

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, 2017 to December 31, 2017



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	01-01-17 to 12-31-18
President Pro Tempore of the Common Council	Wally Terkhorn Steve Crane	01-01-17 to 12-31-17 01-01-18 to 12-31-18
Utility Office Manager	Carol Brough	01-01-17 to 12-31-18



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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

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

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Salem (City), which comprises the financial position and results of operations for the year ended December 31, 2017, 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, 2017.

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, 2017, 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, 2017, 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 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 2017-001, 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001.

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

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, 2017

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17
GENERAL	\$ 717,409	\$ 3,748,807	\$ 3,373,604	\$ 1,092,612
MOTOR VEHICLE HIGHWAY	173,400	603,318	414,076	362,642
LOCAL ROAD & STREET	14,355	33,230	25,000	22,585
AVIATION	11,434	65,237	63,239	13,432
SANITATION	165,033	372,736	310,361	227,408
LAW ENFORCE. CONT. ED.	10,563	5,708	3,421	12,850
UNSAFE BUILDING	23,707	1,833	19,636	5,904
RIVERBOAT REVENUE SHARING	35,578	37,433	35,697	37,314
PARK & RECREATION	99,275	222,332	173,209	148,398
RAINY DAY FUND	40,932	-	-	40,932
K-9 PROGRAM	489	-	-	489
EDIT	261,913	346,808	334,288	274,433
LOIT SPECIAL DISTRIBUTION	362,453	-	95,300	267,153
CUM. CAP. IMPROVEMENT	23,150	15,367	15,455	23,062
CUM. CAP. DEVELOPMENT	23,508	62,590	55,250	30,848
SELF INSURANCE	8,585	129,134	134,410	3,309
STREET SIGN GRANT	862	-	-	862
CEMETERY OPERATING	40,467	114,415	88,931	65,951
AIRPORT GRANT-FEDERAL	-	1,433,933	1,431,374	2,559
AIRPORT GRANT-STATE	-	69,766	69,624	142
PETTY CASH - GENERAL	500	-	-	500
CASH CHANGE - GENERAL	50	-	-	50
CEM STONE REPAIR DONATION	679	200	-	879
CEMETERY CHAPEL DONATIONS	2,700	-	-	2,700
SALEM SIDEWALK	664	-	-	664
LIT - PUBLIC SAFETY TAX	237,353	369,881	238,195	369,039
ANIMAL SHELTER DONATION	17,367	1,755	-	19,122
POLICE DONATION	950	500	-	1,450
CEMETERY PERM. MAINT.	105,426	7,770	1,727	111,469
SINCLAIR MEM. MAUSOLEUM	16,527	26	-	16,553
EMERGENCY FLOOD 2017	-	67,025	52,462	14,563
URBAN BEAUTIFICATION	-	375	375	-
FIRE DONATION	-	4,500	2,163	2,337
SALEM HOUSING REHAB RLF	14	-	-	14
SALEM HOMEOWNER REPAIR (CDBG)	-	119,398	119,398	-
STORM WATER USER FEE	4,000	8,100	8,376	3,724
LOCAL ROAD AND BRIDGE MATCHING GRANT FUND	-	190,600	190,600	-
POLICE GRANT	9	-	-	9
SALEM R.B.E.G. FUND	9,235	6,667	-	15,902
ALLOCATION #1 U.E.Z.	298,611	799,770	752,267	346,114
SALEM ALLOCATION AREA #2	62,837	4,798	-	67,635
WAL-MART ALLOCATION AREA	19,038	52,285	-	71,323
AIRPORT IMPROVEMENT	115,258	77,979	120,389	72,848
BOAC RENTAL PROPERTY	15,654	19,150	21,800	13,004
PROJECT DONATION	2,660	1,500	1,838	2,322
FIRE PENSION OLD	76,690	105,434	92,788	89,336
POLICE PENSION OLD	97,606	70,846	70,948	97,504
PAYROLL - NET SALARIES	-	582,986	582,986	-
PAYROLL - FEDERAL W/H	-	271,763	271,763	-

CITY OF SALEM
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For the Year Ended December 31, 2017

