

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

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

**FINANCIAL HIGHLIGHTS**

- During the year, the City's revenues generated from charges for services, taxes and other revenues of the governmental programs were \$406,269 more than the \$638,689 governmental expenditures. This is an 83.29% increase over the prior year when revenues exceeded expenditures by \$221,656.
- In the City's business-type activities, revenues increased 3.26% to \$473,690 (this does not include the capital grant dollars received for the Water Treatment Plant or the one-time payment from Verizon Wireless for the painting of the tower) and expenses decreased .86%.
- The total cost of the City's Governmental programs was \$61,817; 8.82% less than 2010. There were many variables for this decrease and are explained in detail on page 7 of this report.
- The revenues for the governmental activities show an increase of 13.3% or \$122,796. The increase in revenue is mainly from an increase in taxes and the sale of the Salem bar building. The result of the increase of revenues and decrease of expenditures is a \$406,269 increase to Net Assets in 2011.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

**Figure A-1  
Mayor Features of City of Salem's Government-wide and Fund Financial Statements**

	<b>Government-Wide Statements</b>	<b>Fund Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire City government	The activities of the City that are not proprietary or fiduciary, such as finance office, police, streets, park	Activities the City operates similar to private businesses, the water and sewer systems.
Required Financial Statements	*Statement of Net Assets * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	* Balance Sheet *Statement of Revenues, Expenditures and Changes in Net Assets * Statement of Cash Flows
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 is received or paid.

**Government-wide Statements**

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

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

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

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

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

### **Fund Financial Statements**

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

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

The City has two kinds of funds:

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

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

### Net Assets

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

TABLE A-1 CITY OF SALEM NET ASSETS - FISCAL YEAR 2011

	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Current and Other Assets	1,177,805	1,016,400	1,467,646	569,001	602,858	680,917	1,746,806	1,619,257	2,148,563
Capital Assets	1,360,283	1,755,052	1,701,172	4,201,724	4,171,672	4,083,991	5,562,007	5,926,724	5,785,163
<b>Total Assets</b>	<b>2,538,089</b>	<b>2,771,452</b>	<b>3,168,818</b>	<b>4,770,724</b>	<b>4,774,530</b>	<b>4,764,908</b>	<b>7,308,813</b>	<b>7,545,981</b>	<b>7,933,726</b>
LT Debt Outstanding	8,151	11,710	11,138	2,452,804	2,361,458	2,269,737	2,460,955	2,373,168	2,280,874
Deferred Rev. (salestax)	30,900	33,700	40,400				30,900	33,700	40,400
Other Liabilities	35,089	40,437	25,407	46,743	45,536	40,585	81,832	85,973	65,993
<b>Total Liabilities</b>	<b>74,140</b>	<b>85,847</b>	<b>76,945</b>	<b>2,499,547</b>	<b>2,406,994</b>	<b>2,310,322</b>	<b>2,573,687</b>	<b>2,492,841</b>	<b>2,387,267</b>
Net Assets:									
Invested in Capital Assets									
Net of Related Debt	1,360,283	1,755,052	1,701,172	1,754,608	1,814,424	1,819,654	3,114,891	3,569,476	3,520,826
Restricted	142,505	187,933	616,157	145,323	154,597	162,079	287,828	342,529	778,236
Unrestricted	961,161	742,620	774,545	371,246	398,516	472,853	1,332,407	1,141,135	1,247,398
<b>Total Net Assets</b>	<b>2,463,949</b>	<b>2,685,605</b>	<b>3,091,874</b>	<b>2,271,178</b>	<b>2,367,536</b>	<b>2,454,585</b>	<b>4,735,126</b>	<b>5,053,141</b>	<b>5,546,459</b>
<b>Beginning Net Assets</b>	<b>2,164,565</b>	<b>2,463,949</b>	<b>2,685,605</b>	<b>1,883,039</b>	<b>2,271,178</b>	<b>2,367,536</b>	<b>4,047,604</b>	<b>4,735,126</b>	<b>5,053,141</b>
<b>Increase (Decrease) in</b>									
<b>Net Assets</b>	<b>299,383</b>	<b>221,656</b>	<b>406,269</b>	<b>388,139</b>	<b>96,358</b>	<b>87,050</b>	<b>687,522</b>	<b>318,014</b>	<b>493,319</b>
<b>Percentage of Increase</b>									
<b>(Decrease) in Net Assets</b>	<b>13.8%</b>	<b>9.0%</b>	<b>15.1%</b>	<b>20.6%</b>	<b>4.2%</b>	<b>3.7%</b>	<b>17.0%</b>	<b>6.7%</b>	<b>9.8%</b>

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

The city as a whole reports an increase in net assets of 9.8%. The Current Assets (cash & receivables) increased by 32.6% - \$529,306 as a result of the less local cash spent on Capital Improvements and street repairs; more money collected in taxes and a rate increase in the Water Dept. The sale of the Salem bar building and depreciation exceeding the dollars spent on new capital assets resulted in a 2.4% decrease (\$141,561) in Capital Assets. Total Assets increased 5.1%.

