MUNICIPALITY OF SALEM
SALEM, SOUTH DAKOTA

AUDIT REPORT

FOR THE YEAR JANUARY 1, 2014 TO DECEMBER 31, 2014
AND
FOR THE YEAR JANUARY 1, 2015 TO DECEMBER 31, 2015

Schoenfish & Co., Inc.
CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247
105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPAL OFFICIALS
DECEMBER 31, 2015

MAYOR:

Robin Rayman

GOVERNING BOARD:

George Eichacker, President
Ben Johnson, Vice-President
Laura Gessner
Ron Mayrose
Doug Mokros
Robin Westhoff

FINANCE OFFICER:

Lori Heumiller

ATTORNEY:

Roger Gerlach

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Schoenfish & Co., Inc.

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

Governing Board
Municipality of Salem
Salem, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial 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, 2015 and 2014, 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 August 19, 2016. A disclaimer of opinion was issued on the aggregate discretely presented component units because we were unable to obtain audited financial statements.

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 2015-001 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.

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.

Schoenfish & Co., Inc.
Certified Public Accountants
August 19, 2016

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2013-001:

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 2015-001.

SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2015-001:
A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This is the tenth 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, Robin Rayman, 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 develop policies and 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 August 30, 2016.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Salem
Salem, South Dakota

Report on the Financial Statements

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, (Municipality) as of December 31, 2015 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

The Municipality's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Disclaimer of Opinion

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, 2015 and 2014, balances and activities for each of the years in the biennial period then ended of the component unit column.

Disclaimer of Opinion

Because of the effects of the item discussed in the previous 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.

Unmodified Opinions

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, business-type activities, and each major fund of the Municipality of Salem as of December 31, 2015 and 2014, 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.

Emphasis of Matter

Adoption of New Accounting Standard. As described in Note 11 to the financial statements, the Municipality adopted the provisions of Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date.* As discussed in Note 11 to the financial statements, the Municipality has retroactively restated the previously reported Net Position in accordance with this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the Municipality's Contributions on pages 8 through 28, 71 through 80, 82, and 83, respectively, 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 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. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with guidelines established by the Governmental Accounting Standards Board because the information presented is not confined to the topics discussed in Section 2200.109 of Codification of Governmental Accounting and Financial Reporting Standards. One of the more significant departures is the Economic Factors and Next Year's Budgets and Rates section which is not limited to prescribed items.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated August 19, 2016 on our consideration of the Municipality'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* in considering the Municipality's internal control over financial reporting and compliance.

Schoenfish & Co., Inc.

Schoenfish & Co., Inc.
Certified Public Accountants
August 19, 2016

MUNICIPALITY OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2015

This section of Salem Municipality's annual financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ending December 31, 2015. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In FY2015, the Municipality's revenues generated from taxes, charges for services, and other revenues for the governmental programs were $333,401 more than the $811,962 governmental expenditures. This is an improvement over FY2014 when revenues exceeded expenditures by $252,999 and from FY2013's $302,388.
- In the Municipality's Water & Sewer Funds (business-type activities), revenues increased to $503,493 a (0.9%) increase from FY2014 and a 2.3% increase from FY2013. Expenses show a $33,282 (5.7%) decrease from FY2014 and a 27.4% increase from FY2013.
- The total cost of the Municipality's Governmental programs increased $72,132 (9.7%) from FY2014 and 10.7% from FY2013. There were many variables for this increase and are explained in detail on page 8 of this report.
- The governmental funds report a $333,401 surplus primarily due to an increase in taxes & contributions which is a rebound from the decline of 16.3% from FY2013 to FY2014.

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 Municipality:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Municipality's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Municipality government, reporting the Municipality'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 Municipality operates like businesses. The Municipality 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 Municipality's financial statements, including the portion of the Municipality 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.

Figure A-1

Mayor Features of Municipality of Salem's Government-wide and Fund Financial Statements

	Government-Wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire Municipality government	The activities of the Municipality that are not proprietary or fiduciary, such as finance office, police, streets, park	Activities the Municipality operates similar to private businesses, the water and sewer systems.
Required Financial Statements	*Statement of Net Position * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	*Statement of Net Position *Statement of Revenues, Expenditures and Changes in Net Position * Statement of Cash Flows
Type of Asset/Liability Information	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	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
Type of Inflow/Outflow Information	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 s received or paid.

Government-wide Statements

The government-wide statements report information about the Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of Net Position includes all of the government's assets, deferred outflows, liabilities, and deferred inflows. 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 Municipality's Net Position and how they have changed. Net Position – the difference between the Municipality's assets and deferred outflows, and liabilities and deferred inflows – are one way to measure the Municipality's financial health or position.

- Increases or decreases in the Municipalities net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Municipality you need to consider additional non-financial factors such as changes in the Municipality's property tax base and changes in the sales tax revenue base.

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

- Governmental Activities -- This category includes most of the Municipality'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 Municipality charges a fee to customers to help cover the costs of certain services it provides. The Municipality's water and sewer systems are included here.
- Component Units -- The Municipality includes one other entity in its report – the Housing and Redevelopment Commission. Although legally separate, this "component unit" is important because the Municipality is financially accountable for them.

Fund Financial Statements

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

- State Law requires some of the funds.
- The Municipality 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 Municipality has two kinds of funds:

- Governmental Funds – Most of the Municipality's basic services are included in the governmental funds, which focus on (1) how cash and other financial assets 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 Municipality'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 Municipality 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 Municipality'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 MUNICIPALITY AS A WHOLE – NET POSITION

The Municipality's combined net position increased by 8% - $333,401 between FY2014 and FY2015 – a 1% improvement over the 7% increase shown in 2014. (See Table A-1).

TABLE A-1 CITY OF SALEM NET POSITION - FISCAL YEAR 2015

	Governmental Activities			Business-Type Activities			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Current and Other Assets	1,598,653	1,552,924	1,903,476	851,282	781,135	754,045	2,449,935	2,334,059	2,657,521
Net Pension Asset	-	-	29,161	-	-	11,911	-	-	41,072
Capital Assets	2,301,173	2,462,994	2,455,622	3,919,220	3,821,144	3,711,205	6,220,393	6,284,138	6,166,827
Total Assets	3,899,826	4,015,918	4,388,259	4,770,502	4,602,279	4,477,161	8,670,328	8,618,197	8,865,420
Def Outflows of Resources	-	-	51,053	-	-	20,853	-	-	71,906
LT Debt Outstanding	11,592	12,754	12,913	2,064,248	1,975,043	1,883,478	2,075,840	1,987,798	1,896,392
Other Liabilities	159,752	21,682	35,723	40,711	43,605	43,987	200,464	65,287	79,710
Total Liabilities	171,344	34,437	48,636	2,104,959	2,018,648	1,927,465	2,276,303	2,053,085	1,976,101
Def Inflows of Resources	-	-	43,028	-	-	17,575	-	-	60,603
Capital Assets Net of Related Debt	2,301,173	2,462,994	2,455,622	1,860,645	1,851,326	1,833,130	4,161,818	4,314,321	4,288,752
Restricted	300,826	337,276	373,845	178,620	186,263	209,504	479,446	523,539	583,349
Unrestricted	1,126,483	1,181,211	1,518,181	626,278	546,041	510,340	1,752,761	1,727,252	2,028,521
Total Net Position	3,728,482	3,981,481	4,347,648	2,665,543	2,583,631	2,552,973	6,394,025	6,565,112	6,900,622
Beginning Net Position	3,426,094	3,728,482	3,981,481	2,603,151	2,665,543	2,583,631	6,029,245	6,394,025	6,565,112
Prior Period Adj for GASB 68	-	-	32,766	-	-	13,383	-	-	46,150
Adj Beginning Net Position	3,426,094	3,728,482	4,014,247	2,603,151	2,665,543	2,597,014	6,029,245	6,394,025	6,611,261
Net Position Increase (Decrease)	302,388	252,999	333,401	62,392	(81,913)	(44,041)	364,781	171,086	289,360
Percentage +/(-) Net Position	9%	7%	8%	2%	-3%	-2%	6%	3%	4%

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. 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. Long-term liabilities of the Municipality, consisting of compensated absences payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets plus deferred outflows and liabilities plus deferred inflows is its net position.

The Municipality's net investment in capital assets reflect its investment in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The .6% decrease in net investment in capital assets relates to the depreciation of $227,561 being more that the Municipality's purchases in 2015 and reduction of revenue bond debt. The City purchased the following capital items in 2015:

FUND	ITEM	DEPTS	COST
EQUIPMENT			
General	(10) Armory Tables	Armory	4,637
General	Grasshopper Mower	Parks	11,715
Water	Meters & MXU	Water	2,280
	TOTAL EQUIPMENT		**18,632**
BUILDINGS			
General	Restroom/Concession Stand	Parks	49,562
	TOTAL BUILDINGS		**49,562**
IMPROVEMENTS OTHER THAN BLDGS			
General	Sidewalk	Parks	3,841
General	Batting Cage (finished)	Parks	4,355
General	Green Area - Baseball Field	Parks	6,375
General	Storm Sewer - Baseball Field	ST/Sewer	1,692
General	Radius & Alley Approach	ST/Sewer	1,607
General	Storm Sewer - Softball Field	ST/Sewer	634
Water	Water - Baseball Field	Water	663
Water	Hydrants (3)	Water	7,742
Sewer	Sewer - Baseball Field	Sewer	357
	TOTAL IOTB		**27,267**
CONSTRUCTION IN PROGRESS			
General	Bathhouse Design	Pool	25,642
	TOTAL CIP		**25,642**
	TOTAL 2015 CAPITAL ASSET ADDTS		**121,103**

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to more income than spending in the Storm Sewer Fund; more water surcharge receipts than the total bond payment and the addition of the SDRS Pension Purpose account. Both the Sales Tax and Street Assessment funds decreased as expenditures exceeded revenues by $8,651 & $20,504 respectively.

The remaining balance of net position is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors. The overall unrestricted net position increased 17.5% in 2015 which is up from the 2013 to 2014 decrease of 1.5%.

At the end of the current year, the Municipality is able to report increases in two of the three categories of net position, for the government as a whole, as well as for its governmental activities. The business-type activities saw a decrease in two of the three categories. The same situation held true for the prior year except for the governmental activities saw an increase in all three categories.

The Municipality as a whole reports an increase in Net Position of $289,360 (4.4%).

- The Current & Other Assets (cash & receivables) increased $323,462 (13.9%).
- A new asset in 2015 – Net Pension Asset shows a balance of $41,072.
- The 2015 Capital purchases listed above, less depreciation, resulted in an $117,311 (1.9%) decrease in Capital Assets.
- Total Assets increased $247,223 (2.9%).
- The LT Debt decreased $91,406 (4.6%) - due to payments of on the SRF Revenue Bonds
- The Other liabilities increased $14,423 (22%).
- Total Liabilities for the Municipality decreased $76,984 (3.7%).

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

TABLE A-2

MUNICIPALITY OF SALEM

Changes in Net Position 12/31/2015

	Governmental Activities			Business-Type Activities			Total		
	2013	2014	2015	2013	2014	2015	2013	2014	2015
Revenues									
Charges for Services	123,761	83,804	99,717	482,134	488,056	493,031	605,895	571,860	592,748
Operating Grants	39,781	45,961	49,552				39,781	45,961	49,552
Capital Grants & Contrib.	85,504	89,225	107,489	-	-	-	85,504	89,225	107,489
Taxes	743,851	743,230	860,252				743,851	743,230	860,252
Revenue State Sources	10,136	11,164	9,746				10,136	11,164	9,746
Grants/Contrib Unrestrict	-	-	275	-	-	-	-	-	275
Unrestricted Invest.	6,489	5,561	6,308	3,534	3,136	2,736	10,022	8,697	9,044
Miscellaneous	26,348	13,854	12,024	6,655	7,712	7,726	33,004	21,566	19,750
Total Revenues	1,035,870	992,829	1,145,363	492,323	498,904	503,493	1,528,194	1,491,733	1,648,856
Expenses									
General Government	166,121	192,467	180,478				166,121	192,467	180,478
Public Safety	94,502	92,825	92,177				94,502	92,825	92,177
Public Works	247,191	258,500	323,863				247,191	258,500	323,863
Health & Welfare	6,865	4,233	8,979				6,865	4,233	8,979
Culture & Recreation	212,751	180,767	193,035				212,751	180,767	193,035
Conservation/Development	6,052	11,038	13,430				6,052	11,038	13,430
Misc Expenditures	-	-	-				-	-	-
Water Services				330,579	374,399	412,674	330,579	374,399	412,674
Sewer Services				99,352	206,418	134,860	99,352	206,418	134,860
Total Expenses	733,482	739,830	811,962	429,931	580,817	547,534	1,163,413	1,320,647	1,359,496
Net Change in Net Position	302,388	252,999	333,401	62,392	(81,913)	(44,041)	364,780	171,086	289,360
Adj to Net Position - Beginning			32,766			13,383	-	-	46,149
Ending Net Position	3,728,482	3,981,481	4,347,648	2,665,543	2,583,631	2,552,973	6,394,025	6,565,112	6,900,621

The Municipality's 2015 revenues totaled $1,648,856 an 10.5% increase from FY2014, and a 7.9% increase from 2013 - $157,123 and $120,662 respectively; a definite improvement over the decrease of 2.4% ($36,461) from 2013 to 2014.

- **Charges for Goods and Services** increased 3.7% from 2014; decreased 2.2% from 2013; and decreased from 2013 to 2014; (5.6%).
  Business Type Activities: The 2015 user fees in the Business-Type activities increased 1% from 2014 and 2.3% from 2013; and 1.2% from 2013 to 2014 – $4,975, $10,897 & $5,922 respectively. The user rates were increased all three years.
  Governmental Activities: 2015 reflects a 19% increase over 2014; (19.4%) under 2013; and (32.3%) from 2013 to 2014 - $15,913; ($24,044) & ($39,957) respectively. The refuse collection charge was the main cause for the increase. The low fuel costs called for a 10% fuel reduction to the contract in 2015 and a portion of 2014. A new 3-year contract on January 1, 2014 was $2,118 less than in 2013.

- **Operating Grants** increased 7.8% from 2014; 24.6% from 2013 and 15.5% from 2013 to 2014. The vehicle licensing increases and Mosquito Control Grant in 2015 & 2014 account for the differences.

- **Capital Grants & Contributions** show an increase of 20.4% from 2014; increase of 25.7% from 2013; and increase of 4.4% from 2013 to 2014 - $18,234, ($21,985) & $3,751 respectively. The main reason for the fluctuation is contributions between the years.

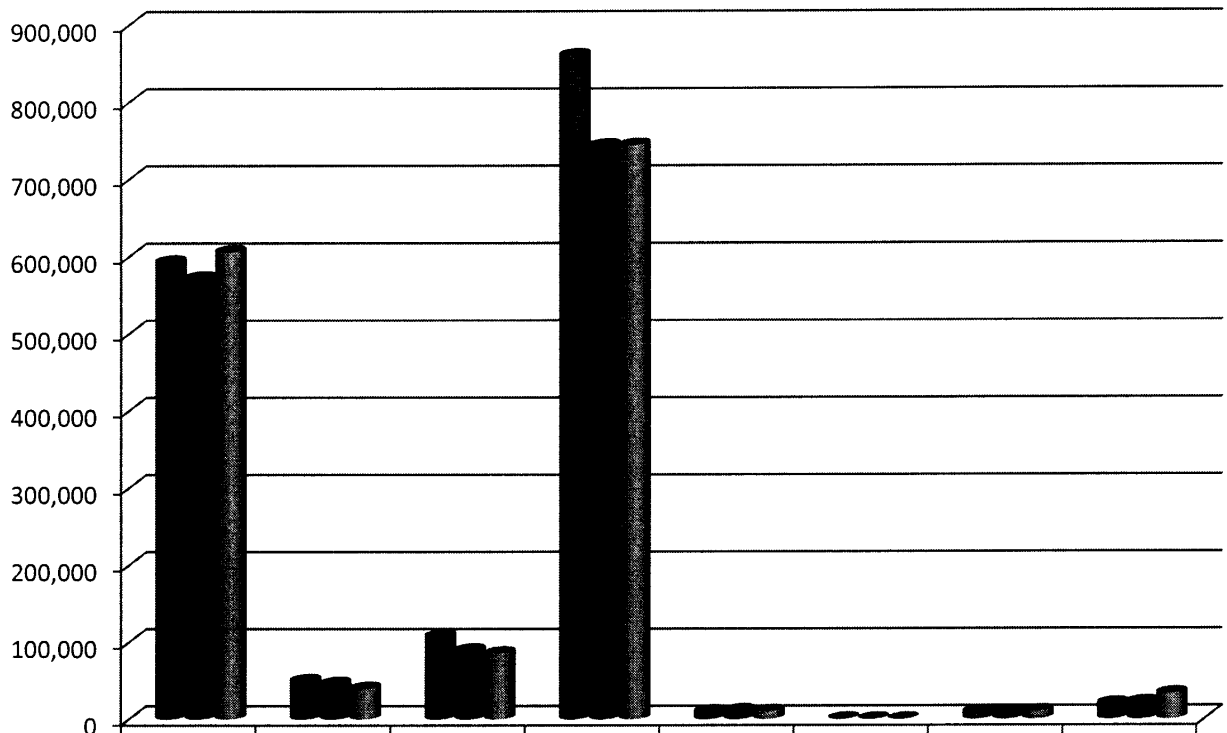
- **Taxes** increased by 15.7% from both 2014 and 2013; an improvement from the decline of .1% from 2013 to 2014. Sales tax was the reason for the decline in 2014 - $7,855 (1.7%); but rebounding in 2015 reflecting an increase of 25.8% from 2014 and 23.6% from 2013 - $113,488 & $105,634 respectively. 2015 Property tax revenue increased 1.2% from 2014 & 3.6% from 2013; 2014 reflects a 2.4% increase from 2013 – $3533, $10,766 & $7,233 respectively.

