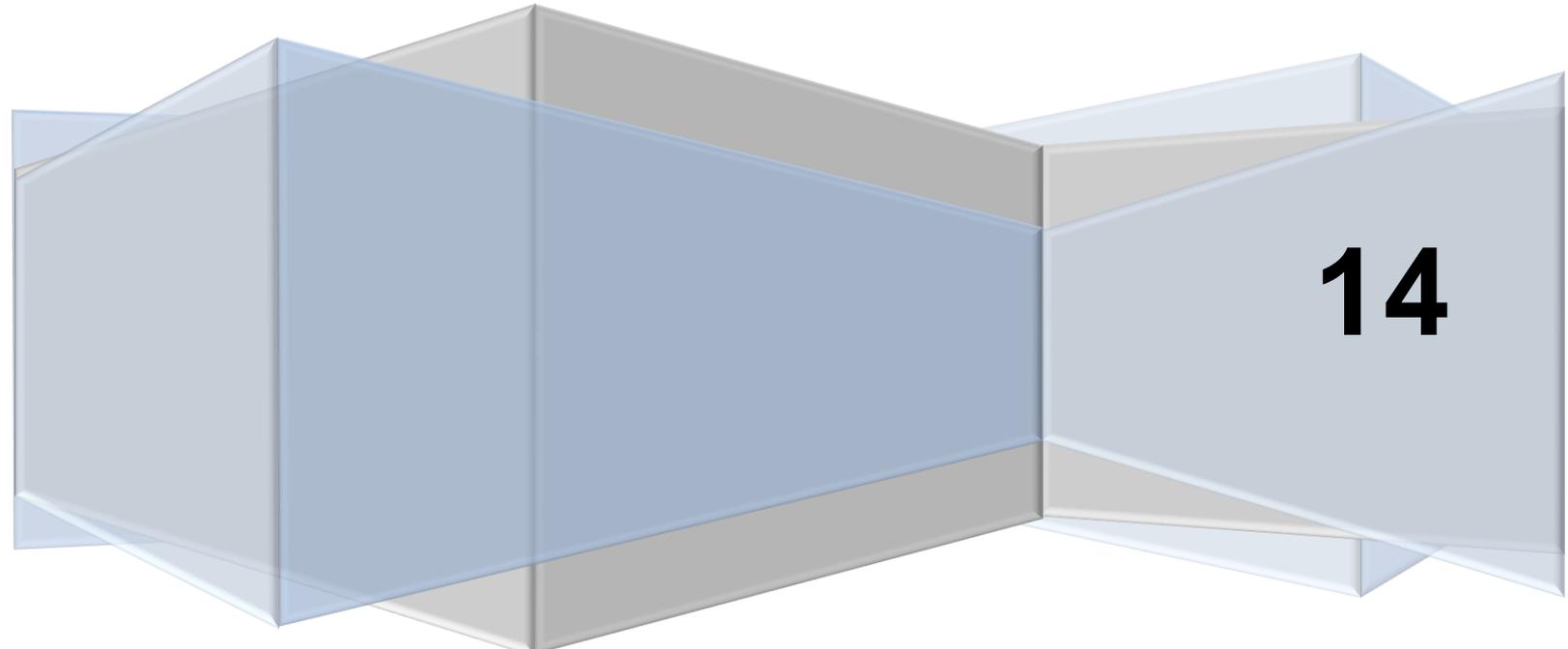


CITY OF SALEM

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2014



14

**MUNICIPALITY OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014**

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, 2014. 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 \$250,752 more than the \$739,830 governmental expenditures. This is a 17% decrease over the prior year when revenues exceeded expenditures by \$302,388.
- In the City's business-type activities, revenues increased 1% to \$498,904 and expenses increased 35%.
- The total cost of the City's Governmental programs was \$6,348 more than 2013, increase of 1%. There were many variables for this increase and are explained in detail on page 7 of this report.
- The revenues for the governmental activities show a decrease of 4% or \$45,288. The decrease in revenue is largely due to a decrease in contribution from others of \$37,020. The result of the decrease of revenues and decrease in expenditures is a \$250,752 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 Statements	Fund 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 3% between FY2013 and FY2014; a \$171,086 increase (See Table A-1).

