street	Park and Recreation	Cemetery Operating	Aviation	Salem Skate Park	Mayor's Roundtable Donations
Receipts:							
Taxes	\$ 174,080	\$ -	\$ 87,040	\$ 30,116	\$ 870	\$ -	\$ -
Licenses and permits	-	-	850	-	-	-	-
Intergovernmental	220,513	27,644	10,057	3,480	101	-	-
Charges for services	923	-	48,079	83,733	1,500	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	3,854	-	670	133	-	-	-
Total receipts	399,370	27,644	146,696	117,462	2,471	-	-
Disbursements:							
General government	-	-	-	132,226	10,150	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	405,044	25,000	-	-	-	-	-
Culture and recreation	-	-	190,557	-	-	1,522	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Total disbursements	405,044	25,000	190,557	132,226	10,150	1,522	-
Excess (deficiency) of receipts over disbursements	(5,674)	2,644	(43,861)	(14,764)	(7,679)	(1,522)	-
Other financing sources (uses)							
Interfund loans received	-	-	-	-	-	-	-
Interfund loans repaid	-	-	-	-	-	-	-
Transfers in	-	-	26,070	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	26,070	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(5,674)	2,644	(17,791)	(14,764)	(7,679)	(1,522)	-
Cash and investment fund balance - beginning	179,223	18,178	75,905	71,517	15,002	1,522	284
Cash and investment fund balance - ending	\$ 173,549	\$ 20,822	\$ 58,114	\$ 56,753	\$ 7,323	\$ -	\$ 284
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	173,549	20,822	58,114	56,753	7,323	-	284
Total cash and investment assets - December 31	\$ 173,549	\$ 20,822	\$ 58,114	\$ 56,753	\$ 7,323	\$ -	\$ 284
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ 56,753	\$ 7,323	\$ -	\$ 284
Public safety	-	-	-	-	-	-	-
Highways and streets	173,549	20,822	-	-	-	-	-
Culture and recreation	-	-	58,114	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 173,549	\$ 20,822	\$ 58,114	\$ 56,753	\$ 7,323	\$ -	\$ 284

CITY OF SALEM
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Adult Center Donations	Cemetery Stone Repair Donations	Cemetery Chapel Donations	Mayor's Donations	Salem Sidewalk	Salem Microloan	Animal Shelter Donations
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Other	4,153	-	200	500	-	24,040	2,732
Total receipts	4,153	-	200	500	-	24,040	2,732
Disbursements:							
General government	-	-	-	500	-	-	-
Public safety	-	-	-	-	-	-	132
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	12,866	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Total disbursements	12,866	-	-	500	-	-	132
Excess (deficiency) of receipts over disbursements	(8,713)	-	200	-	-	24,040	2,600
Other financing sources (uses)							
Interfund loans received	-	-	-	-	-	-	-
Interfund loans repaid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(8,713)	-	200	-	-	24,040	2,600
Cash and investment fund balance - beginning	12,251	306	300	-	426	72,309	3,835
Cash and investment fund balance - ending	\$ 3,538	\$ 306	\$ 500	\$ -	\$ 426	\$ 96,349	\$ 6,435
<u>Cash and Investment Assets - December 31</u>							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	3,538	306	500	-	426	96,349	6,435
Total cash and investment assets - December 31	\$ 3,538	\$ 306	\$ 500	\$ -	\$ 426	\$ 96,349	\$ 6,435
<u>Cash and Investment Fund Balance - December 31</u>							
Restricted for:							
General government	\$ -	\$ 306	\$ 500	\$ -	\$ 426	\$ 96,349	\$ -
Public safety	-	-	-	-	-	-	6,435
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	3,538	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	\$ 3,538	\$ 306	\$ 500	\$ -	\$ 426	\$ 96,349	\$ 6,435

