

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, 2016 to December 31, 2016



FILED
01/18/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sally Hattabaugh	01-01-16 to 12-31-19
Mayor	Troy Merry	01-01-16 to 12-31-19
President of the Board of Public Works and Safety	Troy Merry	01-01-16 to 12-31-18
President Pro Tempore of the Common Council	Warren Jones Wally Terkhorn Steve Crane	01-01-16 to 12-31-16 01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Carol Brough	01-01-16 to 12-31-18



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, 2016, 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 (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from 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 to 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, 2016.

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, 2016, 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 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 December 6, 2018, 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 solely 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 effectiveness of the City's 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

December 6, 2018



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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, 2016, and the related notes to the financial statement, and have issued our report thereon dated December 6, 2018, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.


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

Compliance and Other Matters

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

Purpose of This Report

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


Paul D. Joyce, CPA
State Examiner

December 6, 2018

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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, 2016

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
GENERAL	\$ 421,039	\$ 3,718,574	\$ 3,422,204	\$ 717,409
MOTOR VEHICLE HIGHWAY	93,280	536,457	456,337	173,400
LOCAL ROAD & STREET	11,010	26,038	22,693	14,355
AVIATION	14,649	55,338	58,553	11,434
SANITATION	147,221	343,458	325,646	165,033
LAW ENFORCE. CONT. ED.	9,507	6,577	5,521	10,563
UNSAFE BUILDING	22,181	1,672	146	23,707
RIVERBOAT REVENUE SHARING	28,147	37,431	30,000	35,578
PARK & RECREATION	68,098	194,631	163,454	99,275
RAINY DAY FUND	40,932	40,000	40,000	40,932
K-9 PROGRAM	980	-	491	489
EDIT	79,306	421,901	239,294	261,913
LOIT SPECIAL DISTRIBUTION	-	362,453	-	362,453
LEVY EXCESS	195	-	195	-
CUM. CAP. IMPROVEMENT	8,696	16,105	1,651	23,150
CUM. CAP. DEVELOPMENT	33,654	63,597	73,743	23,508
SELF INSURANCE	16,070	1,491,917	1,499,402	8,585
STREET SIGN GRANT	1,946	9,759	10,843	862
CEMETERY OPERATING	49,373	104,003	112,909	40,467
AIRPORT GRANT-FEDERAL	-	1,178,355	1,178,355	-
AIRPORT GRANT-STATE	-	56,679	56,679	-
PETTY CASH - GENERAL	500	-	-	500
CASH CHANGE - GENERAL	50	-	-	50
CEM STONE REPAIR DONATION	579	100	-	679
CEMETERY CHAPEL DONATIONS	2,500	200	-	2,700
SALEM SIDEWALK	628	36	-	664
SALEM DOWNTOWN REVITALIZATION	-	317,686	317,686	-
LOIT - PUBLIC SAFETY TAX	140,410	353,986	257,043	237,353
ANIMAL SHELTER DONATION	14,850	2,517	-	17,367
POLICE DONATION	-	950	-	950
CEMETERY PERM. MAINT.	100,806	104,620	100,000	105,426
SINCLAIR MEM. MAUSOLEUM	16,517	10	-	16,527
URBAN BEAUTIFICATION	-	375	375	-
SALEM HOUSING REHAB RLF	14	-	-	14
STORM WATER USER FEE	-	4,000	-	4,000
POLICE GRANT	9	-	-	9
SALEM R.B.E.G. FUND	25,000	34,935	50,700	9,235
ALLOCATION #1 U.E.Z.	208,251	565,156	474,796	298,611
SALEM ALLOCATION AREA #2	-	62,837	-	62,837
WAL-MART ALLOCATION AREA	-	19,038	-	19,038
AIRPORT IMPROVEMENT	36,013	222,309	143,064	115,258
BOAC RENTAL PROPERTY	11,369	12,800	8,515	15,654
PROJECT DONATION	1,017	2,900	1,257	2,660
FIRE PENSION OLD	68,295	111,094	102,699	76,690
POLICE PENSION OLD	104,648	62,108	69,150	97,606

