

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, 2013 to December 31, 2013



FILED
02/06/2015

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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 12-31-14
President Pro Tempore of the Common Council	Warren N. Jones Ronald C. Haendiges, Jr.	01-01-13 to 12-31-13 01-01-14 to 12-31-14
Utility Office Manager	Carol Brough	01-01-13 to 12-31-14



STATE OF INDIANA
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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, 2013, 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, 2013.

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, 2013, 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 October 27, 2014, 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 records 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.


Paul D. Joyce, CPA
State Examiner

October 27, 2014



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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, 2013, and the related notes to the financial statement, and have issued our report thereon dated October 27, 2014, 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.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2013-001 and 2013-002 to be material weaknesses.

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

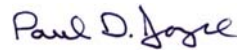
As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

City of Salem's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

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.


Paul D. Joyce, CPA
State Examiner

October 27, 2014

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FINANCIAL STATEMENT AND ACCOMPANYING NOTES

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, 2013

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
GENERAL	\$ 497,644	\$ 3,525,869	\$ 3,701,408	\$ 322,105
MOTOR VEHICLE HIGHWAY	87,894	537,282	445,080	180,096
LOCAL ROAD AND STREET	5,625	25,498	25,285	5,838
AVIATION	38,078	103,508	99,078	42,508
SANITATION	157,093	303,664	354,007	106,750
LAW ENFORCEMENT CONTINUING EDUCATION	6,458	3,976	3,346	7,088
UNSAFE BUILDING	20,669	928	43	21,554
RIVERBOAT REVENUE SHARING	18,121	37,433	42,806	12,748
PARK AND RECREATION	110,257	181,577	174,739	117,095
RAINY DAY FUND	90,932	-	50,000	40,932
K-9 PROGRAM	-	7,500	6,500	1,000
EDIT	201,485	433,277	459,426	175,336
LEVY EXCESS	18,794	-	18,794	-
CUMULATIVE CAPITAL IMPROVEMENT	9,317	16,963	16,488	9,792
CUMULATIVE CAPITAL DEVELOPMENT	30,199	71,367	70,500	31,066
SELF INSURANCE	99	1,191,932	1,197,804	(5,773)
POLICE PENSION NEW	-	109,024	109,024	-
FIRE PENSION NEW	-	72,033	72,033	-
STREET SIGN GRANT	-	59,640	49,600	10,040
CEMETERY OPERATING	22,299	100,923	95,968	27,254
AIRPORT GRANT-FEDERAL	-	866,057	795,706	70,351
AIRPORT GRANT-STATE	-	5,069	4,680	389
PETTY CASH - GENERAL	500	-	-	500
CASH CHANGE - GENERAL	50	-	-	50
PETTY CASH - PARK AND RECREATION	50	-	-	50
CEMETERY STONE REPAIR DONATION	366	213	-	579
CEMETERY CHAPEL DONATIONS	1,900	200	-	2,100
SALEM BICENTENNIAL FUND	-	10,200	-	10,200
SALEM SIDEWALK	14	102	-	116
ANIMAL SHELTER DONATION	23,948	5,316	10,824	18,440
POLICE DONATION	-	975	975	-
CEMETERY PERMANENT MAINTENANCE	100,868	115,057	110,000	105,925
SINCLAIR MEMORIAL MAUSOLEUM	16,464	37	14	16,487
URBAN BEAUTIFICATION	204	375	579	-
SALEM HOUSING REHAB RLF	14	-	-	14
POLICE GRANT	-	1,638	1,638	-
FIRE GRANT	-	3,089	3,089	-
ALLOCATION #1 U.E.Z.	15,928	60,842	10,850	65,920
AIRPORT IMPROVEMENT	172,381	167,224	160,277	179,328
BOAC RENTAL PROPERTY	3,144	8,800	7,246	4,698
PROJECT DONATION	14	-	-	14
PAYROLL	-	2,560,722	2,560,722	-
FIRE PENSION OLD	80,014	98,940	100,062	78,892
POLICE PENSION OLD	89,818	81,192	82,236	88,774
SOCIAL SECURITY TAX	-	262,212	262,212	-
PERF #1	-	182,470	182,470	-