TABLE A-1 CITY OF SALEM NET ASSETS - FISCAL YEAR 2014

	Governmental			Business-Type			Total		
	Activities			Activities					
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Current and Other Assets	1,596,142	1,598,653	1,552,924	791,946	851,282	781,135	2,388,088	2,449,935	2,334,059
Capital Assets	1,880,462	2,301,173	2,462,994	3,998,987	3,919,220	3,821,144	5,879,449	6,220,393	6,284,138
Total Assets	3,476,604	3,899,826	4,015,918	4,790,933	4,770,502	4,602,279	8,267,537	8,670,328	8,618,197
LT Debt Outstanding	13,118	11,592	12,754	2,150,432	2,064,248	1,975,043	2,163,550	2,075,840	1,987,798
Other Liabilities	37,392	159,752	21,682	37,350	40,711	43,605	74,742	200,464	65,287
Total Liabilities	50,510	171,344	34,437	2,187,782	2,104,959	2,018,648	2,238,292	2,276,303	2,053,085
Net Assets:									
Invested in Capital Assets									
Net of Related Debt	1,880,462	2,301,173	2,462,994	1,854,542	1,860,645	1,851,326	3,735,004	4,161,818	4,314,321
Restricted	249,988	300,826	335,241	170,172	178,620	186,263	420,160	479,446	521,504
Unrestricted	1,295,644	1,126,483	1,183,246	578,437	626,278	546,041	1,874,081	1,752,761	1,729,287
Total Net Assets	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
Beginning Net Assets	3,091,874	3,426,094	3,728,482	2,454,585	2,603,151	2,665,543	5,546,459	6,029,245	6,394,025
Increase (Decrease) in									
Net Assets	334,220	302,388	252,999	148,566	62,392	(81,913)	482,786	364,780	171,086
Percentage of Increase									
(Decrease) in Net Assets	11%	9%	7%	6%	2%	-3%	9%	6%	3%

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 3%. The Current Assets (cash & receivables) decreased 4.7% or \$115,876. The 2014 Baseball Field Improvements consisting of curb & gutter, batting cage & establishing a green area; 2014 Street Project, Radius Improvements, finishing of the Main Street Lighting Project, sidewalks at City Hall, one block of sewer main & purchase of \$39,930 in equipment, less depreciation, resulted in a 1% increase in Capital Assets. Total Assets decreased .6%. Liabilities for the city decreased 9.8%.

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 \$152,503 or 3.7%. The addition of Capital Assets was more than depreciation. No additional debt was incurred.
- The Restricted Net Assets increased 8.8%. The amount collected in fees exceeded the dollars spent on projects in 2014.
- The Unrestricted Net Assets decreased 1.3%. 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