CITY OF SALEM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2016

Fund	Cash and Investments 01-01-16	Receipts	Disbursements	Cash and Investments 12-31-16
PAYROLL - NET SALARIES	-	566,396	566,396	-
PAYROLL - FEDERAL W/H	-	261,769	261,769	-
PAYROLL - FICA	-	205,819	205,819	-
PAYROLL - MEDICARE	-	70,420	70,420	-
PAYROLL - STATE W/H	-	84,800	84,800	-
PAYROLL - COUNTY W/H	-	47,711	47,711	-
AMERICAN FAMILY LIFE	-	22,114	22,114	-
AUL 457	-	30,359	30,359	-
COMMUNITY FOUNDATION	-	1,164	1,164	-
BOSTON MUTUAL	-	3,557	3,557	-
PERF	-	233,103	233,103	-
COLONIAL LIFE	-	6,446	6,446	-
COMPANION LIFE	-	596	596	-
DIRECT DEPOSIT	-	1,367,381	1,367,381	-
IN STATE CENT COLL UNIT	-	5,915	5,915	-
NEW JERSEY FAMILY SUPPORT	-	8,860	8,860	-
GUARDIAN 125	-	22,369	22,369	-
HEALTH 125	-	75,760	75,760	-
ID PROTECTION	-	466	466	-
LINCOLN LIFE	-	677	677	-
NATIONWIDE 457	-	806	806	-
PRUDENTIAL LIFE	-	2,006	2,006	-
WASHINGTON NATIONAL LIFE	-	247	247	-
WASHINGTON CO. TREASURER	-	2,135	2,135	-
YMCA	-	2,352	2,352	-
FIRE PERF	-	82,328	82,328	-
POLICE PERF	-	131,885	131,885	-
LIBERTY NATIONAL 125	-	1,976	1,976	-
WASTEWATER OPERATING	45,910	1,189,783	1,196,793	38,900
SEWER SERVICE	77,770	28,490	24,200	82,060
WASTEWATER DEPRECIATION	19,350	48,000	48,999	18,351
WASTEWATER BOND & INT	1,246	486,329	446,457	41,118
WASTEWATER DEBT SERVICE	426,540	-	-	426,540
PETTY CASH - WASTEWATER	500	-	-	500
CASH CHANGE - WASTEWATER	50	-	-	50
WATER OPERATING	64,839	1,702,657	1,730,704	36,792
WATER DEPRECIATION	11,962	61,469	57,684	15,747
WATER BOND & INTEREST	133	382,616	273,315	109,434
PETTY CASH - WATER	500	-	-	500
WATER NON-REVERTING	9,991	13,901	22,350	1,542
CASH CHANGE - WATER	50	-	-	50
WATER DEBT SERVICE	313,050	-	-	313,050
BECKS MILL WATER LINE EXT	609	-	-	609
Totals	<u>\$ 2,750,240</u>	<u>\$ 17,695,264</u>	<u>\$ 16,263,320</u>	<u>\$ 4,182,184</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. Amounts received from 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. 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, animal licenses, auctioneer licenses, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Intergovernmental receipts. Amounts received from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of intergovernmental 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 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. Amounts received for services including, but not limited to, the following: planning commission charges, building department charges, copies of public records, copy machines 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. Amounts received 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. Amounts received from charges for current services.

Other receipts. 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. Amounts disbursed 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. Amounts disbursed for 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, but are not limited to, the following: office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges. Amounts disbursed for services including, but 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. Amounts disbursed for fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Capital outlay. Amounts disbursed for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

Utility operating expenses. Amounts disbursed for operating the utilities.