Liabilities for the city decreased 4.24%. A decrease to LT Debt and claims payable were shown at the end of FY2011.

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

- The Capital Assets Net of Related Debt decreased \$48,650 or 1.37% from the addition of the Capital Assets being less than depreciation and the sale of the Salem bar building. No additional debt was incurred in 2011.

- The Restricted Net Assets increased 127%. Due to a re-classification of assets from changes in the GASB accounting standards; and the fact that no major projects were undertaken in 2011.
- The Unrestricted Net Assets increased 9.3% due to the increase in Net Assets from additional revenues and less expenses than 2010.

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

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

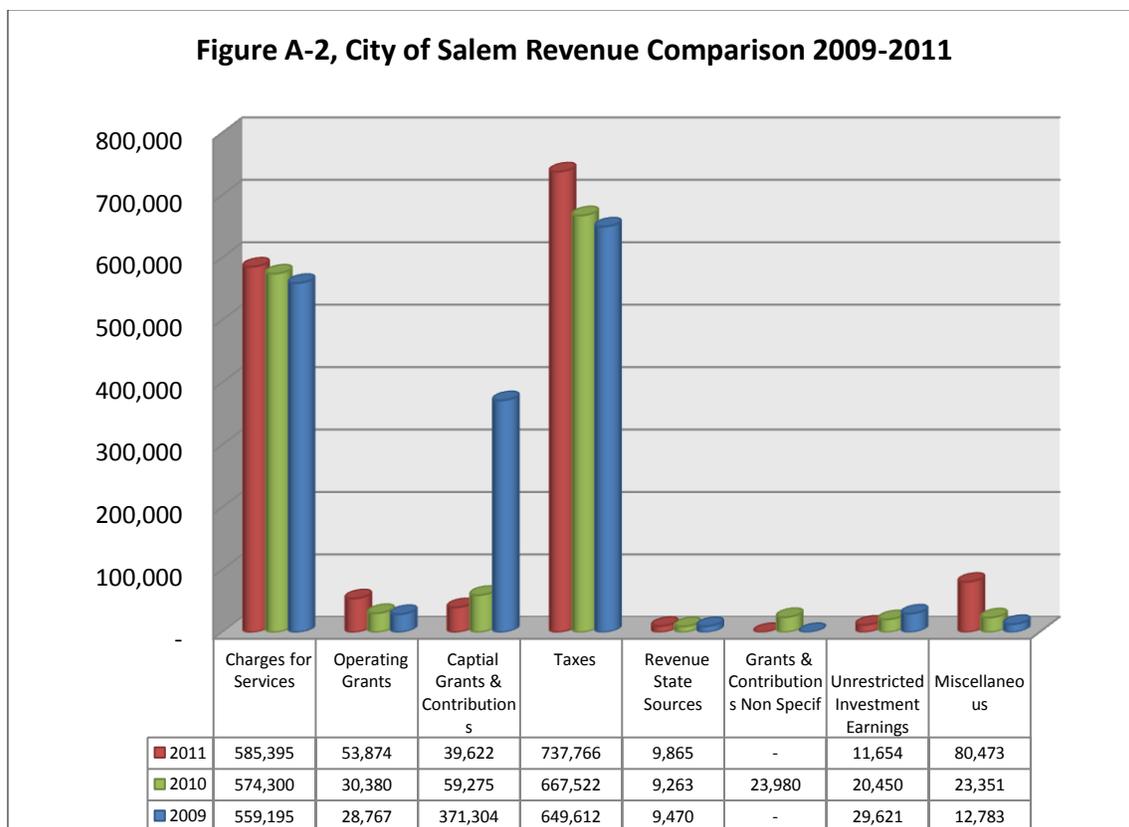
**TABLE A-2**  
**MUNICIPALITY OF SALEM**  
**Changes in Net Assets 12/31/2011**