- **Revenue from State Sources** is derived from Liquor Tax Reversion and Bank Franchise collections. 2015 revenues show a (12.7%)(decline from 2014 and 3.8% from 2013. 2014 revenues increased 10.1% from 2013 – ($1,418), ($390) & $1,028 respectively.

- **Investment earnings** show a 4% increase in revenue from 2014; decline of (9.8%) from 2013; and a decrease of 13.2% from 2013 to 2014 - $347, ($978) & (1,325) respectively. These figures directly reflect the low interest rates and cash on hand during the year.

- **Miscellaneous revenues** consist of cable franchise, dividends and recovery of prior year expenses in the governmental funds and Verizon's water tower lease and dividends in the Business funds. The Municipality sold the 1973 maintainer in 2013 where 2015 & 2014 show no capital items sold. Verizon's lease increased $900 in 2014. The above account for the following decreases – 2015 - 8.4% from 2014; 40.2% from 2013; and 34.7% from 2013 to – ($1,816), ($13,254) and ($11,438) respectively.

Figure A-2, City of Salem Revenue Comparison 2013-2015



	Charges for Services	Operating Grants	Capital Grants & Contrib.	Taxes	Revenue State Sources	Grants/Contr. Unrestrict	Unrestrict Investments	Miscellaneous
2015	592,748	49,552	107,489	860,252	9,746	275	9,044	19,750
2014	571,860	45,961	89,255	743,230	11,164	0	8,697	21,566
2013	605,895	39,781	85,504	743,851	10,136	0	10,022	33,004

EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3
The Municipality's expenses show an increase of 2.5% from 2014 & 16.9% from 2013; and a 13.5% increase in 2014 from 2013 - $38,850, $196,083 & $157,234 respectively.

- **General Government Expenditures** decreased 6.2% or $11,989 from 2014; increased 8.6% - $14,357 from 2013; and 2014 vs. 2013 reflects an increase of 15.9% or $26,346. Insurance increased all three years, an audit was paid for in 2014 and the allocation of wages to the Finance Department increased in both 2014 & 2015.

- **Public Safety** decreased .7% ($648) from 2014 and 2.5% ($2,325) from 2013; 2014 declined 1.8% ($1,677) from 2013. The police contract remained the same so the fluctuation reflects repairs to the fire department and civil defense equipment.

- **Public Works** expenses consist of Street Administration, Maintenance [overlays, sealing (chip, crack & fog), gravel], Street Lighting and Snow Removal; Storm Sewer maintenance. The 2015 expenses increased $65,364 (25.3%) from 2014 and $76,672 (31%) from 2013; 2014 shows an increase of $11,309 (4.6%) from 2013. Crack sealing was performed for the first time in 2015 and the west shop received a much needed facelift with new roof, siding and overhead doors at a cost of $32,500. Snow removal varied between the years; and street projects in 2013 and 2014 allowed fewer dollars for overlays during those years as dollar were spent on capital improvements.

- **Health & Welfare** consists of the Mosquito Control program. All fluctuation is based on chemicals purchased from year to year. The 2015 expenses increased $4,746 (112.1%) from 2014 and $2,114 (30.8%) from 2013; 2014 decreased 38.3% ($2,632) from 2013.

- **Culture & Recreation** expenses are derived from the Summer Recreation Programs, Pool, Parks & Armory. The 2015 expenses increased 6.8% from 2014; and decreased 9.3% from 2013 ($12,268) & ($19,716) respectively. 2014 expenses decreased 15% - $31,984 from 2013. Some of the fluctuations are from the following:
    - Summer Recreation costs increased in 2015 – $1,733 (15%) from 2014 & $1,908 (17%) from 2013 costs between 2014 and 2013 increased $175 (2%). This is mainly due to league and tournament fee increases.
    - Swimming Pool expenses decreased $914 (2%) from 2014 and $35,599 (42%) from 2013; and 2014 to 2013 decreased $35,684 (40%). The large difference from 2013 is due to the installation of the pool liner in 2013 ($42,000) – chemicals did increase and the initial Pool Bathhouse Renovation design and drawing were paid for in 2014.
    - Park expenses increased $12,693 (12.7%) from 2014; $5,556 ($12.9%) from 2013; and 2014 to 2013 decreased $7,137 (16.5%). The utilities increased from 2013 and 2014 due to the metering of water and the electrical rate increase. Supplies and repairs increased due to sprinkler repairs, roof replacement on the park buildings and tree removal.
    - Auditorium costs decreased $1.455 (2.6%) from 2014 and increased $4,193 (8.4%) from 2013; 2014 to 2013 reflects a $5,648 (11.3%) increase. The auditorium wages, supplies and utilities have been declining since 2013 directly related to use and weather. The Maintenance and repairs have increased due to the door replacement ($16,000 – 2015 and $6,520 – 2014) and repairs to the HAVC system ($11,425 in 2015).

- **Conservation & Development**: The 2015 Planning and Zoning and Promoting the Municipality reflects a $2,392 (21.7%) increase from 2014; and $7,378 (121.9%) from 2013; 2014 to 2013 increased $4,986 (82.4%). The 2015 increase is due to the hiring of a code enforcement officer and actively pursuing the need to cleanup dilapidated buildings and junk vehicles. The 2014 increase is due to the payment to S.E.F.P in 2014; the 2013 fee was waived for one year.

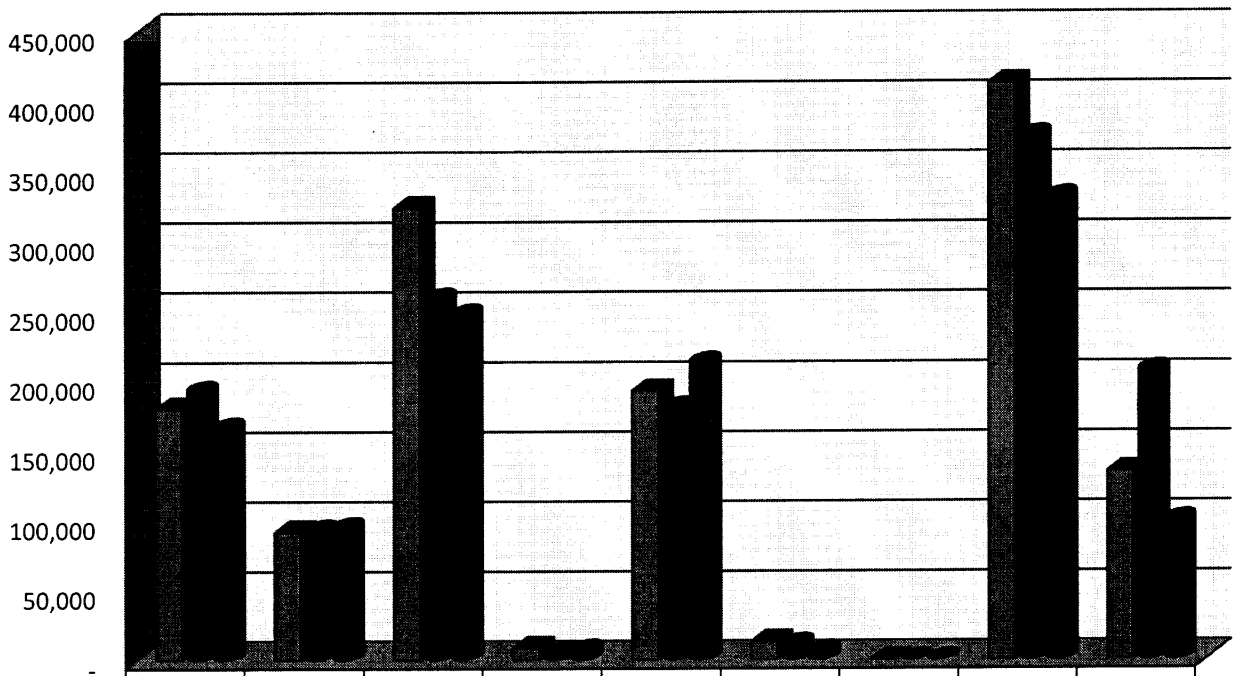
- **Miscellaneous** Expenses were zero for all three years.

- **Water Fund** 2015 expenses increased $38,275 (10.2%) from 2014 and $82,095 (24.8%) from 2013. 2014 to 2013 expenses increased $43,820 (13.3%). In 2015, chemical usage decreased 9.6% from 2014 and increased 17.8% from 2013. There was a cost increase in 2014 to one of the

main chemicals used. Filter usage decreased $8220 (53.1%) from 2014; and $3,247 (30.9%) from 2013. The decrease in chemicals and filter usage is directly related to the replacement of the UF & NANO filters in 2015; $76,778 expensed in 2015 and $40,935 in 2014. The wages remained fairly consistent and the power and pumping decreased from $45,166.32 in 2013; to $41,524.04 in 2014; and $39,222.76 in 2015; again directly related to the new filters and number of cleanings.

- **Sewer Fund** 2015 expenditures decreased $71,558 (34.7%) from 2014 and increased $35,508 (35.7%) from 2013; 2014 to 2013 increased $107,066 (107.8%). In 2014, bid letting was held on cleaning & televising the entire sewer system. The cleaning and televising is considered maintenance reflecting $48,622 in maintenance costs in 2015 and $71,455.60 in 2014. FY2014 also saw $34,780 in repairs at the lagoon (pump & float replacement); and emergency sewer cleaning which lead to a block of sewer main being replaced.

Figure A-3, City of Salem, Functional Expenses, Fiscal Year 2013-2015

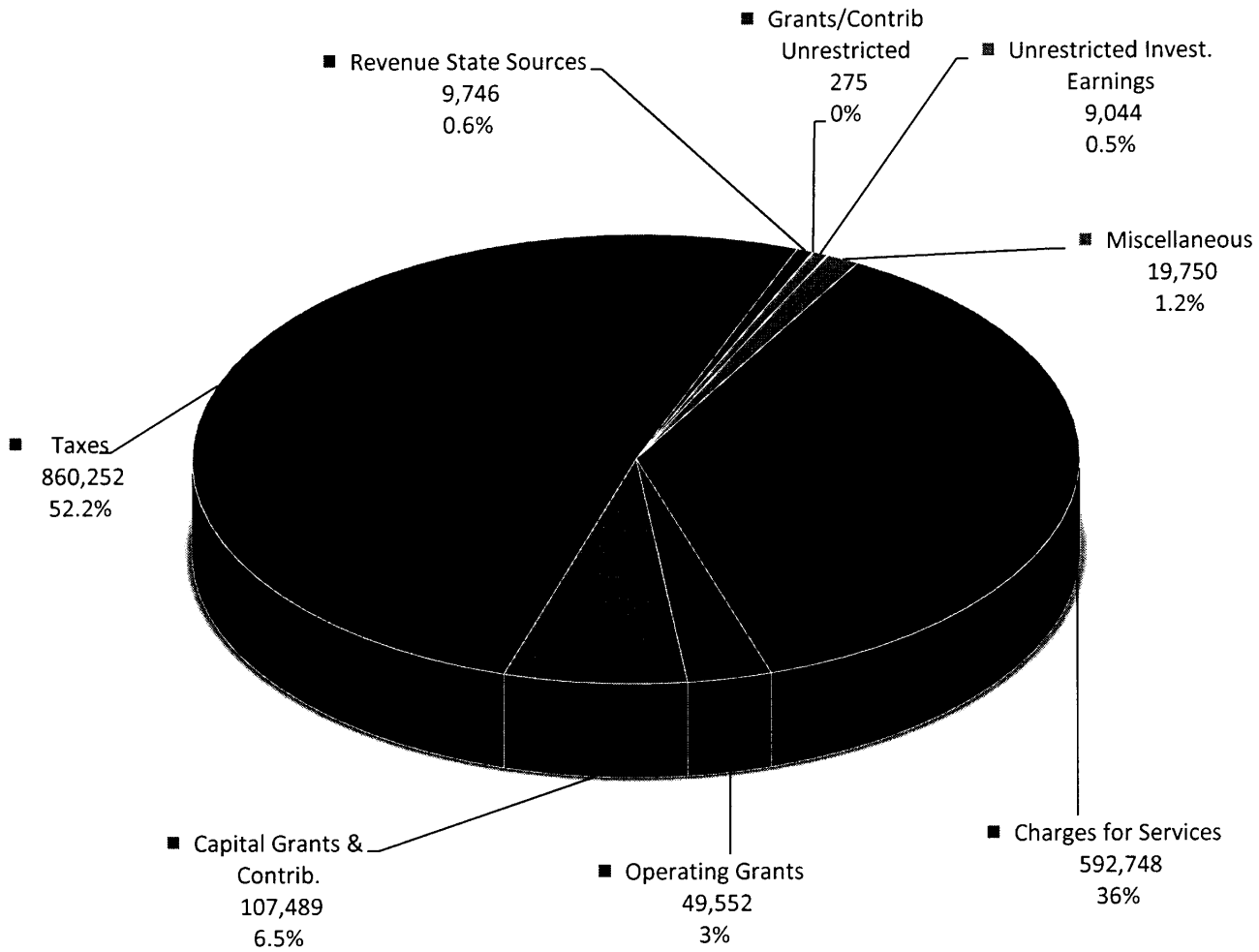


	General Government	Public Safety	Public Works	Health & Welfare	Culture & Recreation	Conservation /Develot	Misc Expenditures	Water Services	Sewer Services
2015	180,478	92,177	323,863	8,979	193,035	13,430	-	412,674	134,860
2014	192,467	92,825	258,500	4,233	180,767	11,038	-	374,399	206,418
2013	166,121	94,502	247,191	6,865	212,751	6,052	-	330,579	99,352

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

Eighty-eight percent (88%) of the Municipality's revenue is from taxes and charges for goods and services; with 36 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 52 cents of every dollar raised coming from some type of tax. (See Figure A-4). Another 10% is from state and federal grants for operating & capital purposes and the remaining revenue is from state-shared revenues, miscellaneous revenue and interest earnings. This varied slightly from 2014 & 2013.

