

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

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF SALEM
WASHINGTON COUNTY, INDIANA

January 1, 2011 to December 31, 2011



FILED
09/11/2012

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-4
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance With Government Auditing Standards	5-6
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	8
Notes to Financial Statement.....	9-14
Supplementary Information:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis	16-25
Schedule of Payables and Receivables	26
Schedule of Leases and Debt	27
Schedule of Capital Assets.....	28
Audit Result and Comment:	
Official Bond	29
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance With Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	32-33
Schedule of Expenditures of Federal Awards	36
Note to Schedule of Expenditures of Federal Awards.....	37
Schedule of Findings and Questioned Costs	38
Auditee Prepared Schedule:	
Summary Schedule of Prior Audit Findings	39
Exit Conference.....	40

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger	01-01-08 to 12-31-15
Mayor	David L. Bower	01-01-08 to 12-31-15
President of the Board of Public Works	David L. Bower	01-01-11 to 12-31-12
President of the Common Council	Lesle Leis Justin Green	01-01-11 to 12-31-11 01-01-12 to 12-31-12
Superintendent of Water Utility	Russell Brown	01-01-11 to 12-31-12
Superintendent of Wastewater Utility	Phillip Burnett	01-01-11 to 12-31-12
Superintendent of Trash Utility	Tom Voyles	01-01-11 to 12-31-12
Utility Office Manager	Carol Brough	01-01-11 to 12-31-12



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statement of the City of Salem (City), for the year ended December 31, 2011. This financial statement is the responsibility of the City's management. Our responsibility is to express an opinion on this financial statement 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 statement is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. 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 opinion.

As discussed in Note 1, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2011, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated August 15, 2012, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. 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 financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other reports used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the City's management, Board of Public Works, Common Council, others within the entity, 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

August 15, 2012



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AN EQUAL OPPORTUNITY EMPLOYER

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statement of the City of Salem (City), for the year ended December 31, 2011, and have issued our report thereon dated August 15, 2012. 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.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the City's management, Board of Public Works, Common Council, others within the entity, 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

August 15, 2012

FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF SALEM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2011

Fund	Cash and Investments 01-01-11	Receipts	Disbursements	Cash and Investments 12-31-11
GENERAL	\$ 869,732	\$ 3,703,671	\$ 4,057,128	\$ 516,275
MOTOR VEHICLE HIGHWAY	230,248	428,579	431,762	227,065
LOCAL ROAD AND STREET	6,587	24,799	24,700	6,686
AVIATION	27,325	56,759	49,102	34,982
SANITATION	169,058	356,922	325,536	200,444
LAW ENFORCEMENT CONTINUING EDUCATION	975	6,354	3,611	3,718
UNSAFE BUILDING	18,566	1,065	-	19,631
RIVERBOAT REVENUE SHARING	15,747	43,026	39,671	19,102
PARK AND RECREATION	113,083	186,200	176,023	123,260
RAINY DAY FUND	471,782	-	300,000	171,782
EDIT	342,537	300,830	351,587	291,780
LEVY EXCESS	6,678	-	6,678	-
CUMULATIVE CAPITAL IMPROVEMENT	12,111	17,725	19,611	10,225
CUMULATIVE CAPITAL DEVELOPMENT	29,605	72,086	62,322	39,369
SELF INSURANCE	79,741	898,519	978,282	(22)
POLICE PENSION NEW	6,414	117,575	117,785	6,204
FIRE PENSION NEW	4,665	73,744	74,174	4,235
CEMETERY OPERATING	29,010	94,752	105,717	18,045
AIRPORT GRANT-FEDERAL	13,036	304,599	296,880	20,755
AIRPORT GRANT-STATE	6,238	19,745	25,607	376
PETTY CASH - GENERAL	500	-	-	500
CASH CHANGE - GENERAL	50	-	-	50
PETTY CASH - PARK AND RECREATION	50	-	-	50
CEMETERY STONE REPAIR DONATION	306	-	-	306
CEMETERY CHAPEL DONATIONS	1,500	200	-	1,700
SALEM SIDEWALK	14	-	-	14
ANIMAL SHELTER DONATION	17,363	4,379	103	21,639
POLICE DONATION	-	2,099	2,099	-
CEMETERY PERMANENT MAINTENANCE	78,914	51,417	-	130,331
SINCLAIR MEMORIAL MAUSOLEUM	16,361	129	62	16,428
URBAN BEAUTIFICATION	1,479	175	1,650	4
FEMA GRANT FIRE	-	17,290	17,290	-
SALEM HOUSING REHABILITATION	14	-	-	14
STORM WATER GRANT	200	640,198	590,272	50,126
AIRPORT IMPROVEMENT	5,631	84,187	11,719	78,099
PROJECT DONATION	2,500	6,300	8,786	14
PAYROLL	-	2,870,310	2,870,310	-
FIRE PENSION OLD	95,998	81,844	100,500	77,342
POLICE PENSION OLD	90,391	79,274	80,920	88,745
SOCIAL SECURITY TAX	-	241,345	241,345	-
PERF	46,047	211,625	208,980	48,692
INSURANCE	(2,251)	47,882	46,126	(495)
WASTEWATER OPERATING	31,071	1,256,408	1,272,463	15,016
SEWER SERVICE	46,860	33,440	29,370	50,930
WASTEWATER DEPRECIATION	54,733	176,587	160,276	71,044
WASTEWATER BOND AND INTEREST	37,127	432,830	433,652	36,305
WASTEWATER DEBT SERVICE	404,534	322,006	300,000	426,540
PETTY CASH - WASTEWATER	500	-	-	500
CASH CHANGE - WASTEWATER	50	-	-	50
WATER OPERATING	44,049	1,837,917	1,871,343	10,623
WATER DEPRECIATION	21,848	1,013,548	942,486	92,910
WATER BOND AND INTEREST	175	258,165	258,330	10
PETTY CASH - WATER	500	-	-	500
WATER NON-REVERTING	9,996	13,430	13,572	9,854
CASH CHANGE - WATER	50	-	-	50
WATER DEBT SERVICE	250,500	62,550	-	313,050
BECKS MILL WATER LINE EXTENSION	609	-	-	609
TOTALS	\$ 3,710,807	\$ 16,452,485	\$ 16,907,830	\$ 3,255,462

