

**MUNICIPALITY OF SALEM  
SALEM, SOUTH DAKOTA**

**AUDIT REPORT**

**FOR THE YEAR JANUARY 1, 2010 TO DECEMBER 31, 2010  
AND  
FOR THE YEAR JANUARY 1, 2011 TO DECEMBER 31, 2011**

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SALEM

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MUNICIPAL OFFICIALS  
DECEMBER 31, 2011

MAYOR:

Kenneth Scott

GOVERNING BOARD:

Laura Gessner, President  
George Eichacker, Vice-President  
Ben Johnson  
Ron Mayrose  
Mike McCormick  
Ron Sabers

FINANCE OFFICER:

Lori Heumiller

ATTORNEY:

Roger Gerlach

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Governing Board  
Municipality of Salem  
Salem, South Dakota

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Salem, South Dakota (Municipality), as of December 31, 2011 and 2010, and for each of the years in the biennial period then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 15, 2012, which was qualified for the business-type activities and water fund because interfund services were not recorded. A disclaimer of opinion was issued on the aggregate discretely presented component units because we were unable to obtain audited financial statements. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions of the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as we described in the accompanying Schedule of Current Audit Findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2011-01 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws,

regulations, and contracts, 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*.

The Municipality of Salem's response to the finding identified in our audit is described in the accompanying Schedule of Current Audit Findings. We did not audit the Municipality's response and, accordingly, we express no opinion on the response.

We also noted certain additional matters that we have reported to the management of the Municipality in a separate communication dated June 26, 2012.

This report is intended solely for the information and use of the South Dakota Legislature, state granting agencies, and the governing board and management of the Municipality of Salem, South Dakota and is not intended to be and should not be used by anyone other than these specified parties. However, as required by South Dakota Codified Law 4-11-11, this report is a matter of public record and its distribution is not limited.



Schoenfish & Co., Inc.  
Certified Public Accountants  
June 15, 2012

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

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SCHEDULE OF PRIOR AUDIT FINDINGS AND QUESTIONED COSTS

PRIOR FEDERAL AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2009-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2011-01.

PRIOR OTHER AUDIT FINDINGS:

There were no prior other audit findings to disclose except for the lack of segregation of duties for revenues as noted above.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2011-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the eighth consecutive audit in which a similar deficiency has occurred.

Criteria:

Proper segregation of duties results in increased reliability of reported financial data and decreased potential for the loss of public assets.

Condition:

The Office Personnel process all revenue transactions from beginning to end. The Office Personnel also receive money, issue receipts, record receipts, post receipts in the accounting records, prepare bank deposits, reconcile bank statements, and prepare financial statements.

Effect:

As a result, there is an increased likelihood that errors could occur and not be detected in a timely manner by employees in the ordinary course of performing their duties.

Recommendation:

1. We recommend that the Municipality of Salem officials be cognizant of this lack of segregation of duties for revenues and attempt to provide compensating internal controls whenever, and wherever, possible and practical.

Management's Response:

The Municipality of Salem Mayor, Ken Scott, is the contact person responsible for the corrective action plan for this comment. This comment is due to the size of the Municipality of Salem, which precludes staffing at a level sufficient to provide an ideal environment for internal controls. We are aware of this problem and are attempting to provide compensating controls.

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on June 26, 2011.

*Schoenfish & Co., Inc.*

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

CERTIFIED PUBLIC ACCOUNTANTS  
Phone: 605-928-7241  
FAX No.: 605-928-1441  
P.O. Box 247  
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

INDEPENDENT AUDITOR'S REPORT

Governing Board  
Municipality of Salem  
Salem, South Dakota

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Salem, South Dakota, as of and for each of the years in the biennial period ended December 31, 2011 and 2010, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Municipality of Salem's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as noted in the following paragraphs, 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 statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain audited financial statements supporting the financial balances and activities of the Salem Housing and Redevelopment Commission and we did not attempt to satisfy ourselves as to those amounts by other auditing procedures. Those financial activities are included on the basic financial statements referred to above as a component of the Municipality of Salem and represent one hundred percent of the December 31, 2011 and 2010, balances and activities for each of the years in the biennial period then ended of the component unit column.

The Municipality does not record the amounts of interfund services provided and used. We were unable to determine if these amounts are material.

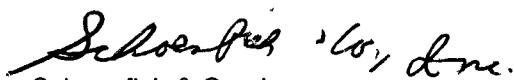
Because of the effects of the item discussed in the third paragraph, we were not able to apply other auditing procedures to satisfy ourselves as to component units, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aggregate discretely presented component units.

In addition, in our opinion, except for the effects, if any, of not reporting interfund services, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the water fund of the Municipality of Salem as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, except the water fund, of the Municipality of Salem as of December 31, 2011 and 2010, and the respective changes in the financial position and cash flows, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 15, 2012, on our consideration of the Municipality of Salem's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and Budgetary Comparison Schedules on pages 7 through 21, and 60 through 69 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Schoenfish & Co., Inc.  
Certified Public Accountants  
June 15, 2012

*Schoenfish & Co., Inc.*

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P.O. Box 247

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**MUNICIPALITY OF SALEM  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011**

This section of Salem City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended on December 31, 2011. Please read it in conjunction with the City's financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$406,269 more than the \$638,689 governmental program expenditures. This is a 83.29% increase over the prior year when revenues exceeded expenditures by \$221,656.
- The total cost of the City's Governmental programs was \$61,817, or 8.82% less than 2010. There were many variables for this decrease and are explained in detail later in this report.
- The revenues for the governmental activities show an increase of 13.3% or \$122,796. The increase in revenue is mainly from an increase in taxes and the sale of the Salem bar building. The result of the increase of revenues and decrease of expenditures is a \$406,269 increase to Net Assets in 2011.
- In the City's business-type activities, revenues increased 3.26% to \$473,690 (this does not include the capital grant dollars received for the Water Treatment Plant or the one-time payment from Verizon Wireless for the painting of the tower) and expenses decreased 0.86%.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, including related notes, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the City government, reporting the City's operations in more detail than the government-wide statements.
  1. The governmental funds statements tell how general government services like public safety were financed in the short-term as well as what remains for future spending.
  2. Proprietary fund statements offer short- and long-term financial information about the activities that the City operates like businesses. The City has two proprietary funds - the Water Fund and the Sewer Fund.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of the overview section of the management's discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-1</b>			
<b>Major Features of City of Salem's Government-wide and Fund Financial Statements</b>			
	<b>Government-Wide</b>	<b>Fund Statements</b>	
	<b>Statements</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>
<b>Scope</b>	Entire City government	The activities of the City that are not proprietary or fiduciary, such as finance office, police, streets, park	Activities the City operates similar to private businesses, the water and sewer systems.
<b>Required Financial Statements</b>	*Statement of Net Assets * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	* Balance Sheet *Statement of Revenues, Expenditures and Changes in Net Assets * Statement of Cash Flows
<b>Type of Asset/Liability Information</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset/Liability Information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health or position.

- Increases or decreases in the City's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the City you need to consider additional non-financial factors such as changes in the City's property tax base and changes in the sales tax revenue base.

The government-wide financial statements of the City are reported in three categories:

- **Governmental Activities** -- This category includes most of the City's basic services, such as police, fire, public works, parks department and general administration. Property taxes, sales taxes, charges for services, state and federal grants and interest earnings finance most of these activities.
- **Business-type Activities** -- The City charges a fee to customers to help cover the costs of certain services it provides. The City's water and sewer systems are included here.
- **Component Units** -- The City includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this “component unit” is important because the City is financially accountable for it.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- State Law requires some of the funds.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has two kinds of funds:

- **Governmental Funds** – Most of the City's basic services are included in the governmental funds, which focus on (1) cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at the year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both short- and long-term financial information. The City's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

### Net Assets

The City's combined net assets increased by 9.8% between fiscal year 2010 and 2011 – increasing by \$493,319 (See Table A-1).

**TABLE A-1 CITY OF SALEM NET ASSETS – FISCAL 2011**

	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Current and Other Assets	1,177,805	1,016,399	1,467,646	569,001	602,858	680,917	1,746,806	1,619,257	2,148,563
Capital Assets	1,360,283	1,755,052	1,701,172	4,201,724	4,171,672	4,083,991	5,562,007	5,926,724	5,785,163
<b>Total Assets</b>	<b>2,538,088</b>	<b>2,771,451</b>	<b>3,168,818</b>	<b>4,770,724</b>	<b>4,774,530</b>	<b>4,764,908</b>	<b>7,308,812</b>	<b>7,545,981</b>	<b>7,933,726</b>
Long-Term Debt Outstanding	8,151	11,710	11,138	2,452,803	2,361,458	2,269,737	2,460,954	2,373,168	2,280,874
Other Liabilities	65,989	74,137	65,807	46,743	45,536	40,585	112,732	119,673	106,392
<b>Total Liabilities</b>	<b>74,140</b>	<b>85,847</b>	<b>76,945</b>	<b>2,499,546</b>	<b>2,406,994</b>	<b>2,310,322</b>	<b>2,573,686</b>	<b>2,492,841</b>	<b>2,387,267</b>
Net Assets:									
Invested in Capital Assets									
Net of Related Debt	1,360,283	1,755,052	1,701,172	1,754,608	1,814,424	1,819,654	3,114,891	3,569,476	3,520,826
Restricted	142,505	197,792	276,542	145,323	154,597	162,079	287,828	352,389	438,621
Unrestricted	961,160	732,760	1,114,159	371,246	398,515	472,853	1,332,406	1,131,275	1,587,012
<b>Total Net Assets</b>	<b>2,463,948</b>	<b>2,685,604</b>	<b>3,091,873</b>	<b>2,271,178</b>	<b>2,367,536</b>	<b>2,454,586</b>	<b>4,735,126</b>	<b>5,053,140</b>	<b>5,546,459</b>
<b>Beginning Net Assets</b>	<b>2,164,566</b>	<b>2,463,948</b>	<b>2,685,604</b>	<b>1,883,039</b>	<b>2,271,178</b>	<b>2,367,536</b>	<b>4,047,605</b>	<b>4,735,126</b>	<b>5,053,140</b>
<b>Increase (Decrease) in</b>									
Net Assets	299,382	221,656	406,269	388,139	96,358	87,050	687,521	318,014	493,319
<b>Percentage of Increase</b>									
(Decrease) in Net Assets	13.8%	9.0%	15.1%	20.6%	4.2%	3.7%	17.0%	6.7%	9.8%

This section explains the differences between the current and prior year's assets, liabilities, and changes in net assets.

The city as a whole reports an increase in net assets of 9.8%. The Current Assets (cash & receivables) increased by 32.6%, or \$529,306, as a result of less local cash spent on Capital Improvements and street repairs; more money collected in taxes and a rate increase in the Water Dept. The sale of the Salem bar building and depreciation exceeding the dollars spent on new capital assets resulted in a 2.4% decrease (\$141,561) in Capital Assets. Total Assets increased 5.1%. Liabilities for the city decreased 4.24%. A decrease to LT Debt and claims payable were shown at the end of FY 2011.

There are three categories on Net Assets reported in Table A-1. Invested in Capital Assets Net of Related Debt, Net Assets Restricted and Net Assets Unrestricted.

- The Capital Assets Net of Related Debt decreased \$48,650, or 1.37%, from the addition of the Capital Assets being less than depreciation and the sale of the Salem bar building. No additional debt was incurred in 2011.
- The Restricted Net Assets increased 24.5% due to the fact that no major projects were undertaken in 2011.
- The Unrestricted Net Assets increased 40.3% due to the increase in Net Assets from additional revenues and less expenses than 2010.

The Statement of Net Assets reports all financial and capital resources. The statement presents the assets and liabilities in order of relative liquidity. The liabilities with average maturities greater than one year are reported in two components - the amount due within one year and the amount due in more than one year. The long-term liabilities of the city, consisting of compensated absences payable and State Revolving Loans, have been reported in this manner on the Statement of Net Assets. The difference between the city's assets and liabilities is its net assets.

TABLE A-2  
MUNICIPALITY OF SALEM  
Changes in Net Assets 12/31/2011

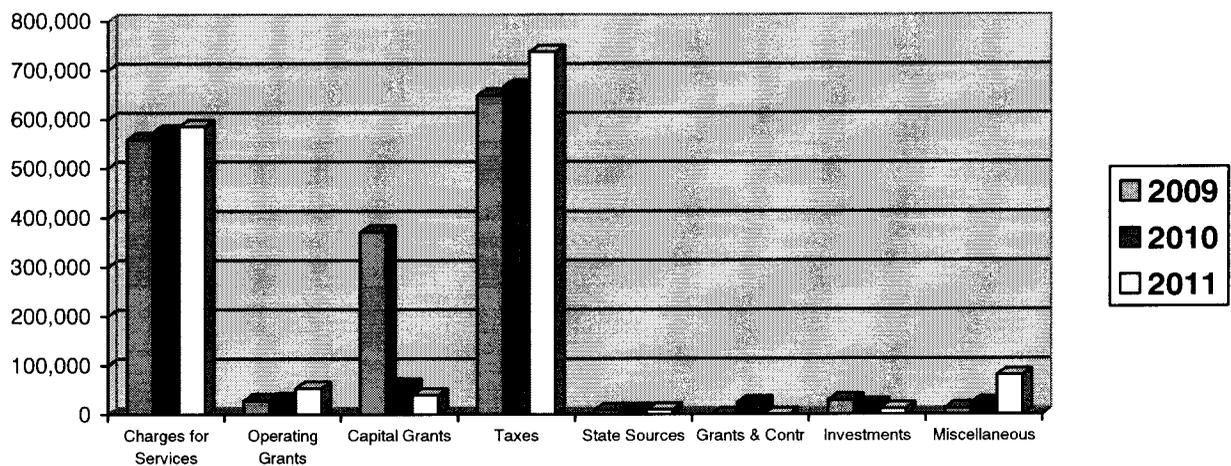
	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Revenues</b>									
Program Revenues									
Charges for Services	131,031	129,031	122,685	428,164	445,270	462,710	559,195	574,301	585,395
Operating Grants	28,767	30,380	53,874				28,767	30,380	53,874
Capital Grants & Contributions	41,169	55,635	39,622	330,134	3,639		371,303	59,275	39,622
General Revenues									
Taxes	649,612	667,522	737,766				649,612	667,522	737,766
Revenue State Sources	9,470	9,263	9,865				9,470	9,261	9,865
Grants & Contrib. Non Specif					23,980		0	23,980	0
Unrestricted Investment Earnings	16,519	12,980	7,323	13,102	7,469	4,330	29,621	20,450	11,653
Miscellaneous	7,283	17,351	73,823	5,500	6,000	6,650	12,783	23,351	80,473
<b>Total Revenues</b>	<b>883,851</b>	<b>922,162</b>	<b>1,044,958</b>	<b>776,900</b>	<b>486,358</b>	<b>473,690</b>	<b>1,660,751</b>	<b>1,408,520</b>	<b>1,518,648</b>
<b>Expenses</b>									
General Government	125,480	147,532	147,665				125,480	147,532	147,665
Public Safety	110,089	116,106	92,691				110,089	116,106	92,691
Public Works	165,661	248,820	188,402				165,661	248,820	188,402
Health & Welfare	6,256	4,377	6,448				6,256	4,377	6,448
Culture & Recreation	174,044	178,045	184,627				174,044	178,045	184,627
Conservation & Development		5,626	16,635				0	5,626	16,635
Miscellaneous Expenditures	2,939		2,221				2,939	0	2,221
Water Services				289,839	291,010	287,730	289,839	291,010	287,730
Sewer Services				98,922	98,990	98,910	98,922	98,990	98,910
<b>Total Expenses</b>	<b>584,469</b>	<b>700,506</b>	<b>638,689</b>	<b>388,761</b>	<b>390,000</b>	<b>386,640</b>	<b>973,230</b>	<b>1,090,506</b>	<b>1,025,329</b>
<b>Increase (Decrease) in Net Assets</b>	<b>299,382</b>	<b>221,656</b>	<b>406,269</b>	<b>388,139</b>	<b>96,358</b>	<b>87,050</b>	<b>687,521</b>	<b>318,014</b>	<b>493,319</b>
<b>Ending Net Assets</b>	<b>2,463,948</b>	<b>2,685,604</b>	<b>3,091,873</b>	<b>2,271,178</b>	<b>2,367,536</b>	<b>2,454,586</b>	<b>4,735,126</b>	<b>5,053,141</b>	<b>5,546,460</b>

**REVENUE COMPARISON, TABLE A-2; FIGURE A-2**

The City's total 2011 revenues were \$1,518,648 which is an increase of 7.8% (\$110,128) from 2010.

