

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, 2015 to December 31, 2015



FILED
03/06/2017

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Patricia E. Persinger Sally J. Hattabaugh	01-01-12 to 12-31-15 01-01-16 to 12-31-19
Mayor	David L. Bower Troy Merry	01-01-12 to 12-31-15 01-01-16 to 12-31-19
President of the Board of Public Works and Safety	David L. Bower Troy Merry	01-01-15 to 12-31-15 01-01-16 to 12-31-17
President Pro Tempore of the Common Council	Justin T. Green Warren Jones Wally Terkhorn	01-01-15 to 12-31-15 01-01-16 to 12-31-16 01-01-17 to 12-31-17
Utility Office Manager	Carol Brough	01-01-15 to 12-31-17



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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, 2015, and the related notes to the financial statement as listed in the Table of Contents.

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 (Indiana Code 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, 2015.

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, 2015, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Matters

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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.


Other Information

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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated February 7, 2017, 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.


Paul D. Joyce, CPA
State Examiner

February 7, 2017



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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, 2015, and the related notes to the financial statement, and have issued our report thereon dated February 7, 2017, 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 City'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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as item 2015-001 that we consider to be a material weakness.

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

February 7, 2017

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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, 2015

Fund	Cash and Investments 01-01-15	Receipts	Disbursements	Cash and Investments 12-31-15
GENERAL	\$ 297,879	\$ 4,631,901	\$ 4,508,741	\$ 421,039
MOTOR VEHICLE HIGHWAY	113,893	464,572	485,185	93,280
LOCAL ROAD AND STREET	9,691	26,319	25,000	11,010
AVIATION	24,127	79,337	88,815	14,649
SANITATION	123,353	315,013	291,145	147,221
LAW ENFORCE. CONTINUING EDUCATION	4,278	7,921	2,692	9,507
UNSAFE BUILDING	21,301	912	32	22,181
RIVERBOAT REVENUE SHARING	16,698	37,433	25,984	28,147
PARK AND RECREATION	96,574	137,142	165,618	68,098
RAINY DAY FUND	40,932	40,000	40,000	40,932
K-9 PROGRAM	1,174	-	194	980
EDIT	195,691	368,779	485,164	79,306
LEVY EXCESS	195	-	-	195
CUMULATIVE CAPITAL IMPROVEMENT	9,554	15,870	16,728	8,696
CUMULATIVE CAPITAL DEVELOPMENT	25,085	64,819	56,250	33,654
SELF INSURANCE	10,328	1,157,632	1,151,890	16,070
STREET SIGN GRANT	10,040	41,430	49,524	1,946
CEMETERY OPERATING	45,633	111,492	107,752	49,373
AIRPORT GRANT-FEDERAL	-	1,783,520	1,783,520	-
AIRPORT GRANT-STATE	389	84,262	84,651	-
PETTY CASH- GENERAL	500	-	-	500
CASH CHANGE- GENERAL	50	-	-	50
PETTY CASH- PARK AND REC	50	-	50	-
CEM STONE REPAIR DONATION	579	-	-	579
CEMETERY CHAPEL DONATIONS	2,300	200	-	2,500
SALEM BICENTENNIAL FUND	7,049	-	7,049	-
SALEM SIDEWALK	508	120	-	628
SALEM DOWNTOWN REVITALIZATION	-	59,290	59,290	-
PUBLIC SAFETY TAX	95,597	323,451	278,638	140,410
ANIMAL SHELTER DONATION	11,217	6,024	2,391	14,850
CEMETERY PERMANENT MAINTENANCE	94,746	101,060	95,000	100,806
SINCLAIR MEMORIAL MAUSOLEUM	16,502	15	-	16,517
URBAN BEAUTIFICATION	-	400	400	-
SALEM HOUSING REHAB RLF	14	-	-	14
POLICE GRANT	-	1,224	1,215	9
SALEM R.B.E.G. FUND	25,000	-	-	25,000
ALLOCATION #1 U.E.Z.	170,187	513,173	475,109	208,251
AIRPORT IMPROVEMENT	34,779	78,356	77,122	36,013
BOAC RENTAL PROPERTY	7,875	19,250	15,756	11,369
PROJECT DONATION	-	1,017	-	1,017
FIRE PENSION OLD	80,445	99,905	112,055	68,295
POLICE PENSION OLD	76,954	101,460	73,766	104,648
PAYROLL- NET SALARIES	-	618,863	618,863	-
PAYROLL- FEDERAL W/H	-	253,795	253,795	-

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, 2015
(Continued)

Fund	Cash and Investments 01-01-15	Receipts	Disbursements	Cash and Investments 12-31-15
PAYROLL- FICA	-	207,762	207,762	-
PAYROLL- MEDICARE	-	70,289	70,289	-
PAYROLL- STATE W/H	-	84,653	84,653	-
PAYROLL- COUNTY W/H	-	47,957	47,957	-
AMERICAN FAMILY LIFE	-	19,427	19,427	-
AUL 457	-	29,663	29,663	-
COMMUNITY FOUNDATION	-	1,180	1,180	-
BOSTON MUTUAL	-	2,903	2,903	-
PERF	-	220,665	220,665	-
COLONIAL LIFE	-	6,946	6,946	-
COMPANION LIFE	-	596	596	-
DIRECT DEPOSIT	-	1,336,242	1,336,242	-
IN STATE CENT COLL UNIT	-	5,775	5,775	-
NEW JERSEY FAMILY SUPPORT	-	8,788	8,788	-
GUARDIAN 125	-	23,393	23,393	-
HEALTH 125	-	84,598	84,598	-
ID PROTECTION	-	518	518	-
LINCOLN LIFE	-	713	713	-
NATIONWIDE 457	-	806	806	-
PRUDENTIAL LIFE	-	1,893	1,893	-
WASHINGTON NATIONAL LIFE	-	263	263	-
WASHINGTON COUNTY TREASURER	-	346	346	-
YMCA	-	2,631	2,631	-
FIRE PERF	-	80,210	80,210	-
POLICE PERF	-	129,660	129,660	-
LIBERTY NATIONAL 125	-	2,336	2,336	-
GARNISH EMPLOYEE #140	-	850	850	-
WASTEWATER OPERATING	18,427	1,226,935	1,199,452	45,910
SEWER SERVICE	70,510	29,370	22,110	77,770
WASTEWATER DEPRECIATION	15,270	522,170	518,090	19,350
WASTEWATER BOND AND INTEREST	-	445,350	444,104	1,246
WASTEWATER DEBT SERVICE	426,540	190,000	190,000	426,540
PETTY CASH- WASTEWATER	500	-	-	500
CASH CHANGE- WASTEWATER	50	-	-	50
WATER OPERATING	25,656	1,682,661	1,643,478	64,839
WATER DEPRECIATION	38,702	640,304	667,044	11,962
WATER BOND AND INTEREST	140	270,050	270,057	133
PETTY CASH- WATER	500	-	-	500
WATER NON-REVERTING	8,842	12,735	11,586	9,991
CASH CHANGE- WATER	50	-	-	50
WATER DEBT SERVICE	313,050	-	-	313,050
BECKS MILL WATER LINE EXT	609	-	-	609
Totals	<u>\$ 2,590,013</u>	<u>\$ 18,936,595</u>	<u>\$ 18,776,368</u>	<u>\$ 2,750,240</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 tax, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeeper's 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 the following: peddler licenses, dog tax licenses, auctioneer licenses, 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 these types of receipts include, but are not limited to, the following: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distributions received from