Figure A-4, City of Salem Sources of Revenue for Fiscal Year 2015



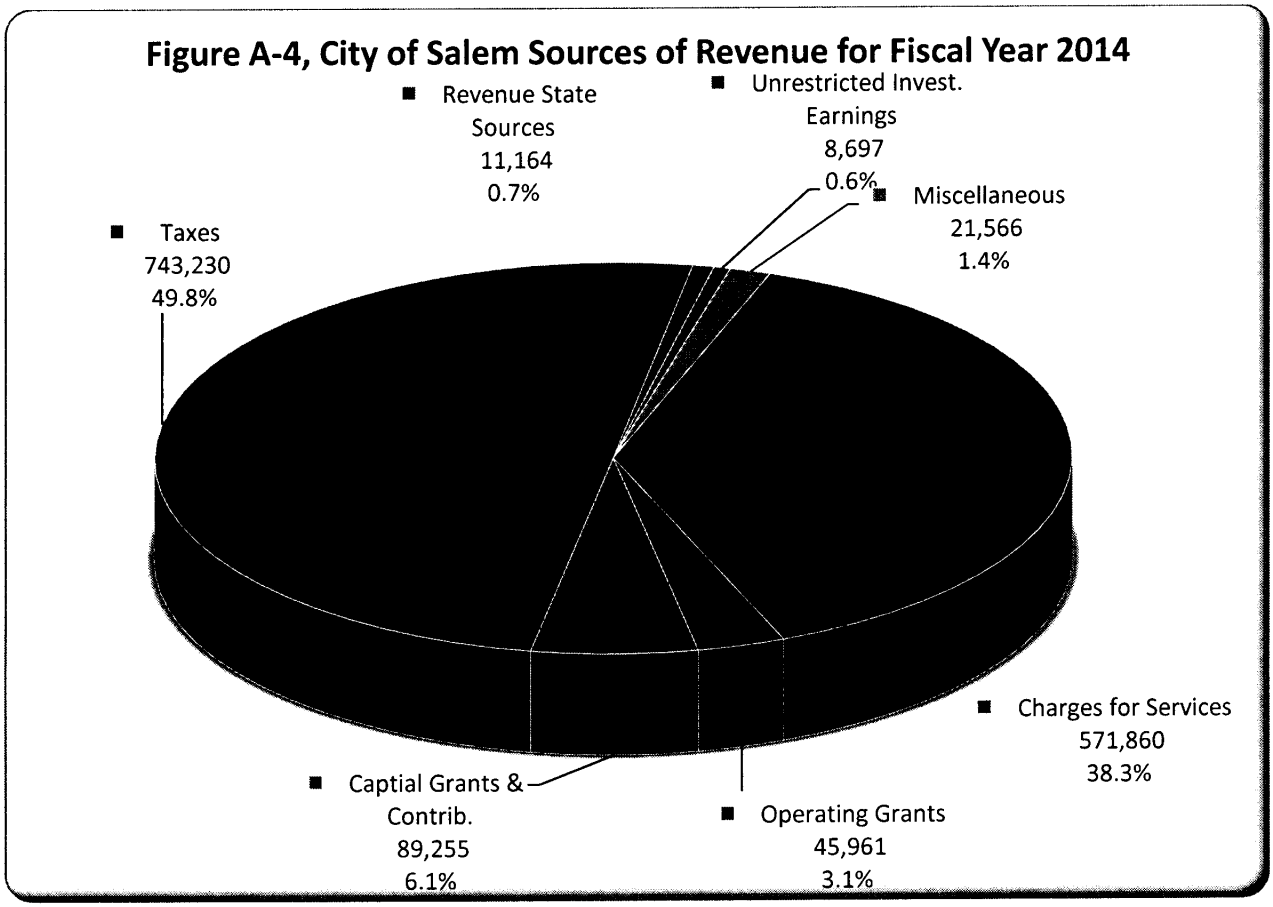


Figure A-4, City of Salem Sources of Revenue for Fiscal Year 2014
Revenue State Sources 11,164 0.7%
Unrestricted Invest. Earnings 8,697 0.6%
Miscellaneous 21,566 1.4%
Taxes 743,230 49.8%
Charges for Services 571,860 38.3%
Captial Grants & Contrib. 89,255 6.1%
Operating Grants 45,961 3.1%

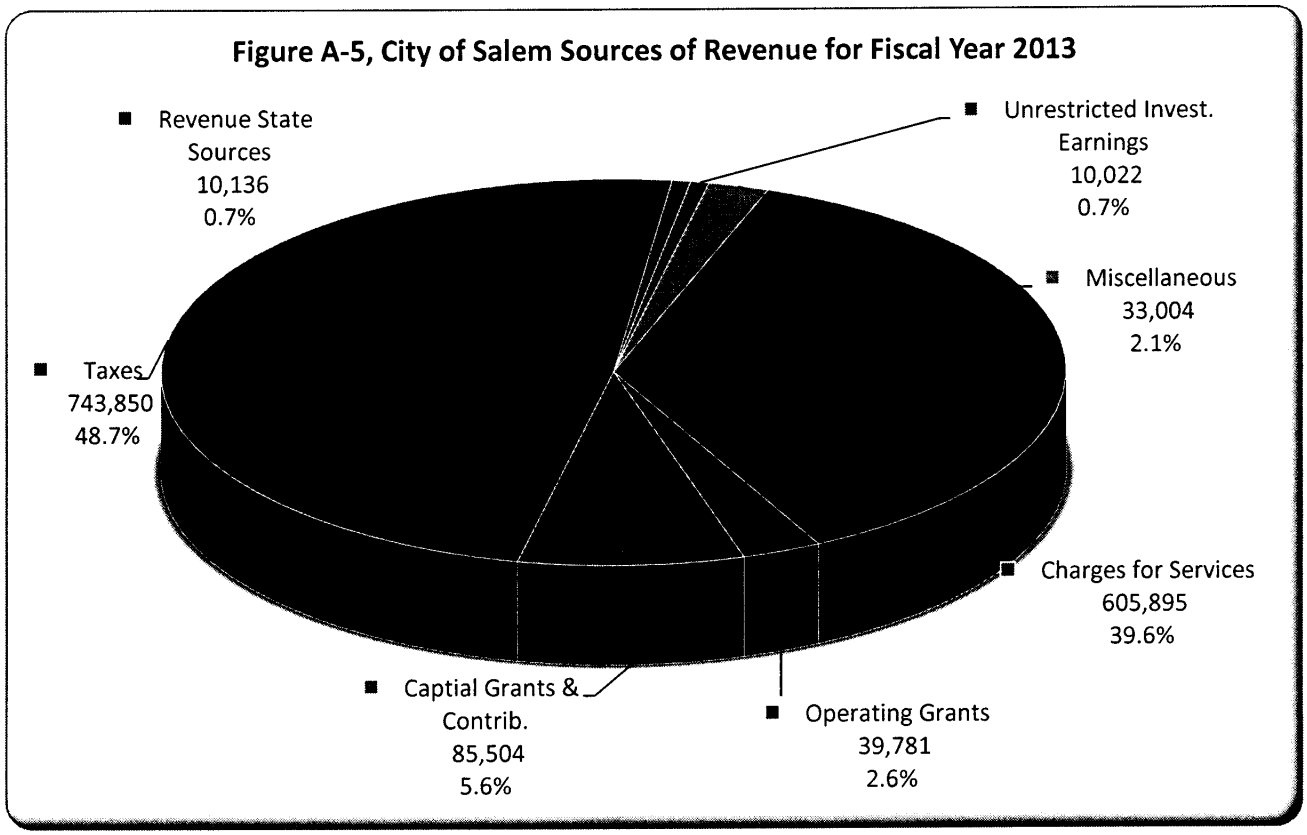


Figure A-5, City of Salem Sources of Revenue for Fiscal Year 2013
Revenue State Sources 10,136 0.7%
Unrestricted Invest. Earnings 10,022 0.7%
Miscellaneous 33,004 2.1%
Taxes 743,850 48.7%
Charges for Services 605,895 39.6%
Captial Grants & Contrib. 85,504 5.6%
Operating Grants 39,781 2.6%

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

The Municipality's expenses cover a range of services 64% related to public works services [road maintenance – sealing (crack, chip & fog) – street sweeping – snow plowing; water & sewer system services]. Culture and Recreation (Summer Recreation, Pool, Parks and Armory) make up 14%; General Government (Publications, Council, Attorney, Insurance, Finance Office & Municipality Hall) accounted for 13%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 7%; and Conservation & Development and Health & Welfare expenditures each account for 1% of the 2015 expenditures. The expenditures service percentages are virtually the same as 2014 which varied form 2013. The Public Works increased due to the increased spending on filters and chemicals in the water department and the lagoon repairs and cleaning & televising in the Sewer Dept from 2013 to 2014; and 2015 to 2014 varied between sewer, water & public works from the purchase of filters in the water department, the ongoing sewer cleaning/televising project in the sewer department, and the increased spending on road maintenance.

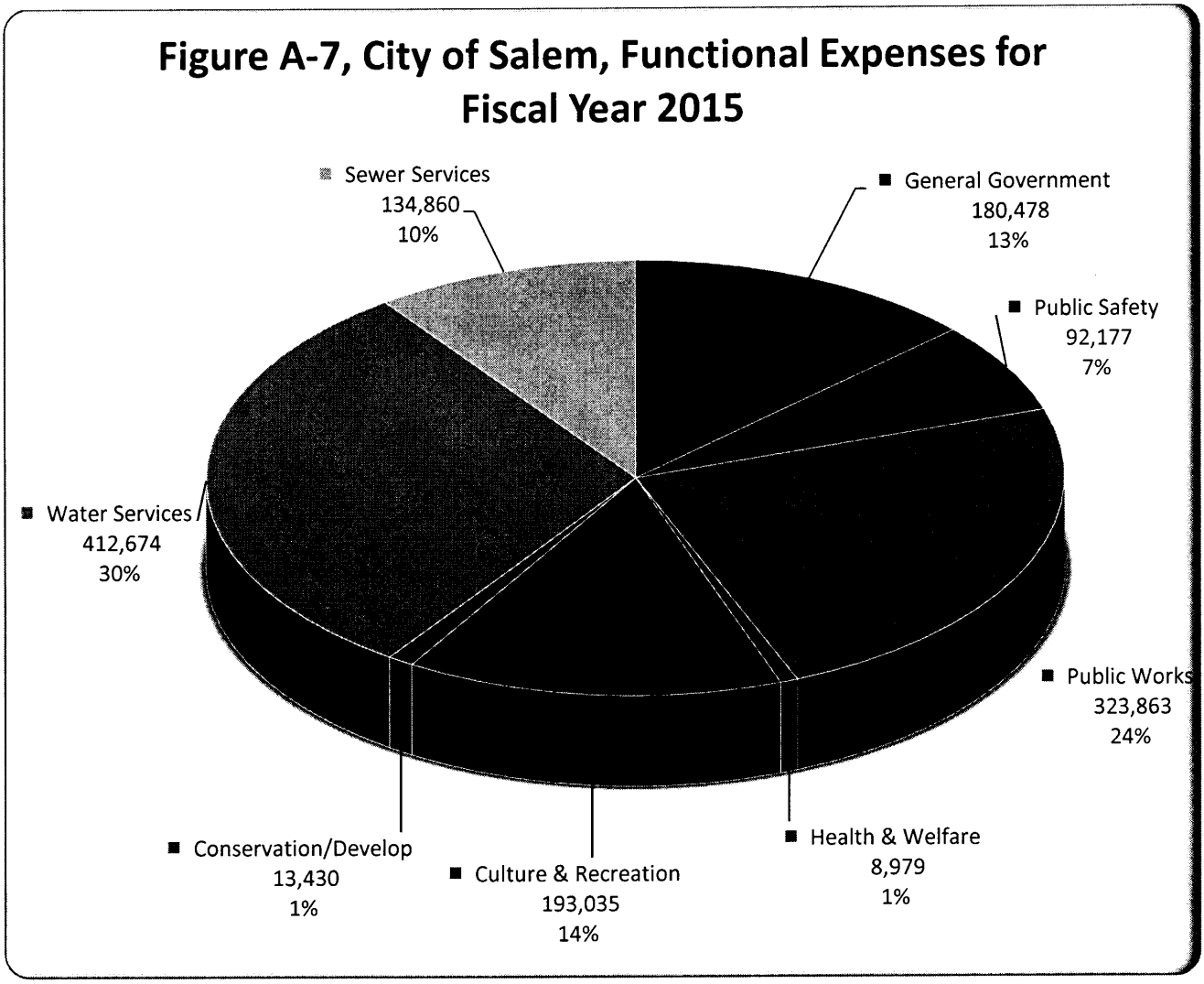


Figure A-7, City of Salem, Functional Expenses for Fiscal Year 2014

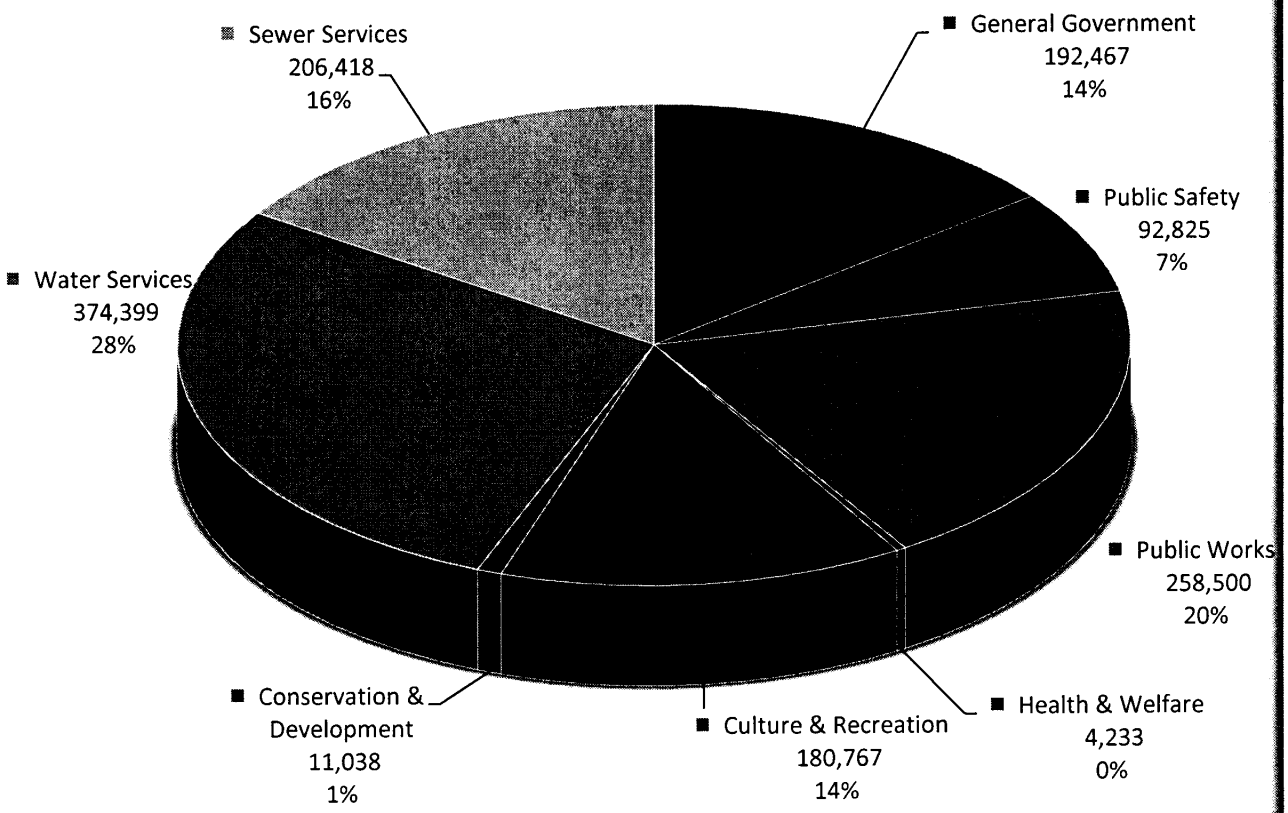
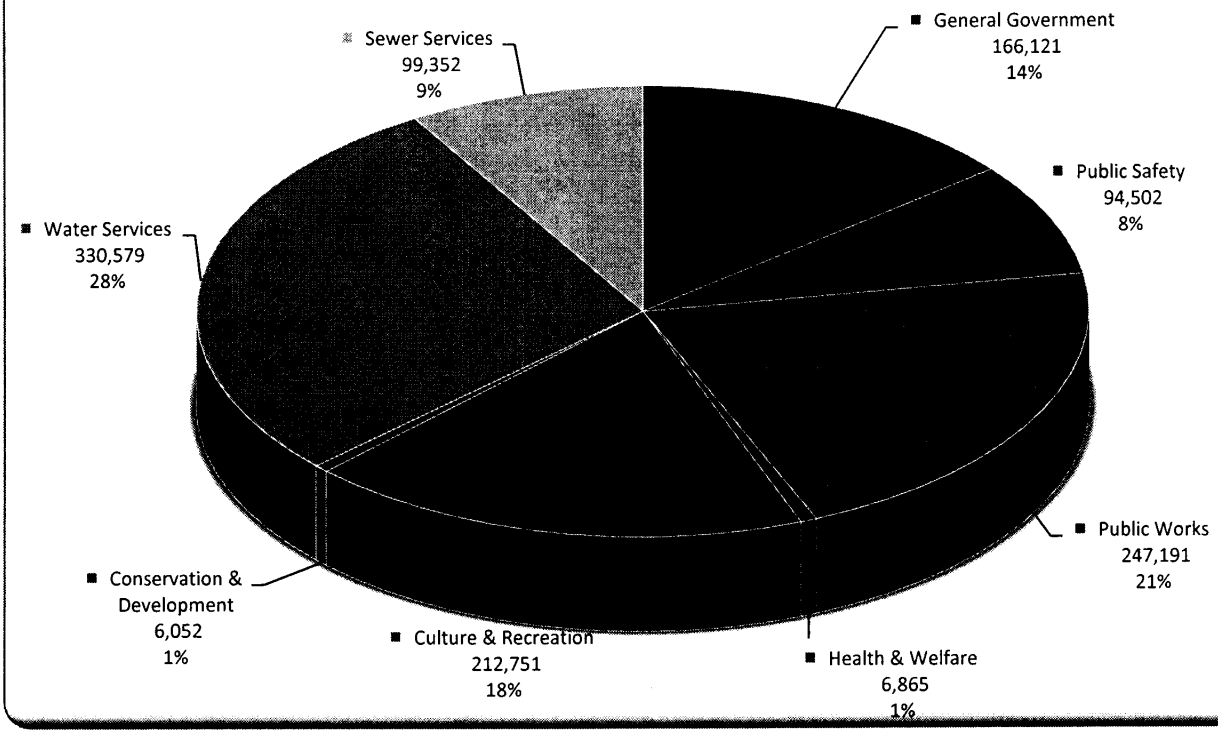


Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2013



Governmental Activities

Table A-2 and Figure A-3 & A-2 and the narrative that follows consider the operations of the governmental activities.

The Municipality's Governmental activity revenues increased in 2015 by 15.4% from 2014 and 10.6% from 2013; whereas 2014 - 2013 saw a decline of 4.2%; and the expenses increased all three years, 9.7% from 2014; 10.7 from 2013 and 2013 - 2014 .9%. The following are the main contributing factors for the increase in revenue – the decline of 2014 revenues from 2013 is due to the sale of capital assets in 2013.