- Charges for Goods and Services increased 1.9%. (The business-type activities increased 3.9% and the governmental activities decreased 4.9%). The user fees in the Business-Type activities increased as a result of the Water rate increase; the General fund's decreased from a reduction in money collected from operating agreements and less administrative fees on the garbage contract – which is a direct result of an increase in fuel costs.
- Operating grants increased 77.3% from an increase in dollars received for Motor Vehicle Licenses and a \$19,000.00 grant received from the Energy Efficiency Community Block Grant for the lighting project at the Armory.
- Capital Grants & Contributions decreased by 33.2%. Governmental Activities saw a \$16,013 (28.8%) decrease due to the street assessments received in 2010 for the Street Project; and the Business-Type Activities saw a \$3,639 decrease because of the grant dollars received in 2010 for the Water Filtration Project.
- Taxes increased by \$70,244. This reflects an increase in sales tax and property tax revenue. The sales tax revenue increased 16.98% and the property taxes increased 1%.
- Revenue State Sources saw a 6.5% increase of \$602. These dollars are from Liquor Tax Reversion and Bank Franchise taxes.
- Grants & Contributions Non Specific – had a zero balance in 2011; in 2010 a one-time payment made to the Water Department from Verizon Wireless of \$23,980 for the extra cost of painting the Water Tower in 2009 was shown on this line.
- Investments earnings showed a 43% decrease in revenue. The interest rates declined in 2011.
- Miscellaneous revenues showed an increase of 244.6% (\$57,122). The City sold the bar building in 2012 for a gain of \$65,936; and other miscellaneous revenue declined (cable franchise, dividends and recovery of prior year expenses). Business activities show an increase as Verizon Wireless changed their payment cycle and reflects 13 lease payments in 2011.

**Figure A-2, City of Salem Revenue Comparison 2009 - 2011**

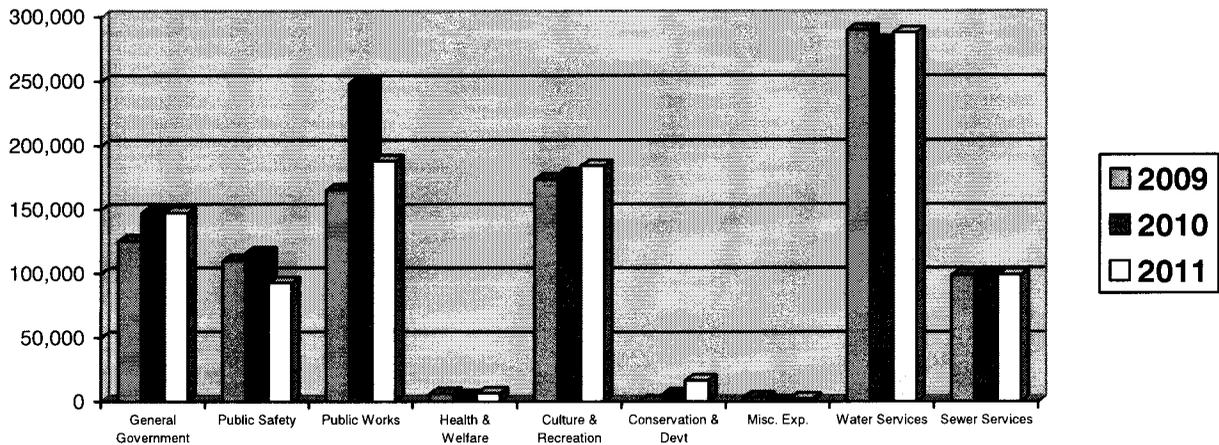


## EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3

The city's expenses show an overall 6% decrease from 2010 to 2011.

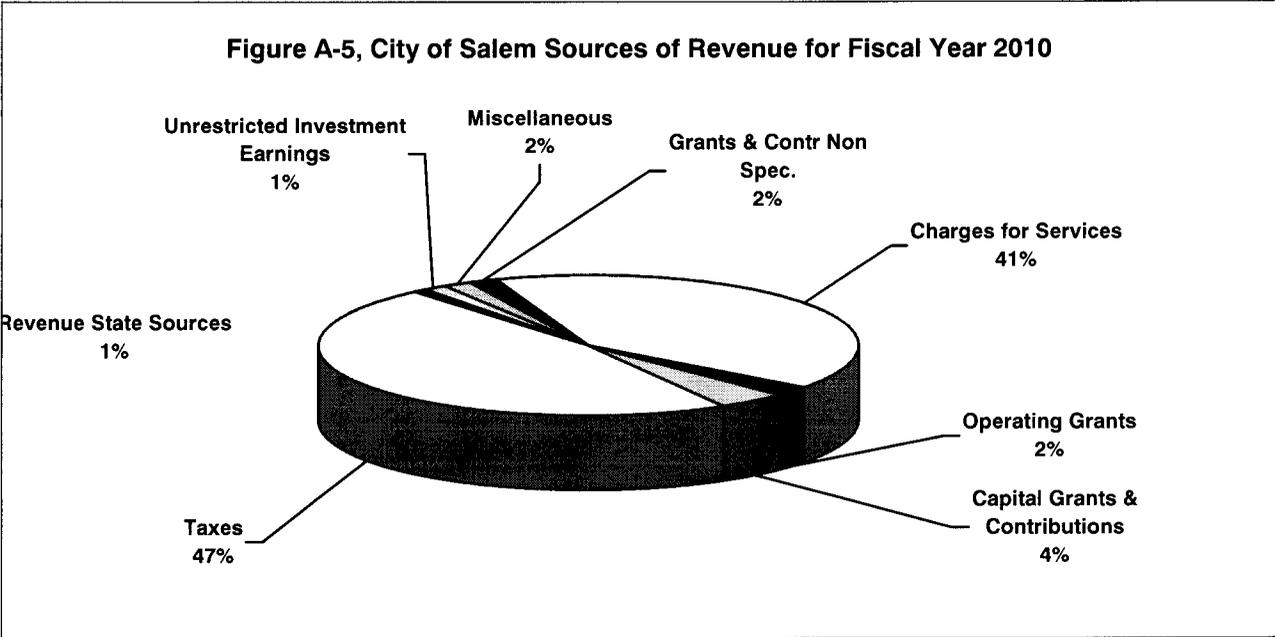
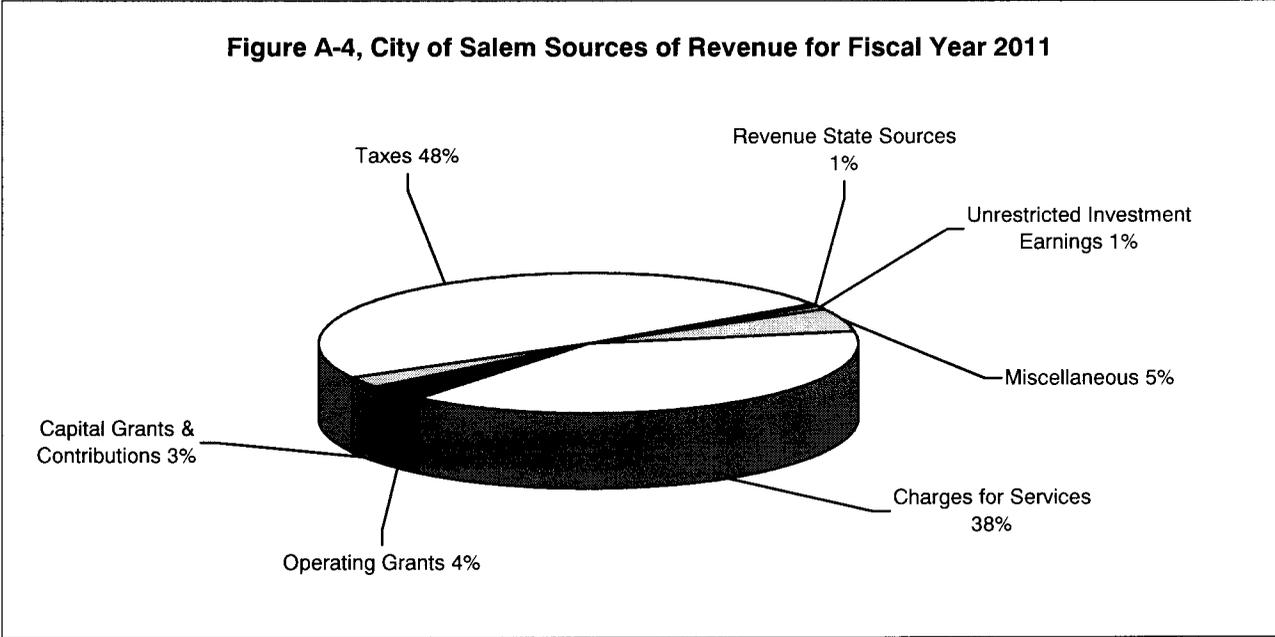
- General Government Expenses increased 0.09% (\$133). Publications saw a decrease, executive expenses remained constant, Financial Administration the City Hall/Bar Building saw an increase.
- Public Safety expenses decreased 20%. The police contract remained the same; a donation to the rural fire department was given in 2010.
- Public Works expenses decreased 24%. 2011 saw less dollars spent on street repairs and snow removal; no gravel was purchased in 2011, but more dollars were spent on repairing curb/gutter and radius.
- Health & Welfare expenses increased 47.3% or \$2,071 due to local cash being used to purchase chemicals in 2011. Prior years saw grant dollars or chemicals from the Dept of Health.
- Culture & Recreation expenses increased 3.7% (\$6,582). Summer Recreation costs increased \$13,442.66; Parks increased \$11,205.50; Auditorium costs decreased \$18,067.20. Recreation increase was due to the pool chemical usage and repairs; park increased due to the purchase of a mower; auditorium decreased due to the lighting project in 2010.
- Conservation & Development was a new category in 2010, the Zoning, Promoting and Advertising of Salem moved from General Governmental expenditures - the Planning and Zoning increased due to salary adjustments; the Zoning Map update and FEMA re-mapping project.
- Miscellaneous Expenditures incurred expenses in the buy-back of inventory from the operators of the Salem Bar; expenses were zero in 2010.
- Water Fund Expenditures decreased 1.1% (\$3,280). Chemical usage in the new WTP is in the range that was estimated.
- Sewer Fund Expenditures decreased \$80.

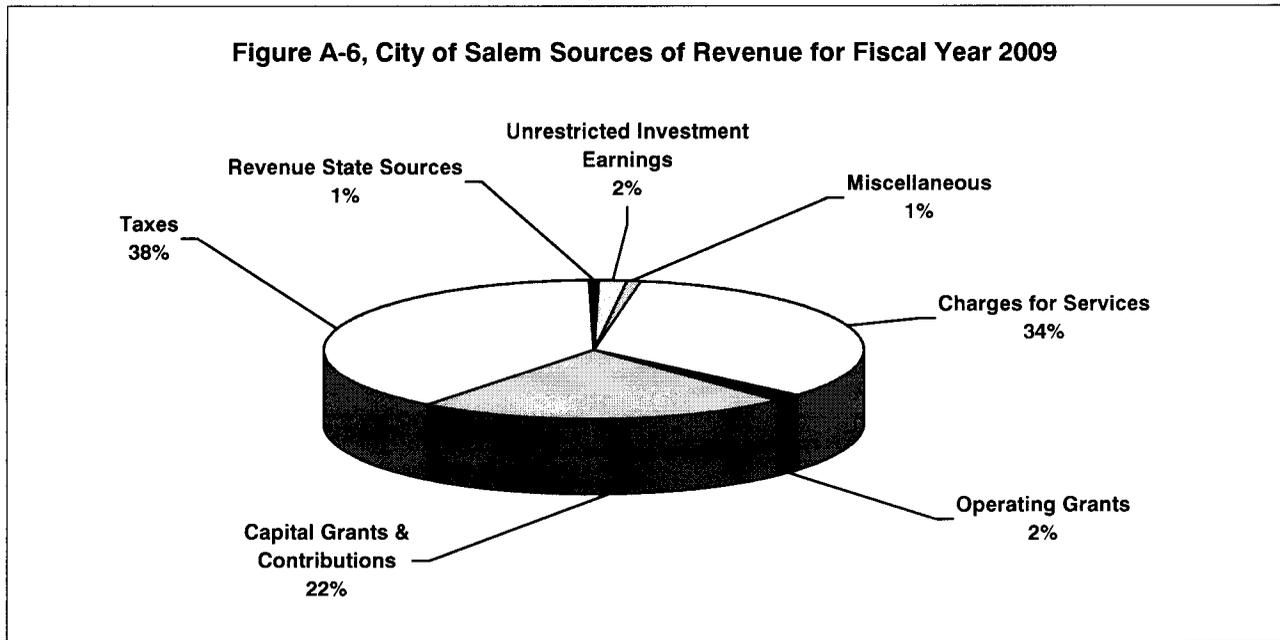
**Figure A-3, City of Salem, Functional Expenses Comparison, Fiscal Years 2009 - 2011**



**SOURCE OF REVENUE (Figure A-4, A-5 and A-6)**

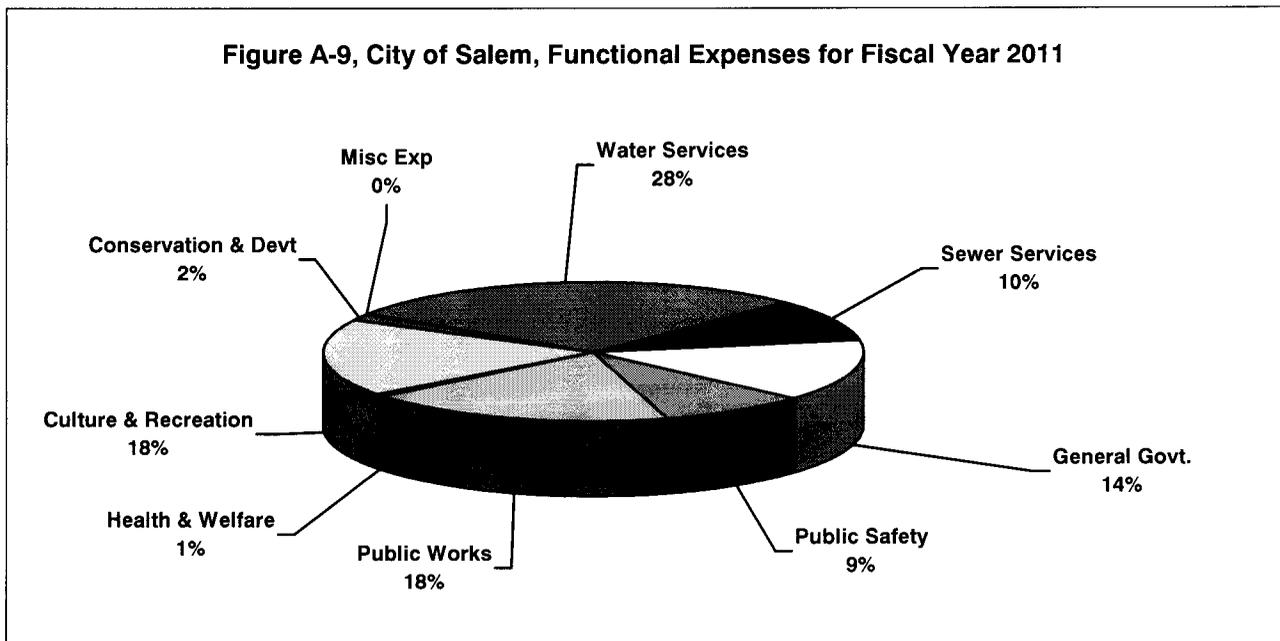
In 2011, eighty-seven percent (87%) of the City's revenue comes from charges for goods and services and taxes, with 38 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 49 cents of every dollar raised comes from some type of tax. (See Figure A-4). Another 6% came from state and federal grants for operating and capital purposes and the remaining revenue comes from state-shared revenues and interest earnings. This varied slightly from 2010 due to the sale of the Salem bar building increasing the Miscellaneous Revenues and the increase in Sales Tax in 2011.



