

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, 2012 to December 31, 2012



FILED
06/10/2013

TABLE OF CONTENTS

<u>Description</u>	<u>Page</u>
Schedule of Officials	2
Independent Auditor's Report	3-5
Independent Auditor's 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	6-7
Financial Statement:	
Statement of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	10
Notes to Financial Statement	11-16
Supplementary Information - Unaudited:	
Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances - Regulatory Basis	18-27
Schedule of Payables and Receivables	28
Schedule of Leases and Debt	29
Schedule of Capital Assets	30
Audit Results and Comments:	
Penalties, Interest, and Other Charges	31
Ordinances and Resolutions	31
Supplemental Audit of Federal Awards:	
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control Over Compliance	34-35
Schedule of Expenditures of Federal Awards	38
Note to Schedule of Expenditures of Federal Awards	39
Schedule of Findings and Questioned Costs	40
Exit Conference	41

SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger	01-01-12 to 12-31-15
Mayor	David L. Bower	01-01-12 to 12-31-15
President of the Board of Public Works	David L. Bower	01-01-12 to 12-31-13
President of the Common Council	Justin Green Warren N. Jones	01-01-12 to 12-31-12 01-01-13 to 12-31-13
Superintendent of Water Utility	Russell Brown	01-01-12 to 12-31-13
Superintendent of Wastewater Utility	Phillip Burnett	01-01-12 to 12-31-13
Superintendent of Trash Utility	Tom Voyles	01-01-12 to 12-31-13
Utility Office Manager	Carol Brough	01-01-12 to 12-31-13



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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Salem (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

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

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles" paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

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, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 7, 2013, 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* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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.



Bruce Hartman
State Examiner

May 7, 2013



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

INDEPENDENT AUDITOR'S 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, 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, the financial statement of the City of Salem (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated May 7, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A significant deficiency is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

INDEPENDENT AUDITOR'S 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 7, 2013

(This page intentionally left blank.)

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, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
GENERAL	\$ 516,275	\$ 3,915,716	\$ 3,934,347	\$ 497,644
MOTOR VEHICLE HIGHWAY	227,065	356,646	495,817	87,894
LOCAL ROAD & STREET	6,686	25,241	26,302	5,625
AVIATION	34,982	69,284	66,188	38,078
SANITATION	200,444	322,120	365,471	157,093
LAW ENFORCEMENT CONTINUING EDUCATION	3,718	4,743	2,003	6,458
UNSAFE BUILDING	19,631	1,074	36	20,669
RIVERBOAT REVENUE SHARING	19,102	38,633	39,614	18,121
PARK & RECREATION	123,260	169,387	182,390	110,257
RAINY DAY FUND	171,782	-	80,850	90,932
EDIT	291,780	363,265	453,560	201,485
LEVY EXCESS	-	109,860	91,066	18,794
CUMULATIVE CAPITAL IMPROVEMENT	10,225	16,760	17,668	9,317
CUMULATIVE CAPITAL DEVELOPMENT	39,369	70,962	80,132	30,199
SELF INSURANCE	(22)	907,704	907,583	99
POLICE PENSION NEW	6,204	141,171	147,375	-
FIRE PENSION NEW	4,235	87,133	91,368	-
CEMETERY OPERATING	18,045	111,221	106,967	22,299
AIRPORT GRANT-FEDERAL	20,755	198,432	219,187	-
AIRPORT GRANT-STATE	376	2,611	2,987	-
PETTY CASH - GENERAL	500	-	-	500
CASH CHANGE - GENERAL	50	-	-	50
PETTY CASH - PARK & RECREATION	50	-	-	50
CEMETERY STONE REPAIR DONATION	306	60	-	366
CEMETERY CHAPEL DONATIONS	1,700	200	-	1,900
SALEM SIDEWALK	14	-	-	14
ANIMAL SHELTER DONATION	21,639	2,309	-	23,948
CEMETERY PERMANENT MAINTENANCE	130,331	4,657	34,120	100,868
SINCLAIR MEMORIAL MAUSOLEUM	16,428	69	33	16,464
URBAN BEAUTIFICATION	4	200	-	204
FEMA GRANT FIRE	-	9,500	9,500	-
SALEM HOUSING REHAB RLF	14	-	-	14
STORM WATER GRANT	50,126	348,098	398,224	-
POLICE GRANT	-	4,970	4,970	-
ALLOCATION #1 U.E.Z.	-	15,928	-	15,928
AIRPORT IMPROVEMENT	78,099	129,661	35,379	172,381
BOAC RENTAL PROPERTY	-	5,400	2,256	3,144
PROJECT DONATION	14	-	-	14
PAYROLL	-	2,815,955	2,815,955	-
FIRE PENSION OLD	77,342	102,825	100,153	80,014
POLICE PENSION OLD	88,745	82,724	81,651	89,818
SOCIAL SECURITY TAX	-	251,743	251,743	-
PERF	48,692	219,700	268,392	-
INSURANCE	(495)	42,610	42,842	(727)
WASTEWATER OPERATING	15,016	1,246,441	1,248,154	13,303
SEWER SERVICE	50,930	29,810	24,090	56,650
WASTEWATER DEPRECIATION	71,044	46,401	61,377	56,068
WASTEWATER BOND & INTEREST	36,305	435,400	435,250	36,455
WASTEWATER DEBT SERVICE	426,540	500,000	500,000	426,540
PETTY CASH - WASTEWATER	500	-	-	500
CASH CHANGE - WASTEWATER	50	-	-	50
WATER OPERATING	10,623	1,811,936	1,798,015	24,544
WATER DEPRECIATION	92,910	1,150,120	1,208,922	34,108
WATER BOND & INTEREST	10	263,500	263,110	400
PETTY CASH - WATER	500	-	-	500
WATER NON-REVERTING	9,854	14,578	18,879	5,553
CASH CHANGE - WATER	50	-	-	50
WATER DEBT SERVICE	313,050	20,000	200,000	133,050
BECKS MILL WATER LINE EXTENSION	609	-	-	609
Totals	<u>\$ 3,255,462</u>	<u>\$ 16,466,758</u>	<u>\$ 17,113,926</u>	<u>\$ 2,608,294</u>