- Property taxes were raised 2.2% in 2015; 3.3% in 2014; and 4.4% in 2013.
- Sales tax 2% base increased 8.161% from 2014; 10.265% from 2013 and 3.52% from 2012. The 1% tax base increased .19%, 13.52% and 2.49% respectively.

Business-type Activities

Revenues of the Municipality's business-type activities increased .9% (2015 – 2014); 2.3% (2015-2013) and 1.3% (2014-2013). The expenses decreased 5.7% (2015-2014); increased 27.4% (2015-2013) and 35.1% (2014-2013). The following are the rate increases and other factors affecting the revenues:

- The Water Rates were adjusted in 2015 and 2014 for the Filter Replacement, Equipment Repair and Replacement reserve accounts and operating expenses. It has been an on-going struggle to accommodate the ever fluctuating operating expenses in the Water Treatment Plant. The sewer rates are being adjusted for funding requirements for a projected need to fix sewer mains.

    - **2015:** the water flat fee increased to $14.80 a 2% increase and sewer to $22.00 a 4.8% increase. The Charges for Services water revenues decreased $623 (.19%) from 2014 and increased $5,256 (1.6%) from 2013. The water produced declined from 2014 by 3.4% - 1,307,308 gallons and 5.5% 2,157,709 gallons from 2013 due to less water used. The water loss ratio for 2015 was 8.98% well within the acceptable limits. The sewer revenues increased $5,598 (3.4%) from 2014 & $5,741 (3.5%) from 2013 due to the rate increase.
    - **2014**: The water flat fee increased 8.2% to $14.50 and the sewer remained at $21.00. The revenues generated from Charges for Services increased $5,879 (1.8%) from 2013. The water produced declined 2.2% a direct result of less water used. The sewer department saw a $123 (0%) increase in revenues from user fees as there was no rate increase in 2014.
    - **2013**: The water flat fee increased 2.29% to $13.40 and the sewer rate increased 2.9% to $21.00. The revenues generated from Charges for Services decreased 4.5% - the water produced declined 9.6% a direct result of less water used. The sewer department saw a 2.04% increase in revenues from user fees ($.60 Flat Fee increase).

- The expenditures in the water and sewer departments are directly related to replacement of filters in the water treatment plant and 2014 repairs at the lagoons and the cleaning and televising of sewer mains in 2014 & 2015. The UF and NANO filters were replaced at the beginning of 2015 driving the use of chemicals and filters down. The increase in the overall expenditures is due to the purchase of the filters (partial in 2014 and 2015). The Sewer Department expenses decreased in 2015 due to the major repairs to the lagoons in 2014. The sewer main cleaning & televising project was started in 2014 and finished in 2015. The details on these expenditures are listed on page 15 and 16.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintained four governmental funds - General, Sales Tax, Street Assessment, and a Storm Sewer Funds and only two business type funds – Water and Sewer Funds. The General, Storm Sewer & Sewer Fund saw an increase in Net Position.

General Fund Budgetary Highlights

Over the course of the FY2015, FY2014 & F2013, the Municipality Council revised the Municipality's budget. These amendments fall into these 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.

FY2015: The three budget changes during the year were for the Salem HRC audit; Pool Design Engineering; Park Improvements (green area & new restroom /concession facility); Armory - HVAC repairs; Publications; Street Repairs; Wages – Council & Rubble Site; Park Repairs (shingling dugouts) Park Supplies: Park Utilities (newly metered water).

FY2014: The three budget changes during the year were for the 2013 Main Street Lighting Project, 2014 Street Project, Storm Drainage Improvements, Sidewalk Improvements at City Hall; Park Improvements; Wages in the Finance Office and Insurance.

FY2013: The three budget changes during the year were for the 2013 Main Street Lighting Project, 2014 Street Project, Parks – Baseball field grand stand; crow's nest & dugouts; Parks – Softball field concession stand/restroom building; Pool Liner and remodel design; city hall supplies; insurance, street equipment, swimming pool services & repairs; Fire truck service transfers from General Fund and Sales Tax fund to the Capital Projects Fund

CAPITAL ASSET ADMINISTRATION

By the end of 2015, the Municipality had invested in a broad range of capital assets, including, land, buildings, infrastructure, and various machinery and equipment - totaling $6,166,830; FY2014, reflects a $6,284,138 investment and FY2013 $6,220,393; which includes additions, deductions and depreciation (See Table A-3.)

FY2015 capital assets decreased 1.9% from 2014 ($117,308) and 0.9% from 2013 ($53,563). FY2014 shows a net increase of 1% ($63,745) over FY2013.

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

	Governmental Activities			Business-Type Activities		
	2013	2014	2015	2013	2014	2015
Land	60,591	60,591	60,591	41,866	41,866	41,866
Buildings	288,428	277,185	314,686	1,168,744	1,142,772	1,116,800
Improvements Other Than Buildings	1,362,903	1,815,301	1,757,135	1,713,748	1,674,611	1,626,871
Machinery & Equipment	292,604	307,560	297,569	994,861	961,895	925,668
Construction In Progress	296,648	2,358	25,642	-	-	-
Total Capital Assets (Net)	**2,301,173**	**2,462,994**	**2,455,622**	**3,919,220**	**3,821,144**	**3,711,205**

The major capital assets additions over the past three years include:
Governmental additions:

- **2015**
  1. Buildings: Addition of a Restroom/Concession Stand facility at the baseball field park.
  2. Improvements Other than BLDG additions of sidewalk, finishing batting cages and green area at the baseball field; culvert at softball field; 2 new radiuses & 1 alley approach.
  3. Equipment: Grasshopper mower for parks and 10 Alulite tables for the armory.
  4. CIP Pool Bathhouse Project.
- **2014**
  1. Improvements Other than Bldgs. additions were curb & gutter, new batting cage area and expansion of the sprinkler system at the baseball field; sidewalk at City Hall, 2014 Street Project, 7 new radiuses; and finishing of the 2013 Main Street Lighting Project.
  2. Equipment shows an increase from the addition of a 2002 Sterling Truck and One-Way of with Quik attach for the loader and 10 new Alulite tables for the armory.
  3. CIP a new established green area at the baseball field was started but not finished in 2014.
- **2013**
  1. Buildings increased from the addition of the softball concession stand/restroom, baseball field grandstand, dugouts & crow's nest buildings.
  2. Improvements Other than Bldg. additions were curb & gutter at the Armory's west parking lot; radius (2) and backstop & fencing at the baseball field.
  3. Equipment shows an increase from the addition of a 2011 CAT Maintainer & 7' Farm King Mower.
  4. CIP increased from the 2013 Main Street Lighting Project & 2014 Street Project Design.

Business-type additions are:

- **2015**
  1. Improvements Other thank BLDGS: Three hydrants replaced and water & sewer lines at the baseball park.
  2. Equipment: (1) 2" & (1) 3" meters and (4) MXU.
- **2014**
  1. Improvements Other than Bldg: A new Sanitary Sewer Manhole was installed along with 1 block of sewer main on Washington between Hwy 81 & Idaho.
- **2013**
  1. Improvements Other than Bldg - The Water Department's addition of a water main on Dakota from Norton to Drake, (3) new fire hydrants and new water valve behind City Hall.
  2. Equipment - The addition of the Water Tower Telemetry Equipment.

The Municipality's fiscal year 2016 Budget for capital projects include the following:

General Fund: the purchase of approximately 50 chairs for the Armory; sweeper for skid steer; 6 picnic tables for the new baseball facilities; and replacement of playground equipment. Capital Outlay for a sweeper & city equipment; Capital Replacement Reserves – Pool Renovation and Street Projects. The Council will review the Pool Bathhouse project once final design and cost estimates are presented.

Water & Sewer Funds: The review of the sewer cleaning & televising project has revealed areas of concern. The first, by priority, is the sewer main on Vermont from Dakota to Pierce; Dakota from Essex to Norton; and Norton from Dakota to Idaho. The project will be reviewed and includes the replacement of 4" CIP water main and rebuild of streets. Once estimates are received, funding options and project timelines will be established.

No money was borrowed for any capital project over the last three years.

In 2015, the improvements at the ball field were completed using Contributions and $44,562 in Sales Tax reserves (new building). By the end of 2015, $20,000 was contributed back to the Sales Tax fund by the Salem Summer Youth Boosters and Salem Baseball supporters. General fund equipment purchases totaled $16,352; new baseball field building - $49,562; Park improvements totaling $16,263 – sidewalk, batting cage, green area, and storm sewer improvements at baseball & softball field; and $1,607 in radiuses & an alley approach. Construction in Progress consists of the pool bathhouse project - $26,642.

The water and sewer spent $2,280 in new meters and MXU's and $8,762 adding water and sewer lines at the baseball field and replacing three fire hydrants.

In 2014, the General Fund spent $11,551.42 in local cash for the 2013 Main Street Lighting Project and $199,968.17 for the 2014 Street Project (rebuilt Dakota Street from Norton to Drake which is a truck route); $5,449.60 for radius improvements; $8,047.90 for sidewalk improvements at Municipality Hall; $39,928.94 for equipment; and $13,1743.18 in improvements (batting cage, green area, sprinkler expansion & curb/gutter) at the baseball field, paid for with a Legends Grants, other fund raising from the Salem Baseball Team. The Sewer Department installed two (1) block of sewer main on Washington Ave from Highway 81 to Idaho; and (1) new manhole.

In 2013, the General Fund and Sales Tax Fund used $296,649.98 in local cash for the 2013 Main Street Lighting Project and 2014 Street Project; $1,502.66 for radius improvements & 6,167.13 for curb & gutter improvements; $105,640 for equipment; and $21,663.04 for the building at the softball field complex with all money donated from the Summer Recreation Booster's; $47,084.53 on the new baseball field grandstand (city money); $35,267.04 for the baseball field dugouts, crow's nest, fencing & dugouts paid for through Salem Foundation Grants, Legends Grants, other fund raising from the Salem Baseball Team. The Water Department installed two (2) blocks of water main on Dakota Street from Norton to Drake: installed (3) fire hydrants and a new water valve behind City Hall.

The Municipality had $620,997.15 in the General Fund Capital Replacement Reserve Account at the end of 2015 – specifically for Park Fencing; Summer Rec Complex Improvements; New Fire Hall; Softball Field Complex Playground Equipment; Sidewalk Projects; Pool Renovation Project & Park Playground Renovation; and Street projects. The 2016 Budget placed an additional $207,610 into the Capital Reserve Account – specifically for Street Projects and Pool Renovation.

LONG-TERM DEBT

At year-end, the Municipality had $1,878,075 in SRF Loans (Revenue Bonds), and $18,316 in other long-term obligations. This is a decrease of 4.6% from 2014 and 8.6% from 2013 as shown on Table A-4 below.

TABLE A-4

CITY OF SALEM - OUTSTANDING DEBT & OBLIGATIONS

	Governmental Activities			Business-Type Activities		
	2013	2014	2015	2013	2014	2015
Compensated Absences	11,592	12,754	12,913	5,673	5,226	5,403
Drinking Water SRF Loan 2005	-	-	-	244,362	229,693	214,541
Drinking Water SRF Loan 2008	-	-	-	1,216,462	1,185,265	1,153,041
Clean Water SRF Loan 2003	-	-	-	322,489	297,323	271,265
Clean Water SRF Loan 2005	-	-	-	275,262	257,537	239,228
Total Outstanding Debt Obligations	**11,592**	**12,754**	**12,913**	**2,064,248**	**1,975,043**	**1,883,478**

The Municipality is liable for the accrued vacation leave payable to all full-time and permanent part-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 and the amount of hours carried over annually (1 week is allowed to be carried over). The Municipality's obligation for compensated absences increased 1.9% from 2014 and 6.1% from 2013; and the chart reflects a 4.1% increase between 2014 and 2013.

The Municipality has outstanding $1,367,582 in Drinking Water SRF Loans and $510,493 in Clean Water SRF Loans (Revenue Bonds). The bonds are secured and paid for from the Water and Sewer Funds. The Municipality does not anticipate the use of any tax dollars to pay for these bonds. The SRF loan balances decreased $88,758 in 2014 and $91,742 in 2015 from debt payments.

- 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 was fully paid off on January 9, 2012, two and one half years earlier than the scheduled date of 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 April 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 Municipality's current economic position has continued to increase annually from a slight decline in 2008. The Municipality experienced growth of 1.1% in 2015; .8% in 2014; 1.2% in 2013; 1.4% in 2012; 1.3% in 2011 and 1% in 2010. The growth factor gives the Municipality the ability to increase the amount of revenue generated from property taxes, the increases were $3,366 in 2016; $2,395 in 2015; $3,478 in 2014; and $3887 in 2013. 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. The following are tax levy request for the past several years:

- 2015 property tax levy request payable in 2016 increased 2.6% (Growth 1.1%; CPI 1.5%) - $7,967 up $1381 from 2014.
- 2014 property tax levy request payable in 2015 increased 2.2% (Growth .8%; CPI 1.4%) - $6,586.47 down from 2013 - $2,977.71.
- 2013 property tax levy request payable in 2014 increased 3.3% (Growth 1.2%; CPI 2.1%) - $9,564.18 down from 2012.
- 2012 property tax levy request payable in 2013 which increased 4.4% (Growth 1.4%; CPI 3%) - $12,215.00 up from 2011.
- 2011 property tax levy request payable in 2012 which increased 3.4% (Growth 1.3%; CPI 2.1%) or $9,129.00 up from 2010.
- 2010 property tax levy request payable in 2011 only increased 1% (Growth 1%; CPI 0%) or $2,660.00.

2015 Building Permits Values:
Businesses – Total $1,000,625; New: $772,500; Additions/Remodel: $228,125
Governmental – Total $1,426,500; New: $1,426,500;
School – Total $6,700,000; New: $6,700,000
Residential – Total $241,675; Additions/Remodels $209,000; Accessory Bldgs Fence - $32,675
Total Citywide - $9,368,800

Although Governmental & School buildings do not affect our tax base growth figure, it does show commitment by the state and local governments in keeping these critical services in Salem. Property tax revenue accounts for 30% of the annual General Fund Revenues.

One of the primary sources of revenue for the Municipality is taxable retail sales in the community (sales tax). In studying the actual sales tax revenue received (once revenue was received for the entire FY), the following are annual comparisons:

- 2015 vs. 2014 taxable sales base increased 8.161% ($1,845,506)
- 2014 vs. 2013 taxable sales base increased 1.946% ($431,616);
- 2013 vs. 2012 taxable sales base decreased 6.117% ($1,445,390.50);
- 2012 vs. 2011 taxable sales base increased 4.415% ($999,150).

The Municipality 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 the 1% gross receipts are as follows:

- 2015 tax revenues were $21,054.21 an increase of .19% from 2014
- 2014 tax revenues were $21,010.33 an increase of 13.3% from 2013
- 2013 tax revenues were $18,543.46 a decline of 9.72% from 2012
- 2012 tax revenues were $20,538.96 a decline of 13.75% from 2011

The Municipality's 2016 budget does have an appropriation for Economic Development – a contract with SEPF through McCook County. The revenues are in a "Special Revenue Fund" as designated by SDCL 10-45.

The Municipality passed Resolution #2015-006 for the Street Assessment fee increasing the rate to .50 cents per front foot a .10 cent increase - $8,525. This revenue source is restricted to the maintenance of the city's streets. Street Department – Crack Sealed, Chip Sealed and repairs to City Streets - $97,770.00 of which $54,590 came out of the Street Assessment Fund.

The Municipality's adopted 2016 General Fund budget increased 6.1% to $1,178,500 from the 2015 Supplemented Budget. The 2016 Budget places $267,610 into the Capital Outlay & Capital Replacement Reserves; provides for the purchase of a sweeper for the skid steer, picnic tables for the shelter area at the baseball field; chairs at the armory and the installation of new playground equipment. The difference between the operating budgets is to provide for the audit to be performed in 2016 and an increase in the Police Contract with McCook County; the widening of the fire hall overhead doors; increase in summer recreation costs due to league & tournament fees; and increase in nuisance abatement costs. The 2016 budget was increased to accommodate a raise for the Municipality's employees (4% full-time & 2% part-time); wages are not set until January.

The Municipality's business-type activities (water and sewer operations) expect that the revenues for the 2016 financials will increase as a consequence of the increase of $4.20 Water flat fee and .0004 cent per gallon; and $1.50 Sewer flat fee. The flat fees in the Water Department were increased to accommodate the higher operating costs and for filter replacement in the Water Treatment Plant and water main replacement. The Water Rate Ordinance was changed requiring everyone with a water service connection to a building on their property to pay the base fee even if the water is shut off. The Sewer rate was raised to the get closer to the dollar amount required to qualify for SRF Loans & Grants. The UF and NANO filters were replaced in 2015; the NANO header is leaking and will be replaced in 2016. The next major project will involve the replacement of Water and Sewer mains; funding through various sources will be required to finance the project.

The 2016 Water Operating Budget increased 5.8% ($15,690) from 2015; due to the operating costs of the Water Treatment Plant. The 2016 Sewer Operating Budget decreased 16.7% due to the removal of the Cleaning & Televising Project expenditure.