Other disbursements. Amounts disbursed for various other purposes including, but 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, make transfers 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 amounts 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 amounts 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 lien date (March 1 in a year ending before January 1, 2016 and January 1 in a year beginning after December 31, 2015) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. Deposits and Investments

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

State statutes authorize the City to invest in securities including, but not limited to, 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

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

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

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

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

On Behalf Payments

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

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

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

On Behalf Payments

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

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 2016 totaled \$112,000.

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OTHER INFORMATION - UNAUDITED

The City's Annual Financial Report information can be found on the Indiana Gateway for Government Units 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, 2016

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	AVIATION	SANITATION	LAW ENFORCE. CONT. ED.
Cash and investments - beginning	\$ 421,039	\$ 93,280	\$ 11,010	\$ 14,649	\$ 147,221	\$ 9,507
Receipts:						
Taxes	2,041,315	290,638	-	-	160,280	-
Licenses and permits	39,103	-	-	-	-	5,275
Intergovernmental receipts	1,185,109	244,559	26,038	-	13,672	-
Charges for services	139,282	1,260	-	55,055	167,115	681
Fines and forfeits	3,603	-	-	-	-	613
Utility fees	-	-	-	-	-	-
Other receipts	310,162	-	-	283	2,391	8
Total receipts	3,718,574	536,457	26,038	55,338	343,458	6,577
Disbursements:						
Personal services	2,445,764	334,173	-	-	105,417	-
Supplies	72,209	33,682	-	34,475	6,563	-
Other services and charges	528,083	17,382	22,693	24,078	213,666	2,556
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	60,997	71,100	-	-	-	2,965
Utility operating expenses	-	-	-	-	-	-
Other disbursements	315,151	-	-	-	-	-
Total disbursements	3,422,204	456,337	22,693	58,553	325,646	5,521
Excess (deficiency) of receipts over disbursements	296,370	80,120	3,345	(3,215)	17,812	1,056
Cash and investments - ending	\$ 717,409	\$ 173,400	\$ 14,355	\$ 11,434	\$ 165,033	\$ 10,563

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	UNSAFE BUILDING	RIVERBOAT REVENUE SHARING	PARK & RECREATION	RAINY DAY FUND	K-9 PROGRAM	EDIT
Cash and investments - beginning	\$ 22,181	\$ 28,147	\$ 68,098	\$ 40,932	\$ 980	\$ 79,306
Receipts:						
Taxes	-	-	133,960	-	-	-
Licenses and permits	1,672	-	620	-	-	-
Intergovernmental receipts	-	37,431	11,427	-	-	285,901
Charges for services	-	-	44,199	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	4,425	40,000	-	136,000
Total receipts	1,672	37,431	194,631	40,000	-	421,901
Disbursements:						
Personal services	-	-	116,164	-	-	-
Supplies	-	-	33,778	-	-	-
Other services and charges	-	30,000	12,014	-	-	99,294
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	1,349	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	146	-	149	40,000	491	140,000
Total disbursements	146	30,000	163,454	40,000	491	239,294
Excess (deficiency) of receipts over disbursements	1,526	7,431	31,177	-	(491)	182,607
Cash and investments - ending	\$ 23,707	\$ 35,578	\$ 99,275	\$ 40,932	\$ 489	\$ 261,913