Fund	Cash and Investments 01-01-17	Receipts	Disbursements	Cash and Investments 12-31-17
PAYROLL - FICA	-	219,486	219,486	-
PAYROLL - MEDICARE	-	75,030	75,030	-
PAYROLL - STATE W/H	-	87,535	87,535	-
PAYROLL - COUNTY W/H	-	50,154	50,154	-
AMERICAN FAMILY LIFE	-	24,663	24,663	-
AUL 457	-	39,184	39,184	-
COMMUNITY FOUNDATION	-	896	896	-
BOSTON MUTUAL	-	3,742	3,742	-
PERF	-	242,144	242,144	-
COLONIAL LIFE	-	6,514	6,514	-
COMPANION LIFE	-	596	596	-
DIRECT DEPOSIT	-	1,449,270	1,449,270	-
IN STATE CENT COLL UNIT	-	6,225	6,225	-
NEW JERSEY FAMILY SUPPORT	-	9,100	9,100	-
GUARDIAN 125	-	22,732	22,732	-
HEALTH 125	-	74,585	74,585	-
ID PROTECTION	-	466	466	-
LINCOLN LIFE	-	706	706	-
NATIONWIDE 457	-	806	806	-
PRUDENTIAL LIFE	-	2,114	2,114	-
WASHINGTON NATIONAL LIFE	-	247	247	-
WASHINGTON CO. TREASURER	-	2,009	2,009	-
YMCA	-	1,764	1,764	-
FIRE PERF	-	75,281	75,281	-
POLICE PERF	-	122,057	122,057	-
LIBERTY NATIONAL 125	-	2,400	2,400	-
WASHINGTON CO. CLERK	-	3,279	3,279	-
CINTAS	-	557	557	-
WASTEWATER OPERATING	38,900	1,295,286	1,326,098	8,088
SEWER SERVICE	82,060	32,340	22,660	91,740
WASTEWATER DEPRECIATION	18,351	27,516	20,407	25,460
WASTEWATER BOND & INTEREST	41,118	348,559	297,622	92,055
WASTEWATER DEBT SERVICE	426,540	-	-	426,540
PETTY CASH - WASTEWATER	500	-	-	500
CASH CHANGE - WASTEWATER	50	-	-	50
WATER OPERATING	36,792	1,876,187	1,794,945	118,034
WATER DEPRECIATION	15,747	55,622	33,285	38,084
WATER BOND & INTEREST	109,434	377,277	276,138	210,573
PETTY CASH - WATER	500	-	-	500
WATER NON-REVERTING	1,542	14,045	4,720	10,867
CASH CHANGE - WATER	50	-	-	50
WATER DEBT SERVICE	313,050	-	-	313,050
BECKS MILL WATER LINE EXT	609	-	-	609
Totals	<u>\$ 4,182,184</u>	<u>\$ 16,576,329</u>	<u>\$ 15,470,367</u>	<u>\$ 5,288,146</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 non-businesses 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.

CITY OF SALEM
NOTES TO FINANCIAL STATEMENT
(Continued)

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

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
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 2017 totaled \$111,000.

Note 8. Subsequent Events

On July 12, 2018, the City issued \$2,655,000 of Series 2018 Revenue and Refunding Bonds for purposes of refunding the Series 2005 Sewage Works Revenue Bonds and to pay the costs of certain additions, extensions, and improvements to the sewage works of the City. The City entered into a 19-year biennial repayment schedule with the first payment due December 1, 2018, and the final payment due December 1, 2037.

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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, 2017