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

the state, local road and street distributions 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 including, but 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, which 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, the following: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

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

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

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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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

F. Interfund Transfers

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

G. Fund Accounting

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

Note 2. Budgets

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

Note 3. Property Taxes

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

Note 4. Deposits and Investments

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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

State statutes authorize the City to invest in securities including, but not limited to, the following: 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 a cost-sharing 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
One North Capitol, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy and Annual Pension Cost

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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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.

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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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
One North Capitol, 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. Holding Corporation

The City has entered into a capital lease with City of Salem 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 2015 totaled \$112,000.

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OTHER INFORMATION - UNAUDITED

The City's Annual Financial 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 City's Annual Financial Report 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 other 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, 2015

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD AND STREET	AVIATION	SANITATION	LAW ENFORCE. CONTINUING EDUCATION	UNSAFE BUILDING
Cash and investments - beginning	\$ 297,879	\$ 113,893	\$ 9,691	\$ 24,127	\$ 123,353	\$ 4,278	\$ 21,301
Receipts:							
Taxes	1,960,161	223,542	-	-	135,717	-	-
Licenses and permits	28,004	-	-	-	-	3,620	912
Intergovernmental receipts	1,111,683	239,770	26,319	-	10,623	-	-
Charges for services	128,814	1,260	-	79,337	166,842	531	-
Fines and forfeits	3,817	-	-	-	-	3,770	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,399,422	-	-	-	1,831	-	-
Total receipts	<u>4,631,901</u>	<u>464,572</u>	<u>26,319</u>	<u>79,337</u>	<u>315,013</u>	<u>7,921</u>	<u>912</u>
Disbursements:							
Personal services	2,333,022	343,266	-	-	68,588	-	-
Supplies	81,640	42,883	-	60,457	4,142	-	-
Other services and charges	598,009	15,363	25,000	28,358	218,347	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	71,790	83,673	-	-	-	2,692	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,424,280	-	-	-	68	-	32
Total disbursements	<u>4,508,741</u>	<u>485,185</u>	<u>25,000</u>	<u>88,815</u>	<u>291,145</u>	<u>2,692</u>	<u>32</u>
Excess (deficiency) of receipts over disbursements	<u>123,160</u>	<u>(20,613)</u>	<u>1,319</u>	<u>(9,478)</u>	<u>23,868</u>	<u>5,229</u>	<u>880</u>
Cash and investments - ending	<u>\$ 421,039</u>	<u>\$ 93,280</u>	<u>\$ 11,010</u>	<u>\$ 14,649</u>	<u>\$ 147,221</u>	<u>\$ 9,507</u>	<u>\$ 22,181</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	RIVERBOAT REVENUE SHARING	PARK AND RECREATION	RAINY DAY FUND	K-9 PROGRAM	EDIT	LEVY EXCESS	CUMULATIVE CAPITAL IMPROVEMENT
Cash and investments - beginning	\$ 16,698	\$ 96,574	\$ 40,932	\$ 1,174	\$ 195,691	\$ 195	\$ 9,554
Receipts:							
Taxes	-	82,567	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	37,433	6,462	-	-	269,030	-	15,870
Charges for services	-	41,958	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	6,155	40,000	-	99,749	-	-
Total receipts	<u>37,433</u>	<u>137,142</u>	<u>40,000</u>	<u>-</u>	<u>368,779</u>	<u>-</u>	<u>15,870</u>
Disbursements:							
Personal services	-	114,377	-	-	-	-	-
Supplies	-	36,654	-	-	-	-	-
Other services and charges	25,984	12,072	-	-	232,748	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	2,420	-	-	137,040	-	16,728
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	95	40,000	194	115,376	-	-
Total disbursements	<u>25,984</u>	<u>165,618</u>	<u>40,000</u>	<u>194</u>	<u>485,164</u>	<u>-</u>	<u>16,728</u>