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	LOIT SPECIAL DISTRIBUTION	LEVY EXCESS	CUM. CAP. IMPROVEMENT	CUM. CAP. DEVELOPMENT	SELF INSURANCE	STREET SIGN GRANT
Cash and investments - beginning	\$ -	\$ 195	\$ 8,696	\$ 33,654	\$ 16,070	\$ 1,946
Receipts:						
Taxes	362,453	-	-	58,599	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	16,105	4,998	-	9,759
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	1,491,917	-
Total receipts	<u>362,453</u>	<u>-</u>	<u>16,105</u>	<u>63,597</u>	<u>1,491,917</u>	<u>9,759</u>
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	1,651	73,743	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	195	-	-	1,499,402	10,843
Total disbursements	<u>-</u>	<u>195</u>	<u>1,651</u>	<u>73,743</u>	<u>1,499,402</u>	<u>10,843</u>
Excess (deficiency) of receipts over disbursements	<u>362,453</u>	<u>(195)</u>	<u>14,454</u>	<u>(10,146)</u>	<u>(7,485)</u>	<u>(1,084)</u>
Cash and investments - ending	<u>\$ 362,453</u>	<u>\$ -</u>	<u>\$ 23,150</u>	<u>\$ 23,508</u>	<u>\$ 8,585</u>	<u>\$ 862</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	CEMETERY OPERATING	AIRPORT GRANT-FEDERAL	AIRPORT GRANT-STATE	PETTY CASH - GENERAL	CASH CHANGE - GENERAL	CEM STONE REPAIR DONATION
Cash and investments - beginning	\$ 49,373	\$ -	\$ -	\$ 500	\$ 50	\$ 579
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	1,178,355	56,679	-	-	-
Charges for services	95,263	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	8,740	-	-	-	-	100
Total receipts	104,003	1,178,355	56,679	-	-	100
Disbursements:						
Personal services	88,093	-	-	-	-	-
Supplies	13,153	-	-	-	-	-
Other services and charges	2,608	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	9,055	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	1,178,355	56,679	-	-	-
Total disbursements	112,909	1,178,355	56,679	-	-	-
Excess (deficiency) of receipts over disbursements	(8,906)	-	-	-	-	100
Cash and investments - ending	\$ 40,467	\$ -	\$ -	\$ 500	\$ 50	\$ 679

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	CEMETERY CHAPEL DONATIONS	SALEM SIDEWALK	SALEM DOWNTOWN REVITALIZATION	LOIT - PUBLIC SAFETY TAX	ANIMAL SHELTER DONATION	POLICE DONATION
Cash and investments - beginning	\$ 2,500	\$ 628	\$ -	\$ 140,410	\$ 14,850	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	315,649	307,858	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	200	36	2,037	46,128	2,517	950
Total receipts	200	36	317,686	353,986	2,517	950
Disbursements:						
Personal services	-	-	-	200,475	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	4,996	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	51,572	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	317,686	-	-	-
Total disbursements	-	-	317,686	257,043	-	-
Excess (deficiency) of receipts over disbursements	200	36	-	96,943	2,517	950
Cash and investments - ending	\$ 2,700	\$ 664	\$ -	\$ 237,353	\$ 17,367	\$ 950

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	CEMETERY PERM. MAINT.	SINCLAIR MEM. MAUSOLEUM	URBAN BEAUTIFICATION	SALEM HOUSING REHAB RLF	STORM WATER USER FEE	POLICE GRANT
Cash and investments - beginning	\$ 100,806	\$ 16,517	\$ -	\$ 14	\$ -	\$ 9
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	4,620	-	-	-	4,000	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	100,000	10	375	-	-	-
Total receipts	104,620	10	375	-	4,000	-
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	100,000	-	375	-	-	-
Total disbursements	100,000	-	375	-	-	-
Excess (deficiency) of receipts over disbursements	4,620	10	-	-	4,000	-
Cash and investments - ending	\$ 105,426	\$ 16,527	\$ -	\$ 14	\$ 4,000	\$ 9

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	SALEM R.B.E.G. FUND	ALLOCATION #1 U.E.Z.	SALEM ALLOCATION AREA #2	WAL-MART ALLOCATION AREA	AIRPORT IMPROVEMENT	BOAC RENTAL PROPERTY
Cash and investments - beginning	\$ 25,000	\$ 208,251	\$ -	\$ -	\$ 36,013	\$ 11,369
Receipts:						
Taxes	-	565,156	62,837	19,038	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	34,935	-	-	-	-	-
Charges for services	-	-	-	-	-	12,800
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	-	222,309	-
Total receipts	34,935	565,156	62,837	19,038	222,309	12,800
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	188,753	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	286,043	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	50,700	-	-	-	143,064	8,515
Total disbursements	50,700	474,796	-	-	143,064	8,515
Excess (deficiency) of receipts over disbursements	(15,765)	90,360	62,837	19,038	79,245	4,285
Cash and investments - ending	\$ 9,235	\$ 298,611	\$ 62,837	\$ 19,038	\$ 115,258	\$ 15,654