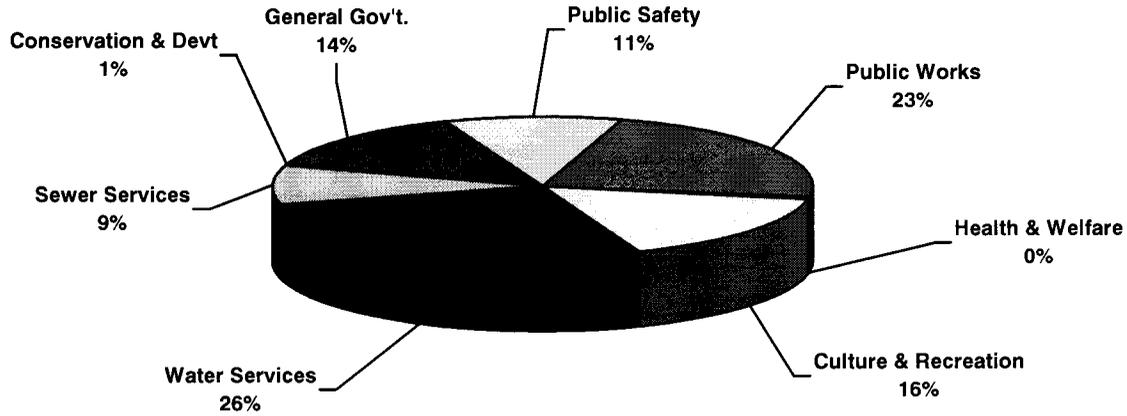


**FUNCTIONAL EXPENSES - FIGURE A-7, A-8 and A-9**

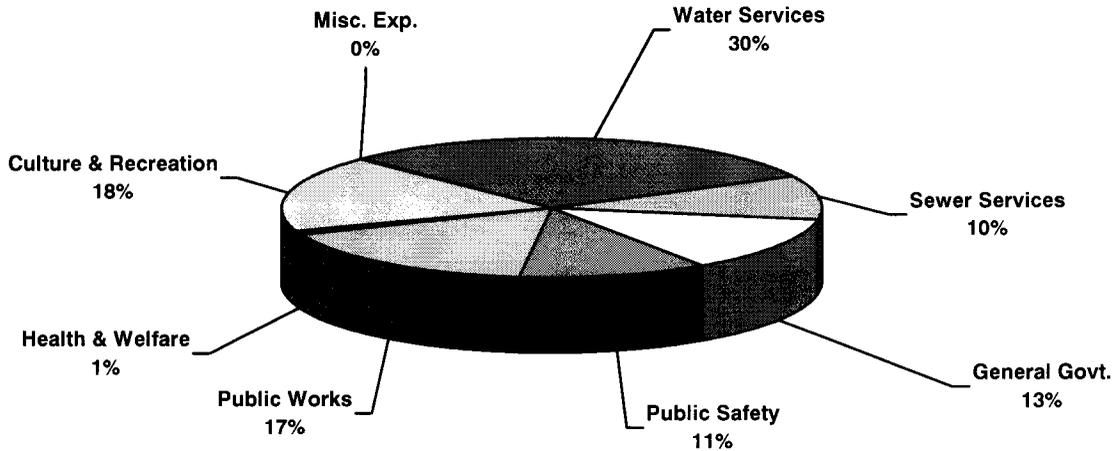
The City's expenses cover a range of services, with 56% related to public work services (road maintenance - chip seal - street sweeping - snow plowing; water & sewer system services). Culture and Recreation (Summer Recreation, Pool, Parks and Armory) make up 18%; General Government (Publications, Council, Attorney, Insurance, Finance Office & City Hall/Bar buildings) accounted for 14%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 9%; and Debt Service, Conservation & Development, Health & Welfare, and Miscellaneous expenditures each accounted for less than 3% of expenditures. The expenditures service percentages varied slightly from 2010 - the difference between functions is mainly from the shift in wages between departments and decrease to public works is due to the 2010 road repair costs.



**Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2010**



**Figure A-7, City of Salem, Functional Expenses for Fiscal Year 2009**



**Governmental Activities**

Revenues of the City's Governmental activities increased by 13.3%; both the property tax and sales tax saw an increase; the combined Operating Grants, and Capital Grants & Contributions increased 8.7% - mainly due to the Energy Efficiency Lighting Grant received in 2011; Investment Earnings decreased 43%; and the Miscellaneous Revenue showed an increase due to the sale of the liquor store building. The Governmental expenditures decreased 8.8%. General Government expenses increased \$133; Public Safety costs decreased due to a donation to the Rural Fire Association in 2010. The Public Works costs decreased by 24.3% as the cost of street repairs and snow removal declined and no gravel was purchased in 2011. Health & Welfare increased as no grant money was received for Mosquito Control chemicals in 2011. Culture & Rec increased

from the purchase of a mower. Conservation & Development increase was the result of a FEMA remapping program and Zoning wages. Miscellaneous Expenditures increased due to the buy-back of inventory from the Salem Bar operators.

### **Business-type Activities**

Operating revenues of the City's business-type activities increased 3.9% as a result of the \$3.00 increase to the water flat fee; but the overall revenues decreased by 2.6% due to a onetime payment received from Verizon Wireless in 2010. The expenditures decreased by \$3,360 (.86%); resulting in an increase to net assets of 3.67%.

- The Water Rates were adjusted in 2011 for the Filter Replacement and Equipment Repair and Replacement accounts. The water revenues generated from Charges for Services increased 9.8% (\$3.00 Flat Fee increase); while the water surcharge fees and investment earnings decreased. The sewer department saw a 1% decrease in revenues from user fees.
- The decrease in expenses was mainly from the Water Department. The Water Department's new Water Filtration Plant operating costs have leveled off. The time needed for the C.I.P.'s (clean in place) of the Ultra Filtration system, according to the original specifications, called for one cleaning per month and in 2010 the filters were being cleaned every 10 days; which attributed to higher wages, chemicals and pumping costs. The C.I.P.'s were reduced to once every 4 to 6 weeks by May of 2011 and the chemical usage has been brought down into the \$15,000 range which was the original estimated cost. The Sewer Department saw a slight decrease in expenses (\$80).

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The financial analysis of the City's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The City maintained five governmental funds - General; Liquor, Lodging & Dining Tax; Street Assessment; Storm Sewer and a Capital Projects Funds and only two business type funds - Water and Sewer Funds. Each fund other than the Capital Projects fund saw an increase in Net Assets.

### **General Fund Budgetary Highlights**

Over the course of the year, the City Council revised the City's budget twice. These amendments fall into three categories:

- Supplemental appropriations and contingency transfers approved for unanticipated, yet necessary, expenses to provide for items necessary for the health and welfare of its citizens.
- Increases in appropriations, primarily by contingency transfer, to prevent budget overruns.

There were two budget changes during the year. The budget was increased for the replacement of the HVAC system at the bar building, a change to the weather warning siren system for narrow band; a transfer out of the Capital Project fund to close the 2010 Street Project; 2012 Street Project Design phase; storm drainage improvements; Rubble Site wages; Swimming Pool Chemicals; Purchase of Land and Rafters for the new concession stand/restrooms at the Softball Field complex; Planning & Zoning Wages; FEMA re-mapping project; and buy-back of merchandise from the Salem bar operators.

## CAPITAL ASSET ADMINISTRATION

By the end of 2011, the City had invested \$4,083,991 (Net of Depreciation) in a broad range of capital assets, including, land, buildings, various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deductions) of \$87,681 or 2.10 percent, from FY 2010.

**TABLE A-3**  
**CITY OF SALEM - CAPITAL ASSETS**  
**(net of depreciation)**

	Governmental			Business-type		
	Activities			Activities		
	2009	2010	2011	2009	2010	2011
Land	51,324	49,675	62,938	41,866	41,866	41,866
Buildings	182,461	173,908	155,018	1,272,633	1,246,661	1,220,689
Improvements Other Than Buildings	881,170	1,281,072	1,238,875	1,828,603	1,811,399	1,767,218
Machinery & Equipment	204,754	250,397	229,032	1,058,622	1,048,878	1,046,393
Construction In Progress	40,575	-	15,309	-	22,868	7,825
<b>Total Capital Assets (Net)</b>	<b>1,360,284</b>	<b>1,755,052</b>	<b>1,701,172</b>	<b>4,201,724</b>	<b>4,171,672</b>	<b>4,083,991</b>

This year's major capital asset additions included:

- The Governmental additions for 2011 were the land purchase for the new softball field concession stand/restrooms; the 2012 Street Project Design and the replacement and/or addition of valley gutters; alley approaches and radius. Land saw an increase due to the purchase of land adjacent to the softball field complex. Improvements Other than Bldg & Equipment and Buildings show a decrease due to depreciation. CIP increased due to the 2012 Street Project and Softball field Concession Stand/Restroom expenses.
- Business-type additions for 2011 saw a decrease to Buildings, Improvements Other Than Buildings and Equipment due to depreciation. The Construction in Progress dollars are from a Sewer Main install project on the Softball Field Concession/Restroom project. The Water Fund did purchase 6 new Radio Read meters and 9 MXU units; closed out the WTP adding an additional \$28,171.35 to the cost of the WTP. The Sewer Dept refurbished four manholes.

The City's fiscal year 2012 capital budget projects include the following: The Water Department will be installing one block of new water main on Center Ave from Pierce to Brown; the Sewer Department will be rehabilitating approximately four to five manholes; and the General Fund will be bidding out the 2012 Street Project which is the rebuilding and matting of Lightner from (Main to Nebraska) and Minnesota from (Jefferson to Richard). The Salem Youth and Recreation Boosters will be building a new concession stand/restroom at the softball field complex with donations raised and volunteer labor. The Council will be discussing the replacement of the lights on Main Street in 2012 - project will include new wiring, poles and lights.

In 2011, the General Fund used \$35,124.11 in local cash for all of the capital projects and purchases; which included the purchase of land adjacent to the softball field complex; designing the 2012 Street Project and various storm/sewer improvements. The Water Department purchased \$2,093.82 in new radio read meter

systems and finalized the WTP plant warranty issues with local cash in the amount of \$7,397.62. The Sewer Dept refurbished four manholes at a cost of \$8,782.00 and started on the Sewer Main for the softball field complex concession/restroom building project.

The City had \$339,614.52 in the General Fund Capital Replacement Reserve Account at the end of 2011 – specifically for Main Street Lighting, baseball field fencing; a new Concession Stand/Restroom at the Softball field complex; Fire Hall Roof; Pool Bathhouse; Armory Door Replacement and Street projects. The 2012 Budget placed an additional \$211,000.00 into the Capital Reserve Account – specifically for Street Projects; Main Street Lighting; and Pool Bathhouse. The City will continue to put block(s) of water main in as money is available.

## LONG-TERM DEBT

At year-end, the City had \$2,264,337 in SRF Loans (Revenue Bonds), and \$16,538 in other long-term obligations. This is a decrease of 3.8% as shown on Table A-4 below. The City's obligation for compensated absences decreased (due to a reduction in vacation leave carried into 2011), and the SRF loan balances decreased \$92,911 (from payments made on said debt).

**TABLE A-4**  
**CITY OF SALEM - Outstanding Debt and Obligations**

	Governmental Activities			Business-type Activities		
	2009	2010	2011	2009	2010	2011
Compensated Absences	8,151	11,710	11,138	5,688	4,210	5,400
Drinking Water SRF Loan 2003	-	-	-	61,459	49,352	36,815
Drinking Water SRF Loan 2005	-	-	-	298,514	285,626	272,314
Drinking Water SRF Loan 2008	-	-	-	1,331,625	1,304,216	1,275,907
Clean Water SRF Loan 2003	-	-	-	414,824	392,933	370,265
Clean Water SRF Loan 2005	-	-	-	340,694	325,121	309,036
<b>Total Outstanding Debt Obligations</b>	<b>8,151</b>	<b>11,710</b>	<b>11,138</b>	<b>2,452,804</b>	<b>2,361,458</b>	<b>2,269,737</b>

The City is liable for the accrued vacation leave payable to all full-time employees who have been employed for more than one year. The up and down between the Governmental Activities and Business-Type activities is due to the varying time worked in the funds from year to year.

The City has outstanding \$1,585,036 in Drinking Water SRF Loans and \$679,301 in Clean Water SRF Loans (Revenue Bonds). The bonds are secured and paid for from the Water and Sewer Funds. The City does not anticipate the use of any tax dollars to pay for these bonds.

- The 2003 bonds were used for the 2003 Street and Utility Project (This project extended water and sewer service on S. Main Street and on Brown Ave; and started the Storm Sewer System in Southeast Salem.) The 2003 DWSRF Loan will be fully paid off on July 15, 2014 and the 2003 CWSRF will be fully paid off on July 15, 2024.

- The 2005 bonds were used for the 2005 Street and Utility Project (This project replaced Water main on Nebraska and Essex Streets; extended storm sewer on George Ave and replaced storm sewer on Essex Ave.) The 2005 CW SRF Loan closed in 2006 and the DWSRF Loan closed in 2007. Both are 20 year loans – the CWSRF will be paid off in July 2026, and the DWSRF will be paid off in April 2027.
- The 2008 DWSRF Loan closed in 2009, this is a 30 year loan and will be paid off in 4/15/2039. The loan is specifically for the Water Filtration (Treatment) project, and a Water Surcharge was established to pay off the debt on this bond. Each household pays \$9.90 per month or \$118.80 annually to retire the debt.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's current economic position has increased annually from a slight decline in 2008. The City experienced growth of 1.3% in 2011; 1% in 2010; and 1.1% in 2009. The growth factor allows the City the ability to increase the amount of revenue generated from property taxes, the increase for 2012 is \$3,490.59; in 2011 it was \$2,660. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower plus the growth factor. 2011 property tax levy requests payable in 2012 increased 3.4% (Growth of 1%; CPI 2.1%) or \$9,129; up from 2010 property tax levy requests payable in 2011 only increased 1% (Growth 1%; CPI 0%) or \$2,660.00; but down from the 2009 property tax levy requests payable in 2010 which was 4.1% (CPI of 3% & Growth of 1.1%) or \$10,475.87.

One of the primary sources of revenue to the City is taxable retail sales in the community (sales tax). In studying the sales tax revenue received (once revenue was received for the entire FY), the 2011 vs. 2010 taxable sales base increased 17.22% (\$3,323,698) and the 2011 vs. 2009 taxable sales base increased 24.03% (4,385,066). The City's 2012 tax revenue budget did increase by 10%.

The City passed an Ordinance in 2007 implementing an additional 1% tax on gross receipts from the sale of leases or rentals of hotel, motel, campsites or other lodging accommodations; the sale of alcoholic beverages as defined in SDCL 35-1-1; establishments where the public is invited to eat, dine or purchase and carry out prepared food for immediate consumption; and ticket sales or admissions to places of amusement, athletic and cultural events within the municipality. The tax was not payable until January 2008 and was estimated to generate \$11,000.00 in revenue; this revenue can only be used for the purpose of land acquisition, architectural fees, construction costs, payment for civic center, auditoriums or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the promotion and advertising of the municipality, its facilities, attractions and activities. The actual dollars raised by this tax in 2011 was \$21,499.57 which was a decline of 12.22% from FY2010; in 2010 the taxes collected were \$24,491.42 a 72.58% increase from 2009. The 2010 increase is thought to be from audits performed by the Dept of Revenue; it appears that some businesses were not paying the tax. The City's 2012 budget did not include any use of these revenues, but will be discussed as a means of finance for projects. The revenues are in a "Special Revenue Fund" as designated by SDCL 10-45.

The City's adopted 2012 General Fund budget increased 15.3% to \$966,827.00. The City's General Government Budget increased 7.5%; increase of \$10,000 to the Contingency in anticipation of pool repairs; and an Administrative Department increase of \$10,000.00 for a scheduled bi-annual audit in 2012. There were increases in Public Safety to repair the fire hall roof; Public Works increased by \$153,760 as additional money was allocated for street repairs and valley gutter replacement; Culture and Recreation increased for the scheduled replacement of 2-sets of doors at the Salem National Guard Armory building; Capital Outlay remained the same and Capital Replacement decreased by \$16,000. The remaining departments varied slightly to accommodate a shift in wages between departments. The 2012 budget was increased to accommodate a raise for the city's employees (4% full-time & 2% part-time), but wages are not set until January.

The City's business-type activities (water and sewer operations) expect that the results for the 2012 financials will increase as a consequence of a \$0.60 cent Water flat fee and \$0.40 cent Sewer flat fee rate increases. The flat fees were increased to set money aside for filter replacement in the Water Treatment Plant and water main replacement; and in the Sewer Department to partially adjust to the new regulatory fee of \$22.00. The 2012 Water Operating Budget decreased 3% (\$4,790) from 2011 and the 2012 Sewer Budget increased 12% as an adjustment was made to the wages to accommodate the increase of hours worked in the Sewer Department in 2011.