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

CITY OF SALEM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS

For the Year Ended December 31, 2013

(Continued)

Fund	Cash and Investments 01-01-13	Receipts	Disbursements	Cash and Investments 12-31-13
INSURANCE	(727)	36,292	36,123	(558)
PAYROLL - NET SALARIES	-	55,657	55,657	-
PAYROLL - FEDERAL W/H	-	21,628	21,628	-
PAYROLL - FICA	-	16,733	16,733	-
PAYROLL - MEDICARE	-	5,821	5,821	-
PAYROLL - STATE W/H	-	7,295	7,295	-
PAYROLL - COUNTY W/H	-	3,956	3,956	-
AMERICAN FAMILY LIFE	-	1,754	1,754	-
AUL 457	-	3,325	3,325	-
COMMUNITY FOUNDATION	-	118	118	-
BOSTON MUTUAL	-	193	193	-
PERF #2	-	15,642	15,642	-
COLONIAL LIFE	-	805	805	-
COMPANION LIFE	-	50	50	-
DIRECT DEPOSIT	-	106,017	106,017	-
IN STATE CENT COLL UNIT	-	440	440	-
NEW JERSEY FAMILY SUPPORT	-	676	676	-
GUARDIAN 125	-	1,898	1,898	-
HEALTH 125	-	6,786	6,786	-
ID PROTECTION	-	91	91	-
LINCOLN LIFE	-	62	62	-
NATIONWIDE 457	-	162	162	-
PRUDENTIAL LIFE	-	145	145	-
WASHINGTON NATIONAL LIFE	-	20	20	-
YMCA	-	316	316	-
FIRE PERF	-	6,230	6,230	-
POLICE PERF	-	8,566	8,566	-
WASTEWATER OPERATING	13,303	1,198,970	1,206,028	6,245
SEWER SERVICE	56,650	29,590	23,870	62,370
WASTEWATER DEPRECIATION	56,068	21,352	56,512	20,908
WASTEWATER BOND AND INTEREST	36,455	426,399	435,946	26,908
WASTEWATER DEBT SERVICE	426,540	425,000	425,000	426,540
PETTY CASH - WASTEWATER	500	-	-	500
CASH CHANGE - WASTEWATER	50	-	-	50
WATER OPERATING	24,544	1,727,070	1,737,597	14,017
WATER DEPRECIATION	34,108	340,618	373,775	951
WATER BOND AND INTEREST	400	267,060	267,455	5
PETTY CASH - WATER	500	-	-	500
WATER NON-REVERTING	5,553	14,305	18,724	1,134
CASH CHANGE - WATER	50	-	-	50
WATER DEBT SERVICE	133,050	380,000	200,000	313,050
BECKS MILL WATER LINE EXTENSION	609	-	-	609
Totals	<u>\$ 2,608,294</u>	<u>\$ 16,344,166</u>	<u>\$ 16,330,925</u>	<u>\$ 2,621,535</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, electric, gas, storm water, 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 Indiana 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. The basis of accounting involves the reporting of only cash and investments and the changes therein resulting from cash inflows (receipts) and cash outflows (disbursements) reported in the period in which they occurred.

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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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 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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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 Capitol 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 Capitol 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 Deficits

The financial statement contains some funds with deficits in cash. This is a result of reimbursements for the expenditures made by the City that were not received by December 31, 2013.

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 2013 totaled \$123,709.