Excess (deficiency) of receipts over disbursements	<u>11,449</u>	<u>(28,476)</u>	<u>-</u>	<u>(194)</u>	<u>(116,385)</u>	<u>-</u>	<u>(858)</u>
Cash and investments - ending	<u>\$ 28,147</u>	<u>\$ 68,098</u>	<u>\$ 40,932</u>	<u>\$ 980</u>	<u>\$ 79,306</u>	<u>\$ 195</u>	<u>\$ 8,696</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	CUMULATIVE CAPITAL DEVELOPMENT	SELF INSURANCE	STREET SIGN GRANT	CEMETERY OPERATING	AIRPORT GRANT-FEDERAL	AIRPORT GRANT-STATE	PETTY CASH- GENERAL
Cash and investments - beginning	\$ 25,085	\$ 10,328	\$ 10,040	\$ 45,633	\$ -	\$ 389	\$ 500
Receipts:							
Taxes	60,113	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	4,706	-	25,430	-	1,783,520	84,262	-
Charges for services	-	-	-	104,906	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	1,157,632	16,000	6,586	-	-	-
Total receipts	<u>64,819</u>	<u>1,157,632</u>	<u>41,430</u>	<u>111,492</u>	<u>1,783,520</u>	<u>84,262</u>	<u>-</u>
Disbursements:							
Personal services	-	-	-	79,731	-	-	-
Supplies	-	-	-	12,843	-	-	-
Other services and charges	-	-	-	4,954	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	56,250	-	-	10,224	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	1,151,890	49,524	-	1,783,520	84,651	-
Total disbursements	<u>56,250</u>	<u>1,151,890</u>	<u>49,524</u>	<u>107,752</u>	<u>1,783,520</u>	<u>84,651</u>	<u>-</u>
Excess (deficiency) of receipts over disbursements	<u>8,569</u>	<u>5,742</u>	<u>(8,094)</u>	<u>3,740</u>	<u>-</u>	<u>(389)</u>	<u>-</u>
Cash and investments - ending	<u>\$ 33,654</u>	<u>\$ 16,070</u>	<u>\$ 1,946</u>	<u>\$ 49,373</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 500</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	CASH CHANGE- GENERAL	PETTY CASH- PARK AND REC	CEM STONE REPAIR DONATION	CEMETERY CHAPEL DONATIONS	SALEM BICENTENNIAL FUND	SALEM SIDEWALK	SALEM DOWNTOWN REVITALIZATION
Cash and investments - beginning	\$ 50	\$ 50	\$ 579	\$ 2,300	\$ 7,049	\$ 508	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	59,290
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	-	-	200	-	120	-
Total receipts	-	-	-	200	-	120	59,290
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	50	-	-	7,049	-	59,290
Total disbursements	-	50	-	-	7,049	-	59,290
Excess (deficiency) of receipts over disbursements	-	(50)	-	200	(7,049)	120	-
Cash and investments - ending	\$ 50	\$ -	\$ 579	\$ 2,500	\$ -	\$ 628	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	PUBLIC SAFETY TAX	ANIMAL SHELTER DONATION	CEMETERY PERMANENT MAINTENANCE	SINCLAIR MEMORIAL MAUSOLEUM	URBAN BEAUTIFICATION	SALEM HOUSING REHAB RLF	POLICE GRANT
Cash and investments - beginning	\$ 95,597	\$ 11,217	\$ 94,746	\$ 16,502	\$ -	\$ 14	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	288,451	-	-	-	-	-	1,224
Charges for services	-	-	6,060	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	35,000	6,024	95,000	15	400	-	-
Total receipts	<u>323,451</u>	<u>6,024</u>	<u>101,060</u>	<u>15</u>	<u>400</u>	<u>-</u>	<u>1,224</u>
Disbursements:							
Personal services	196,107	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	1,118	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	81,413	-	-	-	-	-	1,215
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	2,391	95,000	-	400	-	-
Total disbursements	<u>278,638</u>	<u>2,391</u>	<u>95,000</u>	<u>-</u>	<u>400</u>	<u>-</u>	<u>1,215</u>
Excess (deficiency) of receipts over disbursements	<u>44,813</u>	<u>3,633</u>	<u>6,060</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>9</u>
Cash and investments - ending	<u>\$ 140,410</u>	<u>\$ 14,850</u>	<u>\$ 100,806</u>	<u>\$ 16,517</u>	<u>\$ -</u>	<u>\$ 14</u>	<u>\$ 9</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	SALEM R.B.E.G. FUND	ALLOCATION #1 U.E.Z.	AIRPORT IMPROVEMENT	BOAC RENTAL PROPERTY	PROJECT DONATION	FIRE PENSION OLD	POLICE PENSION OLD
Cash and investments - beginning	\$ 25,000	\$ 170,187	\$ 34,779	\$ 7,875	\$ -	\$ 80,445	\$ 76,954
Receipts:							
Taxes	-	510,473	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	99,748	101,272
Charges for services	-	-	-	19,250	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	2,700	78,356	-	1,017	157	188
Total receipts	-	513,173	78,356	19,250	1,017	99,905	101,460
Disbursements:							
Personal services	-	-	-	-	-	-	500
Supplies	-	-	-	-	-	-	-
Other services and charges	-	219,431	-	-	-	112,055	73,266
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	129,678	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	126,000	77,122	15,756	-	-	-
Total disbursements	-	475,109	77,122	15,756	-	112,055	73,766
Excess (deficiency) of receipts over disbursements	-	38,064	1,234	3,494	1,017	(12,150)	27,694
Cash and investments - ending	\$ 25,000	\$ 208,251	\$ 36,013	\$ 11,369	\$ 1,017	\$ 68,295	\$ 104,648