The Council increased the Water Flat Fee \$0.60 but provides a \$3.00 reduction to those living alone on social security with no other retirement income. Those residents qualifying are required to file an affidavit claiming they meet the qualifications for the reduced rate with City Hall. The 2012 rates are a water flat fee of \$13.10, .004 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates increased by .40 cents to a Residential flat fee of \$20.40, and 40% of the Water Usage Fee but not less than \$20.40 for commercial users. A CIP increase to the water rate was projected; but the need to replace 30 blocks of 4" CIP water main and filters in the Water Treatment Plant required a higher increase. At the end of 2011, the Equipment Repair & Replacement Fund had a balance of \$91,248.29; a 60.4% increase; a direct result of the \$3.00 rate increase. This fund is necessary for the replacement of water main and the Nano & Ultra Filters at their scheduled life expectancies, and to meet the 110% Debt obligation on the DWSRF loans; the local cash used to build the WTP severely depleted this account. The \$.60 cent increase was necessary to increase the dollars for water main replacement. The Sewer Department rates were increased by .40 cents and will be increased annually to eventually reach the \$22.00 State rate for 5,000 gallons. All rates are reviewed annually. The residential garbage contract was bid in 2011 and because the annual cost was lowered, the Council reduced the monthly garbage fee by \$1.00; therefore, the residential customers saw no increase to their monthly bill.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional information, contact the City of Salem's Finance Office, 400 N. Main, P.O. Box 249, Salem, SD 57058.

**MUNICIPALITY OF SALEM**  
**STATEMENT OF NET ASSETS**  
**December 31, 2011**

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS:</b>				
Cash and Cash Equivalents	1,147,767.79	526,163.32	1,673,931.11	1,449.35
Investments	209,296.92	148,515.68	357,812.60	
Accounts Receivable, Net	73,392.59	408.12	73,800.71	
Due from Component Unit	30,817.00		30,817.00	
Inventories	6,372.04	5,829.60	12,201.64	
Capital Assets:				
Land, Improvements and Construction in Progress	78,246.77	41,866.19	120,112.96	56,293.45
Other Capital Assets, Net of Depreciation	1,622,925.10	4,042,124.84	5,665,049.94	960,191.30
<b>TOTAL ASSETS</b>	<b>3,168,818.21</b>	<b>4,764,907.75</b>	<b>7,933,725.96</b>	<b>1,017,934.10</b>
<b>LIABILITIES :</b>				
Accounts Payable	22,210.61	14,440.51	36,651.12	
Other Current Liabilities	3,196.54	26,144.84	29,341.38	45,276.84
Deferred Revenue	40,400.00		40,400.00	
Noncurrent Liabilities:				
Due Within One Year	8,910.00	124,428.31	133,338.31	
Due in More than One Year	2,227.50	2,145,308.62	2,147,536.12	1,268,776.80
<b>TOTAL LIABILITIES</b>	<b>76,944.65</b>	<b>2,310,322.28</b>	<b>2,387,266.93</b>	<b>1,314,053.64</b>
<b>NET ASSETS:</b>				
Invested in Capital Assets, Net of Related Debt	1,701,171.87	1,819,653.85	3,520,825.72	(252,292.05)
Restricted for:				
Debt Service Purposes		162,079.10	162,079.10	
Street Maintenance	101,579.05		101,579.05	
City Promotion	69,267.12		69,267.12	
Storm Sewer Maintenance	105,695.94		105,695.94	
Unrestricted (Deficit)	1,114,159.58	472,852.52	1,587,012.10	(43,827.49)
<b>TOTAL NET ASSETS</b>	<b>3,091,873.56</b>	<b>2,454,585.47</b>	<b>5,546,459.03</b>	<b>(296,119.54)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>3,168,818.21</b>	<b>4,764,907.75</b>	<b>7,933,725.96</b>	<b>1,017,934.10</b>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF ACTIVITIES**  
 For the Year Ended December 31, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		Component Units
				Capital Grants and Contributions	Governmental Activities	
<b>Primary Government:</b>						
Governmental Activities:						
General Government	147,664.71	37,811.81		(109,852.90)		(109,852.90)
Public Safety	92,691.47	6.48	1,846.15	(90,838.84)		(90,838.84)
Public Works	188,401.87	52,820.84	32,678.86	(64,580.47)		(64,580.47)
Health and Welfare	6,447.84			(6,447.84)		(6,447.84)
Culture and Recreation	184,627.12	32,046.11	19,349.00	(131,932.01)		(131,932.01)
Conservation and Development	16,635.35			(16,635.35)		(16,635.35)
Miscellaneous Expenditures	2,221.10			(2,221.10)		(2,221.10)
Total Governmental Activities	638,689.46	122,685.24	53,874.01	(422,508.51)		(422,508.51)
Business-type Activities:						
Water	287,730.07	307,718.61			19,988.54	19,988.54
Sewer	98,910.46	154,991.27			56,080.81	56,080.81
Total Business-type Activities	386,640.53	462,709.88	0.00		76,069.35	76,069.35
Total Primary Government	1,025,329.99	585,395.12	53,874.01	(422,508.51)	76,069.35	(346,439.16)
<b>Component Units:</b>						
Housing and Redevelopment Commission	126,454.95	105,172.74				(21,282.21)
<b>General Revenues:</b>						
Taxes:						
Property Taxes				270,472.04		270,472.04
Sales Taxes				467,294.02		467,294.02
State Shared Revenues				9,865.02		9,865.02
Unrestricted Investment Earnings				7,323.61	4,330.16	11,653.77
Miscellaneous Revenue				73,822.83	6,650.00	80,472.83
Total General Revenues				828,777.52	10,980.16	839,757.68
Change in Net Assets				406,269.01	87,049.51	493,318.52
Net Assets - Beginning				2,685,604.55	2,367,535.96	5,053,140.51
NET ASSETS - ENDING				3,091,873.56	2,454,585.47	5,546,459.03

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

**MUNICIPALITY OF SALEM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2011**

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
<b>ASSETS:</b>					
Cash and Cash Equivalents	871,680.38	68,837.42	101,579.05	105,670.94	1,147,767.79
Investments	209,296.92				209,296.92
Taxes Receivable--Delinquent	7,870.37		1,373.36		9,243.73
Accounts Receivable, Net	4,163.37			25.00	4,188.37
Special Assessments Receivable--Current	450.00				450.00
Special Assessments Receivable--Delinquent	1,797.50				1,797.50
Due from County/State Governments	56,383.29	1,329.70			57,712.99
Due from Component Unit	30,817.00				30,817.00
Inventory of Supplies	6,372.04				6,372.04
<b>TOTAL ASSETS</b>	<b>1,188,830.87</b>	<b>70,167.12</b>	<b>102,952.41</b>	<b>105,695.94</b>	<b>1,467,646.34</b>
<b>LIABILITIES AND FUND BALANCES:</b>					
<b>Liabilities:</b>					
Claims Payable	22,210.61				22,210.61
Accrued Wages Payable	2,365.17				2,365.17
Accrued Taxes Payable	831.37				831.37
Deferred Revenue	49,617.87	900.00	1,373.36		51,891.23
Total Liabilities	75,025.02	900.00	1,373.36	0.00	77,298.38
<b>Fund Balances:</b>					
Nonspendable	6,372.04				6,372.04
Restricted		69,267.12	101,579.05	105,695.94	276,542.11
Committed	339,614.52				339,614.52
Assigned for Next Year's Budget	200,000.00				200,000.00
Assigned for Capital Outlay	24,267.00				24,267.00
Unassigned	543,552.29				543,552.29
Total Fund Balances	1,113,805.85	69,267.12	101,579.05	105,695.94	1,390,347.96
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>1,188,830.87</b>	<b>70,167.12</b>	<b>102,952.41</b>	<b>105,695.94</b>	<b>1,467,646.34</b>

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

**MUNICIPALITY OF SALEM**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**December 31, 2011**

Total Fund Balances - Governmental Funds	<u>1,390,347.96</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>1,701,171.87</u>
Long-term liabilities, including accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(11,137.50)</u>
Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and deferred) are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>11,491.23</u>
Net Assets - Governmental Activities	<u><u>3,091,873.56</u></u>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>Revenues:</b>						
<b>Taxes:</b>						
General Property Taxes	266,029.47					266,029.47
General Sales and Use Taxes	445,984.15	21,309.87				467,294.02
Gross Receipts Business Taxes	1,634.72					1,634.72
Amusement Taxes	60.00					60.00
Tax Deed Revenue	139.18					139.18
Penalties and Interest on Delinquent Taxes	804.93					804.93
Licenses and Permits	8,019.75					8,019.75
Intergovernmental Revenue:						
Federal Grants	19,349.00					19,349.00
State Shared Revenue:						
Bank Franchise Tax	1,290.17					1,290.17
Motor Vehicle Commercial Prorate	3,397.70					3,397.70
Liquor Tax Reversion	8,574.85					8,574.85
Motor Vehicle Licenses	9,539.96					9,539.96
Local Government Highway and Bridge Fund	11,661.44					11,661.44
County Shared Revenue:						
County Road Tax	2,674.43					2,674.43
County Wheel Tax	5,405.33					5,405.33
Charges for Goods and Services:						
General Government	1,980.00					1,980.00
Highways and Streets	1,800.00					1,800.00
Sanitation	13,850.84			37,170.00		51,020.84
Culture and Recreation	20,150.61					20,150.61
Fines and Forfeits:						
Court Fines and Costs	6.48					6.48

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>Revenues (Cont.):</b>						
Miscellaneous Revenue:						
Investment Earnings	5,538.32	448.43	672.74	664.12		7,323.61
Rentals	20,184.80					20,184.80
Special Assessments	4,455.00					4,455.00
Maintenance Assessments			33,568.26			33,568.26
Contributions and Donations from Private Sources	6,146.15					6,146.15
Liquor Operating Agreement Income	19,522.76					19,522.76
Other	7,886.09					7,886.09
<b>Total Revenue</b>	<b>886,086.13</b>	<b>21,758.30</b>	<b>34,241.00</b>	<b>37,834.12</b>	<b>0.00</b>	<b>979,919.55</b>
<b>Expenditures:</b>						
General Government:						
Legislative	3,754.97					3,754.97
Executive	14,245.23					14,245.23
Financial Administration	106,993.66					106,993.66
Other	20,318.43					20,318.43
<b>Total General Government</b>	<b>145,312.29</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>145,312.29</b>
Public Safety:						
Police	83,824.00					83,824.00
Fire	1,938.49					1,938.49
Other Protection	469.14					469.14
<b>Total Public Safety</b>	<b>86,231.63</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>86,231.63</b>
Public Works:						
Highways and Streets	128,770.99					128,770.99
Sanitation	6,076.13					6,076.13
<b>Total Public Works</b>	<b>134,847.12</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>134,847.12</b>
Health and Welfare:						
Health	6,447.84					6,447.84
<b>Total Health and Welfare</b>	<b>6,447.84</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>6,447.84</b>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2011

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>Expenditures (Cont.):</b>						
Culture and Recreation:						
Recreation	64,008.03					64,008.03
Parks	38,192.87					38,192.87
Libraries	500.00					500.00
Auditorium	62,572.92					62,572.92
Total Culture and Recreation	165,273.82	0.00	0.00	0.00	0.00	165,273.82
Conservation and Development:						
Economic Development and Assistance (Industrial Development)	11,411.35	5,224.00				16,635.35
Total Conservation and Development	11,411.35	5,224.00	0.00	0.00	0.00	16,635.35
Capital Outlay	35,124.11	0.00	0.00	0.00	0.00	35,124.11
Miscellaneous:						
Liquor Operating Agreements	2,221.10					2,221.10
Total Miscellaneous	2,221.10	0.00	0.00	0.00	0.00	2,221.10
Total Expenditures	586,869.26	5,224.00	0.00	0.00	0.00	592,093.26
Excess of Revenue Over (Under) Expenditures	299,216.87	16,534.30	34,241.00	37,834.12	0.00	387,826.29
<b>Other Financing Sources (Uses):</b>						
Transfers In	9,859.03					9,859.03
Sale of Municipal Property	76,273.54					76,273.54
Transfers Out					(9,859.03)	(9,859.03)
Total Other Financing Sources (Uses)	86,132.57	0.00	0.00	0.00	(9,859.03)	76,273.54
Net Change in Fund Balances	385,349.44	16,534.30	34,241.00	37,834.12	(9,859.03)	464,099.83
Changes in Nonspendable	(3,625.59)	0.00	0.00	0.00	0.00	(3,625.59)
Fund Balance - Beginning	732,082.00	52,732.82	67,338.05	67,861.82	9,859.03	929,873.72
FUND BALANCE - ENDING	1,113,805.85	69,267.12	101,579.05	105,695.94	0.00	1,390,347.96

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

**MUNICIPALITY OF SALEM**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund**  
**Balances to the Government-Wide Statement of Activities**  
**For the Year Ended December 31, 2011**

Net Change in Fund Balances - Total Governmental Funds	<u>464,099.83</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>35,124.11</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(78,667.61)</u>
In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	<u>(10,336.80)</u>
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>2,117.18</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>(3,015.00)</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>572.89</u>
Vacation Leave	<u>572.89</u>
Supplies acquired are an expenditure on the fund statements when purchased but are expensed on the statement of activities when consumed. This amount represents the "change in" inventory of supplies.	<u>(3,625.59)</u>
Change in Net Assets of Governmental Activities	<u><u>406,269.01</u></u>

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

**MUNICIPALITY OF SALEM  
BALANCE SHEET  
PROPRIETARY FUNDS  
December 31, 2011**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	228,483.91	297,679.41	526,163.32
Investments	71,562.53	76,953.15	148,515.68
Accounts Receivable, Net	311.57	96.55	408.12
Inventory of Supplies	5,829.60		5,829.60
Total Current Assets	<u>306,187.61</u>	<u>374,729.11</u>	<u>680,916.72</u>
Noncurrent Assets:			
Capital Assets:			
Land	2,209.95	39,656.24	41,866.19
Buildings	1,298,604.74		1,298,604.74
Improvements Other Than Buildings	1,603,966.94	1,009,860.89	2,613,827.83
Machinery and Equipment	1,195,510.97	34,373.39	1,229,884.36
Construction Work in Progress		7,825.03	7,825.03
Less: Accumulated Depreciation	(746,615.46)	(361,401.66)	(1,108,017.12)
Total Noncurrent Assets	<u>3,353,677.14</u>	<u>730,313.89</u>	<u>4,083,991.03</u>
<b>TOTAL ASSETS</b>	<u><b>3,659,864.75</b></u>	<u><b>1,105,043.00</b></u>	<u><b>4,764,907.75</b></u>
<b>LIABILITIES:</b>			
Current Liabilities:			
Claims Payable	10,560.26	1,282.09	11,842.35
Accrued Wages Payable	1,606.26	689.66	2,295.92
Accrued Taxes Payable	211.47	90.77	302.24
Customer Deposits	26,144.84		26,144.84
Bonds Payable - Current:			
Revenue	79,806.58	40,085.73	119,892.31
Total Current Liabilities	<u>118,329.41</u>	<u>42,148.25</u>	<u>160,477.66</u>
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,505,229.45	639,215.42	2,144,444.87
Accrued Leave Payable	3,884.81	1,514.94	5,399.75
Total Noncurrent Liabilities	<u>1,509,114.26</u>	<u>640,730.36</u>	<u>2,149,844.62</u>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	1,768,641.11	51,012.74	1,819,653.85
Restricted Net Assets, Restricted for:			
Revenue Bond Debt Service	142,079.10	20,000.00	162,079.10
Equipment Repair and/or Replacement	91,248.29	176,867.97	268,116.26
Unrestricted Net Assets	30,452.58	174,283.68	204,736.26
Total Net Assets	<u>2,032,421.08</u>	<u>422,164.39</u>	<u>2,454,585.47</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>3,659,864.75</b></u>	<u><b>1,105,043.00</b></u>	<u><b>4,764,907.75</b></u>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2011**

