

**STATE BOARD OF ACCOUNTS**  
**302 West Washington Street**  
**Room E418**  
**INDIANAPOLIS, INDIANA 46204-2769**

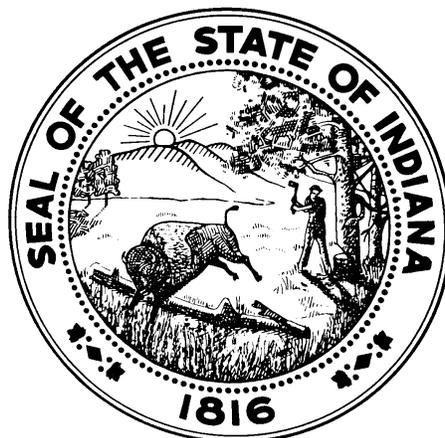
EXAMINATION REPORT

OF

CITY OF SALEM

WASHINGTON COUNTY, INDIANA

January 1, 2007 to December 31, 2007



**FILED**  
05/12/2008



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger	01-01-04 to 12-31-11
Mayor	Judy K. Chastain David L. Bower	01-01-04 to 12-31-07 01-01-08 to 12-31-11
President of the Common Council	Nancy Fultz Waldo Terkhorn	01-01-07 to 12-31-07 01-01-08 to 12-31-08
President of the Board of Public Works	Judy K. Chastain David L. Bower	01-01-07 to 12-31-07 01-01-08 to 12-31-08



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS  
302 WEST WASHINGTON STREET  
ROOM E418  
INDIANAPOLIS, INDIANA 46204-2769

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

INDEPENDENT ACCOUNTANT'S REPORT

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

We have examined the financial information presented herein of the City of Salem (City), for the period of January 1, 2007 to December 31, 2007. The City's management is responsible for the financial information presented herein. Our responsibility is to express an opinion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence supporting the financial information presented herein and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

In our opinion, the financial information referred to above presents fairly, in all material respects, the financial information of the City for the year ended December 31, 2007, based on the criteria set forth in the uniform compliance guidelines established by the Indiana State Board of Accounts.

The Schedule of Capital Assets and Schedule of Long-Term Debt, as listed in the Table of Contents, are presented for additional analysis and are not a required part of the basic financial information. They have not been subjected to the examination procedures applied to the basic financial information and, accordingly, we express no opinion on them.

STATE BOARD OF ACCOUNTS

March 6, 2008

CITY OF SALEM  
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES  
ALL GOVERNMENTAL, PROPRIETARY, AND FIDUCIARY FUND TYPES  
As Of And For The Year Ended December 31, 2007

	Cash and Investments 01-01-07	Receipts	Disbursements	Cash and Investments 12-31-07
<b>Governmental Funds:</b>				
General	\$ 1,258,089	\$ 2,843,644	\$ 3,443,790	\$ 657,943
Motor Vehicle Highway	193,682	360,021	426,421	127,282
Local Road and Street	24,089	27,342	28,788	22,643
Park and Recreation	132,369	134,272	164,397	102,244
Cemetery Operating	73,934	143,286	116,807	100,413
Aviation	13,131	50,354	48,101	15,384
Airport Grant - Federal	91	307,667	307,758	-
Airport Grant - State	-	12,367	12,367	-
Mayor Roundtable Donation	284	-	284	-
Adult Center Donation	2,720	-	2,720	-
Cemetery Stone Repair Donation	306	-	-	306
Cemetery Chapel Donation	500	400	-	900
City Hall Mural	-	4,250	4,250	-
Salem Sidewalk	577	-	-	577
EDIT Fund	315,305	264,711	325,884	254,132
Salem Microloan	96,349	-	-	96,349
Animal Shelter Donation	7,995	1,986	-	9,981
Fire Unappropriated Donation	152	-	-	152
Police Seizures - Federal	-	1,988	1,633	355
Law Enforcement Continuing Education	3,873	3,498	3,728	3,643
Police Donation	407	60	407	60
K-9 Program	2,318	5,000	7,318	-
Cemetery Perpetual Maintenance	59,952	8,490	-	68,442
Urban Beautification	-	250	250	-
FEMA Grant Fire	-	9,247	9,247	-
Salem Housing Rehabilitation	16,635	2,036	-	18,671
Unsafe Building	18,416	1,523	4,000	15,939
Riverboat	81,308	38,919	30,547	89,680
Rainy Day	118,611	590,337	353,500	355,448
Storm Water Plan Grant	-	3,500	-	3,500
Cumulative Capital Improvement	15,343	21,678	22,304	14,717
Police Grant	10	-	-	10
Cumulative Capital Development	102,814	45,994	85,920	62,888
Airport Improvement	8,995	319	9,062	252
Levy Excess	48,912	31,178	48,912	31,178
<b>Proprietary Funds:</b>				
Water Utility - Operating	32,762	1,968,633	1,938,243	63,152
Water Utility - Bond and Interest	23,529	381,584	405,013	100
Water Utility - Depreciation	136,845	91,600	207,812	20,633
Water Utility - Nonreverting	8,033	5,818	9,765	4,086
Water Utility - Debt Service	73,500	44,000	-	117,500
Water Utility - 56 W Water Line Extension	-	4,375	1,750	2,625
Water Utility - Water Works BAN 2004	1,366,455	654	1,348,242	18,867
Wastewater Utility - Operating	5,232	1,294,853	1,298,985	1,100
Wastewater Utility - Bond and Interest	20,013	429,625	428,795	20,843
Wastewater Utility - Depreciation	78,526	114,199	65,177	127,548
Wastewater Utility - Sewer Works BAN 2004	-	154,398	154,398	-
Wastewater Utility - Debt Service	242,174	17,200	-	259,374
Wastewater Utility - Retainage	73,776	-	73,776	-
Solid Waste Utility - Operating	139,360	410,255	421,585	128,030
Self-Insurance	1,856	60,862	55,886	6,832
<b>Fiduciary Funds:</b>				
Sinclair Memorial Mausoleum	15,578	247	-	15,825
Payroll	64,609	4,209,447	4,206,039	68,017
Firefighters' Pension	37,963	149,406	142,600	44,769
Police Officers' Pension	55,712	92,074	75,551	72,235
<b>Totals</b>	<u>\$ 4,973,090</u>	<u>\$ 14,343,547</u>	<u>\$ 16,292,012</u>	<u>\$ 3,024,625</u>