	Governmental			Business-Type			Total		
	Activities			Activities					
	2009	2010	2011	2009	2010	2011	2009	2010	2011
<b>Revenues</b>									
Program Revenues									
Charges for Services	131,031	129,031	122,685	428,164	445,270	462,710	559,195	574,300	585,395
Operating Grants	28,767	30,380	53,874				28,767	30,380	53,874
Capital Grants & Contrib.	41,169	55,635	39,622	330,134	3,639	-	371,304	59,275	39,622
Taxes	649,612	667,522	737,766				649,612	667,522	737,766
Revenue State Sources	9,470	9,263	9,865				9,470	9,263	9,865
Grants & Contrib. Non Specif					23,980	-	-	23,980	-
Unrestricted Invest. Earnings	16,519	12,980	7,324	13,102	7,469	4,330	29,621	20,450	11,654
Miscellaneous	7,283	17,351	73,823	5,500	6,000	6,650	12,783	23,351	80,473
Total Revenues	883,852	922,162	1,044,958	776,900	486,358	473,690	1,660,753	1,408,521	1,518,649
<b>Expenses</b>									
General Government	125,481	147,532	147,665				125,481	147,532	147,665
Public Safety	110,089	116,106	92,691				110,089	116,106	92,691
Public Works	165,661	248,820	188,402				165,661	248,820	188,402
Health & Welfare	6,256	4,377	6,448				6,256	4,377	6,448
Culture & Recreation	174,044	178,045	184,627				174,044	178,045	184,627
Conservation & Development	-	5,626	16,635				-	5,626	16,635
Miscellaneous Expenditures	2,939	(0)	2,221				2,939	(0)	2,221
Debt Service	-	-	-				-	-	-
Water Services				289,839	291,010	287,730	289,839	291,010	287,730
Sewer Services				98,922	98,990	98,910	98,922	98,990	98,910
Total Expenses	584,469	700,506	638,689	388,761	390,000	386,641	973,230	1,090,506	1,025,330
<b>Excess (Deficiency) Before</b>									
Special and Transfers	299,383	221,656	406,269	388,139	96,358	87,050	687,523	318,014	493,319
Special Items	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-	-	-
Increase (Decrease) in Net Assets	299,383	221,656	406,269	388,139	96,358	87,050	687,523	318,014	493,319
Ending Net Assets	2,463,949	2,685,605	3,091,874	2,271,178	2,367,536	2,454,586	4,735,127	5,053,141	5,546,460

The City's total 2011 revenues were \$1,518,649 which is an increase of 7.8% (\$110,128) from 2010.

- Charges for Goods and Services increased 1.9% (Business Type activities increased 3.9% and the Governmental Activities decreased 4.9%). The user fees in the Business-Type activities increased as a result of the Water rate increase; the General Fund's decreased from a reduction in money collected from operating agreements and less administrative fees on the garbage contract – which is a direct result of an increase in fuel costs.
- Operating grants increased 77.3% from an increase in dollars received for Motor Vehicle Licenses and a \$19,000.00 grant received from the Energy Efficiency Community Block Grant for the lighting project at the Armory.
- Capital Grants & Contributions decreased by 33%. Governmental Activities saw a \$16,000 (28.8%) decrease due to the street assessments received in 2010 for the Street Project; and the Business Type Activities saw a \$3,639 decrease because of the grant dollars received in 2010 for the Water Filtration Project.
- Taxes increased by \$70,244 this reflects an increase in sales tax & property tax revenue. The sales tax revenue increased 16.88% and the property taxes increased 1%.
- Revenue from State Sources saw a 6.5% increase \$602 - these dollars are from Liquor Tax Reversion and Bank Franchise taxes.
- Grants & Contributions Non Specific – had a zero balance in 2011; in 2010 a one-time payment made to the Water Department from Verizon Wireless of \$23,980 for the extra cost of painting the Water Tower in 2009 was shown on this line.
- Investment earnings show a 43% decrease in revenue. The interest rates declined 2011.
- Miscellaneous revenues increased 244.6% - \$57,122. The City sold the bar building in 2012 for a gain \$65,936; and other misc. revenue declined (cable franchise, dividends and recovery of prior year expenses). Business activities show an increase as Verizon Wireless changed their payment cycle and reflects 13 lease payments in 2011.