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	PAYROLL- NET SALARIES	PAYROLL- FEDERAL W/H	PAYROLL- FICA	PAYROLL- MEDICARE	PAYROLL- STATE W/H	PAYROLL- COUNTY W/H	AMERICAN FAMILY LIFE
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	<u>618,863</u>	<u>253,795</u>	<u>207,762</u>	<u>70,289</u>	<u>84,653</u>	<u>47,957</u>	<u>19,427</u>
Total receipts	<u>618,863</u>	<u>253,795</u>	<u>207,762</u>	<u>70,289</u>	<u>84,653</u>	<u>47,957</u>	<u>19,427</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	<u>618,863</u>	<u>253,795</u>	<u>207,762</u>	<u>70,289</u>	<u>84,653</u>	<u>47,957</u>	<u>19,427</u>
Total disbursements	<u>618,863</u>	<u>253,795</u>	<u>207,762</u>	<u>70,289</u>	<u>84,653</u>	<u>47,957</u>	<u>19,427</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	AUL 457	COMMUNITY FOUNDATION	BOSTON MUTUAL	PERF	COLONIAL LIFE	COMPANION LIFE	DIRECT DEPOSIT
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	29,663	1,180	2,903	220,665	6,946	596	1,336,242
Total receipts	<u>29,663</u>	<u>1,180</u>	<u>2,903</u>	<u>220,665</u>	<u>6,946</u>	<u>596</u>	<u>1,336,242</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	29,663	1,180	2,903	220,665	6,946	596	1,336,242
Total disbursements	<u>29,663</u>	<u>1,180</u>	<u>2,903</u>	<u>220,665</u>	<u>6,946</u>	<u>596</u>	<u>1,336,242</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	IN STATE CENT COLL UNIT	NEW JERSEY FAMILY SUPPORT	GUARDIAN 125	HEALTH 125	ID PROTECTION	LINCOLN LIFE	NATIONWIDE 457
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	5,775	8,788	23,393	84,598	518	713	806
Total receipts	<u>5,775</u>	<u>8,788</u>	<u>23,393</u>	<u>84,598</u>	<u>518</u>	<u>713</u>	<u>806</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	5,775	8,788	23,393	84,598	518	713	806
Total disbursements	<u>5,775</u>	<u>8,788</u>	<u>23,393</u>	<u>84,598</u>	<u>518</u>	<u>713</u>	<u>806</u>
Excess (deficiency) of receipts over disbursements	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	PRUDENTIAL LIFE	WASHINGTON NATIONAL LIFE	WASHINGTON COUNTY TREASURER	YMCA	FIRE PERF	POLICE PERF	LIBERTY NATIONAL 125
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	1,893	263	346	2,631	80,210	129,660	2,336
Total receipts	<u>1,893</u>	<u>263</u>	<u>346</u>	<u>2,631</u>	<u>80,210</u>	<u>129,660</u>	<u>2,336</u>
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	1,893	263	346	2,631	80,210	129,660	2,336
Total disbursements	<u>1,893</u>	<u>263</u>	<u>346</u>	<u>2,631</u>	<u>80,210</u>	<u>129,660</u>	<u>2,336</u>
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-	-
Cash and investments - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	GARNISH EMPLOYEE #140	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND AND INTEREST	WASTEWATER DEBT SERVICE
Cash and investments - beginning	\$ -	\$ 18,427	\$ 70,510	\$ 15,270	\$ -	\$ 426,540
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	1,166,913	29,370	3,625	-	-
Other receipts	850	60,022	-	518,545	445,350	190,000
Total receipts	850	1,226,935	29,370	522,170	445,350	190,000
Disbursements:						
Personal services	-	217,052	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	36,418	-	-	-	-
Debt service - principal and interest	-	-	-	-	444,104	-
Capital outlay	-	-	-	518,090	-	-
Utility operating expenses	-	451,543	-	-	-	-
Other disbursements	850	494,439	22,110	-	-	190,000
Total disbursements	850	1,199,452	22,110	518,090	444,104	190,000
Excess (deficiency) of receipts over disbursements	-	27,483	7,260	4,080	1,246	-
Cash and investments - ending	\$ -	\$ 45,910	\$ 77,770	\$ 19,350	\$ 1,246	\$ 426,540

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	PETTY CASH- WASTEWATER	CASH CHANGE- WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND AND INTEREST	PETTY CASH- WATER
Cash and investments - beginning	\$ 500	\$ 50	\$ 25,656	\$ 38,702	\$ 140	\$ 500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	1,628,656	-	-	-
Other receipts	-	-	54,005	640,304	270,050	-
Total receipts	-	-	1,682,661	640,304	270,050	-
Disbursements:						
Personal services	-	-	413,176	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	50,854	-	-	-
Debt service - principal and interest	-	-	-	-	270,057	-
Capital outlay	-	-	-	667,044	-	-
Utility operating expenses	-	-	721,139	-	-	-
Other disbursements	-	-	458,309	-	-	-
Total disbursements	-	-	1,643,478	667,044	270,057	-
Excess (deficiency) of receipts over disbursements	-	-	39,183	(26,740)	(7)	-
Cash and investments - ending	\$ 500	\$ 50	\$ 64,839	\$ 11,962	\$ 133	\$ 500

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2015
 (Continued)

	WATER NON-REVERTING	CASH CHANGE- WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXT	Totals
Cash and investments - beginning	\$ 8,842	\$ 50	\$ 313,050	\$ 609	\$ 2,590,013
Receipts:					
Taxes	-	-	-	-	2,972,573
Licenses and permits	-	-	-	-	32,536
Intergovernmental receipts	-	-	-	-	4,165,093
Charges for services	-	-	-	-	548,958
Fines and forfeits	-	-	-	-	7,587
Utility fees	150	-	-	-	2,828,714
Other receipts	12,585	-	-	-	8,381,134
Total receipts	<u>12,735</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,936,595</u>
Disbursements:					
Personal services	-	-	-	-	3,765,819
Supplies	-	-	-	-	238,619
Other services and charges	-	-	-	-	1,653,977
Debt service - principal and interest	-	-	-	-	714,161
Capital outlay	-	-	-	-	1,778,257
Utility operating expenses	-	-	-	-	1,172,682
Other disbursements	11,586	-	-	-	9,452,853
Total disbursements	<u>11,586</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,776,368</u>
Excess (deficiency) of receipts over disbursements	<u>1,149</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>160,227</u>
Cash and investments - ending	<u>\$ 9,991</u>	<u>\$ 50</u>	<u>\$ 313,050</u>	<u>\$ 609</u>	<u>\$ 2,750,240</u>

CITY OF SALEM
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2015

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 26,775	\$ 87,828
Water	78,909	223,874
Governmental activities	401,650	17,464
Totals	\$ 507,334	\$ 329,166

CITY OF SALEM
SCHEDULE OF LEASES AND DEBT
December 31, 2015

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Salem Government Facility Building Corporation	Lease for City Hall	<u>\$ 112,000</u>	02/26/2014	07/15/2024