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT

Note 1. 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, aviation, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), 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 regulatory 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.

C. Cash and Investments

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

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, 911 telephone services, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses which include all outflows for operating the utilities.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. 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 percent 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 normally become delinquent if not paid by May 10 and November 10, respectively.

Note 4. Deposits and Investments

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be 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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize 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.

The cash and investments balances as of December 31, 2011, for the following funds, include retainage that belongs to contractors:

Fund	Retainage
Storm Water Grant	\$ 50,126
Water Depreciation	<u>22,316</u>
Total	<u><u>\$ 72,442</u></u>

Note 5. Risk Management

The City may be 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; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks. These risks may also be mitigated by the City by recording as a disbursement any replacement items purchased.

Note 6. Pension Plans

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is 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 Indiana Public Retirement System (INPRS) 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 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS 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:

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan 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

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan 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

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) 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 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS 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:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's 2011 Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	AVIATION	SANITATION	LAW ENFORCEMENT CONTINUING EDUCATION
Cash and investments - beginning	\$ 869,732	\$ 230,248	\$ 6,587	\$ 27,325	\$ 169,058	\$ 975
Receipts:						
Taxes	1,758,535	240,367	-	-	171,519	-
Licenses and permits	36,977	-	-	-	-	2,730
Intergovernmental	780,045	180,213	24,799	-	13,092	-
Charges for services	110,000	1,537	-	56,759	169,012	646
Fines and forfeits	6,097	-	-	-	-	2,338
Utility fees	-	-	-	-	-	-
Other receipts	1,012,017	6,462	-	-	3,299	640
Total receipts	<u>3,703,671</u>	<u>428,579</u>	<u>24,799</u>	<u>56,759</u>	<u>356,922</u>	<u>6,354</u>
Disbursements:						
Personal services	2,123,957	325,805	-	-	115,114	-
Supplies	132,613	42,502	-	34,420	2,473	-
Other services and charges	522,264	27,955	24,700	14,411	207,949	1,684
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	121,298	35,500	-	-	-	1,927
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,156,996	-	-	271	-	-
Total disbursements	<u>4,057,128</u>	<u>431,762</u>	<u>24,700</u>	<u>49,102</u>	<u>325,536</u>	<u>3,611</u>
Excess (deficiency) of receipts over disbursements	<u>(353,457)</u>	<u>(3,183)</u>	<u>99</u>	<u>7,657</u>	<u>31,386</u>	<u>2,743</u>
Cash and investments - ending	<u>\$ 516,275</u>	<u>\$ 227,065</u>	<u>\$ 6,686</u>	<u>\$ 34,982</u>	<u>\$ 200,444</u>	<u>\$ 3,718</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	UNSAFE BUILDING	RIVERBOAT REVENUE SHARING	PARK AND RECREATION	RAINY DAY FUND	EDIT	LEVY EXCESS