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

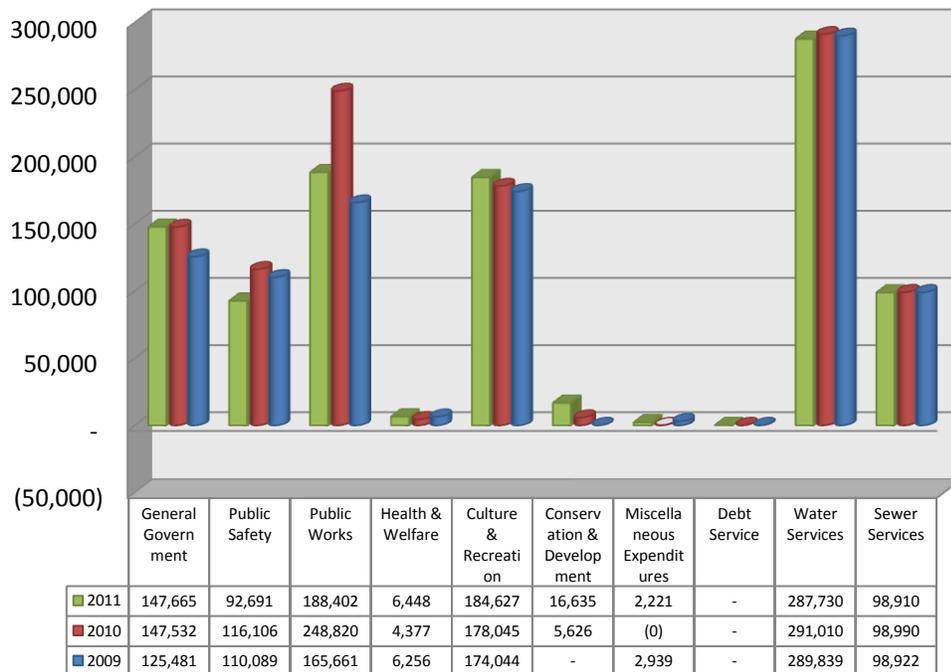


**EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3**

The city's expenses show an overall 6% decrease (2011 vs. 2010).