The accompanying notes are an integral part of the financial information.

CITY OF SALEM  
NOTES TO FINANCIAL INFORMATION

Note 1. Introduction

The City was established under the laws of the State of Indiana. The City provides the following services: public safety, highway and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, solid waste disposal, and urban redevelopment and housing.

Note 2. Fund Accounting

The City uses funds to report on its cash and investments and the results of its operations on a cash basis. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities.

Note 3. Budgets

The operating budget is initially prepared and approved at the local level. In addition, funds for which property taxes are levied or highway use taxes are received are subject to final approval by the Indiana Department of Local Government Finance.

Note 4. Property Taxes

Property taxes levied are collected by the County Treasurer and are distributed to the City in June and December. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100% of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which become delinquent if not paid by May 10 and November 10, respectively. All property taxes collected by the County Treasurer and available for distribution were distributed to the City on or prior to December 31 of the year collected.

Note 5. Deposits and Investments

Deposits, made in accordance with Indiana Code 5-13, with financial institutions in the State of Indiana at year end were entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statute (IC 5-13-9) authorizes the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

CITY OF SALEM  
NOTES TO FINANCIAL INFORMATION  
(Continued)

Note 6. Pension Plan

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 employees are eligible to participate in this 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 members' 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. 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 Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of PERF.

CITY OF SALEM  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS

For The Year Ended December 31, 2007

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.

General infrastructure assets are included if acquired (purchased, constructed, or donated) after July 1, 1980, or if they received major renovations, restorations, or improvements after that date. The government was able to estimate the historical cost for the initial reporting of these assets through backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year.) As the government constructs or acquires additional capital assets each period, including infrastructure assets, they are reported at historical cost.

	Ending Balance
Governmental activities:	
Capital assets, not being depreciated:	
Land	\$ 470,659
Infrastructure	7,000
Buildings	903,214
Improvements other than buildings	947,917
Machinery and equipment	1,493,184
Construction in progress	29,116
Total governmental activities, capital assets not being depreciated	\$ 3,851,090

	Ending Balance
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 833,132
Construction in progress	5,406
Buildings	151,878
Improvements other than buildings	2,457,863
Machinery and equipment	3,640,543
Total Water Utility capital assets	7,088,822
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	159,265
Construction in progress	13,270
Buildings	4,910,701
Improvements other than buildings	2,958,863
Machinery and equipment	1,938,366
Total Wastewater Utility capital assets	9,980,465
Solid Waste Utility:	
Capital assets, not being depreciated:	
Buildings	10,722
Machinery and equipment	229,505
Total Solid Waste Utility capital assets	240,227
Total business-type activities capital assets	\$ 17,309,514

CITY OF SALEM  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2007

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental Activities:		
Capital lease:		
2004 City hall	\$ 1,360,000	\$ 123,394
Business-type Activities:		
Water Utility		
Revenue bonds:		
1997 Waterworks improvements	\$ 45,000	\$ 47,408
2006 Waterworks improvements	3,505,000	252,468
Total Water Utility	3,550,000	299,876
Wastewater Utility		
Capital leases:		
Vactor truck	94,028	33,514
Revenue bonds:		
1998 Sewage expansion	690,000	79,230
2005 Sewage improvements	2,455,000	196,295
2006 Sewage refunding	1,030,000	153,067
Total Wastewater Utility	4,269,028	462,106
Total business-type activities debt:	\$ 7,819,028	\$ 761,982

CITY OF SALEM  
EXAMINATION RESULT AND COMMENT

CONTRACTS NOT PRESENTED FOR EXAMINATION - AVIATION DEPARTMENT

Some airplane hangar rental agreements between the Salem Airport and the tenants were not presented for examination.

Payments made or received for contractual services should be supported by a written contract. Each governmental unit is responsible for complying with the provisions of its contents. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF SALEM  
EXIT CONFERENCE

The contents of this report were discussed on March 6, 2008, with Patricia E. Persinger, Clerk-Treasurer; David L. Bower, Mayor; and Waldo Terkhorn, President of the Common Council.