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

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 some or all of 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, local road and street distribution received from the state, financial institution tax received

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

The cash and investment balances as of January 1, 2012, for the following funds, include retainage that belonged to contractors. All such retainage was been paid out as of December 31, 2012.

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

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.

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:

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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

Note 7. Cash Balance Deficit

The financial statement contains a fund with a deficit in cash. This is a result of the reimbursement for expenditures made by the City were not received by December 31, 2012.

Note 8. Holding Corporation

The City has entered into a capital lease with 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 lessor has been determined to be a related party of the City. Lease payments during the year 2012 totaled \$121,494.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's 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, 2012

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	AVIATION	SANITATION	LAW ENFORCEMENT CONTINUING EDUCATION
Cash and investments - beginning	\$ 516,275	\$ 227,065	\$ 6,686	\$ 34,982	\$ 200,444	\$ 3,718
Receipts:						
Taxes	1,873,688	176,020	-	-	140,273	-
Licenses and permits	39,452	-	-	-	-	4,250
Intergovernmental	1,067,147	175,950	25,241	-	11,788	-
Charges for services	124,280	1,260	-	68,784	167,599	491
Fines and forfeits	4,856	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	806,293	3,416	-	500	2,460	2
Total receipts	<u>3,915,716</u>	<u>356,646</u>	<u>25,241</u>	<u>69,284</u>	<u>322,120</u>	<u>4,743</u>
Disbursements:						
Personal services	2,245,047	325,987	-	-	128,010	-
Supplies	121,504	24,322	-	53,271	4,671	-
Other services and charges	480,925	10,003	26,302	12,917	212,393	137
Capital outlay	129,264	135,505	-	-	20,338	1,866
Utility operating expenses	-	-	-	-	-	-
Other disbursements	957,607	-	-	-	59	-
Total disbursements	<u>3,934,347</u>	<u>495,817</u>	<u>26,302</u>	<u>66,188</u>	<u>365,471</u>	<u>2,003</u>
Excess (deficiency) of receipts over disbursements	<u>(18,631)</u>	<u>(139,171)</u>	<u>(1,061)</u>	<u>3,096</u>	<u>(43,351)</u>	<u>2,740</u>
Cash and investments - ending	<u>\$ 497,644</u>	<u>\$ 87,894</u>	<u>\$ 5,625</u>	<u>\$ 38,078</u>	<u>\$ 157,093</u>	<u>\$ 6,458</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	UNSAFE BUILDING	RIVERBOAT REVENUE SHARING	PARK & RECREATION	RAINY DAY FUND	EDIT	LEVY EXCESS
Cash and investments - beginning	\$ 19,631	\$ 19,102	\$ 123,260	\$ 171,782	\$ 291,780	\$ -
Receipts:						
Taxes	-	-	96,231	-	-	-
Licenses and permits	1,074	-	500	-	-	-
Intergovernmental	-	37,433	8,087	-	284,493	-
Charges for services	-	-	56,504	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	1,200	8,065	-	78,772	109,860
Total receipts	<u>1,074</u>	<u>38,633</u>	<u>169,387</u>	<u>-</u>	<u>363,265</u>	<u>109,860</u>
Disbursements:						
Personal services	-	-	124,105	-	-	-
Supplies	-	-	38,042	-	-	-
Other services and charges	-	33,614	13,849	22,050	150,991	-
Capital outlay	-	6,000	5,994	58,800	302,569	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	36	-	400	-	-	91,066
Total disbursements	<u>36</u>	<u>39,614</u>	<u>182,390</u>	<u>80,850</u>	<u>453,560</u>	<u>91,066</u>
Excess (deficiency) of receipts over disbursements	<u>1,038</u>	<u>(981)</u>	<u>(13,003)</u>	<u>(80,850)</u>	<u>(90,295)</u>	<u>18,794</u>
Cash and investments - ending	<u>\$ 20,669</u>	<u>\$ 18,121</u>	<u>\$ 110,257</u>	<u>\$ 90,932</u>	<u>\$ 201,485</u>	<u>\$ 18,794</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	CUMULATIVE CAPITAL IMPROVEMENT	CUMULATIVE CAPITAL DEVELOPMENT	SELF INSURANCE	POLICE PENSION NEW	FIRE PENSION NEW	CEMETERY OPERATING