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	PROJECT DONATION	FIRE PENSION OLD	POLICE PENSION OLD	PAYROLL - NET SALARIES	PAYROLL - FEDERAL W/H	PAYROLL - FICA
Cash and investments - beginning	\$ 1,017	\$ 68,295	\$ 104,648	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	110,951	61,879	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	2,900	143	229	566,396	261,769	205,819
Total receipts	2,900	111,094	62,108	566,396	261,769	205,819
Disbursements:						
Personal services	-	-	500	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	102,699	68,650	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	1,257	-	-	566,396	261,769	205,819
Total disbursements	1,257	102,699	69,150	566,396	261,769	205,819
Excess (deficiency) of receipts over disbursements	1,643	8,395	(7,042)	-	-	-
Cash and investments - ending	\$ 2,660	\$ 76,690	\$ 97,606	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	PAYROLL - MEDICARE	PAYROLL - STATE W/H	PAYROLL - COUNTY W/H	AMERICAN FAMILY LIFE	AUL 457	COMMUNITY FOUNDATION
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	70,420	84,800	47,711	22,114	30,359	1,164
Total receipts	70,420	84,800	47,711	22,114	30,359	1,164
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	70,420	84,800	47,711	22,114	30,359	1,164
Total disbursements	70,420	84,800	47,711	22,114	30,359	1,164
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	BOSTON MUTUAL	PERF	COLONIAL LIFE	COMPANION LIFE	DIRECT DEPOSIT	IN STATE CENT COLL UNIT
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	3,557	233,103	6,446	596	1,367,381	5,915
Total receipts	3,557	233,103	6,446	596	1,367,381	5,915
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	3,557	233,103	6,446	596	1,367,381	5,915
Total disbursements	3,557	233,103	6,446	596	1,367,381	5,915
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	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	8,860	22,369	75,760	466	677	806
Total receipts	8,860	22,369	75,760	466	677	806
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	8,860	22,369	75,760	466	677	806
Total disbursements	8,860	22,369	75,760	466	677	806
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	PRUDENTIAL LIFE	WASHINGTON NATIONAL LIFE	WASHINGTON CO. TREASURER	YMCA	FIRE PERF	POLICE PERF
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	2,006	247	2,135	2,352	82,328	131,885
Total receipts	2,006	247	2,135	2,352	82,328	131,885
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	2,006	247	2,135	2,352	82,328	131,885
Total disbursements	2,006	247	2,135	2,352	82,328	131,885
Excess (deficiency) of receipts over disbursements	-	-	-	-	-	-
Cash and investments - ending	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	LIBERTY NATIONAL 125	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND & INT	WASTEWATER DEBT SERVICE
Cash and investments - beginning	\$ -	\$ 45,910	\$ 77,770	\$ 19,350	\$ 1,246	\$ 426,540
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	1,171,675	28,490	6,000	-	-
Other receipts	1,976	18,108	-	42,000	486,329	-
Total receipts	1,976	1,189,783	28,490	48,000	486,329	-
Disbursements:						
Personal services	-	191,132	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	25,294	-	-	-	-
Debt service - principal and interest	-	-	-	-	446,457	-
Capital outlay	-	-	-	48,999	-	-
Utility operating expenses	-	431,541	-	-	-	-
Other disbursements	1,976	548,826	24,200	-	-	-
Total disbursements	1,976	1,196,793	24,200	48,999	446,457	-
Excess (deficiency) of receipts over disbursements	-	(7,010)	4,290	(999)	39,872	-
Cash and investments - ending	\$ -	\$ 38,900	\$ 82,060	\$ 18,351	\$ 41,118	\$ 426,540

