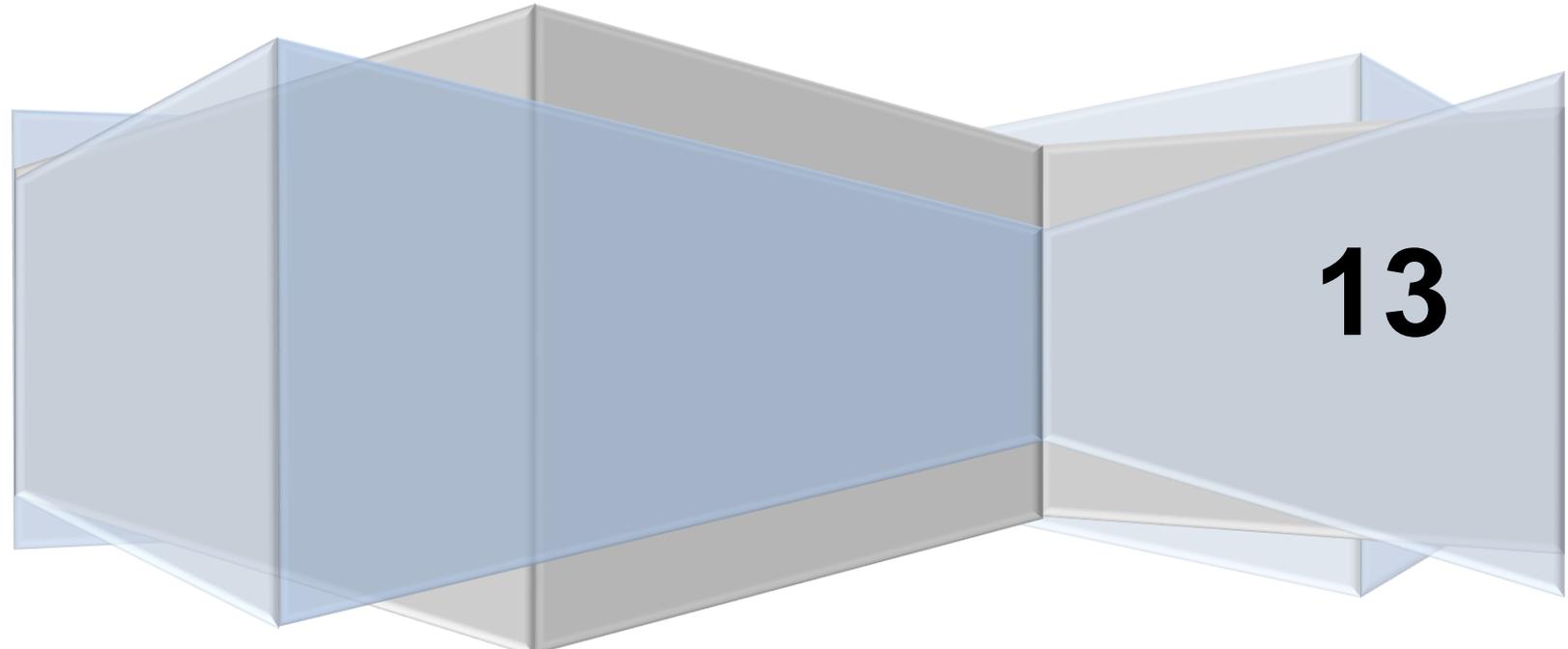


CITY OF SALEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2013



13

**MUNICIPALITY OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2013**

This section of Salem City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ending December 31, 2013. 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 taxes, charges for services, and other revenues for the governmental programs were \$309,535 more than the \$733,482 governmental expenditures. This is a 6.23% decrease over the prior year when revenues exceeded expenditures by \$330,112.
- In the City's business-type activities, revenues decreased 3.16% to \$492,323 and expenses increased 8.3%.
- The total cost of the City's Governmental programs was \$39,314 less than 2012 - down (5.1%). 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 a decrease of 5.43% or \$59,891. The decrease in revenue is largely due to a decline in tax revenue. The result of the decrease of revenues and decrease in expenditures is a \$309,535 increase to Net Assets.

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

	Government-Wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Funds
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 6.2% between FY2012 and FY2013; a \$371,928 increase (See Table A-1).

TABLE A-1 CITY OF SALEM NET ASSETS - FISCAL YEAR 2013

	Governmental			Business-Type			Total		
	Activities			Activities					
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Current and Other Assets	1,467,646	1,596,142	1,598,653	680,917	791,946	851,282	2,148,563	2,388,088	2,449,935
Capital Assets	1,701,172	1,880,462	2,303,520	4,083,991	3,998,987	3,919,220	5,785,163	5,879,449	6,222,740
Total Assets	3,168,818	3,476,604	3,902,173	4,764,908	4,790,933	4,770,502	7,933,726	8,267,537	8,672,676
LT Debt Outstanding	11,138	13,118	11,592	2,269,737	2,150,432	2,064,248	2,280,874	2,163,550	2,075,840
Deferred Rev. (sales tax)	40,400	41,200	36,400				40,400	41,200	36,400
Other Liabilities	25,407	37,392	159,752	40,585	37,350	40,711	65,993	74,742	200,464
Total Liabilities	76,945	91,710	207,744	2,310,322	2,187,782	2,104,959	2,387,267	2,279,492	2,312,703
Net Assets:									
Invested in Capital Assets									
Net of Related Debt	1,701,172	1,880,462	2,303,520	1,819,654	1,854,542	1,860,645	3,520,826	3,735,004	4,164,166
Restricted	616,157	633,334	653,799	162,079	170,172	178,620	778,236	803,506	832,419
Unrestricted	774,545	871,098	737,109	472,853	578,437	626,278	1,247,398	1,449,535	1,363,388
Total Net Assets	3,091,874	3,384,894	3,694,429	2,454,585	2,603,151	2,665,543	5,546,459	5,988,045	6,359,972
Beginning Net Assets	2,685,605	3,091,874	3,384,894	2,367,536	2,454,585	2,603,151	5,053,141	5,546,459	5,988,045
Increase (Decrease) in									
Net Assets	406,269	293,020	309,535	87,049	148,566	62,392	493,318	441,586	371,928
Percentage of Increase									
(Decrease) in Net Assets	15.1%	9.5%	9.1%	3.7%	6.1%	2.4%	9.8%	8.0%	6.2%

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

The city as a whole reports an increase in net assets of 6.2%. The Current Assets (cash & receivables) increased 2.59% or \$61,847. The reduction in general fund expenditures is the main reason for the increase. The 2013 Park Projects consisting of a new grandstand, dug outs, fencing and crow's nest at the baseball field and new concession stand restroom facility at the softball field complex and other small projects, less depreciation, resulted in a 5.8% increase in Capital Assets. Total Assets Increased 4.9%. Liabilities for the city increased 1.45%.