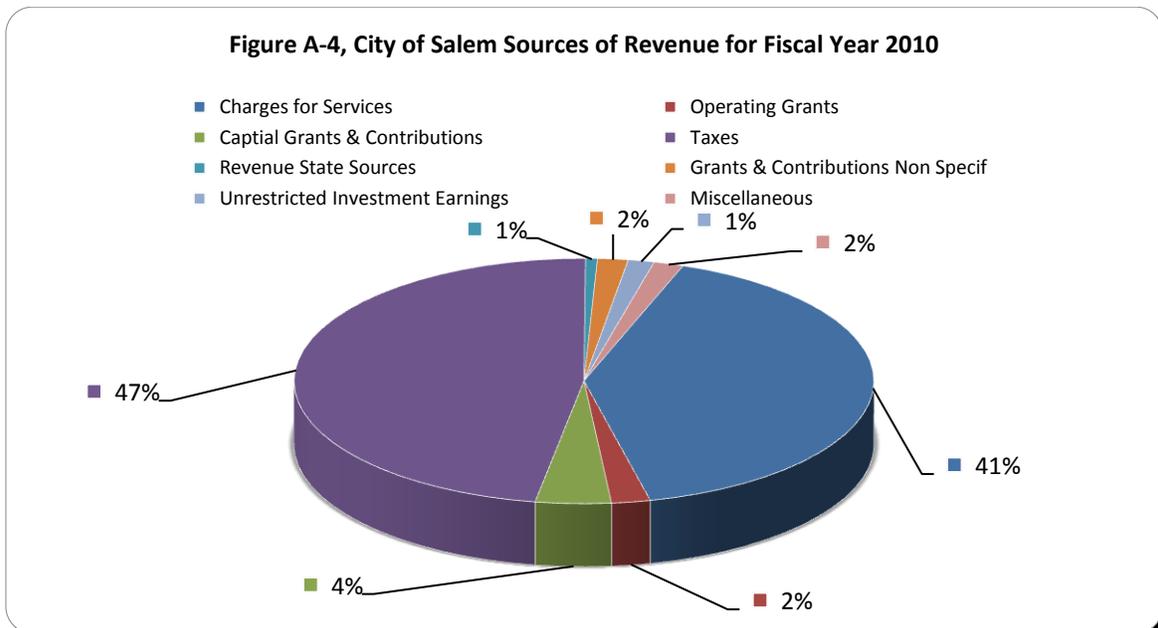
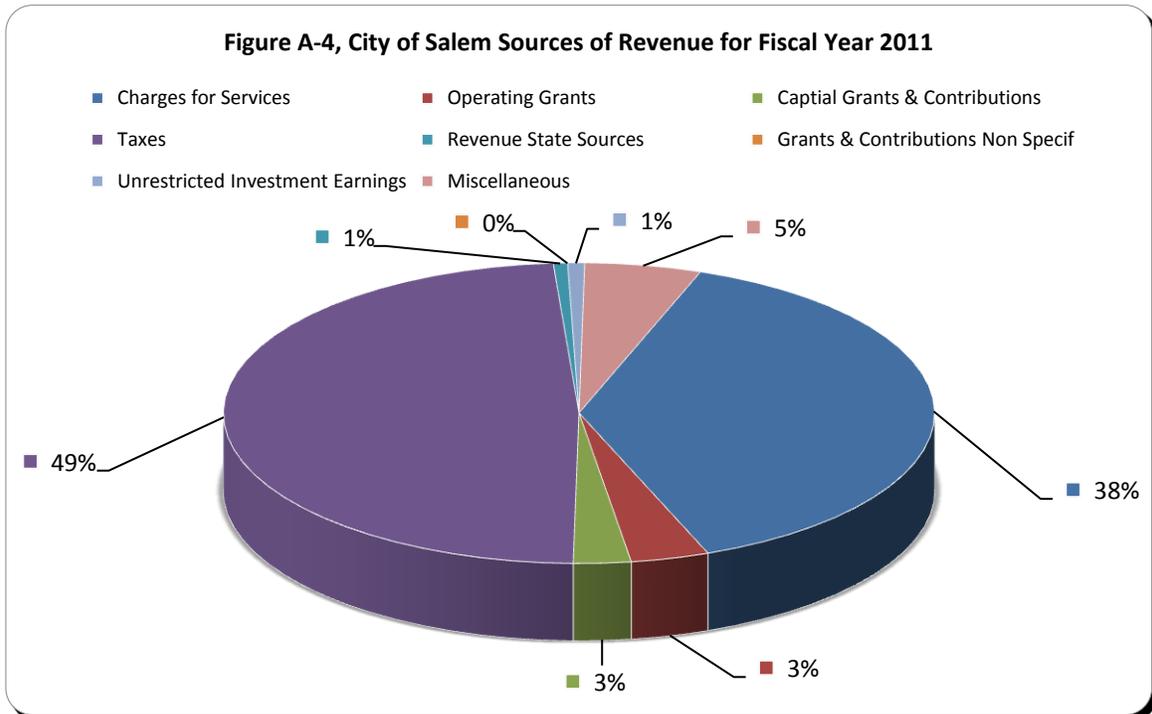
- General Government Expenditures increased .09% (\$133). Publications saw a decrease, executive expenses remained constant, Financial Administration the City Hall/Bar Building saw an increase.
- Public Safety decrease 20% - police contract remained the same; a donation to the rural fire department was given in 2010.
- Public Works expenses decreased 24%. 2011 saw less dollars spent on street repairs and snow removal; no gravel was purchased in 2011, but more dollars were spent on repairing curb/gutter and radius.
- Health & Welfare expenses increased 47.3% - \$2,071; due to local cash being used to purchase chemicals in 2011. Prior years saw grant dollars or chemicals from the Dept of Health.
- Culture & Recreation expenses increased 3.7% - \$6,582. Summer Recreation costs increased \$13,442.66; Parks increased \$11,205.50; Auditorium costs decreased \$18,067.20. Recreation increase was due to the pool chemical usage and repairs; parks increased due to the purchase of a mower; auditorium decreased due to the lighting project in 2010.
- Conservation & Development was a new category in 2010, the Zoning, Promoting and Advertising of Salem moved from General Governmental expenditures - the Planning and Zoning increased due to salary adjustments; the Zoning Map update and FEMA re-mapping project.
- Miscellaneous Expenditures incurred expenses in the buy-back of inventory from the operators of the Salem Bar; expenses were zero in 2010.
- Water Fund Expenditures decreased 1.1% (\$3,280). Chemical usage in the new WTP is in the range that was estimated.
- Sewer Fund Expenditures decreased \$80.