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
<b>Operating Revenue:</b>			
Charges for Goods and Services	229,871.97	154,934.27	384,806.24
Revenue Dedicated to Servicing Debt	77,817.41		77,817.41
Miscellaneous	29.23	57.00	86.23
<b>Total Operating Revenue</b>	<b>307,718.61</b>	<b>154,991.27</b>	<b>462,709.88</b>
<b>Operating Expenses:</b>			
Personal Services	54,171.07	19,499.01	73,670.08
Other Current Expense	93,263.06	31,462.90	124,725.96
Depreciation	87,566.09	24,119.53	111,685.62
<b>Total Operating Expenses</b>	<b>235,000.22</b>	<b>75,081.44</b>	<b>310,081.66</b>
<b>Operating Income (Loss)</b>	<b>72,718.39</b>	<b>79,909.83</b>	<b>152,628.22</b>
<b>Nonoperating Revenue (Expense):</b>			
Investment Earnings	1,710.31	2,619.85	4,330.16
Rental Revenue	6,650.00		6,650.00
Interest Expense and Fiscal Charges	(52,729.85)	(23,829.02)	(76,558.87)
<b>Total Nonoperating Revenue (Expense)</b>	<b>(44,369.54)</b>	<b>(21,209.17)</b>	<b>(65,578.71)</b>
<b>Change in Net Assets</b>	<b>28,348.85</b>	<b>58,700.66</b>	<b>87,049.51</b>
<b>Net Assets - Beginning</b>	<b>2,004,072.23</b>	<b>363,463.73</b>	<b>2,367,535.96</b>
<b>NET ASSETS - ENDING</b>	<b>2,032,421.08</b>	<b>422,164.39</b>	<b>2,454,585.47</b>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2011**

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Receipts from Customers	311,425.39	154,917.72	466,343.11
Other Operating Cash Receipts	29.23	57.00	86.23
Cash Payments to Employees for Services	(53,080.28)	(18,786.56)	(71,866.84)
Cash Payments to Suppliers of Goods and Services	(96,900.17)	(31,210.87)	(128,111.04)
Net Cash Provided (Used) by Operating Activities	<u>161,474.17</u>	<u>104,977.29</u>	<u>266,451.46</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating Subsidies	6,650.00		6,650.00
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,650.00</u>	<u>0.00</u>	<u>6,650.00</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Purchase of Capital Assets	(13,228.46)	(16,607.03)	(29,835.49)
Principal Paid on Capital Debt	(54,158.39)	(38,752.70)	(92,911.09)
Interest Paid on Capital Debt	(52,729.85)	(23,829.02)	(76,558.87)
Net Cash (Used) by Capital and Related Financing Activities	<u>(120,116.70)</u>	<u>(79,188.75)</u>	<u>(199,305.45)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash Received for Interest	1,710.31	2,619.85	4,330.16
Net Cash Provided by Investing Activities	<u>1,710.31</u>	<u>2,619.85</u>	<u>4,330.16</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>49,717.78</u>	<u>28,408.39</u>	<u>78,126.17</u>
Balances - Beginning	250,328.66	346,224.17	596,552.83
Balances - Ending	<u>300,046.44</u>	<u>374,632.56</u>	<u>674,679.00</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	72,718.39	79,909.83	152,628.22
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	87,566.09	24,119.53	111,685.62
Change in Assets and Liabilities:			
Receivables	2,186.01	(16.55)	2,169.46
Inventories	(2,102.36)		(2,102.36)
Accounts and Other Payables	(1,534.75)	252.03	(1,282.72)
Accrued Wages Payable	349.91	263.17	613.08
Accrued Leave Payable	740.88	449.28	1,190.16
Customer Deposits	1,550.00		1,550.00
Net Cash Provided (Used) by Operating Activities	<u>161,474.17</u>	<u>104,977.29</u>	<u>266,451.46</u>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF NET ASSETS**  
December 31, 2010

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
<b>ASSETS:</b>				
Cash and Cash Equivalents	842,924.97	548,637.96	1,391,562.93	2,449.18
Investments	58,562.61	47,914.87	106,477.48	
Accounts Receivable, Net	77,097.32	2,577.58	79,674.90	
Due from Component Unit	27,817.00		27,817.00	
Inventories	9,997.63	3,727.24	13,724.87	
Capital Assets:				
Land, Improvements and Construction in Progress	49,674.61	41,866.19	91,540.80	56,293.45
Other Capital Assets, Net of Depreciation	1,705,377.56	4,129,805.81	5,835,183.37	1,007,429.39
<b>TOTAL ASSETS</b>	<b>2,771,451.70</b>	<b>4,774,529.65</b>	<b>7,545,981.35</b>	<b>1,066,172.02</b>
<b>LIABILITIES :</b>				
Accounts Payable	36,590.16	20,940.99	57,531.15	
Other Current Liabilities	3,846.60	24,594.84	28,441.44	41,999.84
Deferred Revenue	33,700.00		33,700.00	
Noncurrent Liabilities:				
Due Within One Year	9,953.83	97,120.68	107,074.51	
Due in More than One Year	1,756.56	2,264,337.18	2,266,093.74	1,299,009.51
<b>TOTAL LIABILITIES</b>	<b>85,847.15</b>	<b>2,406,993.69</b>	<b>2,492,840.84</b>	<b>1,341,009.35</b>
<b>NET ASSETS:</b>				
Invested in Capital Assets, Net of Related Debt	1,755,052.17	1,814,423.73	3,569,475.90	(235,286.67)
Restricted for:				
Street Assessment	67,338.05		67,338.05	
Debt Service Purposes		154,596.69	154,596.69	
City Promotion	52,732.82		52,732.82	
Storm Sewer Maintenance	67,861.82		67,861.82	
Capital Projects	9,859.03		9,859.03	
Unrestricted (Deficit)	732,760.66	398,515.54	1,131,276.20	(39,550.66)
<b>TOTAL NET ASSETS</b>	<b>2,685,604.55</b>	<b>2,367,535.96</b>	<b>5,053,140.51</b>	<b>(274,837.33)</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>2,771,451.70</b>	<b>4,774,529.65</b>	<b>7,545,981.35</b>	<b>1,066,172.02</b>

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

**MUNICIPALITY OF SALEM  
STATEMENT OF ACTIVITIES  
For the Year Ended December 31, 2010**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units		
	Expenses	Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities		Total	
			Operating Grants and Contributions	Capital Grants and Contributions			Business-Type Activities			Total
<b>Primary Government:</b>										
Governmental Activities:										
General Government	147,532.11	40,783.21	660.00			(106,088.90)			(106,088.90)	
Public Safety	116,106.15					(116,106.15)			(116,106.15)	
Public Works	248,819.98	57,949.26	29,704.81	55,635.08		(105,530.83)			(105,530.83)	
Health and Welfare	4,376.50					(4,376.50)			(4,376.50)	
Culture and Recreation	178,045.44	30,298.27	15.00			(147,732.17)			(147,732.17)	
Conservation and Development	5,626.00					(5,626.00)			(5,626.00)	
<b>Total Governmental Activities</b>	<b>700,506.18</b>	<b>129,030.74</b>	<b>30,379.81</b>	<b>55,635.08</b>		<b>(485,460.55)</b>			<b>(485,460.55)</b>	
Business-type Activities:										
Water	291,010.47	288,692.90		3,639.42				1,321.85	1,321.85	
Sewer	98,989.79	156,576.68						57,586.89	57,586.89	
<b>Total Business-type Activities</b>	<b>390,000.26</b>	<b>445,269.58</b>	<b>0.00</b>	<b>3,639.42</b>				<b>58,908.74</b>	<b>58,908.74</b>	
<b>Total Primary Government</b>	<b>1,090,506.44</b>	<b>574,300.32</b>	<b>30,379.81</b>	<b>59,274.50</b>		<b>(485,460.55)</b>		<b>58,908.74</b>	<b>(426,551.81)</b>	
<b>Component Units:</b>										<b>(35,522.74)</b>
Housing and Redevelopment Commission	133,070.24	97,547.50								
<b>General Revenues:</b>										
Taxes:										
Property Taxes						267,724.09			267,724.09	
Sales Taxes						399,798.15			399,798.15	
State Shared Revenues						9,263.08			9,263.08	
Grants and Contributions not Restricted to Specific Programs						23,980.00			23,980.00	
Unrestricted Investment Earnings						12,980.36			12,980.36	
Miscellaneous Revenue						17,350.85			17,350.85	
<b>Total General Revenues</b>						<b>707,116.53</b>		<b>37,449.41</b>	<b>744,565.94</b>	<b>0.00</b>
<b>Change in Net Assets</b>						<b>221,655.98</b>		<b>96,358.15</b>	<b>318,014.13</b>	<b>(35,522.74)</b>
<b>Net Assets - Beginning</b>						<b>2,463,948.57</b>		<b>2,271,177.81</b>	<b>4,735,126.38</b>	<b>(239,314.59)</b>
<b>NET ASSETS - ENDING</b>						<b>2,685,604.55</b>		<b>2,367,535.96</b>	<b>5,053,140.51</b>	<b>(274,837.33)</b>

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

**MUNICIPALITY OF SALEM  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
December 31, 2010**

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>ASSETS:</b>						
Cash and Cash Equivalents	646,558.47	51,428.46	67,237.19	67,841.82	9,859.03	842,924.97
Investments	58,562.61					58,562.61
Taxes Receivable--Delinquent	6,066.63		1,059.92			7,126.55
Accounts Receivable, Net	6,374.90			20.00		6,394.90
Special Assessments Receivable--Current	4,455.00					4,455.00
Special Assessments Receivable--Delinquent	807.50					807.50
Due from County/State Governments	55,708.15	2,504.36	100.86			58,313.37
Due from Component Unit	27,817.00					27,817.00
Inventory of Supplies	9,997.63					9,997.63
<b>TOTAL ASSETS</b>	<b>816,347.89</b>	<b>53,932.82</b>	<b>68,397.97</b>	<b>67,861.82</b>	<b>9,859.03</b>	<b>1,016,399.53</b>
<b>LIABILITIES AND FUND BALANCES:</b>						
<b>Liabilities:</b>						
Claims Payable	36,590.16					36,590.16
Accrued Wages Payable	2,919.02					2,919.02
Accrued Taxes Payable	927.58					927.58
Deferred Revenue	43,829.13	1,200.00	1,059.92			46,089.05
Total Liabilities	84,265.89	1,200.00	1,059.92	0.00	0.00	86,525.81
<b>Fund Balances:</b>						
Reserved For:						
Inventory	9,997.63					9,997.63
Unreserved Fund Balances:						
Designated for Next Year's Appropriation	200,000.00					200,000.00
Designated for Capital Outlay Accumulations	25,917.00					25,917.00
Designated for Capital Replacements	106,222.28				9,859.03	116,081.31
Undesignated	389,945.09	52,732.82	67,338.05	67,861.82		577,877.78
Total Fund Balances	732,082.00	52,732.82	67,338.05	67,861.82	9,859.03	929,873.72
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>816,347.89</b>	<b>53,932.82</b>	<b>68,397.97</b>	<b>67,861.82</b>	<b>9,859.03</b>	<b>1,016,399.53</b>

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

**MUNICIPALITY OF SALEM**  
**Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets**  
**December 31, 2010**

Total Fund Balances - Governmental Funds	<u>929,873.72</u>
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>1,755,052.17</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(11,710.39)</u>
Assets such as taxes receivable (delinquent) and special assessment receivables (current, delinquent and deferred) are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>12,389.05</u>
Net Assets - Governmental Activities	<u><u>2,685,604.55</u></u>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2010

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>Revenues:</b>						
Taxes:						
General Property Taxes	271,225.93					271,225.93
General Sales and Use Taxes	375,820.19	23,977.96				399,798.15
Gross Receipts Business Taxes	1,454.37					1,454.37
Amusement Taxes	180.00					180.00
Tax Deed Revenue	110.69					110.69
Penalties and Interest on Delinquent Taxes	1,268.80					1,268.80
Licenses and Permits	10,095.25					10,095.25
Intergovernmental Revenue:						
Federal Grants	660.00					660.00
State Shared Revenue:						
Bank Franchise Tax	914.59					914.59
Liquor Tax Reversion	8,348.49					8,348.49
Motor Vehicle Licenses	10,904.74					10,904.74
Local Government Highway and Bridge Fund	10,870.53					10,870.53
County Shared Revenue:						
County Road Tax	2,674.43					2,674.43
County Wheel Tax	5,255.11					5,255.11
Charges for Goods and Services:						
General Government	25.00					25.00
Highways and Streets	1,800.00					1,800.00
Sanitation	18,851.76			37,297.50		56,149.26
Culture and Recreation	20,081.27					20,081.27
Miscellaneous Revenue:						
Investment Earnings	11,229.22	388.93	549.25	812.96		12,980.36
Rentals	19,817.00					19,817.00
Special Assessments	2,497.50					2,497.50
Maintenance Assessments	18,355.63		34,051.41			52,407.04
Contributions and Donations from Private Sources	15.00					15.00
Liquor Operating Agreement Income	21,062.96					21,062.96
Other	8,137.43					8,137.43

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended December 31, 2010**

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
Total Revenue	821,655.89	24,366.89	34,600.66	38,110.46	0.00	918,733.90
<b>Expenditures:</b>						
General Government:						
Legislative	4,022.98					4,022.98
Executive	14,518.72					14,518.72
Elections	791.16					791.16
Financial Administration	111,969.56					111,969.56
Other	10,940.72					10,940.72
Total General Government	142,243.14	0.00	0.00	0.00	0.00	142,243.14
Public Safety:						
Police	83,824.00					83,824.00
Fire	25,272.58					25,272.58
Other Protection	549.73					549.73
Total Public Safety	109,646.31	0.00	0.00	0.00	0.00	109,646.31
Public Works:						
Highways and Streets	200,488.84					200,488.84
Sanitation	4,881.24					4,881.24
Total Public Works	205,370.08	0.00	0.00	0.00	0.00	205,370.08
Health and Welfare:						
Health	4,376.50					4,376.50
Total Health and Welfare	4,376.50	0.00	0.00	0.00	0.00	4,376.50
Culture and Recreation:						
Recreation	50,565.37					50,565.37
Parks	26,986.65					26,986.65
Libraries	500.00					500.00
Auditorium	79,320.81					79,320.81
Total Culture and Recreation	157,372.83	0.00	0.00	0.00	0.00	157,372.83

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2010

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Fund	Total Governmental Funds
<b>Expenditures (Cont.):</b>						
Conservation and Development:						
Economic Development and Assistance (Industrial Development)	5,626.00	0.00	0.00	0.00	0.00	5,626.00
Total Conservation and Development	5,626.00	0.00	0.00	0.00	0.00	5,626.00
Capital Outlay	92,216.67	0.00	0.00	0.00	386,510.97	478,727.64
Total Expenditures	716,851.53	0.00	0.00	0.00	386,510.97	1,103,362.50
Excess of Revenue Over (Under) Expenditures	104,804.36	24,366.89	34,600.66	38,110.46	(386,510.97)	(184,628.60)
<b>Other Financing Sources (Uses):</b>						
Transfers In					396,370.00	396,370.00
Sale of Municipal Property	10,862.42					10,862.42
Transfers Out	(344,720.00)			(51,650.00)		(396,370.00)
Total Other Financing Sources (Uses)	(333,857.58)	0.00	0.00	(51,650.00)	396,370.00	10,862.42
Net Change in Fund Balances	(229,053.22)	24,366.89	34,600.66	(13,539.54)	9,859.03	(173,766.18)
Change in Fund Balance Reserves	9,997.63	0.00	0.00	0.00	0.00	9,997.63
Fund Balance - Beginning	951,137.59	28,365.93	32,737.39	81,401.36	0.00	1,093,642.27
FUND BALANCE - ENDING	732,082.00	52,732.82	67,338.05	67,861.82	9,859.03	929,873.72

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

**MUNICIPALITY OF SALEM**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund**  
**Balances to the Government-Wide Statement of Activities**  
**For the Year Ended December 31, 2010**

Net Change in Fund Balances - Total Governmental Funds	<u>(173,766.18)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>478,727.64</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(82,309.85)</u>
In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	<u>(1,649.00)</u>
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>(7,029.61)</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>1,244.45</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>(3,559.10)</u>
Vacation Leave	<u>3,559.10</u>
Supplies acquired are an expenditure on the fund statements when purchased but are expensed on the statement of activities when consumed. This amount represents the "change in" inventory of supplies.	<u>9,997.63</u>
Change in Net Assets of Governmental Activities	<u><u>221,655.98</u></u>