Description of Debt		Ending Principal Balance	Principal and Interest Due Within One Year
Type	Purpose		
Wastewater:			
Revenue bonds	Wastewater Utility	<u>\$ 2,050,000</u>	<u>\$ 456,458</u>
Water:			
Revenue bonds	Water Utility	<u>2,490,000</u>	<u>273,315</u>
Totals		<u>\$ 4,540,000</u>	<u>\$ 729,773</u>

CITY OF SALEM
SCHEDULE OF CAPITAL ASSETS
December 31, 2015

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	\$ 2,640,899
Infrastructure	8,965,941
Buildings	913,936
Improvements other than buildings	1,264,254
Machinery, equipment, and vehicles	2,219,413
Construction in progress	4,734,553
Total governmental activities	20,738,996
Wastewater:	
Land	159,265
Infrastructure	211,764
Buildings	4,914,233
Improvements other than buildings	2,893,035
Machinery, equipment, and vehicles	1,976,502
Construction in progress	488,107
Total Wastewater	10,642,906
Water:	
Land	848,577
	775,924
Buildings	153,619
Improvements other than buildings	3,979,673
Machinery, equipment, and vehicles	3,727,207
Construction in progress	723,791
Total Water	10,208,791
Total capital assets	\$ 41,590,693

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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 *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015. The City's major federal programs are 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 Federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 each 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 each of its major federal programs for the year ended December 31, 2015.

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2015-003. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance 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.

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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as items 2015-002, 2015-003, and 2015-004, that we consider 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.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


Paul D. Joyce, CPA
State Examiner

February 7, 2017

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND ACCOMPANYING NOTES

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

CITY OF SALEM
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2015

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	Pass-Through To Subrecipient	Total Federal Awards Expended
<u>Department of Housing and Urban Development</u>					
Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii Salem Downtown Revitalization	Indiana Office of Community and Rural Affairs	14.228	A192-15-MS-13-100	\$ -	\$ 59,290
Total - Department of Housing and Urban Development				-	59,290
<u>Department of Justice</u>					
Edward Byrne Memorial Justice Assistance Grant Program ATF Grant FY2014	Direct grant	16.738	GL-INS-199	-	224
Total - Department of Justice				-	224
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction					
Highway 56 East Improvement Project - Water	Indiana Department of Transportation	20.205	DES 0014640	-	573,604
Highway 56 East Improvement Project - Wastewater			DES 0014640	-	422,295
Street Sign Replacement Grant			DES 1382820	-	25,430
Total - Highway Planning and Construction				-	1,021,329
Total - Highway Planning and Construction Cluster				-	1,021,329
Airport Improvement Program					
Direct grant					
Salem Municipal Airport Expansion		20.106	AIP 3-18-0075-13-2013	-	530,187
Salem Municipal Airport Expansion			AIP 3-18-0075-15-2014	-	1,074,712
Salem Municipal Airport Expansion			AIP 3-18-0075-16-2015	-	178,621
Total - Airport Improvement Program				-	1,783,520
Total - Department of Transportation				-	2,804,849
Total federal awards expended				\$ -	\$ 2,864,363

The accompanying notes are an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF SALEM
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. *Basis of Presentation*

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the City under programs of the federal government for the year ended December 31, 2015. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the SEFA presents only a select portion of the operations of the City, it is not intended to and does not present the financial position of the City.

Note 2. *Summary of Significant Accounting Policies*

Expenditures reported on the SEFA are reported on the cash basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, or the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. When federal grants are received on a reimbursement basis, the federal awards are considered expended when the reimbursement is received. The City has elected not to use the 10 percent de minimus indirect cost rate allowed under the Uniform Guidance.

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 programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

Identification of Major Programs and type of auditor's report issued on compliance for each:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
20.106	Highway Planning and Construction Cluster Airport Improvement Program	Unmodified Unmodified

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

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

Section II - Financial Statement Findings

FINDING 2015-001 - INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

This is a repeat finding from the immediate prior year. The prior year finding number was 2014-001.

Condition

There were several deficiencies in the internal control system of the City related to financial transactions and reporting.

A lack of segregation of duties existed over financial statement receipts. The City had not separated incompatible activities related to Utility collections and vendor and payroll disbursements.

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

Utility Collections

One employee in the Utility office was responsible for collecting utility payments, balancing the collection drawer, posting utility payments and adjustments to the customers' accounts, filling out the utility deposit ticket, and remitting 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 employee performing the activities.

Vendor Disbursements

One employee in the Clerk-Treasurer's office was responsible for matching invoices with purchase requisition orders, recording invoice payments in the ledger, issuing checks, mailing checks, making bank electronic fund payments, had access to the check stock, and printing reports of disbursements activity for approval. The same employee prepared the initial bank reconciliation and outstanding check list prior to its approval. The activities related to disbursements were not always reviewed or verified by someone other than the employee performing the activities.

Payroll Disbursements

One employee in the Clerk-Treasurer's office was responsible for establishing new employees in the payroll computer system, entering pay rates, entering hours worked, recording leave time earned and used, calculating the wages, issuing checks, making direct deposit payments for wages, tax payments, and payroll deductions, printing reports of payroll disbursements for review and approval, and preparing 941 reports, retirement reports, and W-2's. Another employee was responsible for recording the payroll payments, tax payments, and deduction payments to the ledger. The activities related to payroll were not always reviewed or verified by someone other than the employee performing the activities.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes. An integral part of the control activity component is segregation of duties. . . . There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . ."

Cause

Management had not developed an effective system of internal controls to ensure that the financial activity was reported properly relating to utility collections. Management had not properly implemented the internal control system relating to vendor and payroll disbursements.

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

Effect

The failure to establish and properly implement controls could have enabled material misstatements or irregularities to remain undetected.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

Section III - Federal Award Findings and Questioned Costs

FINDING 2015-002 - REPORTING AND SPECIAL TESTS AND PROVISIONS - WAGE RATE REQUIREMENTS

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 3-18-0075-13-2013,
AIP 3-18-0075-15-2014,
AIP 3-18-0075-16-2015

This is a repeat finding from the immediate prior year. The prior year finding numbers were 2014-002 and 2014-003.