Cash and investments - beginning	\$ 10,225	\$ 39,369	\$ (22)	\$ 6,204	\$ 4,235	\$ 18,045
Receipts:						
Taxes	-	65,461	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	16,760	5,501	-	-	-	-
Charges for services	-	-	-	-	-	88,044
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	907,704	141,171	87,133	23,177
Total receipts	<u>16,760</u>	<u>70,962</u>	<u>907,704</u>	<u>141,171</u>	<u>87,133</u>	<u>111,221</u>
Disbursements:						
Personal services	-	-	-	147,375	91,368	76,326
Supplies	-	-	-	-	-	17,333
Other services and charges	-	-	-	-	-	4,931
Capital outlay	17,668	80,132	-	-	-	5,433
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	907,583	-	-	2,944
Total disbursements	<u>17,668</u>	<u>80,132</u>	<u>907,583</u>	<u>147,375</u>	<u>91,368</u>	<u>106,967</u>
Excess (deficiency) of receipts over disbursements	<u>(908)</u>	<u>(9,170)</u>	<u>121</u>	<u>(6,204)</u>	<u>(4,235)</u>	<u>4,254</u>
Cash and investments - ending	<u>\$ 9,317</u>	<u>\$ 30,199</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,299</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	AIRPORT GRANT-FEDERAL	AIRPORT GRANT-STATE	PETTY CASH GENERAL	CASH CHANGE GENERAL	PETTY CASH PARK & RECREATION	CEMETERY STONE REPAIR DONATION
Cash and investments - beginning	\$ 20,755	\$ 376	\$ 500	\$ 50	\$ 50	\$ 306
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	198,432	2,611	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	60
Total receipts	<u>198,432</u>	<u>2,611</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	219,187	2,987	-	-	-	-
Total disbursements	<u>219,187</u>	<u>2,987</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>(20,755)</u>	<u>(376)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$ 366</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	CEMETERY CHAPEL DONATIONS	SALEM SIDEWALK	ANIMAL SHELTER DONATION	CEMETERY PERMANENT MAINTENANCE	SINCLAIR MEMORIAL MAUSOLEUM	URBAN BEAUTIFICATION
Cash and investments - beginning	\$ 1,700	\$ 14	\$ 21,639	\$ 130,331	\$ 16,428	\$ 4
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	4,657	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	200	-	2,309	-	69	200
Total receipts	<u>200</u>	<u>-</u>	<u>2,309</u>	<u>4,657</u>	<u>69</u>	<u>200</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	34,120	33	-
Total disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,120</u>	<u>33</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>200</u>	<u>-</u>	<u>2,309</u>	<u>(29,463)</u>	<u>36</u>	<u>200</u>
Cash and investments - ending	<u>\$ 1,900</u>	<u>\$ 14</u>	<u>\$ 23,948</u>	<u>\$ 100,868</u>	<u>\$ 16,464</u>	<u>\$ 204</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	FEMA GRANT FIRE	SALEM HOUSING REHAB RLF	STORM WATER GRANT	POLICE GRANT	ALLOCATION #1 U.E.Z.	AIRPORT IMPROVEMENT
Cash and investments - beginning	\$ -	\$ 14	\$ 50,126	\$ -	\$ -	\$ 78,099
Receipts:						
Taxes	-	-	-	-	15,928	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	9,500	-	348,098	4,970	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	-	129,661
Total receipts	<u>9,500</u>	<u>-</u>	<u>348,098</u>	<u>4,970</u>	<u>15,928</u>	<u>129,661</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	4,970	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	9,500	-	398,224	-	-	35,379
Total disbursements	<u>9,500</u>	<u>-</u>	<u>398,224</u>	<u>4,970</u>	<u>-</u>	<u>35,379</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>(50,126)</u>	<u>-</u>	<u>15,928</u>	<u>94,282</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,928</u>	<u>\$ 172,381</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	BOAC RENTAL PROPERTY	PROJECT DONATION	PAYROLL	FIRE PENSION OLD	POLICE PENSION OLD	SOCIAL SECURITY TAX
Cash and investments - beginning	\$ -	\$ 14	\$ -	\$ 77,342	\$ 88,745	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	102,651	82,515	-