Cash and investments - beginning	\$ 18,566	\$ 15,747	\$ 113,083	\$ 471,782	\$ 342,537	\$ 6,678
Receipts:						
Taxes	-	-	111,860	-	-	-
Licenses and permits	1,065	-	460	-	-	-
Intergovernmental	-	40,934	8,539	-	240,053	-
Charges for services	-	-	62,056	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	2,092	3,285	-	60,777	-
Total receipts	<u>1,065</u>	<u>43,026</u>	<u>186,200</u>	<u>-</u>	<u>300,830</u>	<u>-</u>
Disbursements:						
Personal services	-	-	126,134	-	-	-
Supplies	-	-	31,934	-	-	-
Other services and charges	-	39,671	11,457	-	140,451	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	6,158	300,000	211,136	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	340	-	-	6,678
Total disbursements	<u>-</u>	<u>39,671</u>	<u>176,023</u>	<u>300,000</u>	<u>351,587</u>	<u>6,678</u>
Excess (deficiency) of receipts over disbursements	<u>1,065</u>	<u>3,355</u>	<u>10,177</u>	<u>(300,000)</u>	<u>(50,757)</u>	<u>(6,678)</u>
Cash and investments - ending	<u>\$ 19,631</u>	<u>\$ 19,102</u>	<u>\$ 123,260</u>	<u>\$ 171,782</u>	<u>\$ 291,780</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	CUMULATIVE CAPITAL IMPROVEMENT	CUMULATIVE CAPITAL DEVELOPMENT	SELF INSURANCE	POLICE PENSION NEW	FIRE PENSION NEW	CEMETERY OPERATING
Cash and investments - beginning	\$ 12,111	\$ 29,605	\$ 79,741	\$ 6,414	\$ 4,665	\$ 29,010
Receipts:						
Taxes	-	66,584	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	17,725	5,082	-	-	-	-
Charges for services	-	-	-	-	-	94,689
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	420	898,519	117,575	73,744	63
Total receipts	<u>17,725</u>	<u>72,086</u>	<u>898,519</u>	<u>117,575</u>	<u>73,744</u>	<u>94,752</u>
Disbursements:						
Personal services	-	-	-	117,785	74,174	81,749
Supplies	-	-	-	-	-	13,565
Other services and charges	-	-	-	-	-	4,124
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	19,611	62,322	-	-	-	6,079
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	978,282	-	-	200
Total disbursements	<u>19,611</u>	<u>62,322</u>	<u>978,282</u>	<u>117,785</u>	<u>74,174</u>	<u>105,717</u>
Excess (deficiency) of receipts over disbursements	<u>(1,886)</u>	<u>9,764</u>	<u>(79,763)</u>	<u>(210)</u>	<u>(430)</u>	<u>(10,965)</u>
Cash and investments - ending	<u>\$ 10,225</u>	<u>\$ 39,369</u>	<u>\$ (22)</u>	<u>\$ 6,204</u>	<u>\$ 4,235</u>	<u>\$ 18,045</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	AIRPORT GRANT FEDERAL	AIRPORT GRANT STATE	PETTY CASH GENERAL	CASH CHANGE GENERAL	PETTY CASH PARK AND RECREATION	CEMETERY STONE REPAIR DONATION
Cash and investments - beginning	\$ 13,036	\$ 6,238	\$ 500	\$ 50	\$ 50	\$ 306
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	304,599	19,745	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-
Total receipts	<u>304,599</u>	<u>19,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	296,880	25,607	-	-	-	-
Total disbursements	<u>296,880</u>	<u>25,607</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>7,719</u>	<u>(5,862)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ 20,755</u>	<u>\$ 376</u>	<u>\$ 500</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 306</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	CEMETERY CHAPEL DONATIONS	SALEM SIDEWALK	ANIMAL SHELTER DONATION	POLICE DONATION	CEMETERY PERMANENT MAINTENANCE	SINCLAIR MEMORIAL MAUSOLEUM
Cash and investments - beginning	\$ 1,500	\$ 14	\$ 17,363	\$ -	\$ 78,914	\$ 16,361
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	5,115	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	200	-	4,379	2,099	46,302	129
Total receipts	200	-	4,379	2,099	51,417	129
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	103	2,099	-	62
Total disbursements	-	-	103	2,099	-	62
Excess (deficiency) of receipts over disbursements	200	-	4,276	-	51,417	67
Cash and investments - ending	\$ 1,700	\$ 14	\$ 21,639	\$ -	\$ 130,331	\$ 16,428