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 increased \$429,162 or 11.49%. The addition of Capital Assets was more than depreciation. No additional debt was incurred.
- The Restricted Net Assets increased 3.6%. The amount collected in fees exceeded the dollars spent on projects in 2013.

- The Unrestricted Net Assets decreased 5.9%. Unrestricted cash was used for projects and supplements.

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

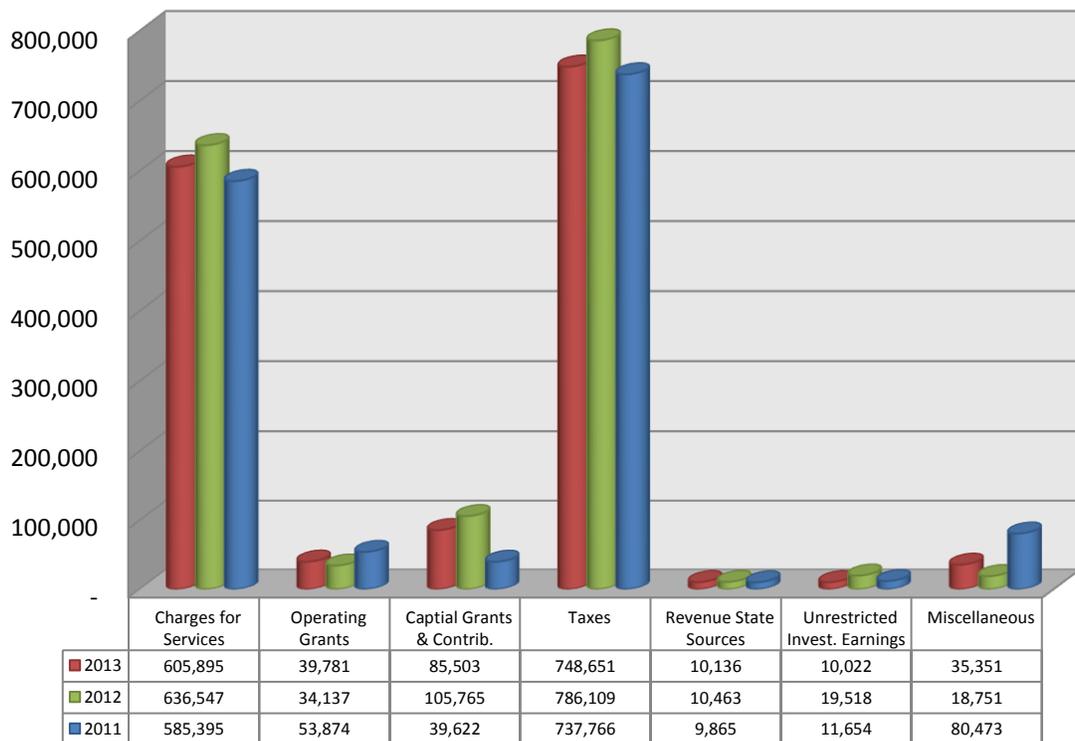
**TABLE A-2
MUNICIPALITY OF SALEM
Changes in Net Assets 12/31/2013**

	Governmental			Business-Type			Total		
	Activities			Activities					
	2011	2012	2013	2011	2012	2013	2011	2010	2013
Revenues									
Program Revenues									
Charges for Services	122,685	142,422	123,761	462,710	494,125	482,134	585,395	636,547	605,895
Operating Grants	53,874	34,137	39,781				53,874	34,137	39,781
Capital Grants & Contrib.	39,622	105,765	85,503	-	-	-	39,622	105,765	85,503
Taxes	737,766	786,109	748,651				737,766	786,109	748,651
Revenue State Sources	9,865	10,463	10,136				9,865	10,463	10,136
Unrestricted Invest. Earnings	7,324	12,635	6,489	4,330	6,883	3,534	11,654	19,518	10,022
Miscellaneous	73,823	11,379	28,695	6,650	7,372	6,656	80,473	18,751	35,351
Total Revenues	1,044,958	1,102,908	1,043,017	473,690	508,380	492,323	1,518,649	1,611,288	1,535,340
Expenses									
General Government	147,665	153,493	166,121				147,665	153,493	166,121
Public Safety	92,691	104,104	94,502				92,691	104,104	94,502
Public Works	188,402	310,592	247,191				188,402	310,592	247,191
Health & Welfare	6,448	2,836	6,865				6,448	2,836	6,865
Culture & Recreation	184,627	193,224	212,751				184,627	193,224	212,751
Conservation & Development	16,635	8,547	6,052				16,635	8,547	6,052
Miscellaneous Expenditures	2,221	-	-				2,221	-	-
Water Services				287,730	296,672	330,579	287,730	296,672	330,579
Sewer Services				98,910	100,234	99,352	98,910	100,234	99,352
Total Expenses	638,689	772,796	733,482	386,641	396,906	429,931	1,025,330	1,169,702	1,163,413
Excess (Deficiency) Before									
Special and Transfers	406,269	330,112	309,535	87,050	111,474	62,392	493,319	441,586	371,928
Transfers		(37,092)	-		37,092	-	-	-	-
Increase (Decrease) in Net Assets	406,269	293,020	309,535	87,050	148,566	62,392	493,319	441,586	371,928
Ending Net Assets	3,091,874	3,384,894	3,694,429	2,454,586	2,603,152	2,665,544	5,546,460	5,988,046	6,359,973

The City's total 2013 revenues were \$1,535,340 which is a decrease from FY2012 of 4.7% or \$75,948.