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	PETTY CASH - WASTEWATER	CASH CHANGE - WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND & INTEREST	PETTY CASH - WATER
Cash and investments - beginning	\$ 500	\$ 50	\$ 64,839	\$ 11,962	\$ 133	\$ 500
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	1,654,361	-	-	-
Other receipts	-	-	48,296	61,469	382,616	-
Total receipts	-	-	1,702,657	61,469	382,616	-
Disbursements:						
Personal services	-	-	424,277	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	37,710	-	-	-
Debt service - principal and interest	-	-	-	-	273,315	-
Capital outlay	-	-	-	57,684	-	-
Utility operating expenses	-	-	750,109	-	-	-
Other disbursements	-	-	518,608	-	-	-
Total disbursements	-	-	1,730,704	57,684	273,315	-
Excess (deficiency) of receipts over disbursements	-	-	(28,047)	3,785	109,301	-
Cash and investments - ending	\$ 500	\$ 50	\$ 36,792	\$ 15,747	\$ 109,434	\$ 500

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2016

	WATER NON-REVERTING	CASH CHANGE - WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXT	Totals
Cash and investments - beginning	\$ 9,991	\$ 50	\$ 313,050	\$ 609	\$ 2,750,240
Receipts:					
Taxes	-	-	-	-	3,694,276
Licenses and permits	-	-	-	-	46,670
Intergovernmental receipts	-	-	-	-	3,901,305
Charges for services	-	-	-	-	524,275
Fines and forfeits	-	-	-	-	4,216
Utility fees	175	-	-	-	2,860,701
Other receipts	13,726	-	-	-	6,663,821
Total receipts	13,901	-	-	-	17,695,264
Disbursements:					
Personal services	-	-	-	-	3,905,995
Supplies	-	-	-	-	193,860
Other services and charges	-	-	-	-	1,380,476
Debt service - principal and interest	-	-	-	-	719,772
Capital outlay	-	-	-	-	665,158
Utility operating expenses	-	-	-	-	1,181,650
Other disbursements	22,350	-	-	-	8,216,409
Total disbursements	22,350	-	-	-	16,263,320
Excess (deficiency) of receipts over disbursements	(8,449)	-	-	-	1,431,944
Cash and investments - ending	\$ 1,542	\$ 50	\$ 313,050	\$ 609	\$ 4,182,184

CITY OF SALEM
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2016

Government or Enterprise	Accounts Payable	Accounts Receivable
Wastewater	\$ 43,981	\$ 135,113
Water	74,325	239,139
Governmental activities	280,571	69,769
Totals	\$ 398,877	\$ 444,021

CITY OF SALEM
 SCHEDULE OF LEASES AND DEBT
 December 31, 2016

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Salem Government Facility Building Corporation	Lease for City Hall	\$ 111,000	02/26/2014	07/15/2024
New Washington State Bank	Lease for 2016 Police Car	9,537	06/23/2016	07/20/2020
New Washington State Bank	Lease for 2016 Police Car	8,861	07/01/2016	07/01/2020
New Washington State Bank	Lease for 2016 Police Car	<u>9,002</u>	08/19/2016	08/19/2020
Total of annual lease payments		<u>\$ 138,400</u>		

Description of Debt	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Type			
Wastewater:			
Revenue bonds	Wastewater Utility	\$ 1,705,000	\$ 297,623
Water:			
Revenue bonds	Water Utility	<u>2,325,000</u>	<u>276,138</u>
Totals		<u>\$ 4,030,000</u>	<u>\$ 573,761</u>