Condition

Reporting

Management of the City had not established an effective internal control system related to the grant agreement and the Reporting compliance requirement.

Procedures were not in place at the Airport to ensure that required financial reports were supported by the activities recorded in the grant funds maintained in the City's financial ledger. Financial reports were prepared from project files kept by the Grant Administrator. These project files were not reconciled to the City's financial ledger to ensure the amounts contained in the financial reports were correct

Special Tests and Provisions - Wage Rate Requirements

Management of the City had not properly implemented their internal control system, related to the grant agreement and the Special Tests and Provisions - Wage Rate Requirements compliance requirement.

Certified payrolls were submitted by the contractors to the Grant Administrator. The Grant Administrator would then check to determine if the prevailing wages were being properly paid. The Grant Administrator would then submit the certified payroll to the Clerk-Treasurer to review and verify the Grant Administrator properly performed their review. The Clerk-Treasurer would make tick marks on the payrolls to indicate a review was performed. Certified payrolls did not always contain the tick marks indicating the Clerk-Treasurer reviewed the certified payrolls.

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

Context

Reporting

There was no evidence presented during the entire audit period that the amounts reported in the financial reports were verified to the activities recorded in the grant funds maintained in the City's financial ledger.

Special Tests and Provisions - Wage Rate Requirements

The City presented twenty-six certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-15-2014. Twenty-one of the certified payrolls did not contain any tick marks to indicate a review was performed.

The City presented nineteen certified payrolls for the audit period pertaining to federal award number AIP 3-18-0075-13-2013. None of the certified payrolls contained any tick marks to indicate a review was performed.

Criteria

2 CFR section 200.303 states in part:

"The non-Federal entity must:

- (a) Establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in 'Standards for Internal Control in the Federal Government' issued by the Comptroller General of the United States or the 'Internal Control Integrated Framework', issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). . . ."

Cause

Management had not developed an effective system of internal controls for Reporting. Management had not properly implemented the internal control system for Special Tests and Provisions - Wage Rate Requirements.

Effect

The failure to establish and properly implement an effective internal control system placed 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 have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

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

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirements listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2015-003 - CASH MANAGEMENT

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Cash Management compliance requirement.

One person prepared and submitted the invoices for reimbursement. There was no evidence presented to indicate that anyone other than the preparer reviewed the reimbursement request to ensure that the invoices submitted had been paid prior to requesting reimbursement. There were instances in which amounts were submitted for reimbursement prior to the underlying invoices being paid.

Context

Two of the six reimbursement request tested contained invoices that had not been paid prior to requesting the reimbursement. Invoices on those two requests were paid 35 and 54 days after the date of the reimbursement request.

Criteria

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. . . ."

2 CFR 200.305(b)(3) states:

"Reimbursement is the preferred method when the requirements in paragraph (b) cannot be met, when the Federal awarding agency sets a specific condition per § 200.207 Specific conditions, or when the non-Federal entity requests payment by reimbursement. This method may be used on any Federal award for construction, or if the major portion of the construction project is accomplished through private market financing or Federal loans, and the Federal award constitutes a minor portion of the project. When the reimbursement method is used, the Federal awarding agency or pass-through entity must make payment within 30 calendar days after receipt of the billing, unless the Federal awarding agency or pass-through entity reasonably believes the request to be improper."

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

Cause

Management had not developed an effective system of internal controls over Cash Management requirements.

Effect

The failure to establish internal controls enabled material noncompliance to go undetected which could have resulted in the loss of federal funds to the City.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

FINDING 2015-004 - MATCHING

Federal Agency: Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205
Federal Award Number and Year (or Other Identifying Number): DES 0014640
Pass-Through Entity: Indiana Department of Transportation

Condition

Management of the City had not established an effective internal control system, related to the grant agreement and the Matching compliance requirement.

The Clerk-Treasurer prepared the reimbursement request which included the City's required match of funds. There was no evidence presented to indicate that anyone other than the Clerk-Treasurer reviewed the reimbursement request to ensure that the matching requirement was properly met.

Context

The lack of internal controls was prevalent during the entire audit period.

Criteria

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. . . ."

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

Cause

Management had not developed a system of internal controls that segregated key functions.

Effect

The failure to establish an effective internal control system placed the City at risk of noncompliance with the grant agreement and the compliance requirement. A lack of segregation of duties within an internal control system could have also allowed noncompliance with compliance requirements and allowed the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the program.

Questioned Costs

There were no questioned costs identified.

Recommendation

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and compliance requirement listed above.

Views of Responsible Officials

For the views of responsible officials, refer to the Corrective Action Plan that is part of this report.

AUDITEE-PREPARED DOCUMENTS

The subsequent documents were provided by management of the City. The documents are presented as intended by the City.



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

SUMMARY SCHEDULE FOR PRIOR AUDIT FINDINGS

FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Fiscal year in which the finding initially occurred: 2014

Contact Person Responsible for Corrective Action: Patricia E. Persinger/Sally J. Hattabaugh, Clerk-Treasurer

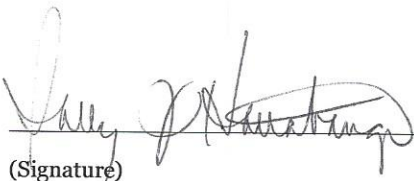
Contact Phone Number: 812-883-4264

Status of Audit Finding:

City Receipts – The City of Salem 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. Procedures are also in place to verify that the cash and checks are deposited in the bank in the manner which they were received.

Vendor Disbursements – All invoices are approved by the department head and Mayor or Clerk-Treasurer before processing. All vouchers are signed by the department head before going to Common Council or Board of Works and Safety. Only after approval are invoices paid. At the end of each month a Check/Accounts Payable Voucher Verification is reviewed and signed by the Clerk-Treasurer.