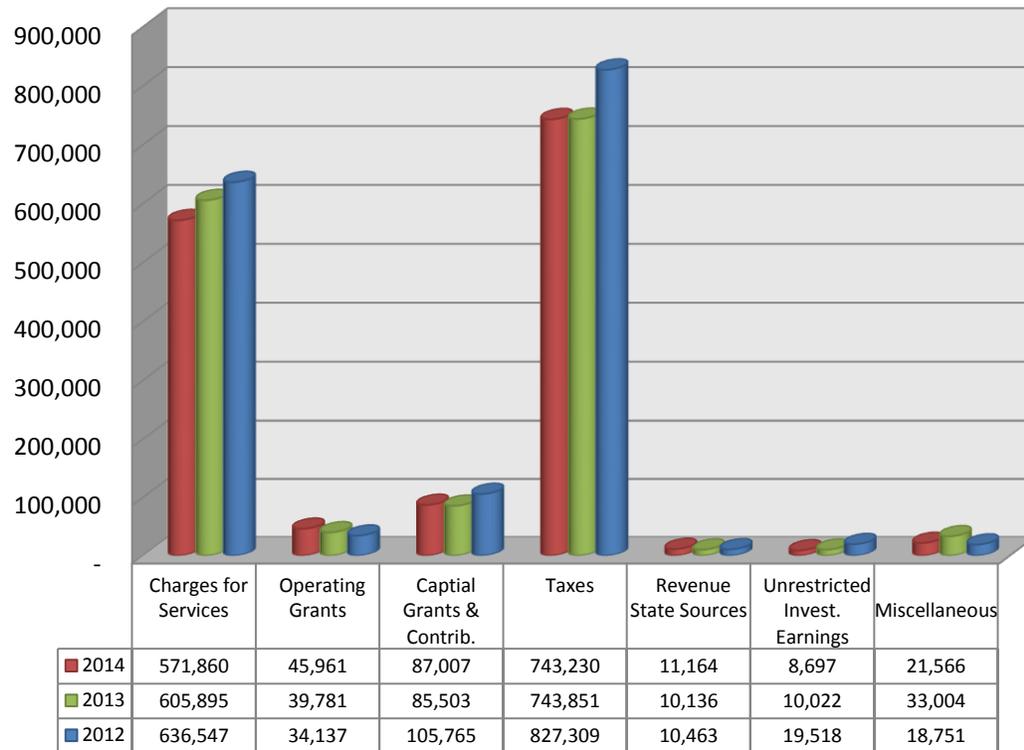
**TABLE A-2
MUNICIPALITY OF SALEM
Changes in Net Assets 12/31/2014**

	Governmental			Business-Type			Total		
	Activities			Activities					
	2012	2013	2014	2012	2013	2014	2012	2013	2014
Revenues									
Program Revenues									
Charges for Services	142,422	123,761	83,804	494,125	482,134	488,056	636,547	605,895	571,860
Operating Grants	34,137	39,781	45,961				34,137	39,781	45,961
Capital Grants & Contrib.	105,765	85,503	87,007	-	-	-	105,765	85,503	87,007
Taxes	827,309	743,851	743,230				827,309	743,851	743,230
Revenue State Sources	10,463	10,136	11,164				10,463	10,136	11,164
Unrestricted Invest. Earnings	12,635	6,489	5,561	6,883	3,534	3,136	19,518	10,022	8,697
Miscellaneous	11,379	26,348	13,854	7,372	6,656	7,712	18,751	33,004	21,566
Total Revenues	1,144,109	1,035,870	990,582	508,380	492,323	498,904	1,652,488	1,528,193	1,489,485
Expenses									
General Government	153,493	166,121	192,467				153,493	166,121	192,467
Public Safety	104,104	94,502	92,825				104,104	94,502	92,825
Public Works	310,592	247,191	258,500				310,592	247,191	258,500
Health & Welfare	2,836	6,865	4,233				2,836	6,865	4,233
Culture & Recreation	193,224	212,751	180,767				193,224	212,751	180,767
Conservation & Development	8,547	6,052	11,038				8,547	6,052	11,038
Miscellaneous Expenditures	-	-	-				-	-	-
Water Services				296,672	330,579	374,399	296,672	330,579	374,399
Sewer Services				100,234	99,352	206,418	100,234	99,352	206,418
Total Expenses	772,796	733,482	739,830	396,906	429,931	580,817	1,169,702	1,163,413	1,320,647
Excess (Deficiency) Before									
Special and Transfers	371,312	302,388	250,752	111,474	62,392	(81,913)	482,786	364,780	168,839
Adjustments & Transfers	(37,092)	-	2,248	37,092	-	-	-	-	2,248
Increase (Decrease) in Net Assets	334,220	302,388	252,999	148,566	62,392	(81,913)	482,786	364,780	171,086
Ending Net Assets	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

The City's total 2014 revenues were \$1,489,485 which is a decrease from FY2013 of 2.5% or \$38,708.