Charges for services	5,400	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	2,815,955	174	209	251,743
Total receipts	<u>5,400</u>	<u>-</u>	<u>2,815,955</u>	<u>102,825</u>	<u>82,724</u>	<u>251,743</u>
Disbursements:						
Personal services	-	-	-	-	500	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	100,153	81,151	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	2,256	-	2,815,955	-	-	251,743
Total disbursements	<u>2,256</u>	<u>-</u>	<u>2,815,955</u>	<u>100,153</u>	<u>81,651</u>	<u>251,743</u>
Excess (deficiency) of receipts over disbursements	<u>3,144</u>	<u>-</u>	<u>-</u>	<u>2,672</u>	<u>1,073</u>	<u>-</u>
Cash and investments - ending	<u>\$ 3,144</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 80,014</u>	<u>\$ 89,818</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PERF	INSURANCE	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND & INTEREST
Cash and investments - beginning	\$ 48,692	\$ (495)	\$ 15,016	\$ 50,930	\$ 71,044	\$ 36,305
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	1,212,026	29,810	2,500	-
Other receipts	219,700	42,610	34,415	-	43,901	435,400
Total receipts	<u>219,700</u>	<u>42,610</u>	<u>1,246,441</u>	<u>29,810</u>	<u>46,401</u>	<u>435,400</u>
Disbursements:						
Personal services	268,392	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	61,377	-
Utility operating expenses	-	-	746,866	-	-	-
Other disbursements	-	42,842	501,288	24,090	-	435,250
Total disbursements	<u>268,392</u>	<u>42,842</u>	<u>1,248,154</u>	<u>24,090</u>	<u>61,377</u>	<u>435,250</u>
Excess (deficiency) of receipts over disbursements	<u>(48,692)</u>	<u>(232)</u>	<u>(1,713)</u>	<u>5,720</u>	<u>(14,976)</u>	<u>150</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ (727)</u>	<u>\$ 13,303</u>	<u>\$ 56,650</u>	<u>\$ 56,068</u>	<u>\$ 36,455</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	WASTEWATER DEBT SERVICE	PETTY CASH WASTEWATER	CASH CHANGE WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND & INTEREST
Cash and investments - beginning	\$ 426,540	\$ 500	\$ 50	\$ 10,623	\$ 92,910	\$ 10
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	653,437	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	1,740,729	-	-
Other receipts	500,000	-	-	71,207	496,683	263,500
Total receipts	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>1,811,936</u>	<u>1,150,120</u>	<u>263,500</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Capital outlay	-	-	-	-	1,188,922	-
Utility operating expenses	-	-	-	1,361,586	-	-
Other disbursements	500,000	-	-	436,429	20,000	263,110
Total disbursements	<u>500,000</u>	<u>-</u>	<u>-</u>	<u>1,798,015</u>	<u>1,208,922</u>	<u>263,110</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,921</u>	<u>(58,802)</u>	<u>390</u>
Cash and investments - ending	<u>\$ 426,540</u>	<u>\$ 500</u>	<u>\$ 50</u>	<u>\$ 24,544</u>	<u>\$ 34,108</u>	<u>\$ 400</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	PETTY CASH WATER	WATER NON-REVERTING	CASH CHANGE WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXTENSION	TOTALS
Cash and investments - beginning	\$ 500	\$ 9,854	\$ 50	\$ 313,050	\$ 609	\$ 3,255,462
Receipts:						
Taxes	-	-	-	-	-	2,367,601
Licenses and permits	-	-	-	-	-	45,276
Intergovernmental	-	-	-	-	-	3,034,614
Charges for services	-	-	-	-	-	517,019
Fines and forfeits	-	-	-	-	-	4,856
Utility fees	-	500	-	-	-	2,985,565
Other receipts	-	14,078	-	20,000	-	7,511,827
Total receipts	-	14,578	-	20,000	-	16,466,758
Disbursements:						
Personal services	-	-	-	-	-	3,407,110
Supplies	-	-	-	-	-	259,143
Other services and charges	-	-	-	-	-	1,149,416
Capital outlay	-	-	-	-	-	2,018,838
Utility operating expenses	-	-	-	-	-	2,108,452
Other disbursements	-	18,879	-	200,000	-	8,170,967
Total disbursements	-	18,879	-	200,000	-	17,113,926
Excess (deficiency) of receipts over disbursements	-	(4,301)	-	(180,000)	-	(647,168)
Cash and investments - ending	\$ 500	\$ 5,553	\$ 50	\$ 133,050	\$ 609	\$ 2,608,294