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	URBAN BEAUTIFICATION	FEMA GRANT FIRE	SALEM HOUSING REHABILITATION	STORM WATER GRANT	AIRPORT IMPROVEMENT	PROJECT DONATION
Cash and investments - beginning	\$ 1,479	\$ -	\$ 14	\$ 200	\$ 5,631	\$ 2,500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	17,290	-	640,198	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	175	-	-	-	84,187	6,300
Total receipts	175	17,290	-	640,198	84,187	6,300
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,650	17,290	-	590,272	11,719	8,786
Total disbursements	1,650	17,290	-	590,272	11,719	8,786
Excess (deficiency) of receipts over disbursements	(1,475)	-	-	49,926	72,468	(2,486)
Cash and investments - ending	\$ 4	\$ -	\$ 14	\$ 50,126	\$ 78,099	\$ 14

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	PAYROLL	FIRE PENSION OLD	POLICE PENSION OLD	SOCIAL SECURITY TAX	PERF	INSURANCE
Cash and investments - beginning	\$ -	\$ 95,998	\$ 90,391	\$ -	\$ 46,047	\$ (2,251)
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	81,643	79,065	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	<u>2,870,310</u>	<u>201</u>	<u>209</u>	<u>241,345</u>	<u>211,625</u>	<u>47,882</u>
Total receipts	<u>2,870,310</u>	<u>81,844</u>	<u>79,274</u>	<u>241,345</u>	<u>211,625</u>	<u>47,882</u>
Disbursements:						
Personal services	-	-	500	-	208,980	-
Supplies	-	271	-	-	-	-
Other services and charges	-	100,229	80,420	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	<u>2,870,310</u>	<u>-</u>	<u>-</u>	<u>241,345</u>	<u>-</u>	<u>46,126</u>
Total disbursements	<u>2,870,310</u>	<u>100,500</u>	<u>80,920</u>	<u>241,345</u>	<u>208,980</u>	<u>46,126</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>(18,656)</u>	<u>(1,646)</u>	<u>-</u>	<u>2,645</u>	<u>1,756</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 77,342</u>	<u>\$ 88,745</u>	<u>\$ -</u>	<u>\$ 48,692</u>	<u>\$ (495)</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND AND INTEREST	WASTEWATER DEBT SERVICE	PETTY CASH WASTEWATER
Cash and investments - beginning	\$ 31,071	\$ 46,860	\$ 54,733	\$ 37,127	\$ 404,534	\$ 500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	1,228,738	33,440	2,500	-	-	-
Other receipts	27,670	-	174,087	432,830	322,006	-
Total receipts	<u>1,256,408</u>	<u>33,440</u>	<u>176,587</u>	<u>432,830</u>	<u>322,006</u>	<u>-</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	433,652	-	-
Capital outlay	-	-	160,276	-	-	-
Utility operating expenses	729,703	-	-	-	-	-
Other disbursements	542,760	29,370	-	-	300,000	-
Total disbursements	<u>1,272,463</u>	<u>29,370</u>	<u>160,276</u>	<u>433,652</u>	<u>300,000</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(16,055)</u>	<u>4,070</u>	<u>16,311</u>	<u>(822)</u>	<u>22,006</u>	<u>-</u>
Cash and investments - ending	<u>\$ 15,016</u>	<u>\$ 50,930</u>	<u>\$ 71,044</u>	<u>\$ 36,305</u>	<u>\$ 426,540</u>	<u>\$ 500</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	CASH CHANGE WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND AND INTEREST	PETTY CASH WATER
Cash and investments - beginning	\$ 50	\$ 44,049	\$ 21,848	\$ 175	\$ 500
Receipts:					
Taxes	-	-	-	-	-
Licenses and permits	-	-	-	-	-
Intergovernmental	-	-	346,562	-	-
Charges for services	-	-	-	-	-
Fines and forfeits	-	-	-	-	-
Utility fees	-	1,798,166	-	-	-
Other receipts	-	39,751	666,986	258,165	-
Total receipts	-	1,837,917	1,013,548	258,165	-
Disbursements:					
Personal services	-	-	-	-	-
Supplies	-	-	-	-	-
Other services and charges	-	-	-	-	-
Debt service - principal and interest	-	-	-	258,330	-
Capital outlay	-	-	942,486	-	-
Utility operating expenses	-	1,364,496	-	-	-
Other disbursements	-	506,847	-	-	-
Total disbursements	-	1,871,343	942,486	258,330	-
Excess (deficiency) of receipts over disbursements	-	(33,426)	71,062	(165)	-
Cash and investments - ending	\$ 50	\$ 10,623	\$ 92,910	\$ 10	\$ 500