	GENERAL	MOTOR VEHICLE HIGHWAY	LOCAL ROAD & STREET	AVIATION	SANITATION	LAW ENFORCE. CONT. ED.	UNSAFE BUILDING
Cash and investments - beginning	\$ 717,409	\$ 173,400	\$ 14,355	\$ 11,434	\$ 165,033	\$ 10,563	\$ 23,707
Receipts:							
Taxes	2,966,880	326,224	-	-	177,729	-	-
Licenses and permits	57,088	-	-	-	-	2,530	1,833
Intergovernmental receipts	194,693	268,084	33,230	-	15,690	-	-
Charges for services	145,405	1,260	-	59,987	176,313	2,046	-
Fines and forfeits	5,266	-	-	-	-	1,132	-
Utility fees	-	-	-	-	-	-	-
Other receipts	379,475	7,750	-	5,250	3,004	-	-
Total receipts	3,748,807	603,318	33,230	65,237	372,736	5,708	1,833
Disbursements:							
Personal services	2,422,005	334,224	-	-	95,667	-	-
Supplies	82,945	33,609	-	39,534	2,032	-	-
Other services and charges	431,992	25,215	25,000	23,505	212,644	2,159	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	57,662	21,028	-	-	-	1,262	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	379,000	-	-	200	18	-	19,636
Total disbursements	3,373,604	414,076	25,000	63,239	310,361	3,421	19,636
Excess (deficiency) of receipts over disbursements	375,203	189,242	8,230	1,998	62,375	2,287	(17,803)
Cash and investments - ending	\$ 1,092,612	\$ 362,642	\$ 22,585	\$ 13,432	\$ 227,408	\$ 12,850	\$ 5,904

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	RIVERBOAT REVENUE SHARING	PARK & RECREATION	RAINY DAY FUND	K-9 PROGRAM	EDIT	LOIT SPECIAL DISTRIBUTION	CUM. CAP. IMPROVEMENT
Cash and investments - beginning	\$ 35,578	\$ 99,275	\$ 40,932	\$ 489	\$ 261,913	\$ 362,453	\$ 23,150
Receipts:							
Taxes	-	145,899	-	-	288,808	-	-
Licenses and permits	-	540	-	-	-	-	-
Intergovernmental receipts	37,433	12,880	-	-	-	-	15,367
Charges for services	-	44,132	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	18,881	-	-	58,000	-	-
Total receipts	<u>37,433</u>	<u>222,332</u>	<u>-</u>	<u>-</u>	<u>346,808</u>	<u>-</u>	<u>15,367</u>
Disbursements:							
Personal services	35,697	120,476	-	-	-	-	-
Supplies	-	35,387	-	-	-	-	-
Other services and charges	-	12,692	-	-	250,574	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	4,494	-	-	83,714	95,300	15,455
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	160	-	-	-	-	-
Total disbursements	<u>35,697</u>	<u>173,209</u>	<u>-</u>	<u>-</u>	<u>334,288</u>	<u>95,300</u>	<u>15,455</u>
Excess (deficiency) of receipts over disbursements	<u>1,736</u>	<u>49,123</u>	<u>-</u>	<u>-</u>	<u>12,520</u>	<u>(95,300)</u>	<u>(88)</u>
Cash and investments - ending	<u>\$ 37,314</u>	<u>\$ 148,398</u>	<u>\$ 40,932</u>	<u>\$ 489</u>	<u>\$ 274,433</u>	<u>\$ 267,153</u>	<u>\$ 23,062</u>

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	CUM. CAP. DEVELOPMENT	SELF INSURANCE	STREET SIGN GRANT	CEMETERY OPERATING	AIRPORT GRANT- FEDERAL	AIRPORT GRANT- STATE	PETTY CASH - GENERAL
Cash and investments - beginning	\$ 23,508	\$ 8,585	\$ 862	\$ 40,467	\$ -	\$ -	\$ 500
Receipts:							
Taxes	57,513	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental receipts	5,077	-	-	-	1,433,933	69,766	-
Charges for services	-	-	-	107,818	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Other receipts	-	129,134	-	6,597	-	-	-
Total receipts	62,590	129,134	-	114,415	1,433,933	69,766	-
Disbursements:							
Personal services	-	-	-	81,074	-	-	-
Supplies	-	-	-	6,776	-	-	-
Other services and charges	-	-	-	1,081	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	55,250	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	134,410	-	-	1,431,374	69,624	-
Total disbursements	55,250	134,410	-	88,931	1,431,374	69,624	-
Excess (deficiency) of receipts over disbursements	7,340	(5,276)	-	25,484	2,559	142	-
Cash and investments - ending	\$ 30,848	\$ 3,309	\$ 862	\$ 65,951	\$ 2,559	\$ 142	\$ 500