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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, 2013

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	AVIATION	SANITATION	LAW ENFORCEMENT CONTINUING EDUCATION	UNSAFE BUILDING
Cash and investments - beginning	\$ 497,644	\$ 87,894	\$ 5,625	\$ 38,078	\$ 157,093	\$ 6,458	\$ 20,669
Receipts:							
Taxes	1,717,122	295,040	-	-	124,990	-	-
Licenses and permits	37,759	-	-	-	-	2,180	928
Intergovernmental	1,062,444	202,242	25,498	-	9,267	-	-
Charges for services	132,303	-	-	102,482	167,972	585	-
Fines and forfeits	3,594	-	-	-	-	1,211	-
Utility fees	-	-	-	-	-	-	-
Other receipts	572,647	40,000	-	1,026	1,435	-	-
Total receipts	3,525,869	537,282	25,498	103,508	303,664	3,976	928
Disbursements:							
Personal services	2,265,787	346,046	-	-	132,890	-	-
Supplies	117,589	44,089	-	71,245	2,462	-	-
Other services and charges	565,027	14,945	25,285	27,803	218,457	1,722	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	87,687	-	-	-	-	1,624	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	665,318	40,000	-	30	198	-	43
Total disbursements	3,701,408	445,080	25,285	99,078	354,007	3,346	43
Excess (deficiency) of receipts over disbursements	(175,539)	92,202	213	4,430	(50,343)	630	885
Cash and investments - ending	\$ 322,105	\$ 180,096	\$ 5,838	\$ 42,508	\$ 106,750	\$ 7,088	\$ 21,554

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	RIVERBOAT REVENUE SHARING	PARK AND RECREATION	RAINY DAY FUND	K-9 PROGRAM	EDIT	LEVY EXCESS	CUMULATIVE CAPITAL IMPROVEMENT
Cash and investments - beginning	\$ 18,121	\$ 110,257	\$ 90,932	\$ -	\$ 201,485	\$ 18,794	\$ 9,317
Receipts:							
Taxes	-	116,380	-	-	-	-	-
Licenses and permits	-	500	-	-	-	-	-
Intergovernmental	37,433	8,629	-	-	278,006	-	16,963
Charges for services	-	50,444	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	5,624	-	7,500	155,271	-	-
Total receipts	37,433	181,577	-	7,500	433,277	-	16,963
Disbursements:							
Personal services	-	117,402	-	-	-	-	-
Supplies	-	40,553	-	-	-	-	-
Other services and charges	19,737	9,399	50,000	-	198,898	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	23,069	4,880	-	-	260,528	-	16,488
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	2,505	-	6,500	-	18,794	-
Total disbursements	42,806	174,739	50,000	6,500	459,426	18,794	16,488
Excess (deficiency) of receipts over disbursements	(5,373)	6,838	(50,000)	1,000	(26,149)	(18,794)	475
Cash and investments - ending	\$ 12,748	\$ 117,095	\$ 40,932	\$ 1,000	\$ 175,336	\$ -	\$ 9,792

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	CUMULATIVE CAPITAL DEVELOPMENT	SELF INSURANCE	POLICE PENSION NEW	FIRE PENSION NEW	STREET SIGN GRANT	CEMETERY OPERATING	AIRPORT GRANT - FEDERAL
Cash and investments - beginning	\$ 30,199	\$ 99	\$ -	\$ -	\$ -	\$ 22,299	\$ -
Receipts:							
Taxes	66,441	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	4,926	-	-	-	44,640	-	866,057
Charges for services	-	-	-	-	-	98,359	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	1,191,932	109,024	72,033	15,000	2,564	-
Total receipts	71,367	1,191,932	109,024	72,033	59,640	100,923	866,057
Disbursements:							
Personal services	-	-	109,024	72,033	-	75,289	-
Supplies	-	-	-	-	-	11,267	-
Other services and charges	-	-	-	-	-	2,895	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	70,500	-	-	-	-	6,517	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	1,197,804	-	-	49,600	-	795,706
Total disbursements	70,500	1,197,804	109,024	72,033	49,600	95,968	795,706
Excess (deficiency) of receipts over disbursements	867	(5,872)	-	-	10,040	4,955	70,351
Cash and investments - ending	\$ 31,066	\$ (5,773)	\$ -	\$ -	\$ 10,040	\$ 27,254	\$ 70,351