- Charges for Goods and Services decreased 4.8% The user fees in the Business-Type activities saw a decrease mainly due to the 5.76% decline in water usage from 2012 (2,221,165 gallons or \$8,884.66 water revenue); the General Fund's decrease is due to a decline in license and permit fees, sanitation and recreation fees received.
- Operating grants increased 16.5% (\$5,644) due mainly to the dollars received from insurance for roof replacement on the park buildings.
- Capital Grants & Contributions decreased by 19.16%. In 2012, the guards donated a building with a fair market value of \$50,000. In 2013, contributions were received from the Salem Baseball Team for the baseball field dugouts, crow's nest and fencing; Salem Summer Youth and Recreation for the Concession Stand/Restrooms and Xcel Energy for the Main Street Lighting Project totaling \$43,580.95, which is a 12.8% decrease from the 2012 contribution. Special Assessments decreased as there was no Street Special Assessment Revenues for petitioned streets as there were in 2012.
- Taxes decreased by \$37,458 this reflects a decrease in sales tax & increase in property tax revenues. The sales tax revenue decreased \$54,762 - 10.79% and the property taxes increased \$17,304 - 6.2%.
- Revenue from State Sources saw a 3.1% decrease \$327 - these dollars are from Liquor Tax Reversion and Bank Franchise.
- Investment earnings show a 48.65% decrease in revenue. The cash on hand EOY 2013 is \$90,202.27 higher than EOY12 but interest rates had declined in 2013 when CD came due.
- Miscellaneous revenues increased 88.53% - \$16,600. The City sold the 1973 maintainer in 2013. Other misc. revenue: cable franchise, dividends and recovery of prior year expenses all showed increases. Business activities show a decrease of 9.5% as dollars were received for the insurance claim on the Water Treatment Plant failure in June 2012.

Figure A-2, City of Salem Revenue Comparison 2011-2013

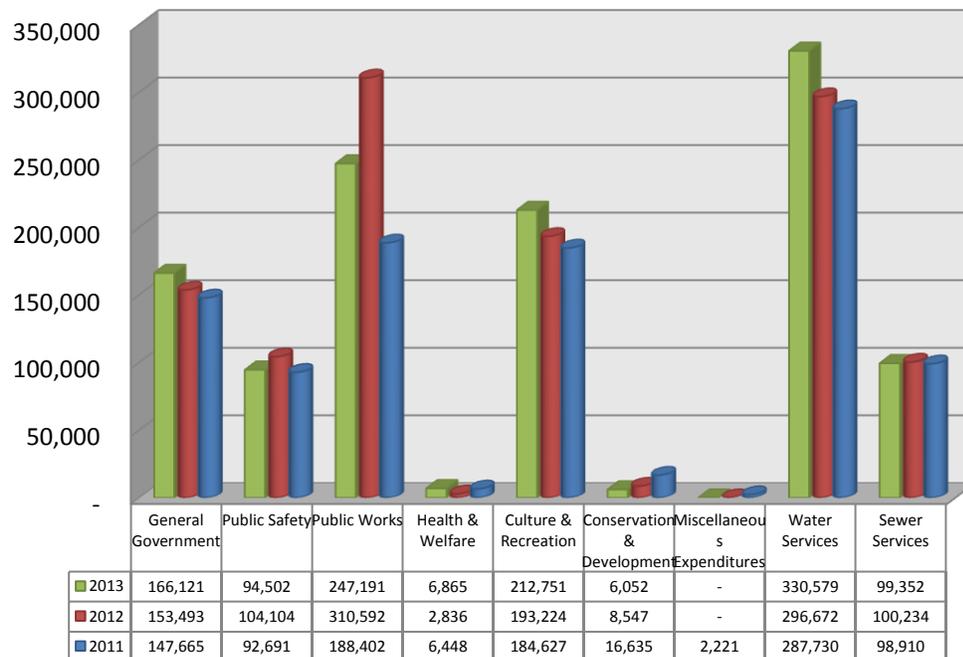


EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3

The city's expenses show an overall .54% decrease (2013 vs. 2012).

- General Government Expenditures increased 8.2% or \$12,628. Mainly from the expense of new software and allocation of 100% of the Finance Officer's wages from the General Fund.
- Public Safety decreased 9.2%. The police contract remained the same. The fire hall roof was replaced in 2012.
- Public Works expenses decreased 20.4%. In 2013, \$86,582.93 dollars were spent on street patching, overlays & chip/seal compared to \$132,366 in 2012. Also in 2012, \$11,684 was spent on cleaning out the storm sewer drainage ditches throughout town.
- Health & Welfare expenses increased 142% - (\$4,029). Mainly due to the quantity of mosquito spray purchased in 2013 compared to 2012.
- Culture & Recreation expenses increased \$19,527 or 10.1%. Summer Recreation costs increased \$37,115.29; Parks increased \$3,325.11; Auditorium costs decreased \$21,264.21. Recreation increase was due to additional coaching wages; chemical use & installation of a liner in place of painting the pool; parks saw an increase in supplies, and the auditorium decreased as 2-sets of doors were replaced in 2012.
- Conservation & Development: The Planning and Zoning increased \$179.15; Promoting the City increased \$2,550 due to the Fireworks Show being canceled in 2012.
- Miscellaneous Expenditures were zero in 2013 & 2012.
- Water Fund Expenditures increased 11.43%- \$33,907. In 2013, chemical usage and filter usage increased slightly; power and pumping costs increased by 25.19% from increased rates and increased number of cleanings. Another contributing factor to the overall increase was the purchase of new pumps (\$5200) and computer (\$3645) in 2013.
- Sewer Fund Expenditures decreased \$882 - Repairs increased as lagoon pumps were replaced, but since no sewer mains were cleaned in 2013 the operating expenses show a decrease.