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	CASH CHANGE - GENERAL	CEM STONE REPAIR DONATION	CEMETERY CHAPEL DONATIONS	SALEM SIDEWALK	LIT - PUBLIC SAFETY TAX	ANIMAL SHELTER DONATION
Cash and investments - beginning	\$ 50	\$ 679	\$ 2,700	\$ 664	\$ 237,353	\$ 17,367
Receipts:						
Taxes	-	-	-	-	323,714	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	200	-	-	46,167	1,755
Total receipts	-	200	-	-	369,881	1,755
Disbursements:						
Personal services	-	-	-	-	188,165	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	2,460	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	47,570	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-
Total disbursements	-	-	-	-	238,195	-
Excess (deficiency) of receipts over disbursements	-	200	-	-	131,686	1,755
Cash and investments - ending	\$ 50	\$ 879	\$ 2,700	\$ 664	\$ 369,039	\$ 19,122

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	POLICE DONATION	CEMETERY PERM. MAINT.	SINCLAIR MEM. MAUSOLEUM	EMERGENCY FLOOD 2017	URBAN BEAUTIFICATION	FIRE DONATION
Cash and investments - beginning	\$ 950	\$ 105,426	\$ 16,527	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	7,770	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	500	-	26	67,025	375	4,500
Total receipts	500	7,770	26	67,025	375	4,500
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	1,727	-	52,462	375	2,163
Total disbursements	-	1,727	-	52,462	375	2,163
Excess (deficiency) of receipts over disbursements	500	6,043	26	14,563	-	2,337
Cash and investments - ending	\$ 1,450	\$ 111,469	\$ 16,553	\$ 14,563	\$ -	\$ 2,337

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	SALEM HOUSING REHAB RLF	SALEM HOMEOWNER REPAIR (CDBG)	STORM WATER USER FEE	LOCAL ROAD AND BRIDGE MATCHING GRANT FUND	POLICE GRANT	SALEM R.B.E.G. FUND
Cash and investments - beginning	\$ 14	\$ -	\$ 4,000	\$ -	\$ 9	\$ 9,235
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	119,398	-	95,300	-	6,667
Charges for services	-	-	8,100	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	-	-	-	95,300	-	-
Total receipts	-	119,398	8,100	190,600	-	6,667
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	190,600	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	119,398	8,376	-	-	-
Total disbursements	-	119,398	8,376	190,600	-	-
Excess (deficiency) of receipts over disbursements	-	-	(276)	-	-	6,667
Cash and investments - ending	\$ 14	\$ -	\$ 3,724	\$ -	\$ 9	\$ 15,902

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	ALLOCATION #1 U.E.Z.	SALEM ALLOCATION AREA #2	WAL-MART ALLOCATION AREA	AIRPORT IMPROVEMENT	BOAC RENTAL PROPERTY	PROJECT DONATION
Cash and investments - beginning	\$ 298,611	\$ 62,837	\$ 19,038	\$ 115,258	\$ 15,654	\$ 2,660
Receipts:						
Taxes	570,865	4,798	52,285	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	19,150	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	228,905	-	-	77,979	-	1,500
Total receipts	799,770	4,798	52,285	77,979	19,150	1,500
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	365,464	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	286,803	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	100,000	-	-	120,389	21,800	1,838
Total disbursements	752,267	-	-	120,389	21,800	1,838
Excess (deficiency) of receipts over disbursements	47,503	4,798	52,285	(42,410)	(2,650)	(338)
Cash and investments - ending	\$ 346,114	\$ 67,635	\$ 71,323	\$ 72,848	\$ 13,004	\$ 2,322

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	FIRE PENSION OLD	POLICE PENSION OLD	PAYROLL - NET SALARIES	PAYROLL - FEDERAL W/H	PAYROLL - FICA	PAYROLL - MEDICARE
Cash and investments - beginning	\$ 76,690	\$ 97,606	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	105,264	70,633	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	170	213	582,986	271,763	219,486	75,030
Total receipts	105,434	70,846	582,986	271,763	219,486	75,030
Disbursements:						
Personal services	-	500	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	92,788	70,448	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	-	-	582,986	271,763	219,486	75,030
Total disbursements	92,788	70,948	582,986	271,763	219,486	75,030
Excess (deficiency) of receipts over disbursements	12,646	(102)	-	-	-	-
Cash and investments - ending	\$ 89,336	\$ 97,504	\$ -	\$ -	\$ -	\$ -