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



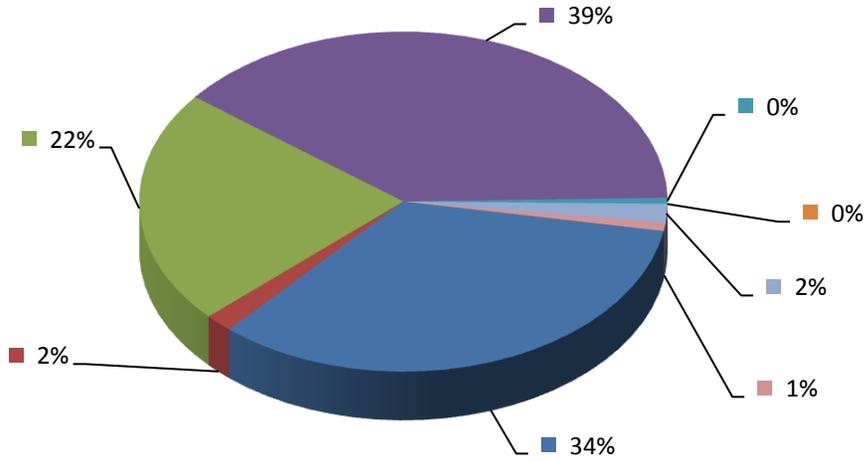
**SOURCE OF REVENUE (Figure A-4, A-5 and A-6)**

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



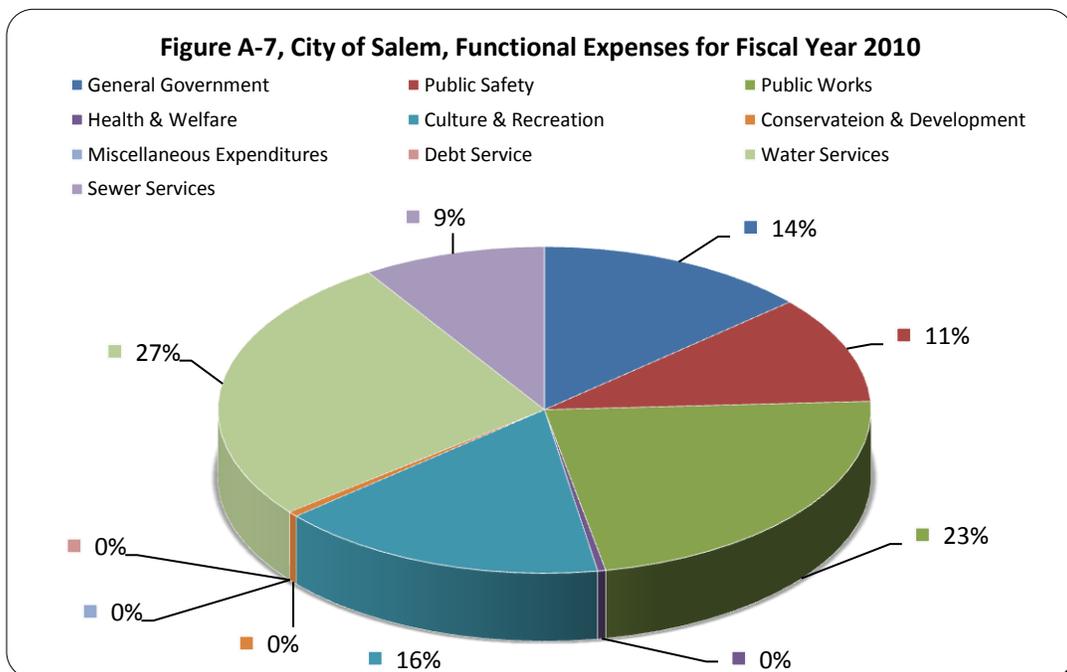
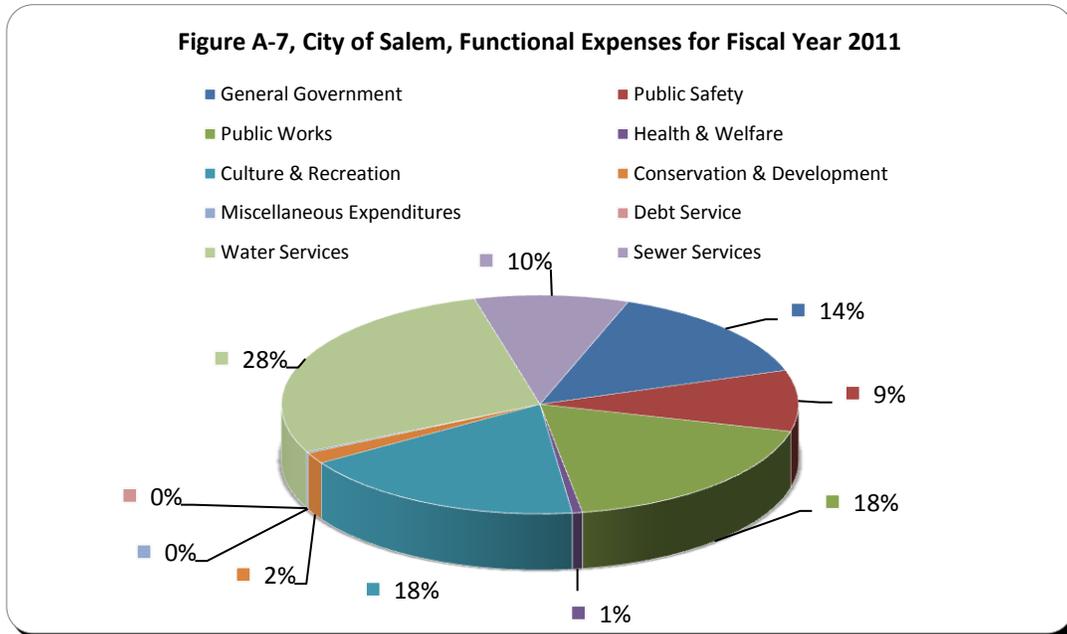
**Figure A-5 City of Salem, Sources of Revenue for Fiscal Year 2009**