The Municipality was awarded a SDSU Active Transportation Collaboration Grant for a walking assessment of the community. The SDSU Landscape Architecture Students conducted a meeting with community members and performed a walking community assessment. The SDSU Landscape Architecture students presented their active transportation assessments for the City of Salem on Friday, May 1, 2015; 10:00 a.m. at the Salem Armory. The assessment document and power point presentation are posted on the website. The Council will use the assessment as a planning tool to improve the built environment.

The Council hired Infrastructure Design Group to design the Pool Bathhouse Renovation project. As a part of their contract they conducted a survey on the pool and park renovation. 574 hard copies of the survey were sent out and we received a 46% response or 264. The results of the survey changed the scope of Phase II of the pool project. The survey results revealed the public was not interested in a splash park but an aquatic facility to include various aspects of a standard pool facility along with spray features, zero depth entries, slides, and/or a whole host of available features to suit the community's needs. Phase I is the replacement of the Bathhouse and as the design was being completed the addition of the playground replacement was included. The Pool Bath house and Playground Improvement Project is to be bid in January 2016. The projected costs and funding are as follows:

Pool Bathhouse: The estimated cost of the new 45' x 26' bathhouse, deck, sidewalks and landscaping is $377,200.00. The balance in the Pool Renovation Fund on July 28, 2015 was $194,961.92 and the city has approximately $70,000 in reserves for the pool renovation and added $100,000 to the reserves in the 2016 Budget.

Playground Reno: The estimate is $129,940.00 which includes sidewalk access to playground with concrete play curb and access ramp; drain tile and 6" storm sewer running to existing storm sewer on Main street; play area layered with soil, rock & fabric for drainage with engineered wood fiber on top; playground equipment will consist of or be comparable to a play structure with (2) slides and an upper and lower deck; 3 bay swing set; 2 bay tire swing set; free standing play elements – Fly Wheel Spinner;

(3) Saddle Spinners; We-Saw; Double Bobble Spring Rider. The Council had $50 thousand is reserves and a $40,000 LWCF grant therefore budgeted for the replacement in 2016.

The Council will be receiving "Requests for Qualifications" in January or February for a Street, Water & Sewer Project. The project was implemented after review of the Sewer Cleaning/Televising Project. The project area is Vermont from Dakota to Pierce; Dakota from Essex to Norton; and Norton from Dakota to Idaho. The project is expected to include the replacement of 9 blocks of sewer main; possibly 2 blocks of storm sewer; 4 blocks of CIP Water Line and to rebuild the streets in the area. A facility plan is required to qualify for funding through grant programs and SRF or Rural Development funds; therefore, the 2016 portion of the project will be to establish the facility plan prior to any funding deadlines in 2016.

The Council increased the Water Flat Fee $4.20 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 Municipality Hall. The 2016 rates are a water flat fee of $19.00, .0045 cents per gallon used, plus a $9.90 Water Surcharge fee. The Sewer Rates are the Residential flat fee of $23.50, and 40% of the Water Usage Fee but not less than $23.50 for commercial users. The water rate was projected to increase by the CPI, but the need to replace 28 blocks of 4" CPI water main, filter reserves in the Water Treatment Plant, replacement of the NANO header and the operating costs of the WTP made it necessary for the higher increase (4.20 cents is a 28.4% increase). The Sewer Rate increased $1.50 as the next project will require the City to borrow funds and the dollar amount to qualify for any funding is $30.00 per 5,000 gallons.

At the end of 2015, the Water Fund Equipment Repair & Replacement Fund had a balance of $71,448.94 a 39% decrease. The rate increase did help on the revenue side, but the purchase of 7 UF Filters ($54,063) and 77 refurbished NANO filters ($22,715) caused a reduction in the reserves. This fund is necessary for the replacement of water main and the Nano & Ultra Filters at their scheduled life expectancies. The $4.20 cent flat fee and .0004 per gallon increase was necessary for the water main and filter replacement reserves. The water department allocated $30,900 to the filter reserve and $.00 to water main replacement in 2015 short of the $42,000 filter & $30,000 respectively budgeted. The 2016 budget is projected to allocate $41,000 to the filter reserve and $30,000 to the water main reserve both designated in the Equipment Repair/Replacement Fund.

The Sewer Department rates were increased $1.50 in 2016. The increase to $23.50 is still short of the $30 cost per 5,000 gallons required to apply for SRF Loans & Grants. All rates are reviewed annually. The water & sewer customers saw a $5.70 increase to flat fees on their monthly bill; or $68.40 annually.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2015

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Unit
ASSETS:				
Cash and Cash Equivalents	1,768,674.09	732,194.49	2,500,868.58	12,270.59
Accounts Receivable, Net	90,106.43	(90.83)	90,015.60	
Due from Component Unit	30,817.00		30,817.00	(30,817.00)
Inventories	13,878.46	21,940.92	35,819.38	
Net Pension Asset	29,161.25	11,910.93	41,072.18	
Capital Assets:				
Land and Construction Work in Progress	86,232.49	41,866.19	128,098.68	56,293.45
Other Capital Assets, Net of Depreciation	2,369,389.42	3,669,338.84	6,038,728.26	771,238.94
TOTAL ASSETS	4,388,259.14	4,477,160.54	8,865,419.68	808,985.98
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows	51,053.45	20,852.82	71,906.27	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	51,053.45	20,852.82	71,906.27	0.00
LIABILITIES :				
Accounts Payable	30,277.24	10,689.15	40,966.39	
Other Current Liabilities	5,445.48	33,297.86	38,743.34	8,330.00
Noncurrent Liabilities:				
Due Within One Year	10,355.00	99,246.77	109,601.77	40,292.51
Due in More than One Year	2,558.42	1,784,231.52	1,786,789.94	1,090,117.44
TOTAL LIABILITIES	48,636.14	1,927,465.30	1,976,101.44	1,138,739.95
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows	43,027.99	17,574.81	60,602.80	
TOTAL DEFERRED INFLOWS OF RESOURCES	43,027.99	17,574.81	60,602.80	0.00
NET POSITION:				
Net Investment in Capital Assets	2,455,621.91	1,833,129.67	4,288,751.58	(302,877.56)
Restricted for:				
Street Maintenance/Improvement Purposes	67,577.22		67,577.22	
City Promotion Purposes	52,006.01		52,006.01	
Storm/Sewer Maint/Improv Purposes	217,075.63		217,075.63	
Debt Service Purposes		194,315.04	194,315.04	
SDRS Pension Purposes	37,186.71	15,188.94	52,375.65	
Unrestricted (Deficit)	1,518,180.98	510,339.60	2,028,520.58	(26,876.41)
TOTAL NET POSITION	4,347,648.46	2,552,973.25	6,900,621.71	(329,753.97)

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, 2015

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary Government:								
Governmental Activities:								
General Government	180,477.93	11,722.00			(168,755.93)		(168,755.93)	
Public Safety	92,176.66				(92,176.66)		(92,176.66)	
Public Works	323,863.35	34,564.49	47,516.79	76,759.06	(165,023.01)		(165,023.01)	
Health and Welfare	8,979.35		2,035.00		(6,944.35)		(6,944.35)	
Culture and Recreation	193,035.34	26,570.45		30,730.43	(135,734.46)		(135,734.46)	
Conservation and Development	13,429.84				(13,429.84)		(13,429.84)	
Miscellaneous		26,859.97			26,859.97		26,859.97	
Total Governmental Activities	811,962.47	99,716.91	49,551.79	107,489.49	(555,204.28)		(555,204.28)	
Business-type Activities:								
Water	412,673.80	323,967.82				(88,705.98)	(88,705.98)	
Sewer	134,859.98	169,063.05				34,203.07	34,203.07	
Total Business-type Activities	547,533.78	493,030.87	0.00	0.00		(54,502.91)	(54,502.91)	
Total Primary Government	1,359,496.25	592,747.78	49,551.79	107,489.49	(555,204.28)	(54,502.91)	(609,707.19)	
Component Units:								
Housing and Redevelopment Commission	131,936.97	118,330.00						(13,606.97)
General Revenues:								
Taxes:								
Property Taxes					306,672.87		306,672.87	
Sales Taxes					553,578.96		553,578.96	
State Shared Revenues					9,746.14		9,746.14	
Grants and Contributions not Restricted to Specific Programs					275.00		275.00	
Unrestricted Investment Earnings					6,308.61	2,735.96	9,044.57	
Miscellaneous Revenue					12,023.82	7,726.15	19,749.97	
Total General Revenues					888,605.40	10,462.11	899,067.51	0.00
Change in Net Position					333,401.12	(44,040.80)	289,360.32	(13,606.97)
Net Position - Beginning					3,981,481.11	2,583,630.66	6,565,111.77	(316,147.00)
Adjustments:								
Prior Period Adjustment for GASB 68 - See Note 11.					32,766.23	13,383.39	46,149.62	
Adjusted Net Position-Beginning					4,014,247.34	2,597,014.05	6,611,261.39	(316,147.00)
NET POSITION - ENDING					4,347,648.46	2,552,973.25	6,900,621.71	(329,753.97)

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

MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2015

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	1,436,091.98	49,724.16	65,224.72	217,633.23	1,768,674.09
Taxes Receivable--Delinquent	12,346.36		2,242.40	(183.00)	14,405.76
Accounts Receivable, Net	6,314.36				6,314.36
Special Assessments Receivable--Current	1,705.00				1,705.00
Special Assessments Receivable--Delinquent	2,674.96				2,674.96
Due from State & County Governments	62,614.40	2,281.85	110.10		65,006.35
Due from Component Unit	30,817.00				30,817.00
Inventory of Supplies	13,878.46				13,878.46
TOTAL ASSETS	1,566,442.52	52,006.01	67,577.22	217,450.23	1,903,475.98
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
Claims Payable	29,902.64			374.60	30,277.24
Accrued Wages Payable	4,337.85				4,337.85
Accrued Taxes Payable	1,107.63				1,107.63
Total Liabilities	35,348.12	0.00	0.00	374.60	35,722.72
Deferred Inflows of Resources:					
Unavailable Revenue - Sales and Use Taxes	40,476.77	1,465.19			41,941.96
Unavailable Revenue - Property Taxes	12,346.36				12,346.36
Unavailable Revenue - Special Assessments	4,379.96				4,379.96
Unavailable Revenue - Street Assessments			2,242.40		2,242.40
Total Deferred Inflows of Resources	57,203.09	1,465.19	2,242.40	0.00	60,910.68
Fund Balances:					
Nonspendable - Inventory	13,878.46				13,878.46
Nonspendable - Due from Component Unit	30,817.00				30,817.00
Restricted		50,540.82	65,334.82	217,075.63	332,951.27
Committed for Capital Improvements	620,997.15				620,997.15
Assigned for Next Year's Budget	250,000.00				250,000.00
Assigned for Capital Outlay	72,360.00				72,360.00
Unassigned	485,838.70				485,838.70
Total Fund Balances	1,473,891.31	50,540.82	65,334.82	217,075.63	1,806,842.58
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,566,442.52	52,006.01	67,577.22	217,450.23	1,903,475.98

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 Position
December 31, 2015

Total Fund Balances - Governmental Funds	1,806,842.58
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	29,161.25
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	2,455,621.91
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	51,053.45
Long-term liabilities, including bonds payable and accrued leave payable are not due and payables in the current period and therefore are not reported in the funds.	(12,913.42)
Assets such as taxes receivable (delinquent), special assessment receivables (current, delinquent and deferred), and sales tax receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	60,910.68
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	(43,027.99)
Net Position - Governmental Activities	4,347,648.46

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, 2015

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes	303,568.74				303,568.74
General Sales and Use Taxes	490,510.47	21,126.53			511,637.00
Gross Receipts Business Taxes	2,058.56				2,058.56
Amusement Taxes	12.00				12.00
Penalties and Interest on Delinquent Taxes	477.67				477.67
Licenses and Permits	6,931.00				6,931.00
Intergovernmental Revenue:					
State Grants	2,035.00				2,035.00
State Shared Revenue:					
Bank Franchise Tax	1,370.06				1,370.06
Prorate License Fees	3,496.79				3,496.79
Liquor Tax Reversion	8,376.08				8,376.08
Motor Vehicle Licenses	16,796.04				16,796.04
Local Government Highway and Bridge Fund	16,683.77				16,683.77
County Shared Revenue:					
County Road Tax	2,674.43				2,674.43
County Wheel Tax	5,710.39				5,710.39
Charges for Goods and Services:					
General Government	4,791.00				4,791.00
Highways and Streets	1,800.00				1,800.00
Sanitation	31,984.49				31,984.49
Culture and Recreation	19,559.70				19,559.70
Fines and Forfeits:					
Other	780.00				780.00

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, 2015

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues (Cont.):					
Miscellaneous Revenue:					
Investment Earnings	4,936.03	173.34	384.69	814.55	6,308.61
Rentals	7,010.75				7,010.75
Special Assessments	5,858.60				5,858.60
Maintenance Assessments			33,705.53	37,209.33	70,914.86
Contributions and Donations from Private Sources	11,005.43	20,000.00			31,005.43
Liquor Operating Agreement Income	26,859.97				26,859.97
Other	12,023.82				12,023.82
Total Revenue	987,310.79	41,299.87	34,090.22	38,023.88	1,100,724.76
Expenditures:					
General Government:					
Legislative	7,094.41				7,094.41
Executive	17,036.20				17,036.20
Financial Administration	145,542.25				145,542.25
Other	11,293.81				11,293.81
Total General Government	180,966.67	0.00	0.00	0.00	180,966.67
Public Safety:					
Police	83,824.00				83,824.00
Fire	1,560.26				1,560.26
Other Protection	332.56				332.56
Total Public Safety	85,716.82	0.00	0.00	0.00	85,716.82
Public Works:					
Highways and Streets	183,349.45		54,594.29	7,305.88	245,249.62
Sanitation	7,356.36				7,356.36
Total Public Works	190,705.81	0.00	54,594.29	7,305.88	252,605.98
Health and Welfare:					
Health	8,979.35				8,979.35
Total Health and Welfare	8,979.35	0.00	0.00	0.00	8,979.35

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, 2015

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Expenditures (Cont.):					
Culture and Recreation:					
Recreation	62,212.13				62,212.13
Parks	48,715.74				48,715.74
Libraries	500.00				500.00
Auditorium	54,117.29				54,117.29
Total Culture and Recreation	165,545.16	0.00	0.00	0.00	165,545.16
Conservation and Development:					
Economic Development and Assistance (Industrial Development)	8,041.84	5,388.00			13,429.84
Total Conservation and Development	8,041.84	5,388.00	0.00	0.00	13,429.84
Capital Outlay	61,565.41	44,562.85	0.00	3,852.48	109,980.74
Total Expenditures	701,521.06	49,950.85	54,594.29	11,158.36	817,224.56
Excess of Revenue Over (Under) Expenditures	285,789.73	(8,650.98)	(20,504.07)	26,865.52	283,500.20
Other Financing Sources (Uses):					
Compensation for Loss or Damage to Capital Assets	2,155.37				2,155.37
Total Other Financing Sources (Uses)	2,155.37	0.00	0.00	0.00	2,155.37
Net Change in Fund Balances	287,945.10	(8,650.98)	(20,504.07)	26,865.52	285,655.57
Changes in Nonspendable	8,372.96	0.00	0.00	0.00	8,372.96
Fund Balance - Beginning	1,177,573.25	59,191.80	85,838.89	190,210.11	1,512,814.05
FUND BALANCE - ENDING	1,473,891.31	50,540.82	65,334.82	217,075.63	1,806,842.58

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 Statement of Activities
For the Year Ended December 31, 2015

Net Change in Fund Balances - Total Governmental Funds	285,655.57
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.	110,061.58
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.	(117,433.80)
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".	555.90
The fund financial statement governmental fund sales and use tax accruals differ from the government-wide statement sales and use tax accruals in that the fund financial statements require the amounts to be "available".	41,941.96
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments and street assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	(14.40)
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.	(159.13)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g. pension expense)	4,420.48
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 increase/(decrease) in inventory of supplies.	8,372.96
Change in Net Position of Governmental Activities	333,401.12