Figure A-3, City of Salem, Functional Expenses, Fiscal Year 2011-2013



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

Eighty-eight percent (88%) of the City’s revenue is from taxes and charges for goods and services; with 39 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 49 cents of every dollar raised coming from some type of tax. (See Figure A-4). Another 8% 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 2012. Miscellaneous Revenue and Operating Grants saw a 1% increase and Capital Grants decreased 3%.

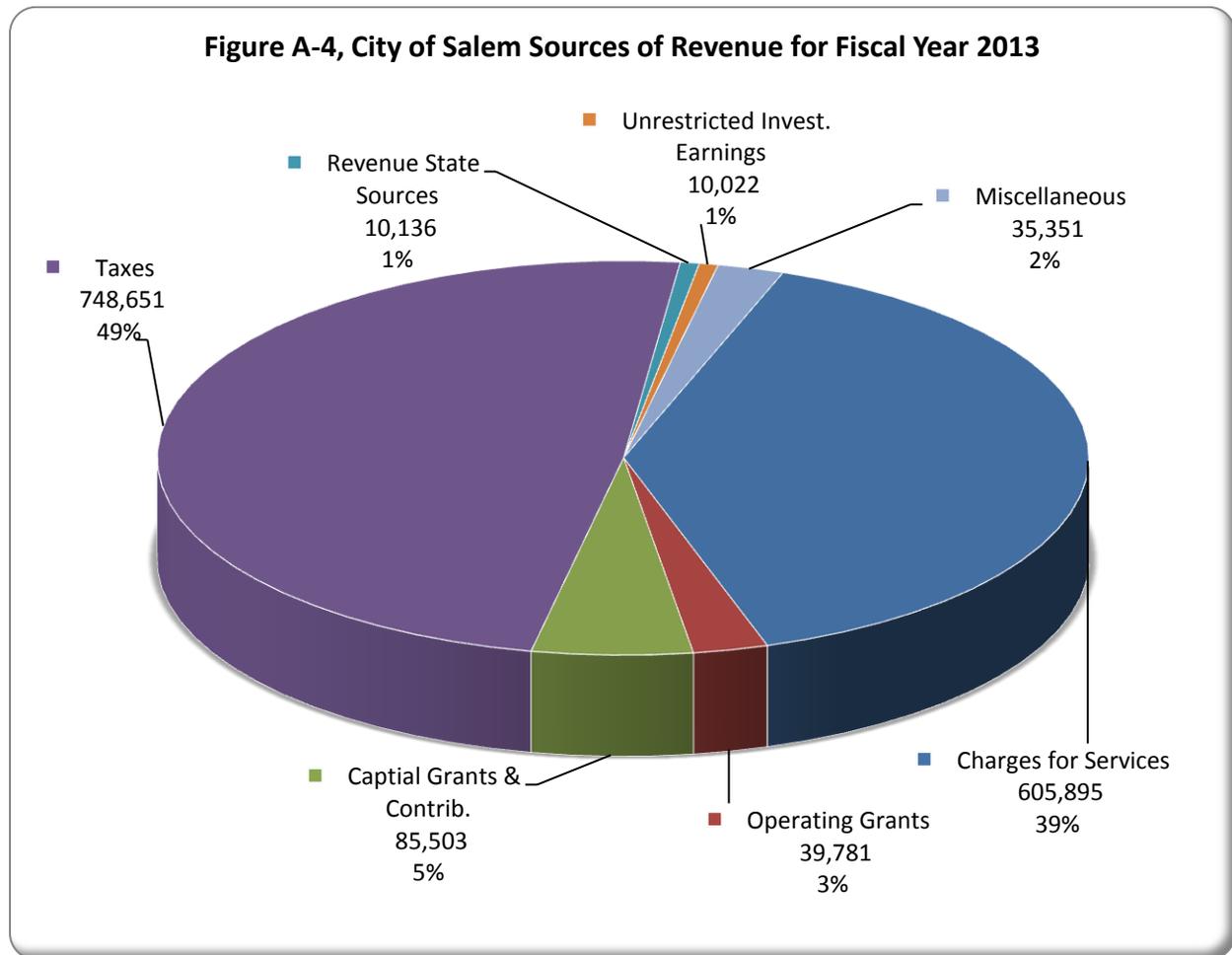


Figure A-5 City of Salem, Sources of Revenue for Fiscal Year 2012

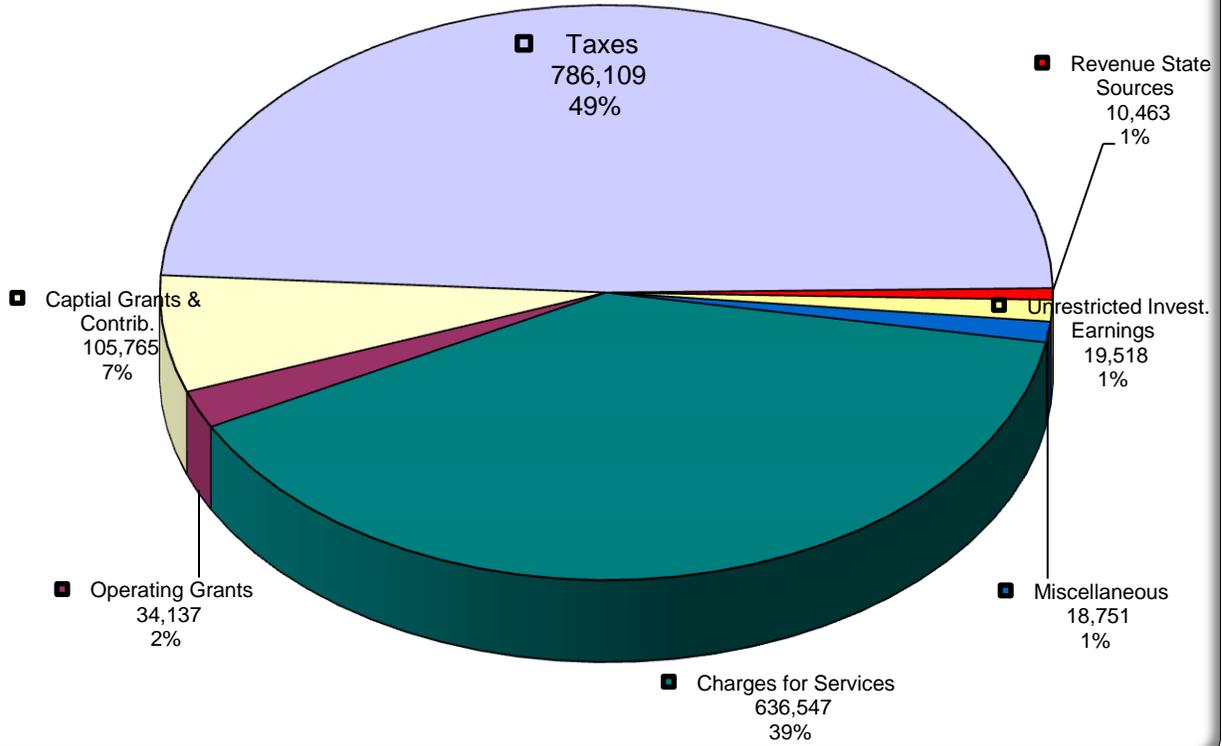
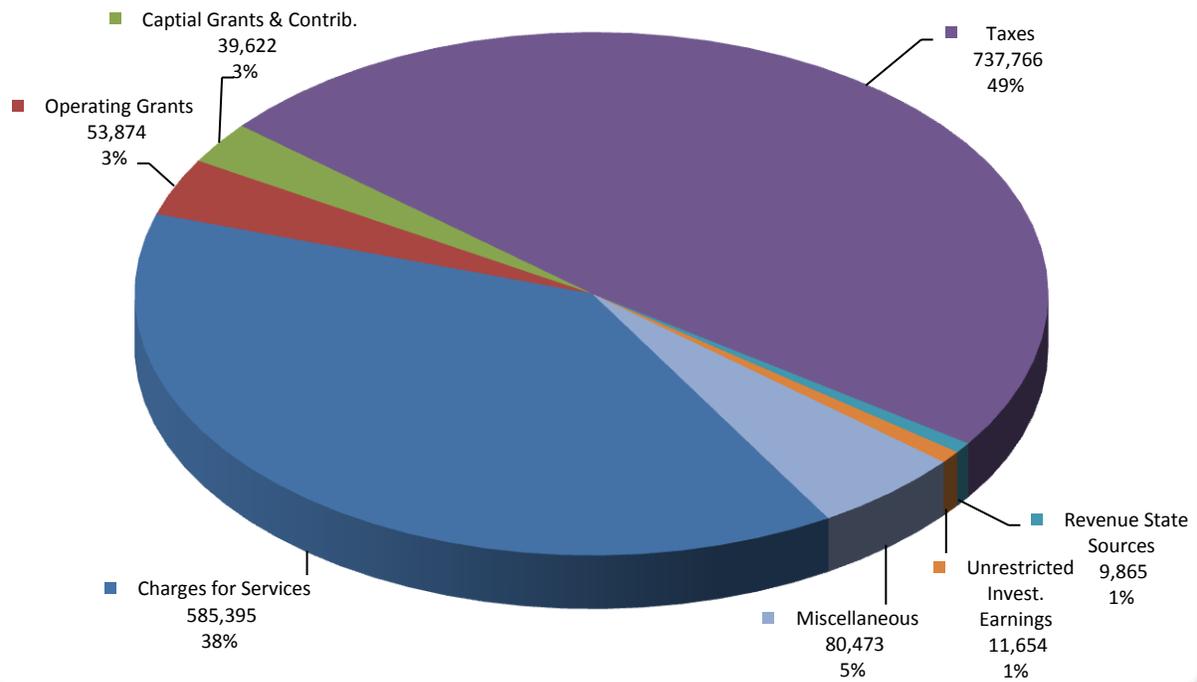


Figure A-6, City of Salem, Sources of Revenue for Fiscal Year 2011



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

The City's expenses cover a range of services 58% 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) accounted for 14%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 8%; and Debt Service, Conservation & Development and Health & Welfare expenditures each account for 1% of the 2013 expenditures. The expenditures service percentages varied slightly from 2012. The Public Works declined mainly from the decrease for the 2013 road repair costs and Water Increase due to the chemical, filter, power cost increases; as well as the replacement of pumps and computer.