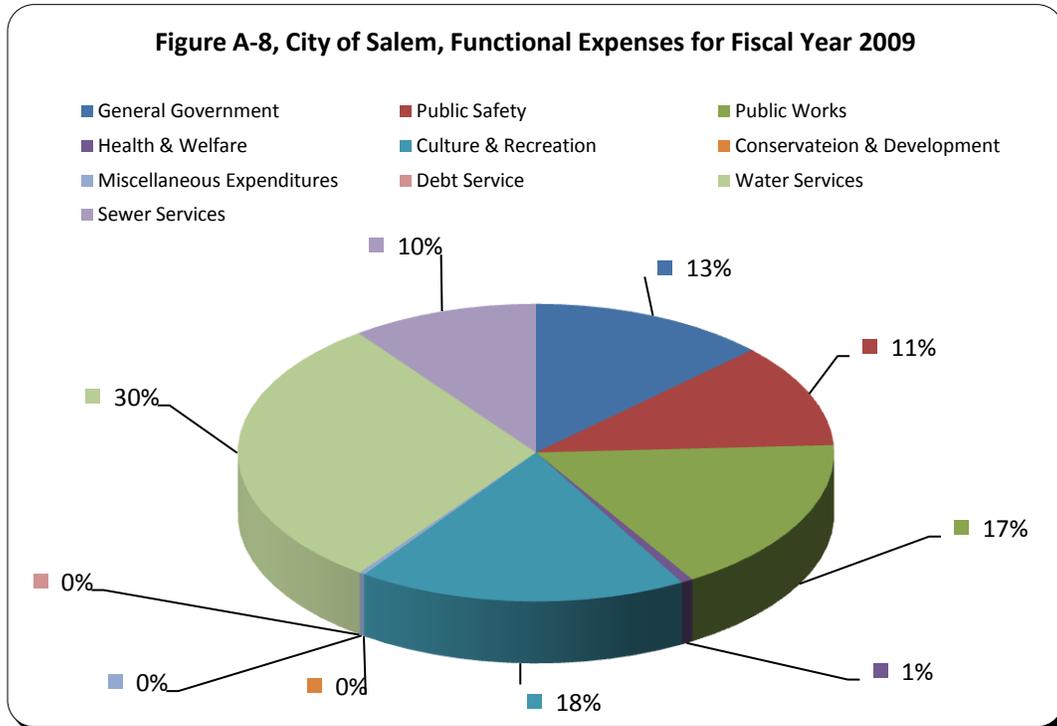
- Charges for Services
- Capital Grants & Contributions
- Revenue State Sources
- Operating Grants
- Taxes
- Grants & Contributions Non Specif



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

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





### Governmental Activities

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

### Business-type Activities

Operating revenues of the City's business-type activities increased 3.9% as a result of the \$3.00 increase to the water flat fee; but the overall revenues decreased by 2.6% due to a onetime payment received from Verizon Wireless in 2010. The expenditures decreased by \$3,359 (.86%); resulting in an increase to net assets of 3.67%.

- The Water Rates were adjusted in 2011 for the Filter Replacement and Equipment Repair and Replacement accounts. The revenues generated from Charges for Services increased 9.8% (\$3.00 Flat Fee increase); while the water surcharge fees and investment earnings decreased. The sewer department saw a 1% decrease in revenues from user fees.
- The decrease in expenses was mainly from the Water Department. The Water Department's new Water Filtration Plant operating costs have leveled off. The time needed for the C.I.P.'s (clean in

place) of the Ultra Filtration system, according to the original specifications, called for one cleaning per month and in 2010 the filters were being cleaned every 10 days; which attributed to higher wages, chemicals and pumping costs. The C.I.P's were reduced to once every 4 to 6 weeks by May of 2011 and the chemical usage has been brought down into the \$15,000 range which was the original estimated cost. The Sewer Department saw a slight decrease in expenses (\$80).