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	PAYROLL - STATE W/H	PAYROLL - COUNTY W/H	AMERICAN FAMILY LIFE	AUL 457	COMMUNITY FOUNDATION	BOSTON MUTUAL
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	87,535	50,154	24,663	39,184	896	3,742
Total receipts	87,535	50,154	24,663	39,184	896	3,742
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	87,535	50,154	24,663	39,184	896	3,742
Total disbursements	87,535	50,154	24,663	39,184	896	3,742
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, 2017

	PERF	COLONIAL LIFE	COMPANION LIFE	DIRECT DEPOSIT	IN STATE CENT COLL UNIT	NEW JERSEY FAMILY SUPPORT
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	242,144	6,514	596	1,449,270	6,225	9,100
Total receipts	242,144	6,514	596	1,449,270	6,225	9,100
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	242,144	6,514	596	1,449,270	6,225	9,100
Total disbursements	242,144	6,514	596	1,449,270	6,225	9,100
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, 2017

	GUARDIAN 125	HEALTH 125	ID PROTECTION	LINCOLN LIFE	NATIONWIDE 457	PRUDENTIAL LIFE
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-
Other receipts	22,732	74,585	466	706	806	2,114
Total receipts	22,732	74,585	466	706	806	2,114
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	22,732	74,585	466	706	806	2,114
Total disbursements	22,732	74,585	466	706	806	2,114
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, 2017

	WASHINGTON NATIONAL LIFE	WASHINGTON CO. 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	247	2,009	1,764	75,281	122,057	2,400
Total receipts	247	2,009	1,764	75,281	122,057	2,400
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-
Other disbursements	247	2,009	1,764	75,281	122,057	2,400
Total disbursements	247	2,009	1,764	75,281	122,057	2,400
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, 2017

	WASHINGTON CO. CLERK	CINTAS	WASTEWATER OPERATING	SEWER SERVICE	WASTEWATER DEPRECIATION	WASTEWATER BOND & INTEREST
Cash and investments - beginning	\$ -	\$ -	\$ 38,900	\$ 82,060	\$ 18,351	\$ 41,118
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	1,170,149	32,340	4,000	-
Other receipts	3,279	557	125,137	-	23,516	348,559
Total receipts	3,279	557	1,295,286	32,340	27,516	348,559
Disbursements:						
Personal services	-	-	248,126	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	26,367	-	-	-
Debt service - principal and interest	-	-	-	-	-	297,622
Capital outlay	-	-	-	-	20,407	-
Utility operating expenses	-	-	590,431	-	-	-
Other disbursements	3,279	557	461,174	22,660	-	-
Total disbursements	3,279	557	1,326,098	22,660	20,407	297,622
Excess (deficiency) of receipts over disbursements	-	-	(30,812)	9,680	7,109	50,937
Cash and investments - ending	\$ -	\$ -	\$ 8,088	\$ 91,740	\$ 25,460	\$ 92,055

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	WASTEWATER DEBT SERVICE	PETTY CASH - WASTEWATER	CASH CHANGE - WASTEWATER	WATER OPERATING	WATER DEPRECIATION	WATER BOND & INTEREST
Cash and investments - beginning	\$ 426,540	\$ 500	\$ 50	\$ 36,792	\$ 15,747	\$ 109,434
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental receipts	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	-	-	1,806,465	18,802	-
Other receipts	-	-	-	69,722	36,820	377,277
Total receipts	-	-	-	1,876,187	55,622	377,277
Disbursements:						
Personal services	-	-	-	403,939	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	37,328	-	-
Debt service - principal and interest	-	-	-	-	-	276,138
Capital outlay	-	-	-	-	33,285	-
Utility operating expenses	-	-	-	853,339	-	-
Other disbursements	-	-	-	500,339	-	-
Total disbursements	-	-	-	1,794,945	33,285	276,138
Excess (deficiency) of receipts over disbursements	-	-	-	81,242	22,337	101,139
Cash and investments - ending	\$ 426,540	\$ 500	\$ 50	\$ 118,034	\$ 38,084	\$ 210,573