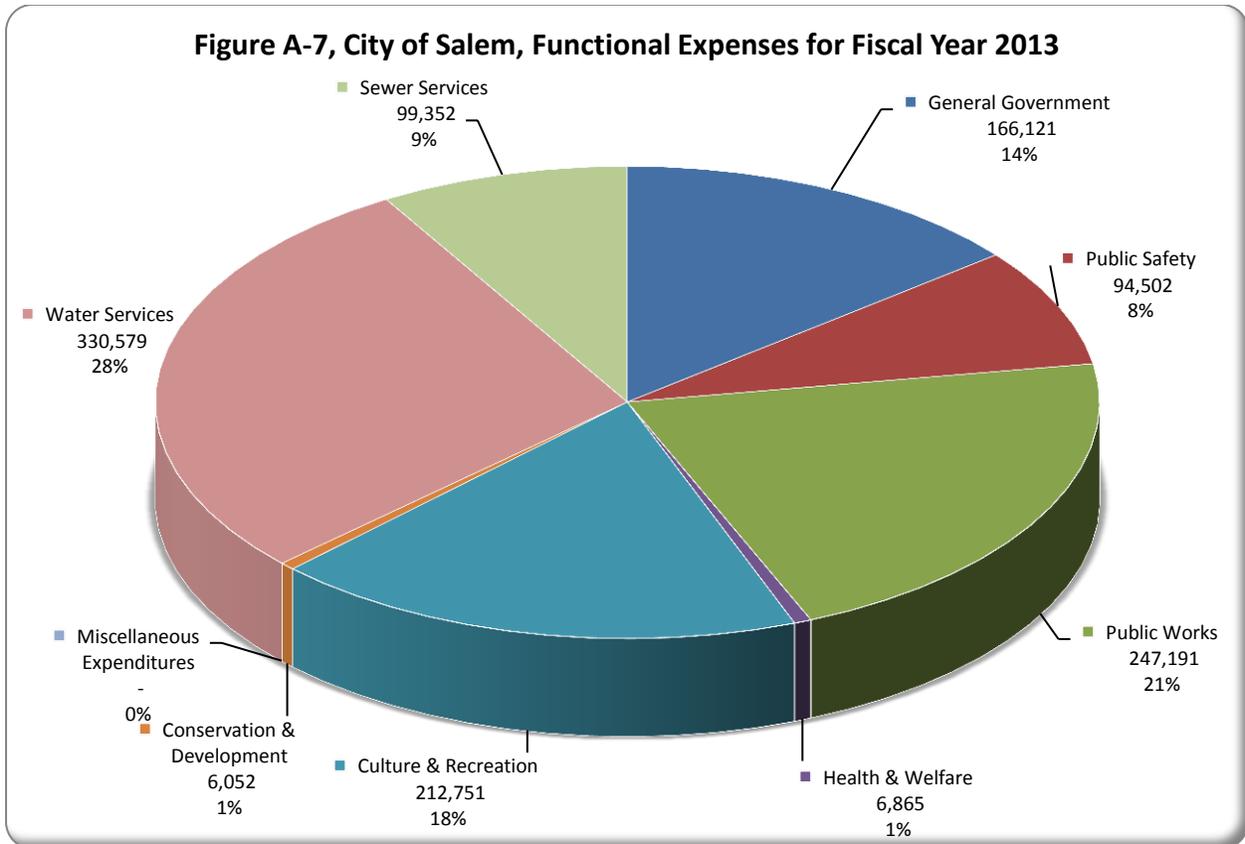


Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2012

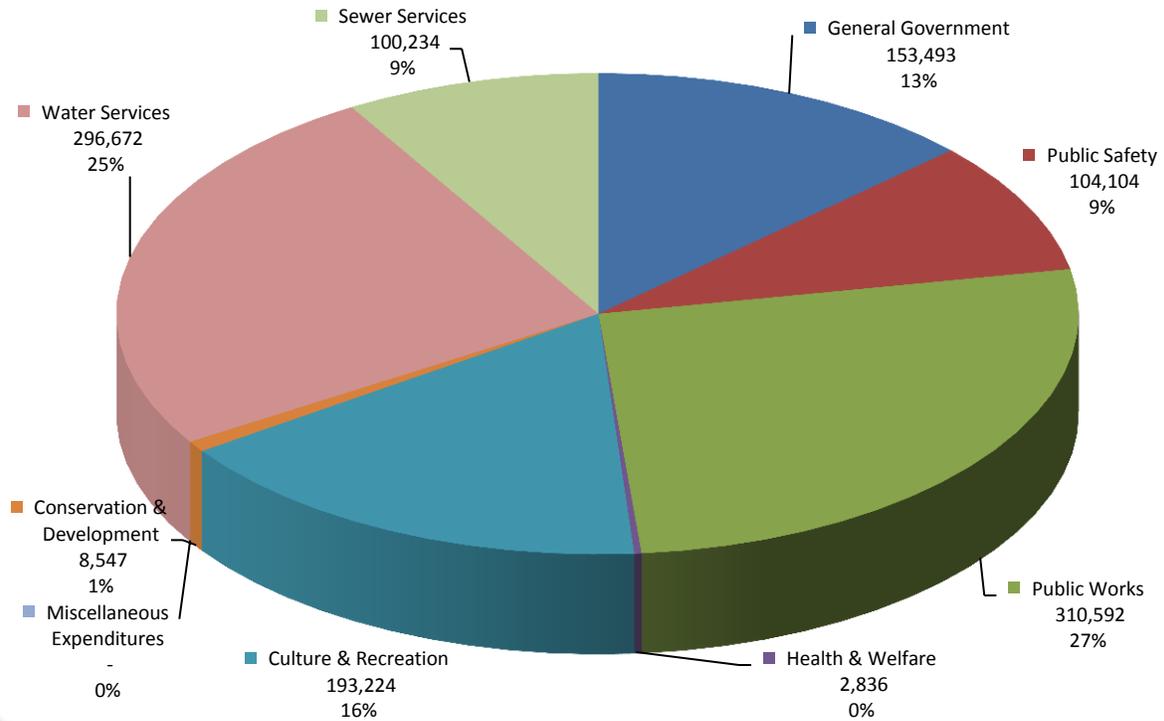
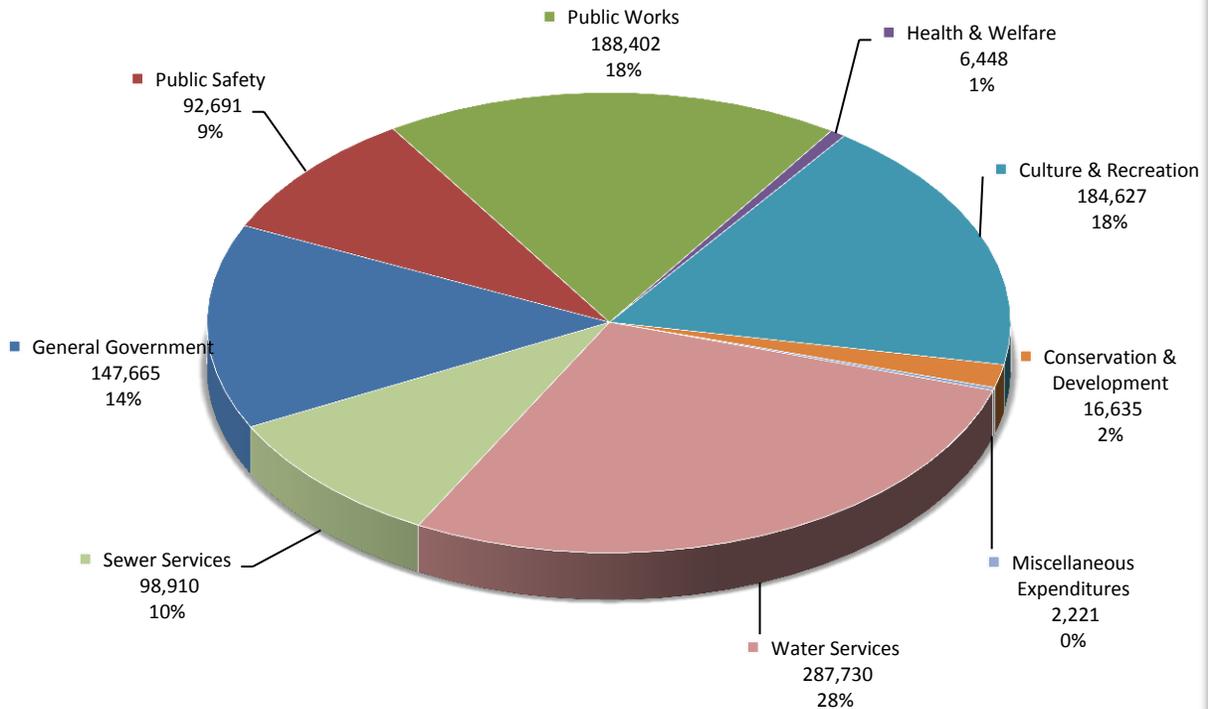


