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**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, 2009 to December 31, 2009



**FILED**  
10/19/2010



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OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger	01-01-08 to 12-31-11
Mayor	David L. Bower	01-01-08 to 12-31-11
President of the Common Council	Waldo Terkhorn Danny R. Libka	01-01-09 to 12-31-09 01-01-10 to 12-31-10
President of the Board of Public Works	David L. Bower	01-01-09 to 12-31-10



**STATE OF INDIANA**  
AN EQUAL OPPORTUNITY EMPLOYER

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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, 2009 to December 31, 2009. 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, 2009, 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 required parts 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

July 29, 2010

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, 2009

	Cash and Investments 01-01-09	Receipts	Disbursements	Cash and Investments 12-31-09
Governmental Funds:				
General	\$ 425,513	\$ 4,507,948	\$ 3,904,387	\$ 1,029,074
Motor Vehicle Highway	8,589	752,892	555,597	205,884
Local Road and Street	22,946	24,363	40,000	7,309
Park and Recreation	65,746	198,818	163,880	100,684
Cemetery Operating	101,423	104,569	139,030	66,962
Aviation	18,357	43,757	40,677	21,437
Airport Grant - Federal	-	3,140	3,137	3
Airport Grant - State	-	3,860	3,860	-
Cemetery Stone Repair Donation	306	-	-	306
Cemetery Chapel Donation	1,100	200	-	1,300
City Hall Mural	4,250	-	-	4,250
Salem Sidewalk	-	42	-	42
EDIT Fund	366,417	371,446	368,654	369,209
Salem Microloan	92,500	-	55,500	37,000
Animal Shelter Donation	12,448	2,707	2,313	12,842
Fire Inappropriate Donation	152	-	-	152
Police Seizures - Federal	8	-	-	8
Law Enforcement Continuing Education	3,169	3,074	4,647	1,596
Police Donation	60	2,000	1,935	125
Cemetery Perpetual Maintenance	61,986	35,359	-	97,345
Urban Beautification	500	1,175	346	1,329
Salem Housing Rehabilitation	25,014	74,085	74,085	25,014
Unsafe Building	1,126	12,350	-	13,476
Riverboat	128,719	52,180	119,238	61,661
Rainy Day	3,419	450,000	-	453,419
Storm Water Plan Grant	3,500	-	-	3,500
Cumulative Capital Improvement	17,511	18,925	23,700	12,736
Police Grant	10	-	-	10
Cumulative Capital Development	84,510	87,799	144,223	28,086
Airport Improvement	4,349	830	1,332	3,847
Proprietary Funds:				
Water Utility - Operating	36,198	1,857,359	1,849,923	43,634
Water Utility - Bond and Interest	25	234,800	258,117	(23,292)
Water Utility - Depreciation	56,652	49,157	87,065	18,744
Utility Assist Non-Reverting	-	14,828	14,828	-
Water Utility - Nonreverting	9,342	18,093	4,896	22,539
Water Utility - Debt Service	19,800	184,200	-	204,000
Water Utility - Becks Mill Extension	-	1,826	1,217	609
Wastewater Utility - Operating	13,224	1,230,884	1,194,120	49,988
Wastewater Utility - Bond and Interest	36,101	396,645	432,742	4
Wastewater Utility - Depreciation	63,206	18,100	54,497	26,809
Wastewater Utility - Debt Service	20,774	272,800	-	293,574
Wastewater Utility - Customer Deposit	9,570	30,030	7,920	31,680
Solid Waste Utility - Operating	97,724	440,482	382,395	155,811
Self Insurance	16,192	58,076	53,422	20,846
Fiduciary Funds:				
Sinclair Memorial Mausoleum	16,061	399	198	16,262
Payroll	70,449	4,041,134	4,035,794	75,789
Firefighters' Pension	33,409	165,589	120,779	78,219
Police Officers' Pension	74,028	193,785	95,717	172,096
Totals	<u>\$ 2,026,383</u>	<u>\$ 15,959,706</u>	<u>\$ 14,240,171</u>	<u>\$ 3,745,918</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, highways and streets, health and social services, culture and recreation, public improvements, urban redevelopment and housing, water, wastewater, solid waste disposal, and general administrative services.

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.