CITY OF SALEM
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Fire Unappropriated Donations	Law Enforcement Continuing Education	Police Donations	K-9 Program	Cemetery Perpetual Maintenance	Urban Beautification	Salem Housing Rehabilitation
Receipts:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	655	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	1,396	-	-	6,195	-	-
Fines and forfeits	-	552	-	-	-	-	-
Other	-	-	-	1,844	-	100	12,631
Total receipts	-	2,603	-	1,844	6,195	100	12,631
Disbursements:							
General government	-	-	-	-	-	100	-
Public safety	-	3,996	7,523	232	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Capital outlay:							
General government	-	-	-	-	-	-	-
Public safety	-	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-	-
Total disbursements	-	3,996	7,523	232	-	100	-
Excess (deficiency) of receipts over disbursements	-	(1,393)	(7,523)	1,612	6,195	-	12,631
Other financing sources (uses)							
Interfund loans received	-	-	-	-	-	-	-
Interfund loans repaid	-	-	-	-	-	-	-
Transfers in	-	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	-	(1,393)	(7,523)	1,612	6,195	-	12,631
Cash and investment fund balance - beginning	152	5,250	8,417	-	46,039	-	2,616
Cash and investment fund balance - ending	<u>\$ 152</u>	<u>\$ 3,857</u>	<u>\$ 894</u>	<u>\$ 1,612</u>	<u>\$ 52,234</u>	<u>\$ -</u>	<u>\$ 15,247</u>
Cash and Investment Assets - December 31							
Cash and investments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted assets:							
Cash and investments	152	3,857	894	1,612	52,234	-	15,247
Total cash and investment assets - December 31	<u>\$ 152</u>	<u>\$ 3,857</u>	<u>\$ 894</u>	<u>\$ 1,612</u>	<u>\$ 52,234</u>	<u>\$ -</u>	<u>\$ 15,247</u>
Cash and Investment Fund Balance - December 31							
Restricted for:							
General government	\$ -	\$ -	\$ -	\$ -	\$ 52,234	\$ -	\$ 15,247
Public safety	152	3,857	894	1,612	-	-	-
Highways and streets	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-
Total cash and investment fund balance - December 31	<u>\$ 152</u>	<u>\$ 3,857</u>	<u>\$ 894</u>	<u>\$ 1,612</u>	<u>\$ 52,234</u>	<u>\$ -</u>	<u>\$ 15,247</u>

CITY OF SALEM
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Unsafe Building	Riverboat Revenue Sharing	Rainy Day Fund	Police Grant	Airport Grant - Federal	Airport Grant - State
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	1,850	-	-	-	-	-
Intergovernmental	-	38,919	-	-	97,462	2,865
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total receipts	1,850	38,919	-	-	97,462	2,865
Disbursements:						
General government	-	-	-	-	-	-
Public safety	6,819	-	-	-	-	-
Highways and streets	-	34,406	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Capital outlay:						
General government	-	-	-	-	97,462	3,206
Public safety	-	-	-	-	-	-
Highways and streets	-	-	-	-	-	-
Total disbursements	6,819	34,406	-	-	97,462	3,206
Excess (deficiency) of receipts over disbursements	(4,969)	4,513	-	-	-	(341)
Other financing sources (uses)						
Interfund loans received	-	-	-	-	-	982
Interfund loans repaid	-	-	-	-	-	(982)
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	(4,969)	4,513	-	-	-	(341)
Cash and investment fund balance - beginning	21,992	77,947	118,611	10	-	341
Cash and investment fund balance - ending	\$ 17,023	\$ 82,460	\$ 118,611	\$ 10	\$ -	\$ -
Cash and Investment Assets - December 31						
Cash and investments	\$ -	\$ 82,460	\$ 118,611	\$ -	\$ -	\$ -
Restricted assets:						
Cash and investments	17,023	-	-	10	-	-
Total cash and investment assets - December 31	\$ 17,023	\$ 82,460	\$ 118,611	\$ 10	\$ -	\$ -
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Public safety	17,023	-	-	10	-	-
Highways and streets	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Other purposes	-	-	-	-	-	-
Unrestricted	-	82,460	118,611	-	-	-
Total cash and investment fund balance - December 31	\$ 17,023	\$ 82,460	\$ 118,611	\$ 10	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF ASSETS AND FUND BALANCES AND
 RECEIPTS, DISBURSEMENTS, AND CHANGES IN FUND BALANCES - CASH AND INVESTMENT BASIS
 OTHER GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2005
 (Continued)