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	AIRPORT GRANT - STATE	PETTY CASH - GENERAL	CASH CHANGE - GENERAL	PETTY CASH - PARK AND RECREATION	CEMETERY STONE REPAIR DONATION	CEMETERY CHAPEL DONATIONS	SALEM BICENTENNIAL FUND
Cash and investments - beginning	\$ -	\$ 500	\$ 50	\$ 50	\$ 366	\$ 1,900	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	5,069	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	-	213	200	10,200
Total receipts	5,069	-	-	-	213	200	10,200
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	4,680	-	-	-	-	-	-
Total disbursements	4,680	-	-	-	-	-	-
Excess (deficiency) of receipts over disbursements	389	-	-	-	213	200	10,200
Cash and investments - ending	\$ 389	\$ 500	\$ 50	\$ 50	\$ 579	\$ 2,100	\$ 10,200

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	SALEM SIDEWALK	ANIMAL SHELTER DONATION	POLICE DONATION	CEMETERY PERMANENT MAINTENANCE	SINCLAIR MEMORIAL MAUSOLEUM	URBAN BEAUTIFICATION	SALEM HOUSING REHAB RLF
Cash and investments - beginning	\$ 14	\$ 23,948	\$ -	\$ 100,868	\$ 16,464	\$ 204	\$ 14
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	5,057	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	102	5,316	975	110,000	37	375	-
Total receipts	102	5,316	975	115,057	37	375	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	10,824	975	110,000	14	579	-
Total disbursements	-	10,824	975	110,000	14	579	-
Excess (deficiency) of receipts over disbursements	102	(5,508)	-	5,057	23	(204)	-
Cash and investments - ending	\$ 116	\$ 18,440	\$ -	\$ 105,925	\$ 16,487	\$ -	\$ 14

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	POLICE GRANT	FIRE GRANT	ALLOCATION #1 U.E.Z.	AIRPORT IMPROVEMENT	BOAC RENTAL PROPERTY	PROJECT DONATION	PAYROLL
Cash and investments - beginning	\$ -	\$ -	\$ 15,928	\$ 172,381	\$ 3,144	\$ 14	\$ -
Receipts:							
Taxes	-	-	60,842	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	1,638	2,788	-	-	-	-	-
Charges for services	-	-	-	-	8,800	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	301	-	167,224	-	-	2,560,722
Total receipts	1,638	3,089	60,842	167,224	8,800	-	2,560,722
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	10,850	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	1,638	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	3,089	-	160,277	7,246	-	2,560,722
Total disbursements	1,638	3,089	10,850	160,277	7,246	-	2,560,722
Excess (deficiency) of receipts over disbursements	-	-	49,992	6,947	1,554	-	-
Cash and investments - ending	\$ -	\$ -	\$ 65,920	\$ 179,328	\$ 4,698	\$ 14	\$ -

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	FIRE PENSION OLD	POLICE PENSION OLD	SOCIAL SECURITY TAX	PERF #1	INSURANCE	PAYROLL - NET SALARIES	PAYROLL - FEDERAL W/H
Cash and investments - beginning	\$ 80,014	\$ 89,818	\$ -	\$ -	\$ (727)	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	98,771	80,993	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	169	199	262,212	182,470	36,292	55,657	21,628
Total receipts	98,940	81,192	262,212	182,470	36,292	55,657	21,628
Disbursements:							
Personal services	-	500	-	182,470	-	-	-
Supplies	8	145	-	-	-	-	-
Other services and charges	100,054	81,591	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	262,212	-	36,123	55,657	21,628
Total disbursements	100,062	82,236	262,212	182,470	36,123	55,657	21,628
Excess (deficiency) of receipts over disbursements	(1,122)	(1,044)	-	-	169	-	-
Cash and investments - ending	\$ 78,892	\$ 88,774	\$ -	\$ -	\$ (558)	\$ -	\$ -