CITY OF SALEM
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For the Year Ended December 31, 2017

	PETTY CASH - WATER	WATER NON-REVERTING	CASH CHANGE - WATER	WATER DEBT SERVICE	BECKS MILL WATER LINE EXT	Totals
Cash and investments - beginning	\$ 500	\$ 1,542	\$ 50	\$ 313,050	\$ 609	\$ 4,182,184
Receipts:						
Taxes	-	-	-	-	-	4,914,715
Licenses and permits	-	-	-	-	-	61,991
Intergovernmental receipts	-	-	-	-	-	2,483,415
Charges for services	-	-	-	-	-	571,981
Fines and forfeits	-	-	-	-	-	6,398
Utility fees	-	225	-	-	-	3,031,981
Other receipts	-	13,820	-	-	-	5,505,848
Total receipts	-	14,045	-	-	-	16,576,329
Disbursements:						
Personal services	-	-	-	-	-	3,929,873
Supplies	-	-	-	-	-	200,283
Other services and charges	-	-	-	-	-	1,770,317
Debt service - principal and interest	-	-	-	-	-	573,760
Capital outlay	-	-	-	-	-	722,230
Utility operating expenses	-	-	-	-	-	1,443,770
Other disbursements	-	4,720	-	-	-	6,830,134
Total disbursements	-	4,720	-	-	-	15,470,367
Excess (deficiency) of receipts over disbursements	-	9,325	-	-	-	1,105,962
Cash and investments - ending	\$ 500	\$ 10,867	\$ 50	\$ 313,050	\$ 609	\$ 5,288,146

CITY OF SALEM
 SCHEDULE OF PAYABLES AND RECEIVABLES
 December 31, 2017

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Wastewater	\$ 32,983	\$ 89,986
Water	65,705	135,823
Governmental activities	<u>336,137</u>	<u>27,724</u>
Totals	<u>\$ 434,825</u>	<u>\$ 253,533</u>

CITY OF SALEM
 SCHEDULE OF LEASES AND DEBT
 December 31, 2017

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
City of Salem Government Facility Building Corporation	Lease for City Hall	\$ 110,000	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>\$ 137,400</u>		

Type	Description of Debt Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Wastewater: Revenue bonds	Wastewater Utility	<u>\$ 1,490,000</u>	<u>\$ 297,050</u>
Water: Revenue bonds	Water Utility	<u>2,150,000</u>	<u>272,332</u>
Totals		<u>\$ 3,640,000</u>	<u>\$ 569,382</u>

CITY OF SALEM
 SCHEDULE OF CAPITAL ASSETS
 December 31, 2017

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	\$ 2,711,289
Infrastructure	8,986,754
Buildings	913,936
Improvements other than buildings	1,699,193
Machinery, equipment, and vehicles	2,338,324
Construction in progress	<u>7,472,135</u>
Total governmental activities	<u>24,121,631</u>
Wastewater:	
Land	159,265
Infrastructure	732,582
Buildings	4,894,233
Improvements other than buildings	2,893,035
Machinery, equipment, and vehicles	<u>1,970,443</u>
Total Wastewater	<u>10,649,558</u>
Water:	
Land	848,577
Infrastructure	1,716,264
Buildings	198,748
Improvements other than buildings	3,982,841
Machinery, equipment, and vehicles	<u>3,836,675</u>
Total Water	<u>10,583,105</u>
Total capital assets	<u>\$ 45,354,294</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, 2017. 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, 2017.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of 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, 2017

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 Transportation</u>					
Highway Planning and Construction Cluster					
Highway Planning and Construction	Indiana Department of Transportation	20.205			
Highway 56 East Improvement Project - Water			DES 0014640	\$ -	\$ 153,906
Highway 56 East Improvement Project - Wastewater			DES 0014640	-	28,318
Total - Highway Planning and Construction Cluster				-	182,224
Airport Improvement Program	Direct grant	20.106			
Salem Municipal Airport Expansion			AIP 3-18-0075-13-2013	-	86,686
			AIP 3-18-0075-15-2014	-	44,845
			AIP 3-18-0075-16-2015	-	34,086
			AIP 3-18-0075-17-2016	-	1,265,438
Total - Airport Improvement Program				-	1,431,055
Total - Department of Transportation				-	1,613,279
Total federal awards expended				\$ -	\$ 1,613,279