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

	WATER NON-REVERTING	CASH CHANGE WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXTENSION	Totals
Cash and investments - beginning	\$ 9,996	\$ 50	\$ 250,500	\$ 609	\$ 3,710,807
Receipts:					
Taxes	-	-	-	-	2,348,865
Licenses and permits	-	-	-	-	41,232
Intergovernmental	-	-	-	-	2,799,584
Charges for services	-	-	-	-	499,814
Fines and forfeits	-	-	-	-	8,435
Utility fees	50	-	-	-	3,062,894
Other receipts	13,380	-	62,550	-	7,691,661
Total receipts	<u>13,430</u>	<u>-</u>	<u>62,550</u>	<u>-</u>	<u>16,452,485</u>
Disbursements:					
Personal services	-	-	-	-	3,174,198
Supplies	-	-	-	-	257,778
Other services and charges	-	-	-	-	1,175,315
Debt service - principal and interest	-	-	-	-	691,982
Capital outlay	-	-	-	-	1,866,793
Utility operating expenses	-	-	-	-	2,094,199
Other disbursements	13,572	-	-	-	7,647,565
Total disbursements	<u>13,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,907,830</u>
Excess (deficiency) of receipts over disbursements	<u>(142)</u>	<u>-</u>	<u>62,550</u>	<u>-</u>	<u>(455,345)</u>
Cash and investments - ending	<u>\$ 9,854</u>	<u>\$ 50</u>	<u>\$ 313,050</u>	<u>\$ 609</u>	<u>\$ 3,255,462</u>

CITY OF SALEM
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2011

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 552,036	\$ 25,997
Wastewater	41,612	6,875
Water	45,725	169,810
Totals	\$ 639,373	\$ 202,682

CITY OF SALEM
SCHEDULE OF LEASES AND DEBT
December 31, 2011

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Salem Government Building Corporation	Lease for City Hall	<u>\$ 118,969</u>	01-15-06	07-15-24

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater: Revenue bonds	Wastewater Utility	<u>\$ 3,235,000</u>	<u>\$ 435,250</u>
Water: Revenue bonds	Water Utility	<u>3,060,000</u>	<u>263,110</u>
Totals		<u>\$ 6,295,000</u>	<u>\$ 698,360</u>

CITY OF SALEM
SCHEDULE OF CAPITAL ASSETS
December 31, 2011

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.

	Ending Balance
Governmental activities:	
Land	\$ 1,681,085
Infrastructure	6,536,750
Buildings	913,936
Improvements other than buildings	944,007
Machinery, equipment and vehicles	1,950,040
Construction in progress	840,886
Total governmental activities	12,866,704
Wastewater:	
Land	159,265
Infrastructure	79,098
Buildings	4,914,233
Improvements other than buildings	2,893,035
Machinery, equipment and vehicles	1,958,263
Construction in progress	125,888
Total Wastewater	10,129,782
Water:	
Land	833,132
Infrastructure	38,854
Buildings	151,878
Improvements other than buildings	2,717,159
Machinery, equipment and vehicles	3,680,331
Construction in progress	979,173
Total Water	8,400,527
Total capital assets	\$ 31,397,013

CITY OF SALEM
AUDIT RESULT AND COMMENT

OFFICIAL BOND

The City's Clerk-Treasurer did not execute and furnish an individual surety bond, nor did she obtain authorization from the Common Council to purchase crime insurance policy coverage for the period January 1, 2011 through the current date, July 30, 2012.