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	PAYROLL - FICA	PAYROLL - MEDICARE	PAYROLL - STATE W/H	PAYROLL - COUNTY W/H	AMERICAN FAMILY LIFE	AUL 457	COMMUNITY FOUNDATION
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	16,733	5,821	7,295	3,956	1,754	3,325	118
Total receipts	16,733	5,821	7,295	3,956	1,754	3,325	118
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	16,733	5,821	7,295	3,956	1,754	3,325	118
Total disbursements	16,733	5,821	7,295	3,956	1,754	3,325	118
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	BOSTON MUTUAL	PERF #2	COLONIAL LIFE	COMPANION LIFE	DIRECT DEPOSIT	IN STATE CENT COLL UNIT	NEW JERSEY FAMILY SUPPORT
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	193	15,642	805	50	106,017	440	676
Total receipts	193	15,642	805	50	106,017	440	676
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	193	15,642	805	50	106,017	440	676
Total disbursements	193	15,642	805	50	106,017	440	676
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	GUARDIAN 125	HEALTH 125	ID PROTECTION	LINCOLN LIFE	NATIONWIDE 457	PRUDENTIAL LIFE	WASHINGTON NATIONAL LIFE
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,898	6,786	91	62	162	145	20
Total receipts	1,898	6,786	91	62	162	145	20
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,898	6,786	91	62	162	145	20
Total disbursements	1,898	6,786	91	62	162	145	20
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2013
 (Continued)

	YMCA	FIRE PERF	POLICE PERF	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND AND INTEREST
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ 13,303	\$ 56,650	\$ 56,068	\$ 36,455
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	1,178,387	29,590	2,000	-
Other receipts	316	6,230	8,566	20,583	-	19,352	426,399
Total receipts	316	6,230	8,566	1,198,970	29,590	21,352	426,399
Disbursements:							
Personal services	-	-	-	230,381	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	30,964	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	435,946
Capital outlay	-	-	-	-	-	56,512	-
Utility operating expenses	-	-	-	461,788	-	-	-
Other disbursements	316	6,230	8,566	482,895	23,870	-	-
Total disbursements	316	6,230	8,566	1,206,028	23,870	56,512	435,946
Excess (deficiency) of receipts over disbursements	-	-	-	(7,058)	5,720	(35,160)	(9,547)
Cash and investments - ending	\$ -	\$ -	\$ -	\$ 6,245	\$ 62,370	\$ 20,908	\$ 26,908

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	WASTEWATER DEBT SERVICE	PETTY CASH - WASTEWATER	CASH CHANGE - WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND AND INTEREST
Cash and investments - beginning	\$ 426,540	\$ 500	\$ 50	\$ 24,544	\$ 34,108	\$ 400
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	1,681,715	-	-
Other receipts	425,000	-	-	45,355	340,618	267,060
Total receipts	425,000	-	-	1,727,070	340,618	267,060
Disbursements:						
Personal services	-	-	-	381,943	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	49,889	-	-
Debt service - principal and interest	-	-	-	-	-	267,455
Capital outlay	-	-	-	-	68,775	-
Utility operating expenses	-	-	-	782,794	-	-
Other disbursements	425,000	-	-	522,971	305,000	-
Total disbursements	425,000	-	-	1,737,597	373,775	267,455
Excess (deficiency) of receipts over disbursements	-	-	-	(10,527)	(33,157)	(395)
Cash and investments - ending	\$ 426,540	\$ 500	\$ 50	\$ 14,017	\$ 951	\$ 5

CITY OF SALEM
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2013
(Continued)

	PETTY CASH - WATER	WATER NON-REVERTING	CASH CHANGE - WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXTENSION	Totals
Cash and investments - beginning	\$ 500	\$ 5,553	\$ 50	\$ 133,050	\$ 609	\$ 2,608,294
Receipts:						
Taxes	-	-	-	-	-	2,380,815
Licenses and permits	-	-	-	-	-	41,367
Intergovernmental	-	-	-	-	-	2,745,364
Charges for services	-	-	-	-	-	566,002
Fines and forfeits	-	-	-	-	-	4,805
Utility fees	-	525	-	-	-	2,892,217
Other receipts	-	13,780	-	380,000	-	7,713,596
Total receipts	-	14,305	-	380,000	-	16,344,166
Disbursements:						
Personal services	-	-	-	-	-	3,913,765
Supplies	-	-	-	-	-	287,358
Other services and charges	-	-	-	-	-	1,407,516
Debt service - principal and interest	-	-	-	-	-	703,401
Capital outlay	-	-	-	-	-	598,218
Utility operating expenses	-	-	-	-	-	1,244,582
Other disbursements	-	18,724	-	200,000	-	8,176,085
Total disbursements	-	18,724	-	200,000	-	16,330,925
Excess (deficiency) of receipts over disbursements	-	(4,419)	-	180,000	-	13,241
Cash and investments - ending	\$ 500	\$ 1,134	\$ 50	\$ 313,050	\$ 609	\$ 2,621,535