CITY OF SALEM
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2012

Government or Enterprise	Accounts Payable	Accounts Receivable
Governmental activities	\$ 230,117	\$ 19,502
Wastewater	50,970	123,618
Water	175,739	126,502
Totals	\$ 456,826	\$ 269,622

CITY OF SALEM
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities: City of Salem, Indiana, Government Facility Building Corporation	Lease for City Hall	<u>\$ 121,494</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>\$ 2,965,000</u>	<u>\$ 435,946</u>
Water: Revenue bonds	Water Utility	<u>2,930,000</u>	<u>267,455</u>
Totals		<u>\$ 5,895,000</u>	<u>\$ 703,401</u>

CITY OF SALEM
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

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	\$ 1,716,775
Infrastructure	7,528,739
Buildings	913,936
Improvements other than buildings	1,011,917
Machinery, equipment, and vehicles	2,085,609
Construction in progress	306,968
Total governmental activities	13,563,944
Wastewater:	
Land	159,265
Infrastructure	79,098
Buildings	4,914,233
Improvements other than buildings	2,893,035
Machinery, equipment, and vehicles	1,970,613
Construction in progress	132,667
Total Wastewater	10,148,911
Water:	
Land	833,132
Infrastructure	38,854
Buildings	153,619
Improvements other than buildings	3,973,637
Machinery, equipment, and vehicles	3,632,519
Construction in progress	687,188
Total Water	9,318,949
Total capital assets	\$ 33,031,804

CITY OF SALEM
AUDIT RESULTS AND COMMENTS

PENALTIES, INTEREST, AND OTHER CHARGES

Penalties and interest totaling \$464.13 were paid to the Indiana Department of Revenue on April 16, 2012, for the late payment of sales taxes on water for the period February 2012.

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the governmental unit.

Additionally officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the governmental unit.