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

**MUNICIPALITY OF SALEM**  
**BALANCE SHEET**  
**PROPRIETARY FUNDS**  
**December 31, 2010**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>ASSETS:</b>			
Current Assets:			
Cash and Cash Equivalents	229,033.16	319,604.80	548,637.96
Investments	21,295.50	26,619.37	47,914.87
Accounts Receivable, Net	2,497.58	80.00	2,577.58
Inventory of Supplies	3,727.24		3,727.24
<b>Total Current Assets</b>	<b>256,553.48</b>	<b>346,304.17</b>	<b>602,857.65</b>
Capital Assets:			
Land	2,209.95	39,656.24	41,866.19
Buildings	1,298,604.74		1,298,604.74
Improvements Other Than Buildings	1,603,966.94	1,001,078.89	2,605,045.83
Machinery and Equipment	1,165,245.80	34,373.39	1,199,619.19
Construction Work in Progress	22,867.55		22,867.55
Less: Accumulated Depreciation	(659,049.37)	(337,282.13)	(996,331.50)
<b>Total Noncurrent Assets</b>	<b>3,433,845.61</b>	<b>737,826.39</b>	<b>4,171,672.00</b>
<b>TOTAL ASSETS</b>	<b>3,690,399.09</b>	<b>1,084,130.56</b>	<b>4,774,529.65</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Claims Payable	17,925.85	1,030.06	18,955.91
Accrued Wages Payable	1,291.53	455.13	1,746.66
Accrued Taxes Payable	176.29	62.13	238.42
Customer Deposits	24,594.84		24,594.84
<b>Total Current Liabilities</b>	<b>43,988.51</b>	<b>1,547.32</b>	<b>45,535.83</b>
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	54,158.39	38,752.70	92,911.09
Accrued Leave Payable	3,143.93	1,065.66	4,209.59
Other Long-Term Liabilities	1,585,036.03	679,301.15	2,264,337.18
<b>Total Noncurrent Liabilities</b>	<b>1,642,338.35</b>	<b>719,119.51</b>	<b>2,361,457.86</b>
<b>NET ASSETS:</b>			
Invested in Capital Assets, Net of Related Debt	1,794,651.19	19,772.54	1,814,423.73
Restricted Net Assets, Restricted for:			
Revenue Bond Debt Service	134,596.69	20,000.00	154,596.69
Equipment Repair and/or Replacement	56,884.29	175,318.97	232,203.26
Unrestricted Net Assets	17,940.06	148,372.22	166,312.28
<b>Total Net Assets</b>	<b>2,004,072.23</b>	<b>363,463.73</b>	<b>2,367,535.96</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>3,690,399.09</b>	<b>1,084,130.56</b>	<b>4,774,529.65</b>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2010**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>Operating Revenue:</b>			
Charges for Goods and Services	209,317.38	156,576.68	365,894.06
Revenue Dedicated to Servicing Debt	79,375.52		79,375.52
<b>Total Operating Revenue</b>	<b>288,692.90</b>	<b>156,576.68</b>	<b>445,269.58</b>
<b>Operating Expenses:</b>			
Personal Services	53,507.26	27,243.59	80,750.85
Other Current Expense	94,451.29	22,247.03	116,698.32
Depreciation	88,566.90	24,381.53	112,948.43
<b>Total Operating Expenses</b>	<b>236,525.45</b>	<b>73,872.15</b>	<b>310,397.60</b>
<b>Operating Income (Loss)</b>	<b>52,167.45</b>	<b>82,704.53</b>	<b>134,871.98</b>
<b>Nonoperating Revenue (Expense):</b>			
Investment Earnings	2,988.42	4,480.99	7,469.41
Rental Revenue	6,000.00		6,000.00
Interest Expense	(54,485.02)	(25,117.64)	(79,602.66)
Other	23,980.00		23,980.00
<b>Total Nonoperating Revenue (Expense)</b>	<b>(21,516.60)</b>	<b>(20,636.65)</b>	<b>(42,153.25)</b>
<b>Income (Loss) Before Capital Contributions</b>	<b>30,650.85</b>	<b>62,067.88</b>	<b>92,718.73</b>
Capital Contributions	3,639.42		3,639.42
<b>Change in Net Assets</b>	<b>34,290.27</b>	<b>62,067.88</b>	<b>96,358.15</b>
Net Assets - Beginning	1,969,781.96	301,395.85	2,271,177.81
<b>NET ASSETS - ENDING</b>	<b>2,004,072.23</b>	<b>363,463.73</b>	<b>2,367,535.96</b>

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

**MUNICIPALITY OF SALEM**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**For the Year Ended December 31, 2010**

	<b>Enterprise Funds</b>		<b>Totals</b>
	<b>Water Fund</b>	<b>Sewer Fund</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Cash Receipts from Customers	288,441.34	157,032.63	445,473.97
Cash Payments to Employees for Services	(54,275.56)	(27,695.78)	(81,971.34)
Cash Payments to Suppliers of Goods and Services	(100,395.76)	(27,396.87)	(127,792.63)
Net Cash Provided (Used) by Operating Activities	<u>133,770.02</u>	<u>101,939.98</u>	<u>235,710.00</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Operating Subsidies	29,980.00		29,980.00
Net Cash Provided (Used) by Noncapital Financing Activities	<u>29,980.00</u>	<u>0.00</u>	<u>29,980.00</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>			
Capital Contributions	3,639.42		3,639.42
Purchase of Capital Assets	(66,655.82)	(9,990.00)	(76,645.82)
Principal Paid on Capital Debt	(52,403.38)	(37,464.08)	(89,867.46)
Interest Paid on Capital Debt	(54,485.02)	(25,117.64)	(79,602.66)
Net Cash (Used) by Capital and Related Financing Activities	<u>(169,904.80)</u>	<u>(72,571.72)</u>	<u>(242,476.52)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Cash Received for Interest	2,988.42	4,480.99	7,469.41
Net Cash Provided by Investing Activities	<u>2,988.42</u>	<u>4,480.99</u>	<u>7,469.41</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(3,166.36)</u>	<u>33,849.25</u>	<u>30,682.89</u>
Balances - Beginning	<u>253,495.02</u>	<u>312,374.92</u>	<u>565,869.94</u>
Balances - Ending	<u>250,328.66</u>	<u>346,224.17</u>	<u>596,552.83</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating Income (Loss)	<u>52,167.45</u>	<u>82,704.53</u>	<u>134,871.98</u>
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	<u>88,566.90</u>	<u>24,381.53</u>	<u>112,948.43</u>
Change in Assets and Liabilities:			
Receivables	<u>(1,766.56)</u>	<u>455.95</u>	<u>(1,310.61)</u>
Inventories	<u>(1,863.62)</u>		<u>(1,863.62)</u>
Accounts and Other Payables	<u>(4,080.85)</u>	<u>(5,149.84)</u>	<u>(9,230.69)</u>
Accrued Wages Payable	<u>(20.28)</u>	<u>278.13</u>	<u>257.85</u>
Accrued Leave Payable	<u>(748.02)</u>	<u>(730.32)</u>	<u>(1,478.34)</u>
Customer Deposits	<u>1,515.00</u>		<u>1,515.00</u>
Net Cash Provided (Used) by Operating Activities	<u>133,770.02</u>	<u>101,939.98</u>	<u>235,710.00</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

The reporting entity of the Municipality of Salem (Municipality) consists of the primary government (which includes all of the funds, organizations, institutions, agencies, departments, and offices that make up the legal entity, plus those funds for which the primary government has a fiduciary responsibility, even though those fiduciary funds may represent organizations that do not meet the criteria for inclusion in the financial reporting entity); those organizations for which the primary government is financially accountable; and other organizations for which the nature and significance of their relationship with the primary government are such that their exclusion would cause the financial reporting entity's financial statements to be misleading or incomplete.

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The Municipality is financially accountable if its Governing Board appoints a voting majority of another organization's governing body and it has the ability to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to, or impose specific financial burdens on, the Municipality (primary government). The Municipality may also be financially accountable for another organization if that organization is fiscally dependent on the Municipality.

The Housing and Redevelopment Commission of the Municipality of Salem, South Dakota (Commission) is a proprietary fund-type, discretely-presented component unit. The five members of the Commission are appointed by the Mayor, with the approval of the Governing Board, for five-year, staggered terms. The Commission elects its own chairperson and recruits and employs its own management personnel and other workers. The Governing Board, though, retains the statutory authority to approve or deny or otherwise modify the Commission's plans to construct low-income housing units, or to issue debt, which gives the Governing Board the ability to impose its will on the Commission. Separately issued financial statements of the Housing and Redevelopment Commission may be obtained from: Housing and Redevelopment Commission, 400 N. Main, Salem, SD 57058.

b. Basis of Presentation:

Government-wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting entity as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities and discretely presented component units. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. Discretely presented component units are legally separate organizations that meet criteria, as described in Note 1.a., above, and may be classified as either governmental or business-type activities. See the discussion of individual component units in Note 1.a., above.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Municipality and for each function of the Municipality's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by recipients of goods and services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Municipality or it meets the following criteria:

1. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
2. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined, or
3. Management has elected to classify one or more governmental or enterprise funds as major for consistency in reporting from year to year, or because of public interest in the fund's operations.

The funds of the Municipality financial reporting entity are described below:

**Governmental Funds:**

General Fund – The General Fund is the general operating fund of the Municipality. It is used to account for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of specific revenue sources (other than trusts for individuals, private organizations, or other governments or for major capital projects) that are legally restricted to expenditures for specified purposes.

Liquor, Lodging and Dining Sales Tax Fund – to account for the collection of a one percent tax on the gross receipts of lodgings, alcoholic beverages, prepared food and admissions which tax shall be used for the purpose of land acquisition, architectural fees, construction costs, payments for civic center, auditorium or athletic facility buildings, including the promotion of advertising of the city. (SDCL 34-52-8) This is a major fund.

Street Assessment Fund – to account for the levy assessed for the purpose of maintaining or repairing street surfacing or pavement. (SDCL 9-45-38) This is a major fund.

Storm Sewer Maintenance Fund – to account for the proceeds of the special assessment for the purpose of maintaining the municipal sewers and septic or sewage treatment plants. (SDCL 9-48-21) This is a major fund.

Capital Project Funds – Capital project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds or trust funds for individuals, private organizations, or other governments).

Street Improvement Capital Project Fund – to account for financial resources to be used for the construction of street improvements. This is a major fund. This fund was closed in 2011.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

**Proprietary Funds:**

Enterprise Funds – Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues, earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Water Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal waterworks system and related facilities. (SDCL 9-47-1) This is a major fund.

Sewer Fund – financed primarily by user charges, this fund accounts for the construction and operation of the municipal sanitary sewer system and related facilities. (SDCL 9-48-2) This is a major fund.

c. Measurement Focus and Basis of Accounting:

Measurement focus is a term used to describe "how" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus.

Measurement Focus:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the economic resources measurement focus, applied on the accrual basis of accounting.

Fund Financial Statements:

In the fund financial statements, the "current financial resources" measurement focus and the modified accrual basis of accounting are applied to governmental funds, while the "economic resources" measurement focus and the accrual basis of accounting are applied to the proprietary funds.

Basis of Accounting:

Government-wide Financial Statements:

In the government-wide Statement of Net Assets and Statement of Activities, governmental, business-type, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the

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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Municipality of Salem, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2011 are sales tax and miscellaneous revenue.

Under the modified accrual basis of accounting, receivables may be measurable but not available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Reported deferred revenues are those where asset recognition criteria have been met but for which revenue recognition criteria have not been met.

Expenditures are generally recognized when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which are recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The enterprise funds and business-type activities do not apply any FASB Statements and Interpretations issued after November 30, 1989.

d. Capital Assets:

Capital assets include land, buildings, machinery and equipment, and all other tangible or intangible assets that are used in operations and that have initial useful lives extending beyond a single reporting period. Infrastructure assets are long-lived capital assets that normally are stationary in nature and normally can be preserved for significantly greater number of years than most capital assets.

The accounting treatment over capital assets depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-Wide Statements

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2011 balance of governmental activities capital assets and business-type capital assets are all valued at original cost.

Infrastructure assets used in general government operations, consisting of certain improvements other than buildings, including roads, bridges, sidewalks, drainage systems, and lighting systems, acquired prior to January 1, 2004, were not required to be capitalized by the Municipality. Infrastructure assets acquired since January 1, 2004 are recorded at cost, and classified as "Improvements Other than Buildings."

For governmental activities Capital Assets, construction-period interest is not capitalized, in accordance with USGAAP, while for capital assets used in business-type activities/proprietary fund's operations, construction period interest is capitalized in accordance with USGAAP.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation, with net capital assets reflected in the

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Statement of Net Assets. Accumulated depreciation is reported on the government-wide Statement of Net Assets and on each proprietary fund's Statement of Net Assets/Balance Sheet.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts), depreciation methods, and estimated useful lives of capital assets reported in the government-wide statements and proprietary funds are as follows:

	<u>Capitalization Threshold</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Land and land rights	\$ -	-- N/A --	-- N/A --
Improvements other than buildings	\$ 25,000.00	Straight-line	20-60 yrs.
Buildings	\$ 500.00	Straight-line	33-100 yrs.
Machinery & Equipment	\$ 5,000.00	Straight-line	5-25 yrs.
Infrastructure	\$ 25,000.00	Straight-line	20-60 yrs.
Utility property and improvements	\$ 25,000.00	Straight-line	20-60 yrs.

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as Capital Outlay expenditures of the appropriate governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for on the accrual basis, the same as in the government-wide statements.

e. Long-Term Liabilities:

The accounting treatment of long-term liabilities depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term liabilities to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term liabilities primarily consist of SRF loans and compensated absences.

In the fund financial statements, debt proceeds are reported as revenues (other financing sources), while payments of principal and interest are reported as expenditures when they become due. The accounting for proprietary fund long-term debt is on the accrual basis, the same in the fund statements as in the government-wide statements.

f. Program Revenues:

Program revenues derive directly from the program itself or from parties other than the Municipality's taxpayers or citizenry, as a whole. Program revenues are classified into three categories, as follows:

1. Charges for services – These arise from charges to customers, applicants, or others who purchase, use, or directly benefit from the goods, services, or privileges provided, or are otherwise directly affected by the services.
2. Program-specific operating grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for use in a particular program.

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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

3. Program-specific capital grants and contributions – These arise from mandatory and voluntary non-exchange transactions with other governments, organizations, or individuals that are restricted for the acquisition of capital assets for use in a particular program.

g. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Assets, revenues and expenses are classified in a manner consistent with how they are classified in the Statement of Cash Flows. That is, transactions for which related cash flows are reported as capital and related financing activities, noncapital financing activities, or investing activities are not reported as components of operating revenues and expenses.

h. Cash and Cash Equivalents:

The Municipality pools the cash resources of its funds for cash management purposes. The proprietary funds essentially have access to the entire amount of their cash resources on demand. Accordingly, each proprietary fund's equity in the cash management pool is considered to be cash and cash equivalents for the purpose of the Statement of Cash Flows.

i. Equity Classifications:

Government-wide Statements:

Equity is classified as net assets and is displayed in three components.

1. Invested in capital assets, net of related debt – Consists of capital assets, including restricted capital assets, net of accumulated depreciation (if applicable) and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on their use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements:

In 2010, governmental fund equity is classified as fund balance, and may distinguish between "Reserved" and "Unreserved" components. Proprietary fund equity is classified the same as in the government-wide financial statements. Fiduciary fund equity (except for Agency Funds, which have no fund equity) is reported as net assets held in trust for other purposes.

In 2011, governmental fund equity is classified as fund balance, and may distinguish between "Nonspendable", "Restricted", "Committed", "Assigned" and "Unassigned" components. Proprietary fund equity is classified the same as in the government-wide financial statements.

j. Application of Net Assets:

It is the Municipality's policy to first use restricted net assets, prior to the use of unrestricted net assets, when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

k. Fund Balance Classification Policies and Procedures:

In accordance with Government Accounting Standards Board (GASB) No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Municipality classifies governmental fund balances as follows:

- Nonspendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Finance Officer.
- Unassigned – includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Nonspendable Fund Balance is comprised of the following:

- Amount reported in non-spendable form such as inventory.

The Municipal Governing Board committed the following fund balance types by taking the following action:

<b>Fund Balance Type</b>	<b>Amount</b>	<b>Action</b>
Capital Improvements	\$ 339, 614.52	Resolution

The Municipality uses restricted/committed amounts first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Municipality would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The Municipality does not have a formal minimum fund balance policy.

The purpose of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund:</u>	<u>Revenue Source:</u>
City Promotion	Sales Tax
Street Assessment Fund	Front Foot Assessment
Storm Sewer Fund	Utility Charge

2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

The Municipality follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below:

Deposits – The Municipality's cash deposits are made in qualified public depositories as defined by SDCL 4-6A-1, 7-20-1, 7-20-1.1 and 7-20-1.2, and may be in the form of demand or time deposits.

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NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Qualified depositories are required by SDCL 4-6A-3 to maintain at all times, segregated from their other assets, eligible collateral having a value equal to at least 100 percent of the public deposit accounts which exceed deposit insurance such as the FDIC and NCUA. In lieu of pledging eligible securities, a qualified public depository may furnish irrevocable standby letters of credit issued by Federal Home Loan Banks accompanied by written evidence of that bank's public debt rating which may not be less than "AA" or a qualified public depository may furnish a corporate surety bond of a corporation authorized to do business in South Dakota.