Figure A-9, City of Salem, Functional Expenses for Fiscal Year 2011



Governmental Activities

The City's Governmental activity revenues decreased by 5.43%; property tax saw an increase & sales tax a decrease; the Operating Grants, and Capital Grants & Contributions decreased 10.45%; Investment Earnings decreased 48.64%; and the Miscellaneous Revenue showed an increase of 152.2% from the sale of the 1973 maintainer.

The Governmental expenditures decreased 5.1%. General Government expenses increased 8.2% due to new software costs and allocation of 100% of the Finance Officers wages to general fund; Public Safety costs decreased 9.2%- the fire hall roof was replaced in 2012. The Public Works costs decreased by 20.4% less was spent on street patching, overlays & chip seal in 2013. Health & Welfare increased 142% (\$4029) more Mosquito Control chemicals were purchased in 2013. Culture & Rec increased 10.1% additional dollars were spent on coaching and pool chemicals, installation of pool liner (in place of painting) and a replacement pump. Conservation & Development decreased 29.19% the fireworks show was cancelled in 2012 and the dollars to the Greater McCook Alliance were not needed - the McCook Alliance was disbanded and reserves were used to pay SEDF in 2013.

Business-type Activities

Operating revenues of the City's business-type activities decreased 3.16%. The flat rates increased \$.30 in water and \$.60 cent in sewer. The amount of water produced and pumped into the system was 9.55% less than in 2012 and the water loss was at 4.4% in 2013 compared to 10% in 2012; which are all contributing factors to the operating revenue decrease. The expenditures increased by \$33,025 (8.3%). Water Department saw an increase in chemical & filter usage; power & pumping costs; and \$5200 was spent on new pumps and \$3364 on a new computer and software upgrade in the WTP.

- The Water Rates were adjusted in 2013 for the Filter Replacement and Equipment Repair and Replacement reserve accounts and operating expenses. The flat fee increased 2.29% to \$13.40. 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 increase in expenses was mainly from the Water Department. The Water Department's water treatment plant operating costs for filters and chemicals increased; 3.97% in chemicals and 10.5% in filters; and the power & pumping cost increased - 25.19%. \$8,854 was spent on WTP pumps and computer replacement. Wages decreased 4.42%. The sewer department's wages increased 2% as the lagoons incurred some costs in pump replacement and system maintenance. No sewer mains were cleaned in 2013 resulting in a decline of .88% in sewer expenditures. Removing \$10T from the 2012 expenditures for sewer cleaning makes costs comparable and shows a 10% increase in operating expenses for 2013.

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 Storm Sewer & Capital Projects funds saw a decrease in Net Assets.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City's budget three times. 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.

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 2013, the City had invested \$6,220,393 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 increase (including additions and deductions) of \$340,944 or 5.8% over FY2012.

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

	Governmental			Business-type		
	Activities			Activities		
	2011	2012	2013	2011	2012	2013
Land	62,938	62,938	60,591	41,866	41,866	41,866
Buildings	155,018	197,532	288,428	1,220,688	1,194,716	1,168,744
Improvements Other Than Buildings	1,238,875	1,394,652	1,362,903	1,767,218	1,734,584	1,713,748
Machinery & Equipment	229,032	206,782	292,604	1,046,393	1,013,871	994,861
Construction In Progress	15,309	18,558	296,648	7,825	13,950	-
Total Capital Assets (Net)	1,701,172	1,880,462	2,301,173	4,083,991	3,998,987	3,919,220

This year's major capital asset additions include:

- The Governmental additions for 2013 are -
 1. Land decreased as the land was removed from the assets from the sale of the liquor store building.

2. Buildings increased from the addition of the Softball concession stand/restroom, baseball field grandstand, dugouts & crow's nest buildings.
 3. Improvements Other than Bldg showed an overall decrease due to depreciation – additions were curb & gutter at the Armory's west parking lot; radius (2) and backstop & fencing at the baseball field.
 4. Equipment shows an increase from the addition of a 2011 CAT Maintainer & 7' Farm King Mower.
 5. CIP increased from the 2013 Main Street Lighting Project & 2014 Street Project Design.
- Business-type additions for 2013 are -
 1. Building decreased from depreciation.
 2. Improvements Other than Bldg decreased from depreciation being more than the cost of 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.
 3. Equipment decreased from depreciation being more than the addition of the Water Tower Telemetry Equipment.
 4. The Construction in Progress decrease is from the purchase of Water Tower Telemetry Equipment being installed in 2013.

The City's 2014 capital budget projects include the following: The Water Department plans on replacing two blocks of water main on Norton Ave from Hill to Pierce; the Sewer Department will be rehabilitating approximately four to five manholes. The Main Street Lighting project should be completed in the spring of 2014. The Salem Community is fund raising for the replacement of the pool bathhouse, larger deck and spray-park. The City has put dollars into the Capital Replacement Reserve for a playground renovation project at the park – design and costs will be discussed in 2014.