Any penalties, interest or other charges paid by the governmental unit may be the personal obligation of the responsible official or employee.

(Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

ORDINANCES AND RESOLUTIONS

The City has an Ordinance, No. 1162, concerning the creation and funding of a Water Debt Service Reserve Fund to establish a margin of safety and protection against default in the payment of principal and interest on outstanding bonds in the amount of \$313,050. On June 11, 2012, the Common Council of the City declared a fiscal emergency and issued Ordinance No. 1425, authorizing a temporary loan from the Water Debt Service Reserve Fund to the Water Depreciation Fund in the amount of \$200,000. In addition, the Common Council declared an emergency and deferred the repayment of the temporary loan till June 30, 2013. As of December 31, 2012, \$20,000 had been repaid, leaving an unpaid loan balance of \$180,000. The City did not meet the requirement for their Water Debt Service Reserve Fund balance, at December 31, 2012. The fund's balance was \$133,050, a deficit of \$180,000 from the amount established by Ordinance No. 1162.

The City obtained an attorney's opinion, dated March 22, 2013, stating that no legal authority could be found that specifically prohibits the lending of any part of the reserve account balance to another fund.

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)

(This page intentionally left blank.)

SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

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

Report on Compliance for Each Major Federal Program

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, 2012. 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City's major federal program based on our audit of the types of compliance requirements referred to above. 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 on compliance for the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program 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.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance 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. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 7, 2013

(This page intentionally left blank.)

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were prepared 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, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Agriculture</u>				
Cooperative Forestry Assistance DNR Fire Grant	Indiana Department of Natural Resources	10.664	300FR100VFA2011	\$ 2,857
Total - Department of Agriculture				<u>2,857</u>
<u>Department of Housing and Urban Development</u>				
CDBG - State-Administered CDBG Cluster				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	Indiana Office of Community and Rural Affairs	14.228		
Storm Water/Flood Drainage			DR2-09-113	348,098
Water Treatment Plant Improvements			DR2-09-169	<u>653,437</u>
Total - Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii				<u>1,001,535</u>
Total - CDBG - State-Administered CDBG Cluster				<u>1,001,535</u>
Total - Department of Housing and Urban Development				<u>1,001,535</u>
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program ATF Grant	Direct grant	16.738	GL-INS-199	996
Edward Byrne Memorial Justice Assistance Grant Program Police Camera Grant	Indiana Criminal Justice Institute	16.738	09DJ109	<u>4,970</u>
Total - Edward Byrne Memorial Justice Assistance Grant Program				<u>5,966</u>
Total - JAG Program Cluster				<u>5,966</u>
Total - Department of Justice				<u>5,966</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation	20.205		
Highway 60 Bypass			DES 0011110	34,775
Shelby Street Reconstruction Project			DES 0500891	1,920
Salem Multi-Use Pathway			DES 0600373	68,397
Safe Routes to School			DES 0810444	<u>990</u>
Total - Highway Planning and Construction				<u>106,082</u>
Total - Highway Planning and Construction Cluster				<u>106,082</u>
Airport Improvement Program	Direct grant	20.106		
Salem Municipal Airport Expansion			AIP 3-18-0075-1010	117,011
Salem Municipal Airport Expansion			AIP 3-18-0075-1111	<u>81,421</u>
Total - Airport Improvement Program				<u>198,432</u>
Total - Department of Transportation				<u>304,514</u>
<u>Department of Homeland Security</u>				
Assistance to Firefighters Grant FEMA Fire Grant 2011	Direct grant	97.044	EMW-2010-F0-02424	<u>9,500</u>
Disaster Grants - Public Assistance (Presidentially Declared Disasters) Storm Damage April 2011	Indiana Department of Homeland Security	97.036	FEMA-1997-DR-IN	<u>4,880</u>
Total - Department of Homeland Security				<u>14,380</u>
Total federal awards expended				<u>\$ 1,329,252</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:	Adverse as to GAAP; Unqualified as to Regulatory Basis
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 OMB 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
EXIT CONFERENCE

The contents of this report were discussed on May 7, 2013, with Warren N. Jones, President of the Common Council; David L. Bower, Mayor; and Patricia E. Persinger, Clerk-Treasurer. The officials concurred with our audit findings.