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, 2017. 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?	yes
Significant deficiency identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major program:	
Material weakness identified?	no
Significant deficiency identified?	none reported
Any audit finding disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	no

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>	<u>Opinion Issued</u>
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
--	----

Section II - Financial Statement Findings

FINDING 2017-001

Subject: Preparation of the Schedule of Expenditures of Federal Awards
Audit Findings: Material Weakness, Noncompliance

Condition

The City implemented an internal control over preparation of the Schedule of Expenditures of Federal Awards (SEFA). The Deputy Clerk-Treasurer entered the grant information into the Indiana Gateway for Government Units financial reporting system as part of the Annual Financial Report. The Clerk-Treasurer reviewed the information for accuracy prior to submission; however, the control was not effective in preventing, or detecting and correcting, errors as the SEFA was materially misstated.

Context

The City omitted the Highway Planning and Construction Cluster from the SEFA. This resulted in an understatement of federal expenditures of \$182,224.

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

Audit adjustments were proposed, accepted by the City, and made to the SEFA.

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. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities. . . .

- Accurate and timely recording of transactions. . . ."

2 CFR 200.508 states in part: "The auditee must: . . . (b) Prepare appropriate financial statements, including the schedule of expenditures of Federal awards in accordance with § 200.510 financial statements. . . ."

2 CFR 200.510(b) states:

"*Schedule of expenditures of Federal awards*. The auditee must also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements which must include the total Federal awards expended as determined in accordance with § 200.502 Basis for determining Federal awards expended. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple Federal award years, the auditee may list the amount of Federal awards expended for each Federal award year separately. At a minimum, the schedule must:

- (1) List individual Federal programs by Federal agency. For a cluster of programs, provide the cluster name, list individual Federal programs within the cluster of programs, and provide the applicable Federal agency name. For R&D, total Federal awards expended must be shown either by individual Federal award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity must be included.

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

- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available. For a cluster of programs also provide the total for the cluster.
- (4) Include the total amount provided to subrecipients from each Federal program.
- (5) For loan or loan guarantee programs described in § 200.502 Basis for determining Federal awards expended, paragraph (b), identify in the notes to the schedule the balances outstanding at the end of the audit period. This is in addition to including the total Federal awards expended for loan or loan guarantee programs in the schedule.
- (6) Include notes that describe that significant accounting policies used in preparing the schedule, and note whether or not the auditee elected to use the 10% de minimis cost rate as covered in § 200.414 Indirect (F&A) costs."

Cause

Management had not established a system of internal control that would have ensured proper reporting of the SEFA.

Effect

Without a proper system of internal control in place that operated effectively, material misstatements of the SEFA remained undetected. The SEFA contained the errors identified in the *Context*.

Recommendation

We recommended that the City establish a system of internal controls to ensure that federal expenditures were properly reported on the SEFA.

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

No matters are reportable.

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 OF PRIOR AUDIT FINDINGS

FINDING 2016-001 – Airport Improvement Program – Internal Controls

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 28, 2018
(Date)

CORRECTIVE ACTION PLAN

FINDING 2017-001

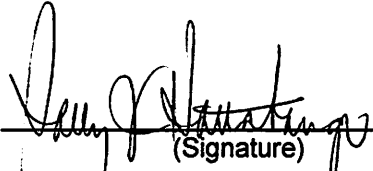
Contact Person Responsible for Corrective Action: Sally J. Hattabaugh, Clerk-Treasurer
Contact Phone Number: 812-883-4264

Views of Responsible Official: We concur with the finding.

Description of Corrective Action Plan:

Clerk-Treasurer's Office will implement a control that compares the last year's SEFA report with the current SEFA report to look for any grants reported in the prior report that we would still have in the current year. Also, the Clerk-Treasurer receives copies of all grant documentation and it is maintained in binders. And the department heads will review the grant information entered into Gateway.

Anticipated Completion Date: February 15,2019



(Signature)

Clerk-Treasurer
(Title)

12/03/2018
(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/>.