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 City had \$354,569.99 in the General Fund Capital Replacement Reserve Account at the end of 2013 – specifically for Park Fencing; Summer Rec Complex Improvements; Softball Field Complex Playground Equipment; Sidewalk Projects; Pool Renovation Project; Armory Door Replacement and Street projects. The 2014 Budget placed an additional \$215,000 into the Capital Reserve Account – specifically for Street Projects; Pool Renovation; Playground Renovation, and Fire Hall Project.

LONG-TERM DEBT

At year-end, the City had \$2,058,575 in SRF Loans (Revenue Bonds), and \$16,965 in other long-term obligations. This is a decrease of 4% as shown on Table A-4 below. The City's obligation for compensated absences decreased 11.2% (as the vacation hours carried over into 2014 decreased), and the SRF loan balances decreased \$85,870 from the payments made on debt.

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

	Governmental			Business-type		
	Activities			Activities		
	2011	2012	2013	2011	2012	2013
Compensated Absences	11,138	13,118	11,592	5,400	5,987	5,373
Drinking Water SRF Loan 2003	-			36,815	-	-
Drinking Water SRF Loan 2005	-	-	-	272,314	258,564	244,362
Drinking Water SRF Loan 2008	-	-	-	1,275,906	1,246,665	1,216,462
Clean Water SRF Loan 2003	-	-	-	370,265	346,793	322,489
Clean Water SRF Loan 2005	-	-	-	309,036	292,422	275,262
Total Outstanding Debt Obligations	11,138	13,118	11,592	2,269,737	2,150,432	2,063,948

The City 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 City has outstanding \$1,460,824 in Drinking Water SRF Loans and \$597,751 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 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 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 continued to increase annually from a slight decline in 2008. The City experienced growth of 1.2% in 2013; 1.4% in 2012; 1.3% in 2011 and 1% in 2010. The growth factor gives the City the ability to increase the amount of revenue generated from property taxes, the increase for 2014 is \$3,477.88; in 2013 is \$3,886.69; and in 2012 it was \$3,490.59. 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. 2013 property tax levy request payable in 2014 increased 3.3% (Growth 1.2%; CPI 2.1%) - \$9,564.18 down from 2012 property tax levy request payable in 2013 which increased 4.4% (Growth 1.4%; CPI 3%) - \$12,215.00; up from 2011 property tax levy request payable in 2012 which increased 3.4% (Growth 1.3%; CPI 2.1%) or \$9,129.00; 2010 property tax levy request payable in 2011 only increased 1% (Growth 1%; CPI 0%) or \$2,660.00.

One of the primary sources of revenue for 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), 2013 vs. 2012 taxable sales base decreased 6.117% (1,445,390.50); the 2013 vs. 2011 taxable sales base decreased 1.972% (\$446,240.00) and the 2013 vs. 2010 taxable sales base increased 14.905% (2,877,458.00). No adjustments were made to the City's 2014 tax revenue budget.

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 2013 was \$18,543.46 a decline of 9.72% from 2012 tax revenues of \$20,538.96; a decline of 13.75% from FY2011 receipts of \$21,499.57; and a decline of 24.29% from FY2010 revenues of \$24,491.42. The 2010 higher revenue 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 2014 budget does have an appropriation for Economic Development - a contract with SEPF through McCook County. The fund was also used in 2013 to fund a portion of the 2013 Main Street Lighting project and is considered 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 2014 General Fund budget increased 5.25% to \$1,010,090. The City's General Government Budget increased 22.8%; increase of \$21,140 in the Administrative Department (increase for 2014 Audit, Insurance and bathroom remodel). There was a slight increase (\$210) in Public Safety as the fire department's insurance premium has increased; Public Works decreased \$102,820 as additional money was allocated for the purchase of a new maintainer in 2013, increase for street lighting utilities, decrease in Street repairs as costs were moved to the Street Assessment Fund and Storm Drainage costs were moved to the Storm Sewer Fund; Culture and Recreation decreased as the softball field concession stand/restroom building was completed in 2013; increase to armory for replacement of the South doors and purchase of 12 tables; Capital Outlay increased to \$50,0000 - \$25T each for Sweeper and City Equipment; and Capital Replacement increased by \$67,139. The remaining departments varied slightly to accommodate a shift in wages between departments. The 2014 budget was increased to accommodate a raise for the city's employees (4% full-time & 2% part-time); wages are not set until January.

The City's business-type activities (water and sewer operations) expect that the revenues for the 2014 financials will increase as a consequence of a \$1.10 cent Water flat fee and .0001 gallon usage increase. The flat fees were increased to accommodate the higher operating costs and for filter replacement in the

Water Treatment Plant and water main replacement. The 2014 Water Operating Budget increased 15.45% (\$59,880) from 2013 and the 2014 Sewer Budget increased 2.3%.

The Council increased the Water Flat Fee \$1.10 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 2014 rates are a water flat fee of \$14.10, .0041 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates remained at the Residential flat fee of \$21.00, and 40% of the Water Usage Fee but not less than \$21.00 for commercial users. A CPI increase to the water rate was projected; the need to replace 28 blocks of 4" CPI water main and filters in the Water Treatment Plant required a minimum of the 2.1% CPI, but the 12.9% increase in operating costs made it necessary for the higher increase (1.10 cents is an 8.2% increase). At the end of 2013, the Equipment Repair & Replacement Fund had a balance of \$136,774.12 an 8.8% increase; a direct result of the rate increases over the last few years. 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 \$1.10 cent flat fee & .0001 per gallon increase was necessary to increase the dollars for water main replacement. The water department allocated \$6,632.67 to the filter reserve and \$31,000 to water main replacement in 2013 and in 2014 is projected to allocate \$28,900 to the filter reserve and \$22,650 to the water main reserve both designated in the Equipment Repair/Replacement Fund.

The Sewer Department rates were not increased in 2014. All rates are reviewed annually. The water & sewer customers saw a 1.10 cent increase to flat fees on their monthly bill; or \$13.20 annually & .10 cents per 1,000 gallons of water used (\$6 annually based on 5,000 gallons per month usage).

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.