For the 2011 audit period, the Fire Pension Secretary did not obtain an official bond; however, an official bond was purchased for the 2012 period.

Indiana Code 5-4-1-18 states in part:

"(a) Except as provided in subsection (b), the following city . . . officers and employees shall file an individual surety bond:

(1) City . . . clerk-treasurers . . .

(b) The fiscal body of a city, . . . may by ordinance authorize the purchase of a blanket bond or a crime insurance policy endorsed to include faithful performance to cover the faithful performance of all employees, commission members and persons acting on behalf of the local governmental unit, including those officers described in subsection (a).

(c) . . . the fiscal bodies of the respective units shall fix the amounts of the bond of . . . city clerk-treasurers . . . as follows:

(1) The amount must equal thirty thousand dollars (\$30,000) for each one million dollars (\$1,000,000) of receipts of the officer's office during the last complete fiscal year before the purchase of the bond, subject to subdivision (2).

(2) The amount may not be less than thirty thousand dollars (\$30,000) nor more than three hundred thousand dollars (\$300,000) unless the fiscal body approves a greater amount for the officer or employee . . .

The amount of the bond of any other person required to file an individual bond shall be fixed by the fiscal body of the unit at not less than fifteen thousand dollars (\$15,000)."

Indiana Code 5-4-1-9 states: "An officer required to give an official bond shall give the bond before the commencement of his term of office. If the officer fails to give the bond before that time, the officer may not take office."

Indiana Code 5-4-1-5.1(b) states in part: "Every elected or appointed officer, official, deputy, or employee of a political subdivision . . . shall file the bond in the office of the county recorder. . . ."

Crime insurance policies permitted by statute should be recorded in the same manner as official bonds under Indiana Code 5-4. (Accounting and Uniform Compliance Guidelines, Cities and Towns Manual, Page 51-6)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
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 City of Salem's (City) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on its major federal program for the year ended December 31, 2011. The City's major federal program is 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 its major federal program 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 of America; 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 could have a direct and material effect on its major federal program for the year ended December 31, 2011.

Internal Control Over Compliance

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 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the City's management, Board of Public Works, Common Council, others within the entity, 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

August 15, 2012

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF SALEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2011

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 HOUSING AND URBAN DEVELOPMENT</u>			
Pass-Through Indiana Office of Community and Rural Affairs			
CDBG - State Administered CDBG Cluster			
Community Development Block Grants/State's Program and			
Non-Entitlement Grants in Hawaii	14.228		
Storm Water Improvement Project		DR2-09-113	\$ 642,508
Water Treatment Plant Improvement Project		DR2-09-169	<u>346,563</u>
Total for federal grantor agency			<u>989,071</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct Grant			
Bulletproof Vest Partnership Program	16.607	FY 2011 BVP	<u>640</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	GL-IN-SO17	<u>7,815</u>
Total for federal grantor agency			<u>8,455</u>
<u>U.S. DEPARTMENT OF TRANSPORTATION</u>			
Pass-Through Indiana Department of Transportation			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205		
		0600373	31,783
		0810444	<u>14,850</u>
Total for cluster			<u>46,633</u>
Direct Grant			
Airport Improvement Program	20.106	AIP 3-18-0075-1010	<u>304,599</u>
Total for federal grantor agency			<u>351,232</u>
<u>U.S. DEPARTMENT OF HOMELAND SECURITY</u>			
Direct Grant			
Assistance to Firefighters Grant	97.044	EMW-2010-FO-02424	<u>17,290</u>
Pass-Through Indiana Department of Homeland Security			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1997	<u>16,297</u>
Total for federal grantor agency			<u>33,587</u>
Total federal awards expended			<u>\$ 1,382,345</u>

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 and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF SALEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	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 Program:

_____ Name of Federal Program or Cluster _____
CDBG – State Administered CDBG Cluster

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 August 15, 2012, with Justin Green, President of the Common Council; David L. Bower, Mayor; and Patricia E. Persinger, Clerk-Treasurer. The officials concurred with our audit finding.