Payroll Disbursements – Payroll receipts are reviewed and matched to the Payroll Allowance Docket by the Clerk-Treasurer and the Payroll Allowance Docket is reviewed and signed by the Common Council and all payroll fund balances are zero at the end of the month.



(Signature)

Clerk-Treasurer

(Title)

December 1, 2016

(Date)

*City of Salem Municipal Utilities
Water, Sewer, and Garbage
201 E. Market St. Ste. 106
Salem, Indiana 47167
(812) 883-3937*

SUMMARY SCHEDULE OF PRIOR FINDINGS

FINDING 2014-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Fiscal year in which the finding initially occurred: 2014

Contact Person Responsible for Corrective Action: David L. Bower/Troy Merry, Mayor

Contact Phone Number: 812-883-4265

Status of Audit Finding:

Proper policies and procedures were implemented that ensured accuracy and integrity of the revenues by the employees of Salem Utilities for the City of Salem. Procedures and actions are verified and received on a daily basis.



(Signature)

Mayor _____
(Title)

December 5, 2016 _____
(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

SUMMARY SCHEDULE FOR PRIOR AUDIT FINDINGS

FINDING 2014-002 – CASH MANAGEMENT AND DAVIS BACON

Fiscal year in which the finding initially occurred: 2014

Federal Grant or Agency: U. S. Department of Transportation

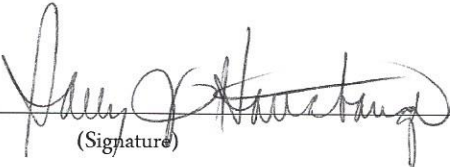
Contact Person Responsible for Corrective Action: Patricia E. Persinger/Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4264

Status of Audit Finding:

The City of Salem has procedures in place between the Clerk-Treasurer and the grant administrator minimizing the time between the receipt of funds and the disbursement of those funds by the grantee. Also, there is a spreadsheet compiled recording the dates of receipt and the dates of disbursement.

The City of Salem requires the verification by the grant administrator that prevailing wages are correct and then these same wages are reviewed by the Clerk-Treasurer to make sure they are in compliance with all laws, regulations, contracts and grant agreements. These payroll records are on file in the Clerk-Treasurer's office.



(Signature)

Clerk-Treasurer

(Title)

December 21, 2016

(Date)



Salem Municipal Airport (183)
Salem Board of Aviation Commissioners
2593 W. Highway 56
Salem, IN 47167

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2014-003-REPORTING

Fiscal year: 2014

Federal Grant or Agency: Department of Transportation

Contact Person Responsible for Corrective Action: Ronnie Floyd, BOAC President

Contact Phone Number: (812) 404-6301

Status of Audit Finding:

The Corrective Action Plan dated December 15, 2015 was approved and adopted by the Board of Aviation Commissioners.

A handwritten signature in black ink, appearing to read "Ronnie Floyd", written over a horizontal line.

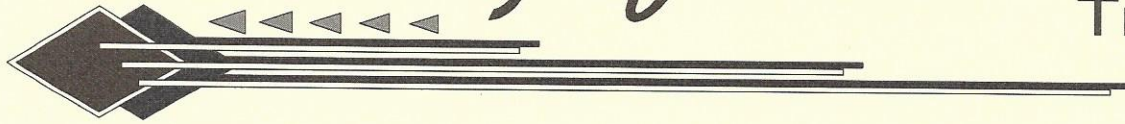
(Signature)

President, Board of Aviation Commissioners

(Title)

12-8-16

(Date)



SUMMARY SCHEDULE OF PRIOR FINDINGS

FINDING 2014-004 – PROCUREMENT, SUSPENSION AND DEBARMENT

Fiscal year in which the finding initially occurred: 2014

Federal Grant or Agency: Department of Transportation

Contact Person Responsible for Corrective Action: David L. Bower/Troy Merry, Mayor

Contact Phone Number: 812-883-4265

Status of Audit Finding:

The City of Salem passed Ordinance No. 2016-1545 on April 11, 2016, An Ordinance Providing for Procurement Involving Federal Grants.

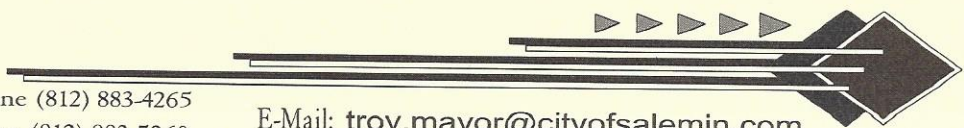
(Signature)

Mayor _____

(Title)

December 5, 2016 _____

(Date)





Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4264

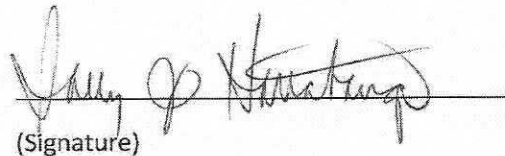
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Vendor Disbursements – Two different employees match invoices with purchase requisition orders. All invoices are approved by the department head and Mayor or Clerk-Treasurer before processing. All vouchers are signed by the department head before going to Common Council or Board of Public Works and Safety. Only after approval are invoices paid. At the end of each month a Check/Accounts Payable Voucher Verification is reviewed and signed by the Clerk-Treasurer. A new computer program, KeyFund, was installed that posts in real time and no manual update is required. An employee issues checks but the Clerk-Treasurer reviews and signs them. We do not make bank electronic fund payments. Bank reconciliations are reviewed and signed by the Clerk-Treasurer.

Payroll Disbursements – Payroll receipts are reviewed and verified to the monthly Payroll Allowance Docket by the Clerk-Treasurer and the Payroll Allowance Docket is reviewed and signed by the Common Council. Payroll vouchers are signed off by the department heads. Clerk-Treasurer reviews the employee master file at the beginning of each year to confirm the wages match the salary ordinance. An employee has been cross-trained to do payroll functions on a regular basis.