Investments – In general, SDCL 4-5-6 permits municipality funds to be invested only in (a) securities of the United States and securities guaranteed by the United States Government either directly or indirectly; or (b) repurchase agreements fully collateralized by securities described in (a) above; or in shares of an open-end, no-load fund administered by an investment company whose investments are in securities described in (a) above and repurchase agreements described in (b) above. Also, SDCL 4-5-9 requires investments to be in the physical custody of the political subdivision or may be deposited in a safekeeping account with any bank or trust company designated by the political subdivision as its fiscal agent.

Credit Risk – State law limits eligible investments for the Municipality, as discussed above. The Municipality has no investment policy that would further limit its investment choices.

Interest Rate Risk – The Municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk – The Municipality places no limit on the amount that may be invested in any one issuer.

Assignment of Investment Income – State law allows income from deposits and investments to be credited to either the General Fund or the fund making the investment. The Municipality's policy is to credit all income from investments to the fund making the investment.

3. RECEIVABLES AND PAYABLES

Receivables and payables are not aggregated in these financial statements. The Municipality expects all receivables to be collected within one year.

4. INVENTORY

Inventory consists of expendable supplies held for consumption. Supply inventories are recorded at cost.

Government-wide Financial Statements:

In the government-wide financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

5. PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1 of each year. Taxes are levied on or before October 1 and payable in two installments on or before April 30 and October 31 of the following year.

The Municipality is permitted by several state statutes to levy varying amounts of taxes per \$1,000 of taxable valuation on taxable property in the Municipality.

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2011, is as follows:

	<u>Balance</u> 01/01/2010	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/2011
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	51,323.61	13,614.16	(2,000.00)	62,937.77
Construction Work in Progress	40,575.00	401,819.97	(427,085.97)	15,309.00
Total, not being depreciated	<u>91,898.61</u>	<u>415,434.13</u>	<u>(429,085.97)</u>	<u>78,246.77</u>
Capital Assets, being Depreciated:				
Buildings	478,892.57		(82,694.40)	396,198.17
Improvements Other Than Buildings	1,062,873.22	454,946.59		1,517,819.81
Machinery and Equipment	396,039.54	70,908.00		466,947.54
Total, being Depreciated	<u>1,937,805.33</u>	<u>525,854.59</u>	<u>(82,694.40)</u>	<u>2,380,965.52</u>
Less Accumulated Depreciation for:				
Buildings	(296,431.78)	(17,105.96)	72,357.60	(241,180.14)
Improvements Other Than Buildings	(181,703.67)	(97,241.01)		(278,944.68)
Machinery and Equipment	(191,285.11)	(46,630.49)		(237,915.60)
Total Accumulated Depreciation	<u>(669,420.56)</u>	<u>(160,977.46)</u>	<u>72,357.60</u>	<u>(758,040.42)</u>
Total Capital Assets, being Depreciated, Net	<u>1,268,384.77</u>	<u>364,877.13</u>	<u>(10,336.80)</u>	<u>1,622,925.10</u>
Governmental Activity Capital Assets, Net	<u>1,360,283.38</u>	<u>780,311.26</u>	<u>(439,422.77)</u>	<u>1,701,171.87</u>

Depreciation expense was charged to functions as follows:

	<u>2010</u>	<u>2011</u>
Governmental Activities:		
General Government	2,614.45	2,614.45
Public Safety	6,459.84	6,459.84
Public Works	53,124.28	50,018.11
Culture and Recreation	20,111.28	19,575.21
Total Depreciation Expense - Governmental Activities	<u>82,309.85</u>	<u>78,667.61</u>

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

	Balance 01/01/2010	Increases	Decreases	Balance 12/31/2011
<b>Business-Type Activities:</b>				
<b>Capital Assets, not being Depreciated:</b>				
Land	41,866.19			41,866.19
Construction Work in Progress	0.00	35,996.38	(28,171.35)	7,825.03
<b>Total, not being depreciated</b>	<u>41,866.19</u>	<u>35,996.38</u>	<u>(28,171.35)</u>	<u>49,691.22</u>
<b>Capital Assets, being Depreciated:</b>				
Buildings	1,298,604.74			1,298,604.74
Improvements Other Than Buildings	2,570,464.82	44,190.67	(827.66)	2,613,827.83
Machinery and Equipment	1,174,998.82	54,885.54		1,229,884.36
<b>Total, being Depreciated</b>	<u>5,044,068.38</u>	<u>99,076.21</u>	<u>(827.66)</u>	<u>5,142,316.93</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	(25,972.09)	(51,944.18)		(77,916.27)
Improvements Other Than Buildings	(741,862.12)	(105,575.44)	827.66	(846,609.90)
Machinery and Equipment	(116,376.52)	(67,114.43)		(183,490.95)
<b>Total Accumulated Depreciation</b>	<u>(884,210.73)</u>	<u>(224,634.05)</u>	<u>827.66</u>	<u>(1,108,017.12)</u>
<b>Total Capital Assets, being Depreciated, Net</b>	<u>4,159,857.65</u>	<u>(125,557.84)</u>	<u>0.00</u>	<u>4,034,299.81</u>
<b>Business-Type Activity Capital Assets, Net</b>	<u>4,201,723.84</u>	<u>(89,561.46)</u>	<u>(28,171.35)</u>	<u>4,083,991.03</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	2010	2011
Water	88,566.90	87,566.09
Sanitary Sewer	24,381.53	24,119.53
<b>Total Depreciation Expense - Business-Type Activities</b>	<u>112,948.43</u>	<u>111,685.62</u>

Construction Work in Progress at December 31, 2011, is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2011	Committed	Required Future Financing
Lighter/Minnesota Street	239,785.67	14,805.00	224,980.67	0.00
Concession Stand/Restroom	36,997.00	504.00	36,493.00	0.00
Sewer Main - Softball Field Complex	13,000.00	7,825.03	5,174.97	0.00
<b>TOTAL</b>	<u>289,782.67</u>	<u>23,134.03</u>	<u>266,648.64</u>	<u>0.00</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

7. CHANGES IN COMPONENT UNIT CAPITAL ASSETS

A summary of changes in component unit capital assets for the two years ended December 31, 2011, is as follows:

	Balance 1/1/2010	Additions	Deletions	Balance 12/31/2011
Land	56,293.45			56,293.45
Buildings	1,275,619.81			1,275,619.81
Origination Costs	52,000.00			52,000.00
Accumulated Depreciation	(272,952.33)	(94,476.18)		(367,428.51)
<b>TOTAL</b>	<b>1,110,960.93</b>	<b>(94,476.18)</b>	<b>0.00</b>	<b>1,016,484.75</b>

8. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Accrued Compensated Absences-					
Governmental Funds	8,151.29	14,936.37	11,950.16	11,137.50	8,910.00
Total Governmental Activities	8,151.29	14,936.37	11,950.16	11,137.50	8,910.00
Business-Type Activities:					
Clean Water SRF Loan # 1	414,824.21		44,559.42	370,264.79	23,471.73
Drinking Water SRF Loan # 1	61,459.08		24,643.68	36,815.40	36,815.40
Clean Water SRF Loan # 2	340,693.72		31,657.36	309,036.36	16,614.00
Drinking Water SRF Loan # 2	298,513.79		26,199.65	272,314.14	13,749.76
Drinking Water SRF Loan # 3	1,331,624.93		55,718.44	1,275,906.49	29,241.42
Total Debt	2,447,115.73	0.00	182,778.55	2,264,337.18	119,892.31
Accrued Compensated Absences -					
Business-Type Funds	5,687.93	8,202.90	8,491.08	5,399.75	4,535.79
Total Business-Type Activities	2,452,803.66	8,202.90	191,269.63	2,269,736.93	124,428.10
<b>TOTAL PRIMARY GOVERNMENT</b>	<b>2,460,954.95</b>	<b>23,139.27</b>	<b>203,219.79</b>	<b>2,280,874.43</b>	<b>133,338.10</b>
	Balance	Additions	Deletions	Balance	One Year
Component Unit:					
Bonds Payable:					
Revenue - Series 2005	844,137.26		34,761.91	809,375.35	19,450.14
Revenue - Series 2001	483,659.03		24,257.58	459,401.45	13,164.36
<b>TOTAL COMPONENT UNIT</b>	<b>1,327,796.29</b>	<b>0.00</b>	<b>59,019.49</b>	<b>1,268,776.80</b>	<b>32,614.50</b>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

Debt payable at December 31, 2011, is comprised of the following:

Clean Water SRF Loan #1:

Clean Water State Revolving Fund Loan #C461057-01 for Sewer Improvements, 3.5% Interest; Final Maturity 7-15-2024, Payable from Sewer Fund	\$ 370,264.79
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Drinking Water SRF Loan #1:

Drinking Water State Revolving Fund Loan #C462057-01 for Water Line Improvements; 3.5% Interest; Final Maturity 7-15-2012, Payable from Water Fund	\$ 36,815.40
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Clean Water SRF Loan #2:

Clean Water State Revolving Fund Loan #C461057-02 for Sewer Improvements, 3.25% Interest; Final Maturity 7-15-2026, Payable from Sewer Fund	\$ 309,036.36
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Drinking Water SRF Loan #2:

Drinking Water State Revolving Fund Loan #C462057-02 for Water Line Improvements; 3.25% Interest; Final Maturity 4-15-2027, Payable from Water Fund	\$ 272,314.14
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Drinking Water SRF Loan #3:

Drinking Water State Revolving Fund Loan #C462057-03 for Water Treatment Plant; 3.25% Interest; Final Maturity 4-15-2039, Payable from Water Fund	\$ 1,275,906.49
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Compensated Absences:

Vacation and Sick Leave for eligible employees:	
General Fund	\$ 11,137.50
Water Fund	\$ 3,884.81
Sewer Fund	\$ 1,514.94

Payment to be made by the fund that the payroll expenditures are charged to.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2011, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt  
December 31, 2011

Year Ending December 31,	Clean Water SRF Loan C461057-01		Drinking Water SRF Loan C462057-01		Clean Water SRF Loan C461057-02	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	23,471.73	12,653.43	36,815.40	1,119.40	16,614.00	9,842.56
2013	24,304.07	11,821.09			17,160.56	9,296.00
2014	25,165.95	10,959.21			17,725.12	8,731.44
2015	26,058.39	10,066.77			18,308.25	8,148.31
2016	26,982.47	9,142.69			18,910.55	7,546.01
2017-2021	149,962.12	30,663.68			104,304.20	27,978.60
2022-2026	94,320.06	5,024.13			116,013.68	9,654.98
2027-2031						
2032-2036						
2037-2041						
<b>Totals</b>	<b>370,264.79</b>	<b>90,331.00</b>	<b>36,815.40</b>	<b>1,119.40</b>	<b>309,036.36</b>	<b>81,197.90</b>

Year Ending December 31,	Drinking Water SRF Loan C462057-02		Drinking Water SRF Loan C462057-03		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	13,749.76	8,683.76	29,241.42	41,112.98	119,892.31	73,412.13
2013	14,202.10	8,231.42	30,203.41	40,150.99	85,870.14	69,499.50
2014	14,669.32	7,764.20	31,197.04	39,157.36	88,757.43	66,612.21
2015	15,151.92	7,281.60	32,223.38	38,131.02	91,741.94	63,627.70
2016	15,650.39	6,783.13	33,283.46	37,070.94	94,826.87	60,542.77
2017-2021	86,322.23	25,845.37	183,580.31	168,191.69	524,168.86	252,679.34
2022-2026	101,486.99	10,680.61	215,830.98	135,941.02	527,651.71	161,300.74
2027-2031	11,081.43	135.33	253,747.33	98,024.67	264,828.76	98,160.00
2032-2036			298,324.68	53,447.32	298,324.68	53,447.32
2037-2041			168,274.48	7,611.52	168,274.48	7,611.52
<b>Totals</b>	<b>272,314.14</b>	<b>75,405.42</b>	<b>1,275,906.49</b>	<b>658,839.51</b>	<b>2,264,337.18</b>	<b>906,893.23</b>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

9. RESTRICTED NET ASSETS

Restricted net assets for the years ended December 31, 2010 and 2011 were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Major Funds:			
City Promotion Fund	Law	\$ 52,732.82	\$ 69,267.12
Street Assessment Fund	Law	67,338.05	101,579.05
Storm Sewer Maintenance Fund	Law	67,861.82	105,695.94
Water Fund - Debt Service	Debt Covenants	134,596.69	142,079.10
Sewer Fund - Debt Service	Debt Covenants	20,000.00	20,000.00
Total Restricted Net Assets		<u>\$ 342,529.38</u>	<u>\$ 438,621.21</u>

10. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2011 were as follows:

	<b><u>Transfers to:</u></b>
	Governmental Activities
	<hr/>
	General Fund
	<hr/>
<b><u>Transfers from:</u></b>	
Major Funds:	
Capital Projects Fund	\$ 9,859.03

Interfund transfers for the year ended December 31, 2010 were as follows:

	<b><u>Transfers to:</u></b>		
	Governmental Activities		
	<hr/>		
	Capital Projects Fund	Storm Sewer Fund	<hr/>
<b><u>Transfers from:</u></b>			Total
Major Funds:			
General Fund	\$ 344,720.00	\$ 51,650.00	\$ 396,370.00

The Municipality budgets transfers to cover costs of projects of the Municipality and to close the Street Improvement Capital Projects Fund.

NOTES TO THE FINANCIAL STATEMENTS  
(Continued)

11. RETIREMENT PLAN

All employees, except for part-time employees, participate in the South Dakota Retirement System (SDRS), a cost-sharing, multiple employer public employee retirement system established to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability and survivors benefits. The right to receive retirement benefits vests after three years of credited service. Authority for establishing, administering and amending plan provisions are found in South Dakota Codified Law 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the SDRS, P. O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2011, 2010, and 2009 were \$9,656.55, \$9,865.82, and \$9,522.90, respectively, equal to the required contributions each year.

12. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2011, the Municipality was not involved in any significant litigation.

13. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2011, the Municipality managed its risks as follows:

Employee Health Insurance:

The Municipality purchases health insurance for its employees from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Liability Insurance:

The Municipality purchases liability insurance for risks related to torts; theft or damage to property; and errors and omissions of public officials from a commercial insurance carrier. Settled claims resulting from these risks have not exceeded the liability coverage during the past three years.

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

The Municipality does not carry additional insurance to cover claims in excess of the upper limit. Settled claims resulting from these risks have not exceeded the liability coverage over the past three years.