- Charges for Goods and Services decreased 5.6%. The user fees in the Business-Type activities saw a 1.2% increase due to a 2014 rate increase; the General Fund's decrease is due to the Storm Sewer Fee being moved to Capital Grants & Contributions this fee raised \$37,389 in 2014. Licenses & Permits saw a \$2,306 increase and the remaining categories remained fairly consistent.
- Operating grants increased 15.5% (\$6,180) due mainly from the Mosquito Control Grant but all the state & county shared revenues increased in 2014.
- Capital Grants & Contributions show a slight increase of 1.8%. There were less Contributions but was offset by the Storm Sewer Fee being moved to Capital Grants & Contributions.
- Taxes decreased by \$621.00. There was a decrease in sales tax & increase in property tax revenues. The sales tax revenue decreased \$7,854.24 - 1.75% and the property taxes increased \$7,233 - 2.4%.
- Revenue from State Sources saw a 10% increase \$1,028 - these dollars are from Liquor Tax Reversion and Bank Franchise.
- Investment earnings show a 13% decrease in revenue (\$1,325). The cash on hand EOY 2014 is \$80,739 lower than EOY2013 and interest rates remain low.
- Miscellaneous revenues decreased (13%) - \$1,325. The City sold the 1973 maintainer in 2013 and 2014 shows no larger item surplus property. Other misc. revenue combined: cable franchise, dividends and recovery of prior year expenses showed an increase. Business activities show an increase of 15.8%. This is directly due to the increase in the rent from Verizon in 2014.

Figure A-2, City of Salem Revenue Comparison 2012-2014

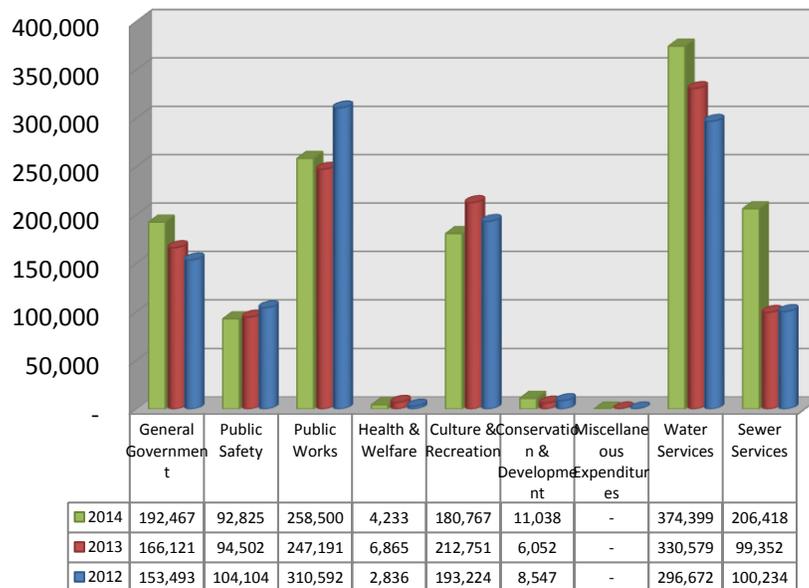


EXPENDITURE COMPARISON, TABLE A-2 & FIGURE A-3

The city's expenses show an overall 13.5% increase (2014 vs. 2013).