CITY OF SALEM
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2013

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 46,291	\$ 107,275
Water	101,396	125,883
Governmental activities	<u>346,887</u>	<u>54,034</u>
Totals	<u>\$ 494,574</u>	<u>\$ 287,192</u>

CITY OF SALEM
SCHEDULE OF LEASES AND DEBT
December 31, 2013

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>120,822</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 Improvements	\$ <u>2,680,000</u>	\$ <u>440,573</u>	
Water:				
Revenue bonds	Water Utility Improvements	<u>2,790,000</u>	<u>266,365</u>	
Totals		<u>\$ <u>5,470,000</u></u>	<u>\$ <u>706,938</u></u>	

CITY OF SALEM
SCHEDULE OF CAPITAL ASSETS
December 31, 2013

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	\$ 2,158,115
Infrastructure	7,667,239
Buildings	913,936
Improvements other than buildings	1,011,917
Machinery, equipment, and vehicles	2,097,408
Construction in progress	<u>715,831</u>
Total governmental activities	<u>14,564,446</u>
Wastewater:	
Land	159,265
Infrastructure	211,764
Buildings	4,914,233
Improvements other than buildings	2,893,035
Machinery, equipment, and vehicles	<u>1,970,613</u>
Total Wastewater	<u>10,148,910</u>
Water:	
Land	833,132
Infrastructure	769,924
Buildings	153,619
Improvements other than buildings	3,979,673
Machinery, equipment, and vehicles	<u>3,639,301</u>
Total Water	<u>9,375,649</u>
Total capital assets	<u><u>\$ 34,089,005</u></u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Report on Compliance for the 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, 2013. 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 the 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, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE 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 the 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 types 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2013-003 and 2013-004 to be material weaknesses.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.


Paul D. Joyce, CPA
State Examiner

October 27, 2014

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTE

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, 2013

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 Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	Direct grant			
ATF Grant FY12		16.738	GL-INS-199	\$ 1,661
ATF Grant FY13		16.738	GL-INS-199	<u>2,440</u>
Total - JAG Program Cluster				<u>4,101</u>
Bulletproof Vest Partnership Program	Direct grant			
Bulletproof Vests		16.607	GL-ILN-744-0331	<u>1,638</u>
Total - Bulletproof Vest Partnership Program				<u>1,638</u>
Total - Department of Justice				<u>5,739</u>
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation			
Shelby Street Reconstruction Project		20.205	DES 0500891	100,693
Salem Multi-Use Pathway		20.205	DES 0600373	32,171
Safe Routes to School		20.205	DES 0810444	12,504
Street Sign Inventory Grant		20.205	DES 1173735	<u>44,640</u>
Total - Highway Planning and Construction				<u>190,008</u>
Total - Highway Planning and Construction Cluster				<u>190,008</u>
Airport Improvement Program	Direct grant			
Salem Municipal Airport Expansion		20.106	AIP 3-18-0075-11-2011	68,579
Salem Municipal Airport Expansion		20.106	AIP 3-18-0075-12-2012	135,992
Salem Municipal Airport Expansion		20.106	AIP 3-18-0075-13-2013	<u>591,135</u>
Total - Airport Improvement Program				<u>795,706</u>
Total - Department of Transportation				<u>985,714</u>
<u>Department of Homeland Security</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	Indiana Department of Homeland Security			
Storm Damage March 2012		97.036	FEMA-4058-DR-IN	<u>750</u>
Total - Department of Homeland Security				<u>750</u>
Total federal awards expended				<u>\$ 992,203</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 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; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major program:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Program:

CFDA Number	Name of Federal Program or Cluster
20.106	Airport Improvement Program

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

Auditee qualified as low-risk auditee?	no
--	----

Section II - Financial Statement Findings

FINDING 2013-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

We noted several deficiencies in the internal control system of the City related to financial transactions and reporting. We believe the following deficiencies constitute material weaknesses:

Lack of Segregation of Duties: Control activities should be selected and developed at various levels of the City to reduce risks to the achievement of financial reporting objectives. The City has not separated incompatible activities related to receipts and utility collections. The failure to establish these controls could enable material misstatements or irregularities to remain undetected.

CITY OF SALEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Receipts

One employee in the Clerk-Treasurer's Office is responsible for issuing receipts, balancing the collection drawer, and making the bank deposits. Another employee is responsible for posting the receipts to the ledger. The activities related to receipts were not always reviewed or verified by someone other than the employee performing the activities.

Utility Collections

The utility collection process is primarily handled by one person. The Utility Office Manager collects utility payments, balances the collection drawer, post utility payments to the customers' accounts, makes up the utility deposit ticket, and remits the deposit ticket with the collections to the Clerk-Treasurer's Office. There was no evidence provided to indicate that the activities related to utility collections were being reviewed or verified by someone other than the Utility Office Manager.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

***FINDING 2013-002 - INTERNAL CONTROLS OVER THE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***

The City did not have a proper system of internal control in place to prevent, or detect and correct, errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could occur and remain undetected.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets, and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

CITY OF SALEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section III - Federal Award Findings and Questioned Costs

FINDING 2013-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-11-2011,
AIP 3-18-0075-12-2012,
AIP 3-18-0075-13-2013

Management of the City has not established an effective internal control system which would include segregation of duties, related to Cash Management compliance requirements. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls, including segregation of duties, related to the grant agreement and all compliance requirements applicable to Cash Management that have a direct and material effect to the program.

CITY OF SALEM
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2013-004 - INTERNAL CONTROLS OVER THE DAVIS-BACON ACT REQUIREMENTS

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Number and Year (or Other Identifying Number): AIP 3-18-0075-12-2012,
AIP 3-18-0075-13-2013

Management of the City has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and the compliance requirements that apply to the Davis-Bacon Act. The failure to establish an effective internal control system places the City at risk of non-compliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

The City hired a Grant Administrator to assist in overseeing the labor standards required by the Davis-Bacon Act. Certified payrolls were submitted by the contractors to the Grant Administrator who would then check to determine if prevailing wages were being properly paid. The City did not have procedures in place to review and approve the work being performed by the Grant Administrator.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, or detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish and implement controls, including segregation of duties, related to the grant agreement and all compliance requirements applicable to the Davis-Bacon Act that have a direct and material effect to the program.

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AUDITEE PREPARED DOCUMENT

The subsequent document was provided by management of the City. The document is presented as intended by the City.

CORRECTIVE ACTION PLAN

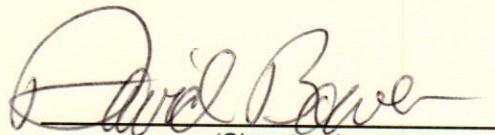
FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

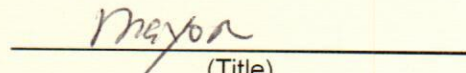
Contact Person Responsible for Corrective Action: Mayor David L. Bower
Contact Phone Number: 812-883-4265

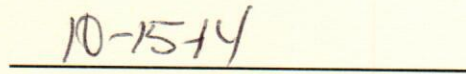
Description of Corrective Action Plan:

There have been proper policies and procedures immediately implemented that will ensure accuracy and integrity of the revenues by the employees of Salem Utilities for the City of Salem. Procedures and actions will be verified and received on a daily basis.