CITY OF SALEM
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2016

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	\$ 2,655,899
Infrastructure	8,986,754
Buildings	913,936
Improvements other than buildings	1,702,361
Machinery, equipment, and vehicles	2,324,463
Construction in progress	<u>5,870,768</u>
Total governmental activities	<u>22,454,181</u>
Wastewater:	
Land	159,265
Infrastructure	211,764
Buildings	4,914,233
Improvements other than buildings	2,893,035
Machinery, equipment, and vehicles	2,016,552
Construction in progress	<u>488,107</u>
Total Wastewater	<u>10,682,956</u>
Water:	
Land	848,577
Infrastructure	775,924
Buildings	198,748
Improvements other than buildings	3,979,673
Machinery, equipment, and vehicles	3,748,895
Construction in progress	<u>795,467</u>
Total Water	<u>10,347,284</u>
Total capital assets	<u>\$ 43,484,421</u>

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

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

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

Report on Compliance for the Major Federal Program

We have audited the City of Salem's (City) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended December 31, 2016. The City's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with 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 the City's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on the Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2016.

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

Report on Internal Control over Compliance


Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 a 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 a 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 item 2016-001, that we consider to be a material weakness.

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

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


Paul D. Joyce, CPA
State Examiner

December 6, 2018

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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, 2016

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	Passed Through to Subrecipient	Total Federal Awards Expended
<u>Department of Agriculture</u>					
Rural Business Enterprise Grants	Direct grant	10.769	2016	\$ -	\$ 30,000
Total - Rural Business Enterprise Grants				-	30,000
Total - Department of Agriculture				-	30,000
<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	-	315,649
Total - Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii				-	315,649
Total - Department of Housing and Urban Development				-	315,649
<u>Department of Transportation</u>					
Highway Planning and Construction Cluster Highway Planning and Construction Street Sign Replacement Grant	Indiana Department of Transportation	20.205	DES 1382820	-	9,759
Total - Highway Planning and Construction Cluster				-	9,759
Airport Improvement Program Salem Municipal Airport Expansion	Direct grant	20.106	AIP 3-18-0075-15-2014 AIP 3-18-0075-16-2015 AIP 3-18-0075-17-2016	- - -	98,250 743,348 336,757
Total - Airport Improvement Program				-	1,178,355
Total - Department of Transportation				-	1,178,355
Total federal awards expended				\$ -	\$ 1,533,763

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, 2016. 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 minimis 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 weakness identified?	no
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	no

Federal Awards:

Internal control over major program:	
Material weakness identified?	yes
Significant deficiency identified?	none reported
Any audit finding disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	yes

Identification of Major Program and type of auditor's report issued on compliance for it:

CFDA Number	Name of Federal Program or Cluster	Opinion Issued
20.106	Airport Improvement Program	Unmodified

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

Auditee qualified as low-risk auditee?	no
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Section II - Financial Statement Findings

No matters are reportable.

Section III - Federal Award Findings and Questioned Costs

FINDING 2016-001

Subject: Airport Improvement Program - Internal Controls

Federal Agency: Department of Transportation

Federal Program: Airport Improvement Program

CFDA Number: 20.106

Federal Award Numbers and Years (or Other Identifying Numbers): AIP 3-18-0075-15-2014,
AIP 3-18-0075-16-2015,
AIP 3-18-0075-17-2016

Compliance Requirements: Reporting, Special Tests and Provisions - Wage Rate Requirements

Audit Finding: Material Weakness

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

Repeat Finding

This is a repeat finding from the immediately prior audit. The prior audit finding number was 2015-002.

Condition

An effective internal control system was not in place at the City in order to ensure compliance with requirements related to the grant agreement and the Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

Reporting

The City did not have proper procedures in place to verify the accuracy of the reports that were submitted. The City hired a Grant Administrator to oversee the daily activities of the grant. The Grant Administrator maintained a manual ledger, which was used to prepare the reports that were submitted. The Grant Administrator provided this ledger to the Clerk-Treasurer's office, but no reconciliation or comparison of the ledger to the City's financial records was made to ensure the accuracy of the information submitted on the reports.