- General Government Expenditures increased 18% or \$30,346. Insurance increased, an audit was paid for in 2014 and the allocation of wages to the Finance Department increased.
- Public Safety decreased 1.8%. The police contract remained the same.
- Public Works expenses increased 4.6%. In 2014, \$43,949.16 were spent on street patching, overlays & chip/seal; compared to \$86,582.93 in 2013. 2014 saw major repairs on the sweeper and the purchase of tires for the loader and 1000T of gravel.
- Health & Welfare expenses decreased 38% - (\$2,632). Mainly due to the quantity of mosquito spray purchased in 2013 compared to 2014.
- Culture & Recreation expenses decreased \$31,984 or 15%. Summer Recreation costs decreased \$34,509; Parks decreased \$7,137.01; Auditorium costs increased \$5,447. Recreation: The Baseball & Softball Programs increased slightly (\$174.62); the Swimming Pool decreased \$34,684 due to the installation of the liner in 2013 – chemicals did increase and the Pool Bathhouse Renovation design and drawing were paid for in 2014. Parks saw a decline in repair & supply costs but an increase in utility costs. The auditorium increased as the front doors were replaced in 2014.
- Conservation & Development: The Planning and Zoning and Promoting the City saw a \$4,986 increase due to the payment to S.E.F.P in 2014; the 2013 fee was waived for one year.
- Miscellaneous Expenditures were zero in 2014 & 2013.
- Water Fund Expenditures increased 13.25%- \$43,820. In 2014, chemical usage and filter usage increased 24%; power and pumping costs decreased 8%. Another contributing factor to the overall increase was the purchase of new pumps & (5) UF Filters in 2014.
- Sewer Fund Expenditures increased \$107,066 – In 2014, bid letting was held on cleaning & televising the entire sewer system. At the end of 2014, one-half the project was paid for. 2014 also saw major 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 2012-2014



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 38 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 50 cents of every dollar raised coming from some type of tax. (See Figure A-4). Another 9% 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 2013.