Anticipated Completion Date: October 15, 2014


(Signature)


(Title)


(Date)



City of Salem

Patricia E. Persinger, Clerk-Treasurer

CORRECTIVE ACTION PLAN

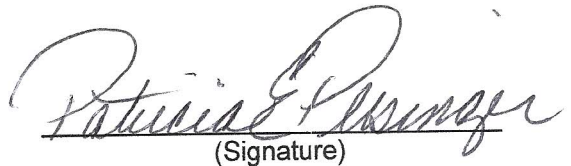
FINDING 2013-001 - INTERNAL CONTROLS AND COMPLIANCE OVER FINANCIAL TRANSACTIONS AND REPORTING

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan:

The City of Salem now has procedures in place to review and verify all receipts and deposits by the Clerk-Treasurer or in her absence by the 2nd Deputy Clerk-Treasurer.

Anticipated Completion Date: September 11, 2014



(Signature)

Clerk-Treasurer
(Title)

October 16, 2014
(Date)

201 E. Market St., Suite 101
Salem, Indiana 47167

Office: (812)883-4264
Fax: (812)883-3634



City of Salem

Patricia E. Persinger, Clerk-Treasurer

CORRECTIVE ACTION PLAN

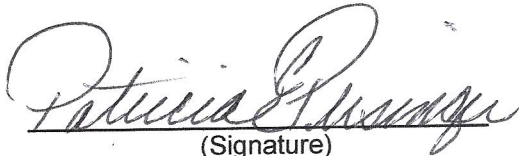
FINDING 2013-002 - INTERNAL CONTROLS OVER THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan:

The City of Salem is now compiling a spread sheet during the year for all Federal grants and monies for correct and accurate reporting on the SEFA. The Clerk-Treasurer will compile the spread sheet and the First Deputy Clerk-Treasurer will verify with the accounts and input into the annual report.

Anticipated Completion Date: October 31, 2014


(Signature)

Clerk-Treasurer
(Title)

October 16, 2014
(Date)



City of Salem

Patricia E. Persinger, Clerk-Treasurer

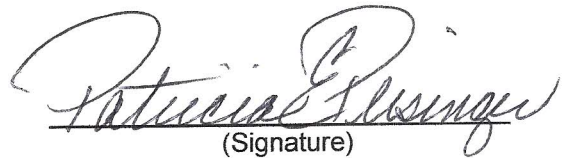
CORRECTIVE ACTION PLAN

FINDING 2013-003 - CASH MANAGEMENT

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan: The City of Salem has procedures now in place between the Clerk-Treasurer and grant administrator to minimize the elapsing time between receipt of funds and the disbursement by the grantee.

Anticipated Completion Date: January 27, 2014


(Signature)

Clerk-Treasurer
(Title)

October 16, 2014
(Date)

201 E. Market St., Suite 101
Salem, Indiana 47167

Office: (812)883-4264
Fax: (812)883-3634



City of Salem

Patricia E. Persinger, Clerk-Treasurer

CORRECTIVE ACTION PLAN

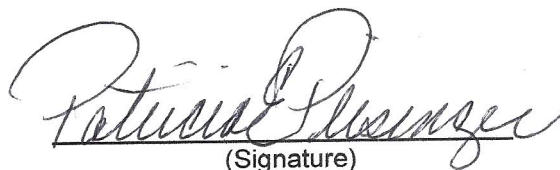
FINDING 2013-004 - INTERNAL CONTROLS OVER DAVIS BACON REQUIREMENTS

Contact Person Responsible for Corrective Action: Patricia E. Persinger, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Description of Corrective Action Plan:

The City of Salem is requiring the verification by the grant administrator that prevailing wages are being paid properly and are to be reviewed by the Clerk-Treasurer to assure compliance with all laws, regulations, contracts and grant agreements.

Anticipated Completion Date: October 31, 2014



(Signature)

Clerk-Treasurer
(Title)

October 16, 2014
(Date)

OTHER REPORT

In addition to this report, a Supplemental Compliance Report has been issued for the City. That report can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.