Anticipated Completion Date: September 15, 2016


(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)

*City of Salem Municipal Utilities
Water, Sewer, and Garbage
201 E. Market St. Ste. 106
Salem, Indiana 47167
(812) 883-3937*

CORRECTIVE ACTION PLAN

FINDING 2015-001

Contact Person Responsible for Corrective Action: Troy Merry, Mayor

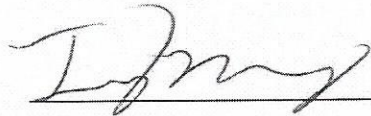
Contact Phone Number: 812-883-4265

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Utility Collections – Both Utility employees collect the payments, both figure adjustments and make adjustments. Every customer is given a receipt for payment verification. The deposit is verified by the second employee in the office. It is verified on a Cash Update Summary Report by both employees in the office and then turned into the Clerk-Treasurer's office where it is verified a third time.

Anticipated Completion Date: November 15, 2016



(Signature)

Mayor _____

(Title)

January 26, 2017 _____

(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-002

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4264

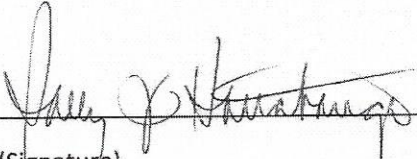
Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

A master spreadsheet which tracks all items that constitute the pay requests is sent by the grant administrator to the Clerk-Treasurer. The Clerk-Treasurer then verifies the amounts that the claims dockets are for that month.

Procedures are in place for the Clerk-Treasurer to tick mark the certified payrolls after they are reviewed.

Anticipated Completion Date: January 3, 2017



(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)



*Salem Municipal Airport (183)
Salem Board of Aviation
Commissioners*

2593 W. Highway 56

Salem, IN 47167

FINDING 2015-002

Contact Person Responsible for Corrective Action: Ronnie Floyd – BOAC President

Contact Phone Number: 812-404-6301

Views of Responsible Official: We concur with the finding.

During a recent State Board of Accounts Audit of the City of Salem, with the Salem Board of Aviation Commissioners as a subpart of that audit, received a notification that there were issues pertaining to the Federal aid projects.

Specifically, Finding 2015-002 of the SBA audit pertained to airport and federal funds.

Finding 2015-002 – Reporting and Special Tests and Provisions – Wage Rate Requirements

- **Under Finding 2015-002**, SBA claims that the City does not have an established effective internal control system with segregation of duties related to the grant agreement and reporting compliance which could place the City at risk of compliance with requirements.

Also, the City does not have an effective provision for Special Tests and Provisions for Wage Reports.

The airport and local community does have practice in place that provides for reporting compliance segregation of duties to ensure compliance to the FAA Grant Assurances.

The summary of the process is provided below:

1. The claims are collected and submitted by either the vender or aviation consultant to the airport for review/approval at the monthly BOAC meetings.
2. Claims are presented at a BOAC meeting via a progress report and pay request and reviewed and approved by the BOAC.
3. The pay request is taken by the airport attorney to the City Clerk Treasurer for processing and payment.
4. Upon submission of pay requests, the Clerk will assign duties for review, posting, and payment to different staff members.
5. The local community maintains separate accounts for each grant project to maintain a separation between the multiple projects that may be underway simultaneously.
6. Upon approval by the Council, the aviation consultant will incorporate the eligible costs onto a Pay Request and process through the FAA AIP Grant program.
7. The E-Invoicing system provides notification of payments to the Airport Consultant's Grant Administrator & City Clerk Treasurer. This notification provides both entities a notification that deposits have been made and allows for separation of duties as well as redundancy to ensure that payments are processed in a timely and efficient manner.
8. Monthly AR Reports are presented to the airport on a monthly basis.
9. City and grant administrators will semi-annually review and reconcile City financial ledgers with administrative project files.


10. Co-monitoring of the E-Invoicing system by the BF&S Grant Administrator assists the local community in timely processing and distribution of reimbursements to the appropriate account when multiple grants are open at any given time.
11. Electronic payment processing of reimbursements by the FAA has expedited local community receipt of funds which aids in cash management process.
12. FAA Electronic notification of reimbursement processing allows for a significant improvement to the claim processing and has significantly reduced any potential errors associated with receipt of FAA reimbursements.
13. Throughout the process, BOAC and Grant Administrator verify on site the activities for which reports are submitted.
14. City will adopt a system to assure all certified payrolls are manually reviewed and properly noted.

Anticipated Completion Date: November 18, 2015



(Signature)

Salem Municipal Airport BOAC President



(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-003

Contact Person Responsible for Corrective Action: Troy Merry, Mayor and Sally J. Hattabaugh, Clerk-Treasurer

Contact Phone Number: 812-883-4265 and 812-883-4264

Views of Responsible Official: We concur with the finding

Description of Corrective Action Plan:

In the future we will handle any grant as directed by the grant agreement.

Anticipated Completion Date: January 3, 2017

(Signature)

Mayor

(Title)

(Signature)

Clerk-Treasurer

(Title)

January 26, 2017

(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
812-883-4264 (Office)
812-883-3634 (Fax)

CORRECTIVE ACTION PLAN

FINDING 2015-004

Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer and Troy Merry, Mayor

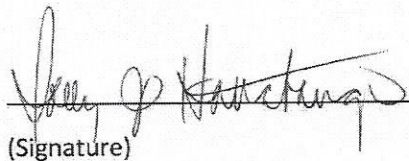
Contact Phone Number: 812-883-4264 and 812-883-4264

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Procedures have been put in place to ensure the reimbursement request is reviewed by a second person in the Clerk-Treasurer's office.

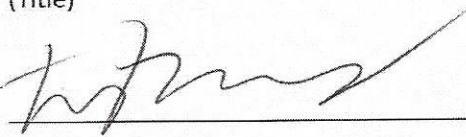
Anticipated Completion Date: January 3, 2017



(Signature)

Clerk-Treasurer

(Title)



(Signature)

Mayor

(Title)

January 26, 2017

(Date)

OTHER REPORTS

In addition to this report, other reports may have been issued for the City. All reports can be found on the Indiana State Board of Accounts' website: <http://www.in.gov/sboa/>.