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	329,572.46	402,622.03	732,194.49
Accounts Receivable, Net	105.17	(196.00)	(90.83)
Inventory of Supplies	21,940.92		21,940.92
Total Current Assets	351,618.55	402,426.03	754,044.58
Noncurrent Assets:			
Net Pension Asset	8,625.16	3,285.77	11,910.93
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	1,631,956.89	1,045,497.38	2,677,454.27
Machinery and Equipment	1,155,029.73	32,665.78	1,187,695.51
Less: Accumulated Depreciation	(1,036,208.59)	(458,207.09)	(1,494,415.68)
Total Noncurrent Assets	3,060,217.88	662,898.08	3,723,115.96
TOTAL ASSETS	3,411,836.43	1,065,324.11	4,477,160.54
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	15,100.31	5,752.51	20,852.82
TOTAL DEFERRED OUTFLOWS OF RESOURCES	15,100.31	5,752.51	20,852.82
LIABILITIES:			
Current Liabilities:			
Claims Payable	8,905.38	1,783.77	10,689.15
Accrued Wages Payable	2,053.43	1,011.11	3,064.54
Accrued Taxes Payable	280.30	138.02	418.32
Customer Deposits	29,815.00		29,815.00
Bonds Payable Current:			
Revenue	48,933.85	45,893.02	94,826.87
Compensated Absences Payable -- Current	3,199.91	1,219.99	4,419.90
Total Current Liabilities	93,187.87	50,045.91	143,233.78
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,318,648.43	464,600.06	1,783,248.49
Accrued Leave Payable	702.42	280.61	983.03
Total Noncurrent Liabilities	1,319,350.85	464,880.67	1,784,231.52
TOTAL LIABILITIES	1,412,538.72	514,926.58	1,927,465.30
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	12,726.59	4,848.22	17,574.81
TOTAL DEFERRED INFLOWS OF RESOURCES	12,726.59	4,848.22	17,574.81
NET POSITION:			
Net Investment in Capital Assets	1,684,010.44	149,119.23	1,833,129.67
Restricted For:			
Revenue Bond Debt Service	174,315.04	20,000.00	194,315.04
Equipment Repair and/or Replacement	50,113.23	163,969.07	214,082.30
SDRS Pension Purposes	10,998.88	4,190.06	15,188.94
Unrestricted Net Position	82,233.84	214,023.46	296,257.30
TOTAL NET POSITION	2,001,671.43	551,301.82	2,552,973.25

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 POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue:			
Charges for Goods and Services	244,784.39	168,738.05	413,522.44
Revenue Dedicated to Servicing Debt	78,283.43		78,283.43
Miscellaneous	900.00	325.00	1,225.00
Total Operating Revenue	323,967.82	169,063.05	493,030.87
Operating Expenses:			
Personal Services	45,604.12	20,740.65	66,344.77
Other Current Expense	224,875.89	71,705.24	296,581.13
Depreciation	85,928.39	24,199.01	110,127.40
Total Operating Expenses	356,408.40	116,644.90	473,053.30
Operating Income (Loss)	(32,440.58)	52,418.15	19,977.57
Nonoperating Revenue (Expense):			
Investment Earnings	1,218.40	1,517.56	2,735.96
Rental Revenue	6,900.00		6,900.00
Interest Expense	(45,412.62)	(18,215.08)	(63,627.70)
Gain (Loss) on Disposition of Assets	(10,852.78)		(10,852.78)
Other	271.73	554.42	826.15
Total Nonoperating Revenue (Expense)	(47,875.27)	(16,143.10)	(64,018.37)
Change in Net Position	(80,315.85)	36,275.05	(44,040.80)
Net Position - Beginning	2,072,295.86	511,334.80	2,583,630.66
Adjustments:			
Prior Period Adjustment for GASB 68 (See Note 11)	9,691.42	3,691.97	13,383.39
Adjusted Net Position - Beginning	2,081,987.28	515,026.77	2,597,014.05
NET POSITION - ENDING	2,001,671.43	551,301.82	2,552,973.25

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, 2015

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	325,015.61	168,908.10	493,923.71
Other Operating Cash Receipts	900.00	325.00	1,225.00
Cash Payments to Employees for Services	(46,746.46)	(20,185.29)	(66,931.75)
Cash Payments to Suppliers of Goods and Services	(221,004.66)	(70,872.08)	(291,876.74)
Net Cash Provided (Used) by Operating Activities	58,164.49	78,175.73	136,340.22
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Subsidies	7,171.73	554.42	7,726.15
Net Cash Provided (Used) by Noncapital Financing Activities	7,171.73	554.42	7,726.15
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(10,684.53)	(357.00)	(11,041.53)
Principal Paid on Capital Debt	(47,375.30)	(44,366.64)	(91,741.94)
Interest Paid on Capital Debt	(45,412.62)	(18,215.08)	(63,627.70)
Net Cash (Used) by Capital and Related Financing Activities	(103,472.45)	(62,938.72)	(166,411.17)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	1,218.40	1,517.56	2,735.96
Net Cash Provided by Investing Activities	1,218.40	1,517.56	2,735.96
Net Increase (Decrease) in Cash and Cash Equivalents	(36,917.83)	17,308.99	(19,608.84)
Balances - Beginning	366,490.29	385,313.04	751,803.33
Balances - Ending	329,572.46	402,622.03	732,194.49
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(32,440.58)	52,418.15	19,977.57
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	85,928.39	24,199.01	110,127.40
(Increase) decrease in Receivables	(601.19)	170.05	(431.14)
(Increase) decrease in Inventories	7,947.70		7,947.70
(Increase) decrease in Net Pension Asset	6,202.35	2,362.80	8,565.15
(Increase) decrease in Pension Related Deferred Outflows	(3,063.65)	(1,167.11)	(4,230.76)
(Decrease) increase in Accounts and Other Payables	(2,987.69)	833.16	(2,154.53)
(Decrease) increase in Accrued Wages Payable	303.28	738.27	1,041.55
(Decrease) increase in Accrued Leave Payable	(138.16)	315.18	177.02
(Decrease) increase in Pension Related Deferred Inflows	(4,446.16)	(1,693.78)	(6,139.94)
Water Deposits	1,460.20		1,460.20
Net Cash Provided (Used) by Operating Activities	58,164.49	78,175.73	136,340.22
Noncash Investing, Capital and Financing Activities:			
Loss on Disposal of Capital Assets Not Affecting Operating Income	(10,852.78)		(10,852.78)

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2014

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS:				
Cash and Cash Equivalents	1,471,113.48	751,803.33	2,222,916.81	15,450.92
Accounts Receivable, Net	45,487.74	(556.77)	44,930.97	
Due from Component Unit	30,817.00		30,817.00	(30,817.00)
Inventories	5,505.50	29,888.62	35,394.12	
Capital Assets:				
Land, Improvements and Construction in Progress	359,596.62	41,866.19	401,462.81	56,293.45
Other Capital Assets, Net of Depreciation	2,103,397.51	3,779,277.49	5,882,675.00	818,477.03
TOTAL ASSETS	4,015,917.85	4,602,278.86	8,618,196.71	859,404.40
LIABILITIES :				
Accounts Payable	16,255.89	12,843.68	29,099.57	
Other Current Liabilities	5,426.56	30,761.31	36,187.87	8,330.00
Noncurrent Liabilities:				
Due Within One Year	10,292.49	95,967.57	106,260.06	35,811.24
Due in More than One Year	2,461.80	1,879,075.64	1,881,537.44	1,131,410.16
TOTAL LIABILITIES	34,436.74	2,018,648.20	2,053,084.94	1,175,551.40
NET POSITION:				
Net Investment in Capital Assets	2,462,994.13	1,851,326.38	4,314,320.51	(292,450.92)
Restricted for:				
Debt Service Purposes		186,263.26	186,263.26	
Street Maintenance	87,873.61		87,873.61	
City Promotion	59,191.80		59,191.80	
Storm Sewer Maintenance	190,210.11		190,210.11	
Unrestricted (Deficit)	1,181,211.46	546,041.02	1,727,252.48	(23,696.08)
TOTAL NET POSITION	3,981,481.11	2,583,630.66	6,565,111.77	(316,147.00)

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, 2014

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units
Primary Government:								
Governmental Activities:								
General Government	192,467.28	11,202.25			(181,265.03)		(181,265.03)	
Public Safety	92,824.76				(92,824.76)		(92,824.76)	
Public Works	258,499.78	22,362.36	43,002.47	79,669.32	(113,465.63)		(113,465.63)	
Health and Welfare	4,232.80		2,959.00		(1,273.80)		(1,273.80)	
Culture and Recreation	180,767.07	24,554.70		9,585.36	(146,627.01)		(146,627.01)	
Conservation and Development	11,038.33				(11,038.33)		(11,038.33)	
Miscellaneous Expenditures		25,684.48			25,684.48		25,684.48	
Total Governmental Activities	739,830.02	83,803.79	45,961.47	89,254.68	(520,810.08)		(520,810.08)	
Business-type Activities:								
Water	374,398.63	324,591.35				(49,807.28)	(49,807.28)	
Sewer	206,417.89	163,464.84				(42,953.05)	(42,953.05)	
Total Business-type Activities	580,816.52	488,056.19	0.00	0.00		(92,760.33)	(92,760.33)	
Total Primary Government	1,320,646.54	571,859.98	45,961.47	89,254.68	(520,810.08)	(92,760.33)	(613,570.41)	
Component Units:								
Housing and Redevelopment Commission	137,900.90	116,498.16						(21,402.74)
General Revenues:								
Taxes:								
Property Taxes					303,139.65		303,139.65	
Sales Taxes					440,090.26		440,090.26	
State Shared Revenues					11,163.98		11,163.98	
Unrestricted Investment Earnings					5,560.91	3,136.04	8,696.95	
Miscellaneous Revenue					13,854.38	7,711.53	21,565.91	
Total General Revenues					773,809.18	10,847.57	784,656.75	0.00
Change in Net Position					252,999.10	(81,912.76)	171,086.34	(21,402.74)
Net Position - Beginning					3,728,482.01	2,665,543.42	6,394,025.43	(294,744.26)
NET POSITION - ENDING					3,981,481.11	2,583,630.66	6,565,111.77	(316,147.00)

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

MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2014

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	1,136,831.88	58,531.45	85,487.01	190,263.14	1,471,113.48
Taxes Receivable--Delinquent	11,790.46		2,034.72		13,825.18
Accounts Receivable, Net	5,842.92			(19.50)	5,823.42
Special Assessments Receivable--Current	2,048.63				2,048.63
Special Assessments Receivable--Delinquent	2,467.06				2,467.06
Interest Receivable--Special Assessments	86.35				86.35
Due from State & County Governments	20,224.87	660.35	351.88		21,237.10
Due from Component Unit	30,817.00				30,817.00
Inventory of Supplies	5,505.50				5,505.50
TOTAL ASSETS	1,215,614.67	59,191.80	87,873.61	190,243.64	1,552,923.72
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:					
Liabilities:					
Claims Payable	16,255.89				16,255.89
Accrued Wages Payable	4,316.31			29.50	4,345.81
Accrued Taxes Payable	1,076.72			4.03	1,080.75
Total Liabilities	21,648.92	0.00	0.00	33.53	21,682.45
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	11,790.46				11,790.46
Unavailable Revenue - Special Assessments	4,602.04				4,602.04
Unavailable Revenue - Street Assessments			2,034.72		2,034.72
Total Deferred Inflows of Resources	16,392.50	0.00	2,034.72	0.00	18,427.22
Fund Balances:					
Nonspendable - Inventory	5,505.50				5,505.50
Nonspendable - Due from Component Unit	30,817.00				30,817.00
Restricted		59,191.80	85,838.89	190,210.11	335,240.80
Committed for Capital Improvements	373,808.82				373,808.82
Assigned for Next Year's Budget	250,000.00				250,000.00
Assigned for Capital Outlay	32,360.00				32,360.00
Unassigned	485,081.93				485,081.93
Total Fund Balances	1,177,573.25	59,191.80	85,838.89	190,210.11	1,512,814.05
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,215,614.67	59,191.80	87,873.61	190,243.64	1,552,923.72

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 Position
December 31, 2014

Total Fund Balances - Governmental Funds	1,512,814.05
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	2,462,994.13
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.	(12,754.29)
Assets such as taxes receivable (delinquent), special assessment receivables (current, delinquent and deferred), and sales tax receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	18,427.22
Net Position - Governmental Activities	3,981,481.11

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, 2014

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues:						
Taxes:						
General Property Taxes	297,937.37					297,937.37
General Sales and Use Taxes	455,506.37	20,983.89				476,490.26
Gross Receipts Business Taxes	1,974.33					1,974.33
Amusement Taxes	36.00					36.00
Tax Deed Revenue	123.38					123.38
Penalties and Interest on Delinquent Taxes	751.69					751.69
Licenses and Permits	9,894.25					9,894.25
Intergovernmental Revenue:						
State Grants	2,959.00					2,959.00
State Shared Revenue:						
Bank Franchise Tax	1,685.16					1,685.16
Motor Vehicle Commercial Prorate	3,496.37					3,496.37
Liquor Tax Reversion	9,478.82					9,478.82
Motor Vehicle Licenses	14,904.64					14,904.64
Local Government Highway and Bridge Fund	16,331.42					16,331.42
County Shared Revenue:						
County Road Tax	2,674.43					2,674.43
County Wheel Tax	5,595.61					5,595.61
Charges for Goods and Services:						
General Government	1,308.00					1,308.00
Highways and Streets	1,800.00					1,800.00
Sanitation	20,562.36					20,562.36
Culture and Recreation	18,414.70					18,414.70

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, 2014

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues (Cont.):						
Miscellaneous Revenue:						
Investment Earnings	4,399.31	125.34	334.62	701.64		5,560.91
Rentals	6,140.00					6,140.00
Special Assessments	4,813.98					4,813.98
Maintenance Assessments			34,058.67	37,388.78		71,447.45
Contributions and Donations from Private Sources	9,585.36					9,585.36
Liquor Operating Agreement Income	25,684.48					25,684.48
Other	13,854.38					13,854.38
Total Revenue	929,911.41	21,109.23	34,393.29	38,090.42	0.00	1,023,504.35
Expenditures:						
General Government:						
Legislative	3,662.06					3,662.06
Executive	15,047.45					15,047.45
Financial Administration	143,916.31					143,916.31
Other	27,946.43					27,946.43
Total General Government	190,572.25	0.00	0.00	0.00	0.00	190,572.25
Public Safety:						
Police	83,824.00					83,824.00
Fire	2,057.86					2,057.86
Other Protection	483.06					483.06
Total Public Safety	86,364.92	0.00	0.00	0.00	0.00	86,364.92
Public Works:						
Highways and Streets	147,373.57		18,171.47	9,020.87		174,565.91
Sanitation	6,563.23					6,563.23
Total Public Works	153,936.80	0.00	18,171.47	9,020.87	0.00	181,129.14
Health and Welfare:						
Health	4,232.80					4,232.80
Total Health and Welfare	4,232.80	0.00	0.00	0.00	0.00	4,232.80

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, 2014

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Expenditures (Cont.):						
Culture and Recreation:						
Recreation	63,393.09					63,393.09
Parks	36,022.88					36,022.88
Libraries	500.00					500.00
Auditorium	55,371.76					55,371.76
Total Culture and Recreation	155,287.73	0.00	0.00	0.00	0.00	155,287.73
Conservation and Development:						
Economic Development and Assistance (Industrial Development)	5,650.33	5,388.00				11,038.33
Total Conservation and Development	5,650.33	5,388.00	0.00	0.00	0.00	11,038.33
Capital Outlay	250,760.37	0.00	0.00	5,449.60	19,551.42	275,761.39
Total Expenditures	846,805.20	5,388.00	18,171.47	14,470.47	19,551.42	904,386.56
Excess of Revenue Over (Under) Expenditures	83,106.21	15,721.23	16,221.82	23,619.95	(19,551.42)	119,117.79
Other Financing Sources (Uses):						
Transfers In		29,620.60				29,620.60
Transfers Out					(29,620.60)	(29,620.60)
Total Other Financing Sources (Uses)	0.00	29,620.60	0.00	0.00	(29,620.60)	0.00
Net Change in Fund Balances	83,106.21	45,341.83	16,221.82	23,619.95	(49,172.02)	119,117.79
Change in Nonspendable	3,898.32	0.00	0.00	0.00	0.00	3,898.32
Fund Balance - Beginning	1,090,568.72	13,849.97	69,617.07	166,590.16	49,172.02	1,389,797.94
FUND BALANCE - ENDING	1,177,573.25	59,191.80	85,838.89	190,210.11	0.00	1,512,814.05

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, 2014

Net Change in Fund Balances - Total Governmental Funds		119,117.79
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.		275,761.39
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.		(113,940.67)
Sales tax revenue that is not received in the availability period is deferred in the fund financial statements.		(36,400.00)
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".		2,316.88
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assesssments and street assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.		3,407.89
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources furing 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.		(1,162.50)
Vacation Leave	1,162.50	
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.		3,898.32
Change in Net Position of Governmental Activities		252,999.10

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	366,490.29	385,313.04	751,803.33
Accounts Receivable, Net	(530.82)	(25.95)	(556.77)
Inventory of Supplies	29,888.62		29,888.62
Total Current Assets	395,848.09	385,287.09	781,135.18
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	1,630,614.62	1,045,140.38	2,675,755.00
Machinery and Equipment	1,197,514.35	34,373.39	1,231,887.74
Less: Accumulated Depreciation	(991,254.30)	(435,715.69)	(1,426,969.99)
Total Noncurrent Assets	3,137,689.36	683,454.32	3,821,143.68
TOTAL ASSETS	3,533,537.45	1,068,741.41	4,602,278.86
LIABILITIES:			
Current Liabilities:			
Claims Payable	11,893.07	950.61	12,843.68
Accrued Wages Payable	1,786.58	361.50	2,148.08
Accrued Taxes Payable	243.87	49.36	293.23
Customer Deposits	28,320.00		28,320.00
Bonds Payable - Current:			
Revenue	47,375.30	44,366.64	91,741.94
Compensated Absences Payable--Current	3,272.80	952.83	4,225.63
Total Current Liabilities	92,891.62	46,680.94	139,572.56
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,367,582.28	510,493.08	1,878,075.36
Accrued Leave Payable	767.69	232.59	1,000.28
Total Noncurrent Liabilities	1,368,349.97	510,725.67	1,879,075.64
TOTAL LIABILITIES	1,461,241.59	557,406.61	2,018,648.20
NET POSITION:			
Net Investment in Capital Assets	1,722,731.78	128,594.60	1,851,326.38
Restricted for:			
Revenue Bond Debt Service	166,263.26	20,000.00	186,263.26
Equipment Repair and/or Replacement	98,244.67	162,282.07	260,526.74
Unrestricted	85,056.15	200,458.13	285,514.28
TOTAL NET POSITION	2,072,295.86	511,334.80	2,583,630.66