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

### General Fund Budgetary Highlights

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

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

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

## CAPITAL ASSET ADMINISTRATION

By the end of 2011, the City had invested \$5,785,163 in a broad range of capital assets, including, land, buildings, infrastructure, and various machinery and equipment. (See Table A-3.) This amount represents a net decrease (including additions and deductions) of \$141,561 or 2.38% over FY2010.

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

	Governmental			Business-type		
	Activities			Activities		
	2009	2010	2011	2009	2010	2011
Land	51,324	49,675	62,938	41,866	41,866	41,866
Buildings	182,461	173,908	155,018	1,272,633	1,246,661	1,220,688
Improvements Other Than Buildings	881,170	1,281,072	1,238,875	1,828,603	1,811,399	1,767,218
Machinery & Equipment	204,754	250,397	229,032	1,058,622	1,048,878	1,046,393
Construction In Progress	40,575	-	15,309	-	22,868	7,825
<b>Total Capital Assets (Net)</b>	<b>1,360,283</b>	<b>1,755,052</b>	<b>1,701,172</b>	<b>4,201,724</b>	<b>4,171,672</b>	<b>4,083,991</b>

This year's major capital asset additions included:

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

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

In 2011, the General Fund used \$35,124.11 in local cash for all of the capital projects and purchases; which included the purchase of land adjacent to the softball field complex; designing the 2012 Street Project and various storm/sewer improvements. The Water Department purchased \$2,093.82 in new radio read meter systems and finalized the WTP plant warranty issues with local cash in the amount of \$7,397.62. The Sewer Dept refurbished four manholes at a cost of \$8,782.00 and started on the Sewer Main for the softball field complex concession/restroom building project.

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

## LONG-TERM DEBT

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

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

	Governmental			Business-type		
	Activities			Activities		
	2009	2010	2011	2009	2010	2011
Compensated Absences	8,151	11,710	11,138	5,688	4,210	5,400
Drinking Water SRF Loan 2003	-			61,459	49,352	36,815
Drinking Water SRF Loan 2005	-	-	-	298,514	285,626	272,314
Drinking Water SRF Loan 2008	-	-	-	1,331,625	1,304,217	1,275,906
Clean Water SRF Loan 2003	-	-	-	414,824	392,933	370,265
Clean Water SRF Loan 2005	-	-	-	340,694	325,121	309,036
<b>Total Outstanding Debt Obligations</b>	<b><u>8,151</u></b>	<b><u>11,710</u></b>	<b><u>11,138</u></b>	<b><u>2,452,804</u></b>	<b><u>2,361,458</u></b>	<b><u>2,269,737</u></b>

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

The City has outstanding \$1,585,035 in Drinking Water SRF Loans and \$679,301 in Clean Water SRF Loans (Revenue Bonds). The bonds are secured and paid for from the Water and Sewer Funds. The City does not anticipate the use of any tax dollars to pay for these bonds.

- The 2003 bonds were used for the 2003 Street and Utility Project (This project extended water and sewer service on S. Main Street and on Brown Ave; and started the Storm Sewer System in Southeast Salem.) The 2003 DWSRF Loan will be fully paid off on July 15, 2014 and the 2003 CWSRF will be fully paid off on July 15, 2024.
- The 2005 bonds were used for the 2005 Street and Utility Project (This project replaced Water main on Nebraska and Essex Streets; extended storm sewer on George Ave and replaced storm sewer on Essex Ave.) The 2005 CW SRF Loan closed in 2006 and the DWSRF Loan closed in 2007. Both are 20 year loans - the CWSRF will be paid off in July 2026, and the DWSRF will be paid off in April 2027.
- The 2008 DWSRF Loan closed in 2009, this is a 30 year loan and will be paid off in 4/15/2039. The loan is specifically for the Water Filtration (Treatment) project, and a Water Surcharge was established to pay off the debt on this bond. Each household pays \$9.90 per month or 118.80 annually to retire the debt.

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

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

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

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

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

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

The Council increased the Water Flat Fee \$.60 but provides a \$3.00 reduction to those living alone on social security with no other retirement income. Those residents qualifying are required to file an affidavit claiming they meet the qualifications for the reduced rate with City Hall. The 2012 rates are a water flat fee of \$13.10, .004 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates

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

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

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