	Economic Development Income Tax	Build Indiana - Police	Cumulative Capital Improvement	Cumulative Capital Development	Airport Improvement	Totals
Receipts:						
Taxes	\$ -	\$ -	\$ -	\$ 63,191	\$ -	\$ 355,297
Licenses and permits	-	-	-	-	-	3,355
Intergovernmental	249,920	-	19,079	7,302	-	677,342
Charges for services	-	-	-	-	-	141,826
Fines and forfeits	-	-	-	-	-	552
Other	473	-	-	1,240	1,731	54,301
Total receipts	250,393	-	19,079	71,733	1,731	1,232,673
Disbursements:						
General government	67,284	-	-	-	-	210,260
Public safety	-	-	-	-	-	18,702
Highways and streets	-	-	-	-	-	464,450
Culture and recreation	26,845	-	-	-	-	231,790
Capital outlay:						
General government	48,795	-	5,099	81,551	27,796	263,909
Public safety	-	78,018	-	-	-	78,018
Highways and streets	29,900	-	16,434	-	-	46,334
Total disbursements	172,824	78,018	21,533	81,551	27,796	1,313,463
Excess (deficiency) of receipts over disbursements	77,569	(78,018)	(2,454)	(9,818)	(26,065)	(80,790)
Other financing sources (uses)						
Interfund loans received	-	-	-	-	-	982
Interfund loans repaid	-	-	-	-	-	(982)
Transfers in	-	-	-	-	-	26,070
Transfers out	(22,695)	-	-	(3,375)	-	(26,070)
Total other financing sources (uses)	(22,695)	-	-	(3,375)	-	-
Excess (deficiency) of receipts and other financing sources over disbursements and other financing uses	54,874	(78,018)	(2,454)	(13,193)	(26,065)	(80,790)
Cash and investment fund balance - beginning	188,213	78,018	13,747	142,602	34,623	1,189,636
Cash and investment fund balance - ending	\$ 243,087	\$ -	\$ 11,293	\$ 129,409	\$ 8,558	\$ 1,108,846
Cash and Investment Assets - December 31						
Cash and investments	\$ 243,087	\$ -	\$ -	\$ -	\$ -	\$ 444,158
Restricted assets:						
Cash and investments	-	-	11,293	129,409	8,558	664,688
Total cash and investment assets - December 31	\$ 243,087	\$ -	\$ 11,293	\$ 129,409	\$ 8,558	\$ 1,108,846
Cash and Investment Fund Balance - December 31						
Restricted for:						
General government	\$ -	\$ -	\$ -	\$ -	\$ 8,558	\$ 237,980
Public safety	-	-	-	-	-	29,983
Highways and streets	-	-	-	-	-	194,371
Culture and recreation	-	-	-	-	-	61,652
Other purposes	-	-	11,293	129,409	-	140,702
Unrestricted	243,087	-	-	-	-	444,158
Total cash and investment fund balance - December 31	\$ 243,087	\$ -	\$ 11,293	\$ 129,409	\$ 8,558	\$ 1,108,846

CITY OF SALEM
 COMBINING SCHEDULE OF ADDITIONS, DEDUCTIONS, AND CHANGES IN CASH AND INVESTMENT BALANCES
 PENSION TRUST FUNDS
 For The Year Ended December 31, 2005

	<u>Fire Pension</u>	<u>Police Pension</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 38,839	\$ 77,678	\$ 116,517
State	<u>54,676</u>	<u>36,397</u>	<u>91,073</u>
Total contributions	<u>93,515</u>	<u>114,075</u>	<u>207,590</u>
Investment receipts:			
Interest	<u>125</u>	<u>116</u>	<u>241</u>
Total additions	<u>93,640</u>	<u>114,191</u>	<u>207,831</u>
Deductions:			
Benefits	105,523	70,472	175,995
Administrative and general	<u>68</u>	<u>100</u>	<u>168</u>
Total deductions	<u>105,591</u>	<u>70,572</u>	<u>176,163</u>
Excess (deficiency) of total additions over total deductions	(11,951)	43,619	31,668
Cash and investment fund balance - beginning	<u>65,910</u>	<u>38,941</u>	<u>104,851</u>
Cash and investment fund balance - ending	<u>\$ 53,959</u>	<u>\$ 82,560</u>	<u>\$ 136,519</u>

CITY OF SALEM
SUPPLEMENTARY INFORMATION
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2005

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

There were not any general infrastructure assets acquired in the current year. The City has chosen not to implement retroactive reporting of general infrastructure assets.