Unemployment Benefits:

The Municipality provides coverage for unemployment benefits by paying into the Unemployment Compensation Fund established by state law and managed by the State of South Dakota.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2011**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	268,664.00	268,664.00	266,029.47	(2,634.53)
General Sales and Use Taxes	300,000.00	300,000.00	445,984.15	145,984.15
Gross Receipts Business Taxes	1,200.00	1,200.00	1,634.72	434.72
Amusement Taxes	0.00	0.00	60.00	60.00
Tax Deed Revenue	0.00	0.00	139.18	139.18
Penalties and Interest on Delinquent Taxes	0.00	0.00	804.93	804.93
Licenses and Permits	6,600.00	6,600.00	8,019.75	1,419.75
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	19,349.00	19,349.00
State Shared Revenue:				
Bank Franchise Tax	750.00	750.00	1,290.17	540.17
Motor Vehicle Commercial Prorate	0.00	0.00	3,397.70	3,397.70
Liquor Tax Reversion	7,000.00	7,000.00	8,574.85	1,574.85
Motor Vehicle Licenses	8,000.00	8,000.00	9,539.96	1,539.96
Local Government Highway and Bridge Fund	8,500.00	8,500.00	11,661.44	3,161.44
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	4,000.00	4,000.00	5,405.33	1,405.33
Charges for Goods and Services:				
General Government	0.00	0.00	1,980.00	1,980.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	16,500.00	16,500.00	13,850.84	(2,649.16)
Culture and Recreation	18,200.00	18,200.00	20,150.61	1,950.61
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	6.48	6.48
Miscellaneous Revenue:				
Investment Earnings	10,000.00	10,000.00	5,538.32	(4,461.68)
Rentals	17,100.00	17,100.00	20,184.80	3,084.80
Special Assessments	0.00	0.00	4,455.00	4,455.00
Contributions and Donations from Private Sources	0.00	0.00	6,146.15	6,146.15
Liquor Operating Agreement Income	18,750.00	18,750.00	19,522.76	772.76
Other	6,000.00	6,000.00	7,886.09	1,886.09
<b>Total Revenue</b>	<b>695,664.00</b>	<b>695,664.00</b>	<b>886,086.13</b>	<b>190,422.13</b>
<b>Expenditures:</b>				
General Government:				
Legislative	5,000.00	5,000.00	3,754.97	1,245.03
Contingency	10,000.00	10,000.00		
Amount Transferred		0.00		10,000.00
Executive	16,190.00	16,190.00	14,245.23	1,944.77
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	122,895.00	122,895.00	106,993.66	15,901.34
Other	16,135.00	22,435.00	20,318.43	2,116.57
<b>Total General Government</b>	<b>171,220.00</b>	<b>177,520.00</b>	<b>145,312.29</b>	<b>32,207.71</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2011**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures (Continued):</b>				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	2,150.00	2,150.00	1,938.49	211.51
Other Protection	390.00	890.00	469.14	420.86
Total Public Safety	<u>86,370.00</u>	<u>86,870.00</u>	<u>86,231.63</u>	<u>638.37</u>
Public Works:				
Highways and Streets	147,790.00	173,490.00	150,127.94	23,362.06
Sanitation	5,970.00	6,270.00	6,076.13	193.87
Total Public Works	<u>153,760.00</u>	<u>179,760.00</u>	<u>156,204.07</u>	<u>23,555.93</u>
Health and Welfare:				
Health	6,790.00	6,790.00	6,447.84	342.16
Total Health and Welfare	<u>6,790.00</u>	<u>6,790.00</u>	<u>6,447.84</u>	<u>342.16</u>
Culture and Recreation:				
Recreation	64,675.00	69,875.00	64,008.03	5,866.97
Parks	41,120.00	54,880.00	51,960.03	2,919.97
Libraries	500.00	500.00	500.00	0.00
Auditorium	68,410.00	68,410.00	62,572.92	5,837.08
Total Culture and Recreation	<u>174,705.00</u>	<u>193,665.00</u>	<u>179,040.98</u>	<u>14,624.02</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	7,005.00	11,805.00	11,411.35	393.65
Total Conservation and Development	<u>7,005.00</u>	<u>11,805.00</u>	<u>11,411.35</u>	<u>393.65</u>
Miscellaneous:				
Liquor Operating Agreements	0.00	3,300.00	2,221.10	1,078.90
Total Miscellaneous	<u>0.00</u>	<u>3,300.00</u>	<u>2,221.10</u>	<u>1,078.90</u>
Total Expenditures	<u>599,850.00</u>	<u>659,710.00</u>	<u>586,869.26</u>	<u>72,840.74</u>
Excess of Revenue Over (Under) Expenditures	<u>95,814.00</u>	<u>35,954.00</u>	<u>299,216.87</u>	<u>263,262.87</u>
<b>Other Financing Sources (Uses):</b>				
Transfers In	0.00	9,860.00	9,859.03	(0.97)
Sale of Municipal Property	0.00	0.00	76,273.54	76,273.54
Transfers Out	0.00	(175,250.00)	0.00	175,250.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(165,390.00)</u>	<u>86,132.57</u>	<u>251,522.57</u>
Net Change in Fund Balances	<u>95,814.00</u>	<u>(129,436.00)</u>	<u>385,349.44</u>	<u>514,785.44</u>
Changes in Nonspendable	<u>0.00</u>	<u>0.00</u>	<u>(3,625.59)</u>	<u>(3,625.59)</u>
Fund Balance - Beginning	<u>732,082.00</u>	<u>732,082.00</u>	<u>732,082.00</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>827,896.00</u>	<u>602,646.00</u>	<u>1,113,805.85</u>	<u>511,159.85</u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**LIQUOR, LODGING & DINING SALES TAX FUND**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary Basis)</u>	<u>Final Budget -</u> <u>Positive (Negative)</u>
<b>Revenues:</b>				
Taxes:				
General Sales and Use Taxes	13,000.00	13,000.00	21,309.87	8,309.87
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	448.43	448.43
<b>Total Revenue</b>	<b>13,000.00</b>	<b>13,000.00</b>	<b>21,758.30</b>	<b>8,758.30</b>
<b>Expenditures:</b>				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,484.00	5,484.00	5,224.00	260.00
<b>Total Conservation and Development</b>	<b>5,484.00</b>	<b>5,484.00</b>	<b>5,224.00</b>	<b>260.00</b>
<b>Total Expenditures</b>	<b>5,484.00</b>	<b>5,484.00</b>	<b>5,224.00</b>	<b>260.00</b>
<b>Excess of Revenue Over (Under)</b>				
<b>Expenditures</b>	<b>7,516.00</b>	<b>7,516.00</b>	<b>16,534.30</b>	<b>9,018.30</b>
Special Items	0.00	50,000.00	0.00	(50,000.00)
<b>Net Change in Fund Balances</b>	<b>7,516.00</b>	<b>57,516.00</b>	<b>16,534.30</b>	<b>(40,981.70)</b>
<b>Fund Balance - Beginning</b>	<b>52,732.82</b>	<b>52,732.82</b>	<b>52,732.82</b>	<b>0.00</b>
<b>FUND BALANCE - ENDING</b>	<b>60,248.82</b>	<b>110,248.82</b>	<b>69,267.12</b>	<b>(40,981.70)</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**STREET ASSESSMENT FUND**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	672.74	672.74
Maintenance Assessments	33,873.00	33,873.00	33,568.26	(304.74)
Total Revenue	33,873.00	33,873.00	34,241.00	368.00
<b>Expenditures</b>	0.00	0.00	0.00	0.00
Net Change in Fund Balances	33,873.00	33,873.00	34,241.00	368.00
Fund Balance - Beginning	67,338.05	67,338.05	67,338.05	0.00
FUND BALANCE - ENDING	101,211.05	101,211.05	101,579.05	368.00

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**STORM SEWER MAINTENANCE FUND**  
**For the Year Ended December 31, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Charges for Goods and Services:				
Sanitation	36,600.00	36,600.00	37,170.00	570.00
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	664.12	664.12
Total Revenue	36,600.00	36,600.00	37,834.12	1,234.12
<b>Expenditures:</b>				
Public Works:				
Highways and Streets	0.00	16,000.00	0.00	16,000.00
Total Public Works	0.00	16,000.00	0.00	16,000.00
Total Expenditures	0.00	16,000.00	0.00	16,000.00
Net Change in Fund Balances	36,600.00	20,600.00	37,834.12	17,234.12
Fund Balance - Beginning	67,861.82	67,861.82	67,861.82	0.00
FUND BALANCE - ENDING	104,461.82	88,461.82	105,695.94	17,234.12

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Taxes:				
General Property Taxes	265,985.00	265,985.00	271,225.93	5,240.93
General Sales and Use Taxes	300,000.00	300,000.00	375,820.19	75,820.19
Gross Receipts Business Taxes	1,200.00	1,200.00	1,454.37	254.37
Amusement Taxes	0.00	0.00	180.00	180.00
Tax Deed Revenue	0.00	0.00	110.69	110.69
Penalties and Interest on Delinquent Taxes	0.00	0.00	1,268.80	1,268.80
Licenses and Permits	6,600.00	6,600.00	10,095.25	3,495.25
Intergovernmental Revenue:				
Federal Grants	0.00	0.00	660.00	660.00
State Shared Revenue:				
Bank Franchise Tax	750.00	750.00	914.59	164.59
Liquor Tax Reversion	7,000.00	7,000.00	8,348.49	1,348.49
Motor Vehicle Licenses	8,000.00	8,000.00	10,904.74	2,904.74
Local Government Highway and Bridge Fund	8,500.00	8,500.00	10,870.53	2,370.53
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	4,000.00	4,000.00	5,255.11	1,255.11
Charges for Goods and Services:				
General Government	0.00	0.00	25.00	25.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	2,500.00	2,500.00	18,851.76	16,351.76
Culture and Recreation	19,200.00	19,200.00	20,081.27	881.27
Miscellaneous Revenue:				
Investment Earnings	10,000.00	10,000.00	11,229.22	1,229.22
Rentals	17,100.00	17,100.00	19,817.00	2,717.00
Special Assessments	0.00	0.00	2,497.50	2,497.50
Maintenance Assessments	0.00	0.00	18,355.63	18,355.63
Contributions and Donations from Private Sources	0.00	0.00	15.00	15.00
Liquor Operating Agreement Income	18,500.00	18,500.00	21,062.96	2,562.96
Other	6,000.00	6,000.00	8,137.43	2,137.43
<b>Total Revenue</b>	<b>679,735.00</b>	<b>679,735.00</b>	<b>821,655.89</b>	<b>141,920.89</b>
<b>Expenditures:</b>				
General Government:				
Legislative	5,500.00	5,500.00	4,022.98	1,477.02
Contingency	13,000.00	13,000.00		
Amount Transferred		(13,000.00)		0.00
Executive	16,800.00	16,800.00	14,518.72	2,281.28
Elections	1,000.00	1,000.00	791.16	208.84
Financial Administration	99,465.00	115,735.00	111,969.56	3,765.44
Other	15,950.00	15,950.00	10,940.72	5,009.28
<b>Total General Government</b>	<b>151,715.00</b>	<b>154,985.00</b>	<b>142,243.14</b>	<b>12,741.86</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**GENERAL FUND**  
**For the Year Ended December 31, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Expenditures (Continued):</b>				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	28,050.00	28,050.00	25,272.58	2,777.42
Other Protection	290.00	590.00	549.73	40.27
Total Public Safety	<u>112,170.00</u>	<u>112,470.00</u>	<u>109,646.31</u>	<u>2,823.69</u>
Public Works:				
Highways and Streets	141,515.00	315,198.00	292,705.51	22,492.49
Sanitation	6,230.00	6,230.00	4,881.24	1,348.76
Total Public Works	<u>147,745.00</u>	<u>321,428.00</u>	<u>297,586.75</u>	<u>23,841.25</u>
Health and Welfare:				
Health	6,655.00	6,655.00	4,376.50	2,278.50
Total Health and Welfare	<u>6,655.00</u>	<u>6,655.00</u>	<u>4,376.50</u>	<u>2,278.50</u>
Culture and Recreation:				
Recreation	66,015.00	66,015.00	50,565.37	15,449.63
Parks	42,390.00	44,124.00	26,986.65	17,137.35
Libraries	500.00	500.00	500.00	0.00
Auditorium	67,740.00	79,740.00	79,320.81	419.19
Total Culture and Recreation	<u>176,645.00</u>	<u>190,379.00</u>	<u>157,372.83</u>	<u>33,006.17</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	6,755.00	6,755.00	5,626.00	1,129.00
Total Conservation and Development	<u>6,755.00</u>	<u>6,755.00</u>	<u>5,626.00</u>	<u>1,129.00</u>
Total Expenditures	<u>601,685.00</u>	<u>792,672.00</u>	<u>716,851.53</u>	<u>75,820.47</u>
Excess of Revenue Over (Under) Expenditures	<u>78,050.00</u>	<u>(112,937.00)</u>	<u>104,804.36</u>	<u>217,741.36</u>
<b>Other Financing Sources (Uses):</b>				
Sale of Municipal Property	0.00	0.00	10,862.42	10,862.42
Transfers Out	0.00	(344,720.00)	(344,720.00)	0.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(344,720.00)</u>	<u>(333,857.58)</u>	<u>10,862.42</u>
Net Change in Fund Balances	<u>78,050.00</u>	<u>(457,657.00)</u>	<u>(229,053.22)</u>	<u>228,603.78</u>
Change in Fund Balance Reserves	<u>0.00</u>	<u>0.00</u>	<u>9,997.63</u>	<u>9,997.63</u>
Fund Balance - Beginning	<u>951,137.59</u>	<u>951,137.59</u>	<u>951,137.59</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>1,029,187.59</u></u>	<u><u>493,480.59</u></u>	<u><u>732,082.00</u></u>	<u><u>238,601.41</u></u>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**LIQUOR, LODGING & DINING SALES TAX FUND**  
**For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Taxes:				
General Sales and Use Taxes	13,000.00	13,000.00	23,977.96	10,977.96
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	388.93	388.93
Total Revenue	13,000.00	13,000.00	24,366.89	11,366.89
<b>Expenditures:</b>				
Total Expenditures	0.00	0.00	0.00	0.00
Net Change in Fund Balances	13,000.00	13,000.00	24,366.89	11,366.89
Fund Balance - Beginning	28,365.93	28,365.93	28,365.93	0.00
FUND BALANCE - ENDING	41,365.93	41,365.93	52,732.82	11,366.89

**REQUIRED SUPPLEMENTARY INFORMATION  
MUNICIPALITY OF SALEM  
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS  
STREET ASSESSMENT FUND  
For the Year Ended December 31, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues:</b>				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	549.25	549.25
Maintenance Assessments	33,928.00	33,928.00	34,051.41	123.41
<b>Total Revenue</b>	<b>33,928.00</b>	<b>33,928.00</b>	<b>34,600.66</b>	<b>672.66</b>
<b>Expenditures</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Net Change in Fund Balances</b>	<b>33,928.00</b>	<b>33,928.00</b>	<b>34,600.66</b>	<b>672.66</b>
Fund Balance - Beginning	32,737.39	32,737.39	32,737.39	0.00
<b>FUND BALANCE - ENDING</b>	<b>66,665.39</b>	<b>66,665.39</b>	<b>67,338.05</b>	<b>672.66</b>

**REQUIRED SUPPLEMENTARY INFORMATION**  
**MUNICIPALITY OF SALEM**  
**BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS**  
**STORM SEWER MAINTENANCE FUND**  
**For the Year Ended December 31, 2010**

	<b>Budgeted Amounts</b>		<b>Actual Amounts (Budgetary Basis)</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Revenues:</b>				
Charges for Goods and Services:				
Sanitation	36,600.00	36,600.00	37,297.50	697.50
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	812.96	812.96
<b>Total Revenue</b>	<b>36,600.00</b>	<b>36,600.00</b>	<b>38,110.46</b>	<b>1,510.46</b>
<b>Expenditures:</b>				
<b>Total Expenditures</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
Excess of Revenue Over (Under)				
Expenditures	36,600.00	36,600.00	38,110.46	1,510.46
<b>Other Financing Sources (Uses):</b>				
Transfers Out	0.00	(51,650.00)	(51,650.00)	0.00
<b>Total Other Financing Sources (Uses)</b>	<b>0.00</b>	<b>(51,650.00)</b>	<b>(51,650.00)</b>	<b>0.00</b>
<b>Net Change in Fund Balances</b>	<b>36,600.00</b>	<b>(15,050.00)</b>	<b>(13,539.54)</b>	<b>1,510.46</b>
Fund Balance - Beginning	81,401.36	81,401.36	81,401.36	0.00
<b>FUND BALANCE - ENDING</b>	<b>118,001.36</b>	<b>66,351.36</b>	<b>67,861.82</b>	<b>1,510.46</b>

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NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Budgetary Comparisons for the General Fund  
and for each major Special Revenue Fund with a legally required budget.

NOTE 1. Budgets and Budgetary Accounting:

The Municipality followed these procedures in establishing the budgetary data reflected in the financial statements:

1. At the first regular board meeting in September of each year or within ten days thereafter, the Governing Board introduces the annual appropriation ordinance for the ensuing fiscal year.
2. After adoption by the Governing Board, the operating budget is legally binding and actual expenditures for each purpose cannot exceed the amounts budgeted, except as indicated in number 4.
3. A line item for contingencies may be included in the annual budget. Such a line item may not exceed 5 percent of the total municipal budget and may be transferred by resolution of the Governing Board to any other budget category that is deemed insufficient during the year.
4. If it is determined during the year that sufficient amounts have not been budgeted, state statute allows the adoption of supplemental budgets.
5. Unexpected appropriations lapse at year end unless encumbered by resolution of the Governing Board.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the General Fund and special revenue funds.

The Municipality did not encumber any amounts at December 31, 2011 and 2010.

6. Formal budgetary integration is employed as a management control device during the year for the General Fund and special revenue funds.
7. Budgets for the General Fund and special revenue funds are adopted on a basis consistent with the accounting principles generally accepted in the United States (USGAAP).

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

The financial statements prepared in conformity with USGAAP present capital outlay expenditure information in a separate category of expenditures. Under the budgetary basis of accounting, capital outlay expenditures are reported within the function to which they relate. For example, the purchase of a new fire truck would be reported as a capital outlay expenditure on the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances, however, in the Budgetary RSI Schedule, the purchase of a fire truck would be reported as an expenditure of the Public Safety/Fire Department function of government, along with all other current Fire Department related expenditures.