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 POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
Operating Revenue:			
Charges for Goods and Services	246,472.86	163,464.84	409,937.70
Revenue Dedicated to Servicing Debt	78,118.49		78,118.49
Total Operating Revenue	324,591.35	163,464.84	488,056.19
Operating Expenses:			
Personal Services	46,213.11	22,480.76	68,693.87
Other Current Expense	192,667.56	139,314.61	331,982.17
Depreciation	88,596.40	24,931.87	113,528.27
Total Operating Expenses	327,477.07	186,727.24	514,204.31
Operating Income (Loss)	(2,885.72)	(23,262.40)	(26,148.12)
Nonoperating Revenue (Expense):			
Investment Earnings	1,408.99	1,727.05	3,136.04
Rental Revenue	6,900.00		6,900.00
Interest Expense	(46,921.56)	(19,690.65)	(66,612.21)
Other	276.83	534.70	811.53
Total Nonoperating Revenue (Expense)	(38,335.74)	(17,428.90)	(55,764.64)
Change in Net Position	(41,221.46)	(40,691.30)	(81,912.76)
Net Position - Beginning	2,113,517.32	552,026.10	2,665,543.42
NET POSITION - ENDING	2,072,295.86	511,334.80	2,583,630.66

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, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	323,088.36	163,065.54	486,153.90
Other Operating Cash Receipts	1,545.10	50.00	1,595.10
Cash Payments to Employees for Services	(46,857.74)	(23,057.98)	(69,915.72)
Cash Payments to Suppliers of Goods and Services	(185,891.74)	(139,011.05)	(324,902.79)
Net Cash Provided (Used) by Operating Activities	91,883.98	1,046.51	92,930.49
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Other Receipts (Payments)	7,176.83	534.70	7,711.53
Net Cash Provided (Used) by Noncapital Financing Activities	7,176.83	534.70	7,711.53
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets		(15,451.90)	(15,451.90)
Principal Paid on Capital Debt	(45,866.36)	(42,891.07)	(88,757.43)
Interest Paid on Capital Debt	(46,921.56)	(19,690.65)	(66,612.21)
Net Cash (Used) by Capital and Related Financing Activities	(92,787.92)	(78,033.62)	(170,821.54)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	1,408.99	1,727.05	3,136.04
Net Cash Provided by Investing Activities	1,408.99	1,727.05	3,136.04
Net Increase (Decrease) in Cash and Cash Equivalents	7,681.88	(74,725.36)	(67,043.48)
Balances - Beginning	358,808.41	460,038.40	818,846.81
Balances - Ending	366,490.29	385,313.04	751,803.33
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(2,885.72)	(23,262.40)	(26,148.12)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	88,596.40	24,931.87	113,528.27
(Increase) decrease in Receivables	(177.89)	(349.30)	(527.19)
(Increase) decrease in Inventories	3,630.91		3,630.91
(Decrease) increase in Accounts and Other Payables	3,155.87	303.56	3,459.43
(Decrease) increase in Accrued Wages Payable	(185.35)	(554.08)	(739.43)
(Decrease) increase in Accrued Leave Payable	(470.24)	(23.14)	(493.38)
Customer Deposits	220.00		220.00
Net Cash Provided (Used) by Operating Activities	91,883.98	1,046.51	92,930.49

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

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 Position 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.

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 out in 2014.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Proprietary Funds:

Enterprise Funds – Enterprise funds may be used to report any activity for which a fee is charged to external users for goods or services. Activities are required to be reported as enterprise funds if any one of the following criteria is met. Governments should apply each of these criteria in the context of the activity's principal revenue sources.

a. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity. Debt that is secured by a pledge of net revenues from fees and charges and the full faith and credit of a related primary government or component unit—even if that government is not expected to make any payments—is not payable solely from fees and charges of the activity. (Some debt may be secured, in part, by a portion of its own proceeds but should be considered as payable "solely" from the revenues of the activity.)
b. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues.
c. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service).

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 Position 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 Position and Statement of Activities, governmental, business-type, and component unit activities are presented using the accrual basis of accounting. Under the accrual basis of

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 Municipality of Salem, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2015 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.

d. Deposits and Investments:

For the purpose of financial reporting, “cash and cash equivalents” includes all demand and savings accounts and certificates of deposit or short-term investments with a term to maturity at date of acquisition of three months or less. Investments in open-end mutual fund shares, or similar investments in external investment pools, are also considered to be cash equivalents.

Investments classified in the financial statements consist entirely of certificates of deposit whose term to maturity at date of acquisition exceeds three months, and/or those types of investment authorized by South Dakota Codified Laws (SDCL) 4-5-6.

e. 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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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, 2015 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 Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position/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:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
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.

f. 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

g. 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.
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.

h. Deferred Inflows and Deferred Outflows of Resources:

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. Deferred outflows of resources represent consumption of net position that applies to a future period or periods. These items will not be recognized as an outflow of resources until the applicable future period.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. Deferred inflows of resources represent acquisitions of net position that applies to a future period or periods. These items will not be recognized as an inflow of resources until the applicable future period.

i. Proprietary Funds Revenue and Expense Classifications:

In the proprietary fund's Statement of Revenues, Expenses and Changes in Fund Net Position, 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.

j. 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

k. Equity Classifications:

Government-wide Statements:

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

1. Net investment in capital assets – 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 position – Consists of net position 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 position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements:

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.

l. Application of Net Position:

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

m. 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.
- Amount reported in non-cash form such as due from component unit.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Fund Balance Type	Amount 12/31/15	Amount 12/31/14	Action
Capital Improvements	$ 620,997.15	$ 373,808.82	Ordinance

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:

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

n. Pensions:

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense (revenue), information about the fiduciary net position of the South Dakota Retirement System (SDRS) and additions to/deletions from SDRS's fiduciary net position have been determined on the same basis as they are reported by SDRS. Municipal contributions and net pension liability (asset) are recognized on an accrual basis of accounting.

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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2015, is as follows:

	Balance 01/01/2014	Increases	Decreases	Balance 12/31/2015
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	60,590.82			60,590.82
Construction Work in Progress	296,647.98	244,616.58	(515,622.89)	25,641.67
Total, not being depreciated	357,238.80	244,616.58	(515,622.89)	86,232.49
Capital Assets, being Depreciated:				
Buildings	548,249.90	49,562.85	(1,726.04)	596,086.71
Improvements Other Than Buildings	1,753,166.43	550,985.29		2,304,151.72
Machinery and Equipment	559,995.29	56,281.14	(35,700.75)	580,575.68
Total, being Depreciated	2,861,411.62	656,829.28	(37,426.79)	3,480,814.11
Less Accumulated Depreciation for:				
Buildings	(259,822.25)	(23,304.26)	1,726.04	(281,400.47)
Improvements Other Than Buildings	(390,263.22)	(156,753.97)		(547,017.19)
Machinery and Equipment	(267,391.54)	(51,316.24)	35,700.75	(283,007.03)
Total Accumulated Depreciation	(917,477.01)	(231,374.47)	37,426.79	(1,111,424.69)
Total Capital Assets, being Depreciated, Net	1,943,934.61	425,454.81	0.00	2,369,389.42
Governmental Activity Capital Assets, Net	2,301,173.41	670,071.39	(515,622.89)	2,455,621.91

Depreciation expense was charged to functions as follows:

Governmental Activities:	2014	2015
General Government	1,474.92	1,474.92
Public Safety	6,459.84	6,459.84
Public Works	81,096.34	80,952.07
Culture and Recreation	24,909.57	28,546.97
Total Depreciation Expense - Governmental Activities	113,940.67	117,433.80

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Balance 01/01/2014	Increases	Decreases	Balance 12/31/2015
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	41,866.19			41,866.19
Total, not being depreciated	41,866.19	0.00	0.00	41,866.19
Capital Assets, being Depreciated:				
Buildings	1,298,604.74			1,298,604.74
Improvements Other Than Buildings	2,660,303.10	24,213.60	(7,062.43)	2,677,454.27
Machinery and Equipment	1,244,362.74	2,279.83	(58,947.06)	1,187,695.51
Total, being Depreciated	5,203,270.58	26,493.43	(66,009.49)	5,163,754.52
Less Accumulated Depreciation for:				
Buildings	(129,860.45)	(51,944.18)		(181,804.63)
Improvements Other Than Buildings	(946,554.93)	(108,390.07)	4,361.48	(1,050,583.52)
Machinery and Equipment	(249,501.34)	(63,321.42)	50,795.23	(262,027.53)
Total Accumulated Depreciation	(1,325,916.72)	(223,655.67)	55,156.71	(1,494,415.68)
Total Capital Assets, being Depreciated, Net	3,877,353.86	(197,162.24)	(10,852.78)	3,669,338.84
Business-Type Activity Capital Assets, Net	3,919,220.05	(197,162.24)	(10,852.78)	3,711,205.03

Depreciation expense was charged to functions as follows:

Business-Type Activities:	2014	2015
Water	88,596.40	85,928.39
Sewer	24,931.87	24,199.01
Total Depreciation Expense - Business-Type Activities	113,528.27	110,127.40

Construction Work in Progress at December 31, 2015, is composed of the following:

Project Name	Project Authorization	Expended thru 12/31/2015	Committed	Required Future Financing
Pool Bathhouse Renovation	453,049.00	25,641.67	209,500.00	235,141.67
TOTAL	453,049.00	25,641.67	209,500.00	235,141.67

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, 2015, is as follows:

	Balance 1/1/2014	Additions	Deletions	Balance 12/31/2015
Land	56,293.45			56,293.45
Buildings	1,275,619.81			1,275,619.81
Organization Costs	52,000.00			52,000.00
Accumulated Depreciation	(461,904.69)	(94,476.18)		(556,380.87)
TOTAL	922,008.57	(94,476.18)	0.00	827,532.39

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	11,591.79	20,668.15	19,346.52	12,913.42	10,355.00
Total Governmental Activities	11,591.79	20,668.15	19,346.52	12,913.42	10,355.00
Business-Type Activities:					
Clean Water SRF Loan # 1	322,488.99		51,224.34	271,264.65	26,982.47
Clean Water SRF Loan # 2	275,261.80		36,033.37	239,228.43	18,910.55
Drinking Water SRF Loan # 2	244,362.28		29,821.24	214,541.04	15,650.39
Drinking Water SRF Loan # 3	1,216,461.66		63,420.42	1,153,041.24	33,283.46
Total Debt	2,058,574.73	0.00	180,499.37	1,878,075.36	94,826.87
Accrued Compensated Absences - Business-Type Funds	5,673.01	8,623.77	8,893.85	5,402.93	4,419.90
Total Business-Type Activities	2,064,247.74	8,623.77	189,393.22	1,883,478.29	99,246.77
TOTAL PRIMARY GOVERNMENT	2,075,839.53	29,291.92	208,739.74	1,896,391.71	109,601.77

	Balance	Additions	Deletions	Balance	One Year
Component Unit:					
Bonds Payable:					
Revenue - Series 2005	770,424.26		42,132.77	728,291.49	23,896.94
Revenue - Series 2001	432,330.08		30,211.62	402,118.46	16,395.57
TOTAL COMPONENT UNIT	1,202,754.34	0.00	72,344.39	1,130,409.95	40,292.51

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Debt payable at December 31, 2015, 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	$ 271,264.65
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	$ 239,228.43
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	$ 214,541.04
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	$ 1,153,041.24
Compensated Absences:	
Vacation and Sick Leave for eligible employees:	
General Fund	$ 12,913.42
Water Fund	$ 3,902.33
Sewer Fund	$ 1,500.60
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, 2015, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2015

Year Ending December 31,	Clean Water SRF Loan C461057-01		Clean Water SRF Loan C461057-02		Drinking Water SRF Loan C462057-02	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	26,982.47	9,142.69	18,910.55	7,546.01	15,650.39	6,783.13
2017	27,939.33	8,185.83	19,532.68	6,923.88	16,165.26	6,268.26
2018	28,930.11	7,195.05	20,175.27	6,281.29	16,697.06	5,736.46
2019	29,956.03	6,169.13	20,839.00	5,617.56	17,246.38	5,187.14
2020	31,018.34	5,106.82	21,524.56	4,932.00	17,813.74	4,619.78
2021-2025	126,438.37	9,030.98	118,722.21	13,560.59	98,254.59	13,913.01
2026-2030			19,524.16	318.26	32,713.62	936.66
2031-2035						
2036-2040						
Totals	271,264.65	44,830.50	239,228.43	45,179.59	214,541.04	43,444.44

Year Ending December 31,	Drinking Water SRF Loan C462057-03		Totals	
	Principal	Interest	Principal	Interest
2016	33,283.46	37,070.94	94,826.87	60,542.77
2017	34,378.44	35,975.96	98,015.71	57,353.93
2018	35,509.42	34,844.98	101,311.86	54,057.78
2019	36,677.62	33,676.78	104,719.03	50,650.61
2020	37,884.25	32,470.15	108,240.89	47,128.75
2021-2025	208,956.68	142,815.32	552,371.85	179,319.90
2026-2030	245,665.37	106,106.63	297,903.15	107,361.55
2031-2035	288,822.91	62,949.09	288,822.91	62,949.09
2036-2040	231,863.09	14,377.31	231,863.09	14,377.31
Totals	1,153,041.24	500,287.16	1,878,075.36	633,741.69

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2014 and 2015 were as follows:

Purpose	Restricted By	12/31/2014	12/31/2015
Major Purposes:			
City Promotion Fund	Law	$ 59,191.80	$ 52,006.01
Street Assessment Fund	Law	87,873.61	67,577.22
Storm Sewer Maintenance Fund	Law	190,210.11	217,075.63
Debt Service	Debt Covenants	186,263.26	194,315.04
SDRS Pension	Governmental Accounting Standards		52,375.65
Total Restricted Net Assets		$ 523,538.78	$ 583,349.55

10. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2014 were as follows:

	Transfers to:
	Governmental Activities
Transfers from:	Liquor & Lodging Fund
Major Funds:	
Capital Projects Fund	$ 29,620.60

The Municipality budgets transfers to cover costs of projects of the Municipality and to conduct the indispensable functions of the Municipality.

11. PRIOR PERIOD ADJUSTMENTS

The Municipality implemented GASB Statement No. 68 *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68.* As a result, beginning net position has been restated to reflect the related net pension asset and deferred outflows of resources as of January 1, 2015 as follows:

	Governmental Activities	Business-Type Activities	Total
Net Position January 1, 2015, as previously reported	3,981,481.11	2,583,630.66	6,565,111.77
Restatement for pension accounting:			
Net Pension Asset	50,131.08	20,476.07	70,607.15
Pension Related Deferred Outflows of Resources	40,695.39	16,622.06	57,317.45
Pension Related Deferred Inflows of Resources	(58,060.24)	(23,714.74)	(81,774.98)
Net Position January 1, 2015, as restated	4,014,247.34	2,597,014.05	6,611,261.39

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. PENSION PLAN

Plan Information:
All employees, working more than 20 hours per week during the year, participate in the South Dakota Retirement System (SDRS), a cost sharing, multiple employer defined benefit pension plan administered by SDRS to provide retirement benefits for employees of the State of South Dakota and its political subdivisions. The SDRS provides retirement, disability, and survivor 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 SDCL 3-12. The SDRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at http://www.sdrs.sd.gov/publications/ or by writing to the SDRS, P.O. Box 1098, Pierre, SD 57501-1098 or by calling (605) 773-3731.

Benefits Provided:
SDRS has three different classes of employees, Class A, Class B public safety and Class B judicial. Class A retirement benefits are determined as 1.7 percent prior to 2008 and 1.55 percent thereafter of the employee's final 3-year average compensation times the employee's years of service. Employees with 3 years of service are eligible to retire at age 55. Class B public safety benefits are determined as 2.4 percent for service prior to 2008 and 2.0 percent thereafter of employee final average compensation. Class B judicial benefits are determined as 3.733 percent for service prior to 2008 and 3.333 percent thereafter of employee final average compensation. All Class B employees with 3 years of service are eligible to retire at age 45. Employees are eligible for service-related disability benefits regardless of length of service. Three years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are a percent of the employee's final average salary.