Special Tests and Provisions - Wage Rate Requirements

The contractors for the various airport projects submitted certified payrolls to the Grant Administrator, who checked to determine if the prevailing wages were properly paid. The Grant Administrator then submitted the certified payrolls to the Clerk-Treasurer's office for verification that the Grant Administrator had properly performed his review. No evidence was presented for audit that the Clerk-Treasurer's office actually reviewed the certified payrolls.

Context

The lack of controls was a systemic issue throughout the 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. . . ."

2 CFR 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). . . ."

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

Cause

Management of the City had not developed a proper system of internal controls to ensure compliance with the Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

Effect

The failure to establish 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 the 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

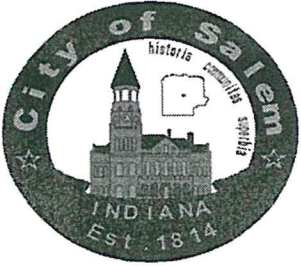
We recommended that the City's management establish controls related to the grant agreement and the Reporting and Special Tests and Provisions - Wage Rate Requirements compliance requirements.

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 2015-001 – INTERNAL CONTROLS OVER FINANCIAL TRANSACTIONS AND REPORTING

Fiscal year in which the finding initially occurred: 2014
Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Status of Audit Finding:

Utility Collections – The Utility Office implemented procedures for review and verification of collections. And then then the Clerk-Treasurer’s office reviews and verifies the collections. Completed January 2016.

Vendor Disbursements – Procedures are in place for two different employees to 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 the month a Check/Accounts Payable Voucher verification is reviewed and signed by the Clerk-Treasurer. A new computer program, Key Fund, 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. Electronic payments are able to be done by two different employees. Bank reconciliations are reviewed and signed by the Clerk-Treasurer. Completed by September 15, 2016.

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. Another employee has been cross-trained to do payroll functions on a regular basis. Completed by September 15, 2016.



(Signature)

Clerk-Treasurer

(Title)

November 15, 2018

(Date)



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

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

Fiscal year in which the finding initially occurred: 2014
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Department of Transportation
Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer
Contact Phone Number: 812-883-4264

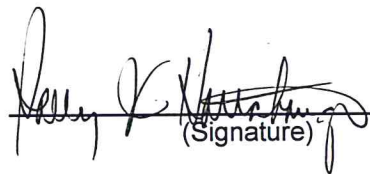
Status of Audit Finding:

Reporting and Special Tests and Provisions – Wage Rate Requirements

A master spreadsheet which tracks all the 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 pay request. The spreadsheet is initialed showing verification.

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

Completed January 3, 2017.



(Signature)

Clerk-Treasurer

(Title)

November 15, 2018
(Date)



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

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FINDING 2015-003-Cash Management

Fiscal year in which the finding initially occurred: 2015
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Department of Transportation – Indiana Department of Transportation
Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Status of Audit Finding:

Cash Management – All grants are handled as directed by the Grant Agreement. Grant Administrator figures the reimbursement request and the Clerk-Treasurer verifies it.

Completed January 3, 2017.

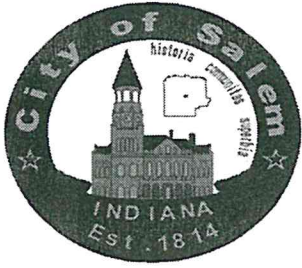


(Signature)

Clerk-Treasurer

(Title)

November 15, 2018
(Date)



Sally Hattabaugh, Clerk-Treasurer
201 E. Market Street, Suite 101
Salem, IN 47167
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SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS


FINDING 2015-004 - Matching

Fiscal year in which the finding initially occurred: 2015
Pass-Through Entity, if pass-through or Federal Grantor Agency, if direct: Department of Transportation – Indiana Department of Transportation
Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Status of Audit Finding:

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

Completed January 3, 2017.



(Signature)

Clerk-Treasurer

(Title)

November 15, 2018
(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 2016-001

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:

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)

November 27, 2018
(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/>.