<u>Primary Government</u>	<u>Ending Balance</u>
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 470,659
Buildings	903,214
Improvements other than buildings	904,867
Machinery and equipment	<u>1,479,227</u>
Total governmental activities, capital assets not being depreciated	<u>\$ 3,757,967</u>

<u>Primary Government</u>	<u>Ending Balance</u>
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 833,132
Buildings	148,458
Improvements other than buildings	2,413,804
Machinery and equipment	<u>3,452,728</u>
Total Water Utility capital assets	<u>6,848,122</u>
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	155,965
Buildings	4,910,701
Improvements other than buildings	2,958,863
Machinery and equipment	<u>1,755,158</u>
Total Wastewater Utility capital assets	<u>9,780,687</u>
Solid Waste (Trash) Utility:	
Capital assets, not being depreciated:	
Buildings	10,722
Machinery and equipment	<u>223,843</u>
Total Solid Waste (Trash) Utility capital assets	<u>234,565</u>
Total business-type activities capital assets	<u>\$ 16,863,374</u>

CITY OF SALEM
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF LONG-TERM DEBT

For The Year Ended December 31, 2005

Description of Asset	Ending Balance	Due Within One Year
Governmental Activities:		
Capital leases:		
City hall	\$ 1,460,000	\$ 50,000
Business-type Activities:		
Water Utility		
Notes and loans payable	\$ 2,600,000	\$ 2,600,000
Revenue bonds:		
1997 Waterworks	165,000	65,000
Total Water Utility	2,765,000	2,665,000
Wastewater Utility		
Capital leases:		
Vactor truck	150,000	27,354
Revenue bonds:		
1997 Sewage expansion	1,195,000	80,000
1998 Sewage expansion	775,000	40,000
2005 Sewage improvements	2,600,000	70,000
Total Wastewater Utility	4,720,000	217,354
Sanitation (Trash) Utility:		
Capital leases:		
Street sweeper	13,979	13,979
Total business-type activities long-term debt:	\$ 7,498,979	\$ 2,896,333

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2765

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

TO: THE OFFICIALS OF THE CITY OF SALEM, WASHINGTON COUNTY, INDIANA

Compliance

We have audited the compliance of the City of Salem (City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended December 31, 2005. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied in all material respects with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2005.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the City's management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. In accordance with Indiana Code 5-11-5-1, this report is a part of the public records of the State Board of Accounts and of the office examined.

STATE BOARD OF ACCOUNTS

October 16, 2006

CITY OF SALEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2005

Federal Grantor Agency/Pass-Through Entity Cluster Title/Program Title/Project Title	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>U.S. DEPARTMENT OF COMMERCE</u>			
Direct Grant			
Public Works and Economic Development Cluster			
Grants for Public Works and Economic Development Facilities	11.300		
Public Works Assistance		06-01-04827	\$ 175,711
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Economic Development Corporation			
Community Development Block Grants/State's Program	14.228		
Community Focus Grant		CF-04-233	429,863
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Direct Grant			
Airport Improvement Program	20.106		
AIP-05		3-18-0075-05	18,090
AIP-06		3-18-0075-06	51,656
AIP-07		3-18-0075-07	27,716
Total for program			97,462
Total for federal grantor agency			97,462
Total federal awards expended			\$ 703,036

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF SALEM
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Salem (City) and is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Accordingly, the amount of federal awards expended is based on when the activity related to the award occurs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

CITY OF SALEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Noncompliance material to financial statements noted? no

Federal Awards:

Internal control over major programs:

Material weaknesses identified?	no
Reportable conditions identified that are not considered to be material weaknesses?	none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? no

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants/State's Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? no

Section II – Financial Statement Findings

No matters are reportable.

Section III – Federal Award Findings and Questioned Costs

No matters are reportable.

CITY OF SALEM
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

No matters are reportable.

CITY OF SALEM
EXIT CONFERENCE

The contents of this report were discussed on October 17, 2006, with Judy K. Chastain, Mayor; and Patricia E. Persinger, Clerk-Treasurer. Our audit disclosed no material items that warrant comment at this time.