The annual increase in the amount of the SDRS benefits payable on each July 1st is indexed to the consumer price index (CPI) based on SDRS funded status:

- If the SDRS market value funded ratio is 100% or more – 3.1% COLA
- If the SDRS market value funded ratio is 80.0% to 99.9%, index with the CPI
  - 90.0% to 99.9% funded — 2.1% minimum and 2.8% maximum COLA
  - 80.0% to 90.0% funded — 2.1% minimum and 2.4% maximum COLA
- If the SDRS market value funded ratio is less than 80% -- 2.1% COLA

All benefits except those depending on the Member's Accumulated Contributions are annually increased by the Cost-of-Living Adjustment.

Contributions:
Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. 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, 2015, 2014, and 2013 were $10,817.33, $10,450.20, and $9,526.74, respectively, equal to the required contributions each year.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:
At June 30, 2015, SDRS is 104.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of this measurement period and reported by the Municipality as of December 31, 2015 are as follows:

Proportionate share of net position restricted for pension benefits	$ 1,043,588.73
Less proportionate share of total pension liability	$ 1,002,516.55
Proportionate share of net pension liability (asset)	$ (41,072.18)

At December 31, 2015, the Municipality reported a liability (asset) of $(41,072.18) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2015 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2015, the Municipality's proportion was 0.0096839%, which is an increase of 0.0001164% from its proportion measured as of June 30, 2014.

For the year ended December 31, 2015, the Municipality recognized pension expense (revenue) of ($4,591.28). At December 31, 2015 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	$ 8,409.72	
Changes in assumption.	$ 32,567.66	
Net Difference between projected and actual earnings on pension plan investments.	$ 25,090.30	$ 60,602.80
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	$ 376.33	
Municipality contributions subsequent to the measurement date.	$ 5,462.26	
TOTAL	$ 71,906.27	$ 60,602.80

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

$5,462.26 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (revenue) as follows:

Year Ended December 31:		
2016	$	1,946.18
2017	$	1,946.18
2018	$	(5,235.76)
2019	$	6,808.28
TOTAL	$	5,464.88

Actuarial Assumptions:
The total pension liability (asset) in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2016 and 7.50 percent thereafter, net of pension plan investment expense

Mortality rates were based on the RP-2000 Employee Mortality Table for males and females, as appropriate.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2005 through June 30, 2011. The mortality assumptions were revised based on an extension of the experience study including mortality experience through June 30, 2013.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2015 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	61.0%	4.5%
Fixed Income	27.0%	1.8%
Real Estate	10.0%	5.2%
Cash	2.0%	0.8%
Total	100%	

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Discount Rate:
The discount rate used to measure the total pension liability (asset) was 7.25 percent through 2016 and 7.50 percent thereafter. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:
The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 7.25 percent through 2016 and 7.50 percent thereafter, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (6.25/6.50%) or 1-percentage point higher (8.25/8.50%) than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Municipality's proportionate share of the net pension liability (asset)	$ 103,378.23	$(41,072.18)	$(158,859.07)

Pension Plan Fiduciary Net Position:
Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

13. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2015, the Municipality was not involved in any significant litigation.

14. 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, 2015, 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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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. 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, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	305,971.00	305,971.00	303,568.74	(2,402.26)
General Sales and Use Taxes	365,029.00	365,029.00	490,510.47	125,481.47
Gross Receipts Business Taxes	1,500.00	1,500.00	2,058.56	558.56
Amusement Taxes	0.00	0.00	12.00	12.00
Penalties and Interest on Delinquent Taxes	0.00	0.00	477.67	477.67
Licenses and Permits	7,200.00	7,200.00	6,931.00	(269.00)
Intergovernmental Revenue:				
State Grants	0.00	0.00	2,035.00	2,035.00
State Shared Revenue:				
Bank Franchise Tax	1,000.00	1,000.00	1,370.06	370.06
Prorate License Fees	3,000.00	3,000.00	3,496.79	496.79
Liquor Tax Reversion	8,000.00	8,000.00	8,376.08	376.08
Motor Vehicle Licenses	11,500.00	11,500.00	16,796.04	5,296.04
Local Government Highway and Bridge Fund	11,500.00	11,500.00	16,683.77	5,183.77
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	5,000.00	5,000.00	5,710.39	710.39
Charges for Goods and Services:				
General Government	0.00	0.00	4,791.00	4,791.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	17,500.00	17,500.00	31,984.49	14,484.49
Culture and Recreation	17,650.00	17,650.00	19,559.70	1,909.70
Fines and Forfeits:				
Other	0.00	0.00	780.00	780.00
Miscellaneous Revenue:				
Investment Earnings	4,500.00	4,500.00	4,936.03	436.03
Rentals	2,700.00	2,700.00	7,010.75	4,310.75
Special Assessments	0.00	0.00	5,858.60	5,858.60
Contributions and Donations from Private Sources	0.00	0.00	11,005.43	11,005.43
Liquor Operating Agreement Income	14,500.00	14,500.00	26,859.97	12,359.97
Other	6,500.00	6,500.00	12,023.82	5,523.82
Total Revenue	787,450.00	787,450.00	987,310.79	199,860.79
Expenditures:				
General Government:				
Legislative	5,000.00	7,500.00	7,094.41	405.59
Contingency	16,000.00	16,000.00		
Amount Transferred		(10,400.00)		5,600.00
Executive	16,820.00	17,070.00	17,036.20	33.80
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	146,830.00	151,830.00	145,542.25	6,287.75
Other	21,160.00	21,160.00	11,293.81	9,866.19
Total General Government	206,810.00	204,160.00	180,966.67	23,193.33

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Expenditures (Continued):				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	2,700.00	2,700.00	1,560.26	1,139.74
Other Protection	800.00	800.00	332.56	467.44
Total Public Safety	87,330.00	87,330.00	85,716.82	1,613.18
Public Works:				
Highways and Streets	188,020.00	219,520.00	183,349.45	36,170.55
Sanitation	7,170.00	7,520.00	7,356.36	163.64
Total Public Works	195,190.00	227,040.00	190,705.81	36,334.19
Health and Welfare:				
Health	10,030.00	10,030.00	8,979.35	1,050.65
Total Health and Welfare	10,030.00	10,030.00	8,979.35	1,050.65
Culture and Recreation:				
Recreation	78,290.00	128,590.00	87,853.80	40,736.20
Parks	54,400.00	80,042.00	80,002.28	39.72
Libraries	500.00	500.00	500.00	0.00
Auditorium	79,150.00	90,350.00	58,754.49	31,595.51
Total Culture and Recreation	212,340.00	299,482.00	227,110.57	72,371.43
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	23,170.00	23,170.00	8,041.84	15,128.16
Total Conservation and Development	23,170.00	23,170.00	8,041.84	15,128.16
Total Expenditures	734,870.00	851,212.00	701,521.06	149,690.94
Excess of Revenue Over (Under) Expenditures	52,580.00	(63,762.00)	285,789.73	349,551.73
Other Financing Sources (Uses):				
Compensation for Loss or Damage to Capital Assets	0.00	0.00	2,155.37	2,155.37
Total Other Financing Sources (Uses)	0.00	0.00	2,155.37	2,155.37
Net Change in Fund Balances	52,580.00	(63,762.00)	287,945.10	351,707.10
Changes in Nonspendable	0.00	0.00	8,372.96	8,372.96
Fund Balance - Beginning	1,177,573.25	1,177,573.25	1,177,573.25	0.00
FUND BALANCE - ENDING	1,230,153.25	1,113,811.25	1,473,891.31	360,080.06

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Sales and Use Taxes	18,000.00	18,000.00	21,126.53	3,126.53
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	173.34	173.34
Contributions and Donations from Private Sources	0.00	0.00	20,000.00	20,000.00
Total Revenue	18,000.00	18,000.00	41,299.87	23,299.87
Expenditures:				
Culture and Recreation:				
Parks	0.00	49,500.00	44,562.85	4,937.15
Total Culture and Recreation	0.00	49,500.00	44,562.85	4,937.15
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	5,388.00	2.00
Total Conservation and Development	5,390.00	5,390.00	5,388.00	2.00
Total Expenditures	5,390.00	54,890.00	49,950.85	4,939.15
Net Change in Fund Balances	12,610.00	(36,890.00)	(8,650.98)	28,239.02
Fund Balance - Beginning	59,191.80	59,191.80	59,191.80	0.00
FUND BALANCE - ENDING	71,801.80	22,301.80	50,540.82	28,239.02

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	384.69	384.69
Maintenance Assessments	34,087.00	34,087.00	33,705.53	(381.47)
Total Revenue	34,087.00	34,087.00	34,090.22	3.22
Expenditures:				
Public Works:				
Highways and Streets	79,500.00	79,500.00	54,594.29	24,905.71
Total Public Works	79,500.00	79,500.00	54,594.29	24,905.71
Total Expenditures	79,500.00	79,500.00	54,594.29	24,905.71
Net Change in Fund Balances	(45,413.00)	(45,413.00)	(20,504.07)	24,908.93
Fund Balance - Beginning	85,838.89	85,838.89	85,838.89	0.00
FUND BALANCE - ENDING	40,425.89	40,425.89	65,334.82	24,908.93

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	814.55	814.55
Maintenance Assessments	37,000.00	37,000.00	37,209.33	209.33
Total Revenue	37,000.00	37,000.00	38,023.88	1,023.88
Expenditures:				
Public Works:				
Highways and Streets	19,720.00	19,720.00	11,158.36	8,561.64
Total Public Works	19,720.00	19,720.00	11,158.36	8,561.64
Total Expenditures	19,720.00	19,720.00	11,158.36	8,561.64
Net Change in Fund Balances	17,280.00	17,280.00	26,865.52	9,585.52
Fund Balance - Beginning	190,210.11	190,210.11	190,210.11	0.00
FUND BALANCE - ENDING	207,490.11	207,490.11	217,075.63	9,585.52

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Property Taxes	299,388.00	299,388.00	297,937.37	(1,450.63)
General Sales and Use Taxes	358,000.00	358,000.00	455,506.37	97,506.37
Gross Receipts Business Taxes	1,500.00	1,500.00	1,974.33	474.33
Amusement Taxes	0.00	0.00	36.00	36.00
Tax Deed Revenue	0.00	0.00	123.38	123.38
Penalties and Interest on Delinquent Taxes	0.00	0.00	751.69	751.69
Licenses and Permits	7,300.00	7,300.00	9,894.25	2,594.25
Intergovernmental Revenue:				
State Grants	0.00	0.00	2,959.00	2,959.00
State Shared Revenue:				
Bank Franchise Tax	1,000.00	1,000.00	1,685.16	685.16
Motor Vehicle Commercial Prorate	2,500.00	2,500.00	3,496.37	996.37
Liquor Tax Reversion	8,000.00	8,000.00	9,478.82	1,478.82
Motor Vehicle Licenses	10,000.00	10,000.00	14,904.64	4,904.64
Local Government Highway and Bridge Fund	10,000.00	10,000.00	16,331.42	6,331.42
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	5,000.00	5,000.00	5,595.61	595.61
Charges for Goods and Services:				
General Government	0.00	0.00	1,308.00	1,308.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	18,000.00	18,000.00	20,562.36	2,562.36
Culture and Recreation	17,650.00	17,650.00	18,414.70	764.70
Miscellaneous Revenue:				
Investment Earnings	5,200.00	5,200.00	4,399.31	(800.69)
Rentals	2,700.00	2,700.00	6,140.00	3,440.00
Special Assessments	0.00	0.00	4,813.98	4,813.98
Contributions and Donations from Private Sources	0.00	0.00	9,585.36	9,585.36
Liquor Operating Agreement Income	25,500.00	25,500.00	25,684.48	184.48
Other	6,400.00	6,400.00	13,854.38	7,454.38
Total Revenue	782,538.00	782,538.00	929,911.41	147,373.41
Expenditures:				
General Government:				
Legislative	5,000.00	5,000.00	3,662.06	1,337.94
Contingency	16,000.00	16,000.00		
Amount Transferred		0.00		16,000.00
Executive	16,820.00	16,820.00	15,047.45	1,772.55
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	148,230.00	152,360.00	143,916.31	8,443.69
Other	38,425.00	39,975.00	35,994.33	3,980.67
Total General Government	225,475.00	231,155.00	198,620.15	32,534.85

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Expenditures (Continued):				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	2,700.00	2,700.00	2,057.86	642.14
Other Protection	800.00	800.00	483.06	316.94
Total Public Safety	87,330.00	87,330.00	86,364.92	965.08
Public Works:				
Highways and Streets	199,055.00	426,165.00	374,706.54	51,458.46
Sanitation	7,025.00	7,025.00	6,563.23	461.77
Total Public Works	206,080.00	433,190.00	381,269.77	51,920.23
Health and Welfare:				
Health	7,360.00	7,360.00	4,232.80	3,127.20
Total Health and Welfare	7,360.00	7,360.00	4,232.80	3,127.20
Culture and Recreation:				
Recreation	81,460.00	81,460.00	63,393.09	18,066.91
Parks	42,335.00	53,335.00	46,838.24	6,496.76
Libraries	500.00	500.00	500.00	0.00
Auditorium	86,380.00	86,380.00	59,935.90	26,444.10
Total Culture and Recreation	210,675.00	221,675.00	170,667.23	51,007.77
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	8,170.00	8,170.00	5,650.33	2,519.67
Total Conservation and Development	8,170.00	8,170.00	5,650.33	2,519.67
Total Expenditures	745,090.00	988,880.00	846,805.20	142,074.80
Excess of Revenue Over (Under) Expenditures	37,448.00	(206,342.00)	83,106.21	289,448.21
Other Financing Sources (Uses):				
Transfers Out	0.00	(191,745.00)	0.00	191,745.00
Total Other Financing Sources (Uses)	0.00	(191,745.00)	0.00	191,745.00
Net Change in Fund Balances	37,448.00	(398,087.00)	83,106.21	481,193.21
Changes in Nonspendable	0.00	0.00	3,898.32	3,898.32
Fund Balance - Beginning	1,090,568.72	1,090,568.72	1,090,568.72	0.00
FUND BALANCE - ENDING	1,128,016.72	692,481.72	1,177,573.25	485,091.53

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Taxes:				
General Sales and Use Taxes	18,000.00	18,000.00	20,983.89	2,983.89
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	125.34	125.34
Total Revenue	18,000.00	18,000.00	21,109.23	3,109.23
Expenditures:				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	5,388.00	2.00
Total Conservation and Development	5,390.00	5,390.00	5,388.00	2.00
Total Expenditures	5,390.00	5,390.00	5,388.00	2.00
Excess of Revenue Over (Under) Expenditures	12,610.00	12,610.00	15,721.23	3,111.23
Other Financing Sources (Uses):				
Transfers In	0.00	0.00	29,620.60	29,620.60
Total Other Financing Sources (Uses)	0.00	0.00	29,620.60	29,620.60
Net Change in Fund Balances	12,610.00	12,610.00	45,341.83	32,731.83
Fund Balance - Beginning	13,849.97	13,849.97	13,849.97	0.00
FUND BALANCE - ENDING	26,459.97	26,459.97	59,191.80	32,731.83

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	334.62	334.62
Maintenance Assessments	34,170.00	34,170.00	34,058.67	(111.33)
Total Revenue	34,170.00	34,170.00	34,393.29	223.29
Expenditures:				
Public Works:				
Highways and Streets	80,000.00	80,000.00	18,171.47	61,828.53
Total Public Works	80,000.00	80,000.00	18,171.47	61,828.53
Total Expenditures	80,000.00	80,000.00	18,171.47	61,828.53
Net Change in Fund Balances	(45,830.00)	(45,830.00)	16,221.82	62,051.82
Fund Balance - Beginning	69,617.07	69,617.07	69,617.07	0.00
FUND BALANCE - ENDING	23,787.07	23,787.07	85,838.89	62,051.82

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget -
	Original	Final	(Budgetary Basis)	Positive (Negative)
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	701.64	701.64
Maintenance Assessments	37,000.00	37,000.00	37,388.78	388.78
Total Revenue	37,000.00	37,000.00	38,090.42	1,090.42
Expenditures:				
Public Works:				
Highways and Streets	12,840.00	18,340.00	14,470.47	3,869.53
Total Public Works	12,840.00	18,340.00	14,470.47	3,869.53
Total Expenditures	12,840.00	18,340.00	14,470.47	3,869.53
Net Change in Fund Balances	24,160.00	18,660.00	23,619.95	4,959.95
Fund Balance - Beginning	166,590.16	166,590.16	166,590.16	0.00
FUND BALANCE - ENDING	190,750.16	185,250.16	190,210.11	4,959.95

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, 2015 and 2014.

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.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)

South Dakota Retirement System

(Dollar amounts in thousands)

	2015
Municipality's proportion of the net pension liability (asset)	0.0096839%
Municipality's proportionate share of net pension liability (asset)	$ (41)
Municipality's covered-employee payroll	$ 179
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(22.91%)
Plan fiduciary net position as a percentage of the total pension liability (asset)	(104.1%)

The amounts presented were determined as of the measurement date of the collective net pension liability (asset) which is 06/30/15.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

(Dollar amounts in thousands)

	2015
Contractually required contribution	$ 11
Contributions in relation to the contractually required contribution	$ 11
Contribution deficiency (excess)	$ -
Municipality's covered-employee payroll	$ 180
Contributions as a percentage of covered-employee payroll	6%