Note 7. Subsequent Events

On March 11, 2010, Washington County agreed to share the cost of the Salem Municipal Airport expansion, by contributing \$75,000 per year for 3 years.

On March 17, 2010, the City entered into an interlocal agreement with East Washington Rural Water Corporation (Corporation) to increase the reservoir pool elevation of Lake John Hay by six feet from its current elevation. The cost for the design, development and construction of the project shall be the obligation of the Corporation. In turn the Salem Water Utility has agreed to provide the water supply needs of the Corporation for 25 years and shall charge the Corporation the volume rate to wholesale customers.

The City was awarded a \$990,606 Storm Water Improvement Project grant with a local match of \$38,394 for a total project cost of \$1,029,000.

On April 13, 2010, the City approved a water improvement project at Lake John Hay to satisfy an agreed order from the Indiana Department of Environmental Management (IDEM) and to fix problems with taste and odor at an approximate cost of \$400,000. IDEM approved and adopted the agreement on May 18, 2010.

CITY OF SALEM  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF CAPITAL ASSETS  
For The Year Ended December 31, 2009

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	\$ 531,273
Infrastructure	6,536,750
Buildings	906,464
Improvements other than buildings	932,118
Machinery and equipment	1,849,227
Construction in progress	77,479
Total governmental activities, capital assets not being depreciated	\$ 10,833,311
	Ending Balance
Business-type activities:	
Water Utility:	
Capital assets, not being depreciated:	
Land	\$ 833,132
Construction in progress	4,947
Buildings	151,878
Improvements other than buildings	2,463,128
Machinery and equipment	3,676,453
Total Water Utility capital assets	7,129,538
Wastewater Utility:	
Capital assets, not being depreciated:	
Land	159,265
Buildings	4,914,233
Improvements other than buildings	2,972,131
Machinery and equipment	1,957,048
Total Wastewater Utility capital assets	10,002,677
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	\$ 17,372,442

CITY OF SALEM  
 SUPPLEMENTARY INFORMATION  
 SCHEDULE OF LONG-TERM DEBT  
 December 31, 2009

The City has entered into the following debt:

Description of Debt	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:		
Capital leases:		
2004 City Hall	\$ 1,240,000	\$ 121,444
Business-type activities:		
Water Utility:		
Revenue bonds:		
2006 Waterworks improvements	\$ 3,295,000	\$ 258,333
Wastewater Utility:		
Capital leases:		
Vactor truck	32,768	33,514
Revenue bonds:		
1998 Sewage expansion	595,000	79,930
2005 Sewage improvements	2,290,000	198,870
2006 Sewage refunding	845,000	152,232
Total Wastewater Utility	3,762,768	464,546
Total business-type activities debt	\$ 7,057,768	\$ 722,879

CITY OF SALEM  
EXAMINATION RESULT AND COMMENT

ORDINANCES AND RESOLUTIONS

Water Utility

The City's Ordinance No. 1162 authorizes the issuance of revenue bonds and the segregation and distribution of revenues to safeguard the interests of the owners of such revenue bonds. The Water Utility shall set aside and deposit a sufficient amount of their net revenues to meet the requirements of the Bond and Interest account and the Debt Service Reserve account. As of December 31, 2009, the Bond and Interest account had a negative balance of \$23,292 and the Debt Service Reserve account was sufficiently funded.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

The fund balance of any fund may not be reduced below zero. Routinely overdrawn funds could be an indicator of serious financial problems which should be investigated by the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Wastewater Utility

The City's Ordinance Nos. 1132 and 1243 authorizes the issuance of revenue bonds and the segregation and distribution of revenues to safeguard the interests of the owners of such revenue bonds. The Wastewater Utility shall set aside and deposit a sufficient amount of their net revenues to meet the requirements of the Bond and Interest account and the Debt Service Reserve account. As of December 31, 2009, the Wastewater's Bond and Interest account was underfunded \$35,915 and the Wastewater's Debt Service Reserve account was underfunded \$43,259.

Each governmental unit is responsible for complying with the ordinances, resolutions, and policies it adopts. (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 July 29, 2010, with David L. Bower, Mayor; Danny R. Libka, President of the Common Council; and Patricia E. Persinger, Clerk-Treasurer. The officials concurred with our finding.