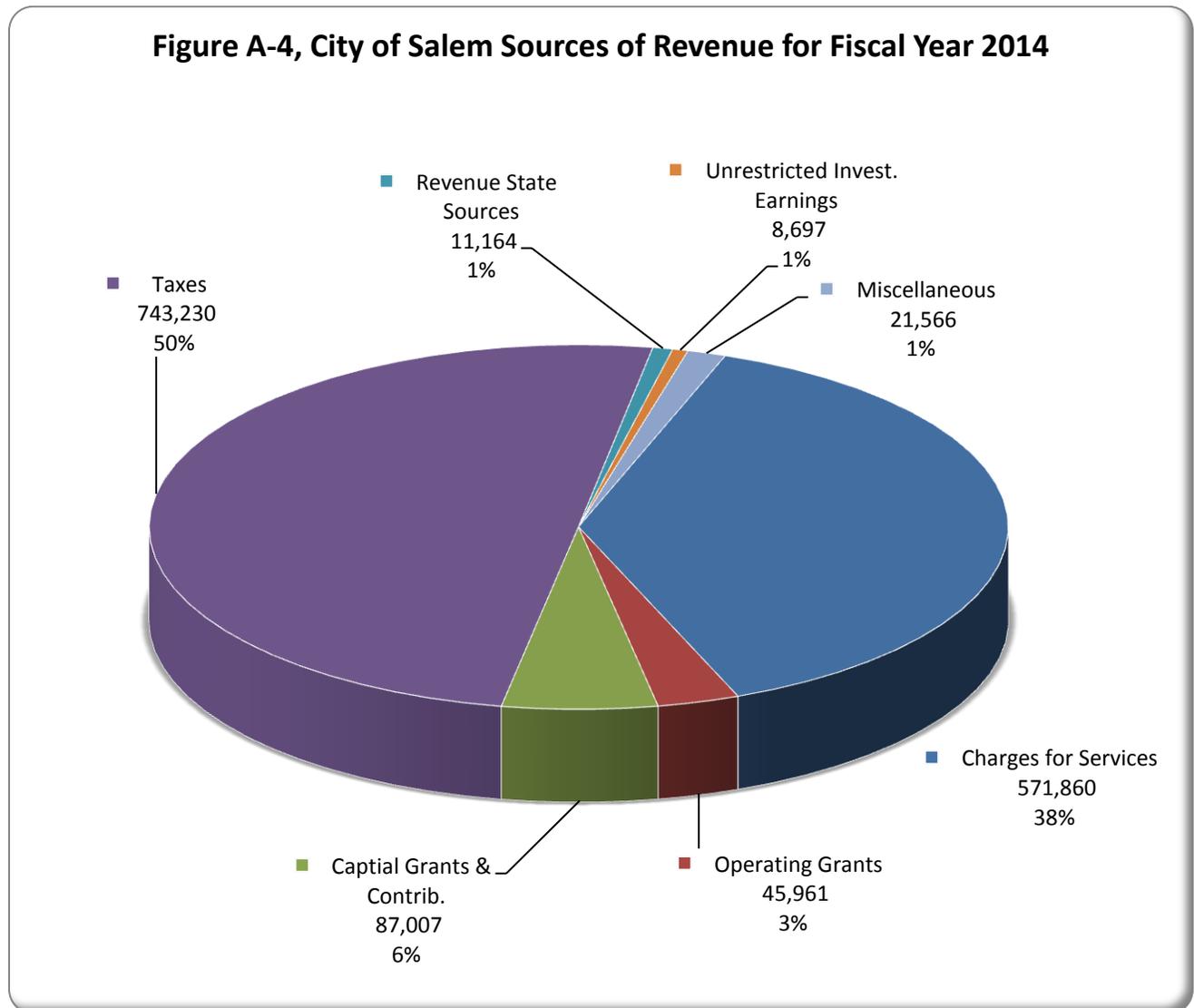


Figure A-5, City of Salem Sources of Revenue for Fiscal Year 2013

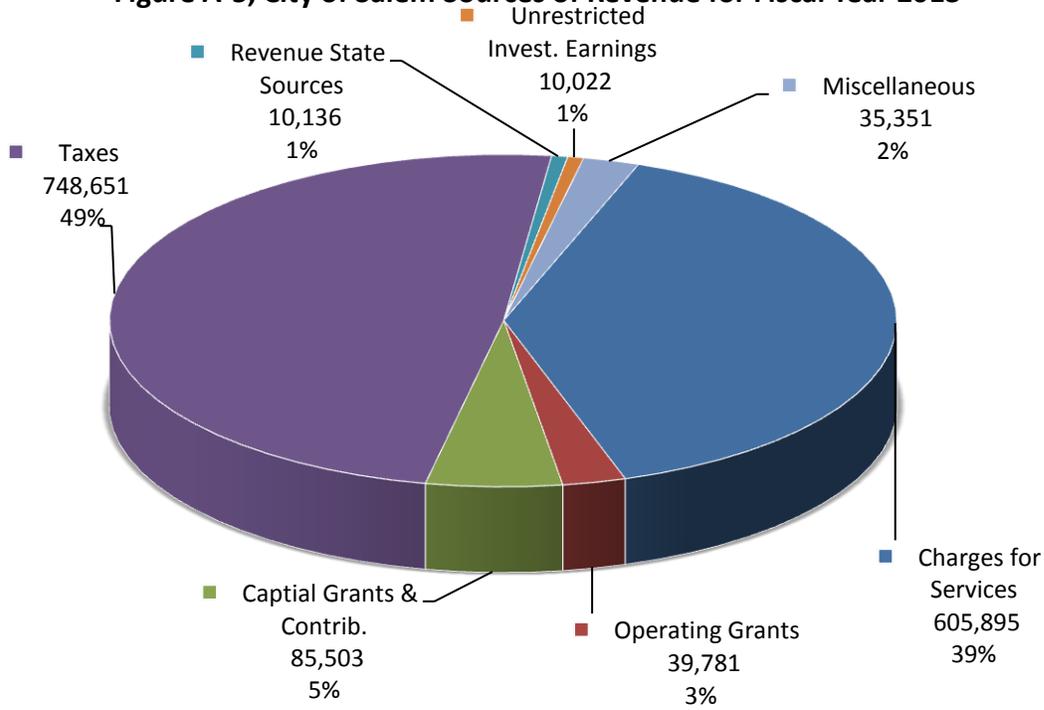
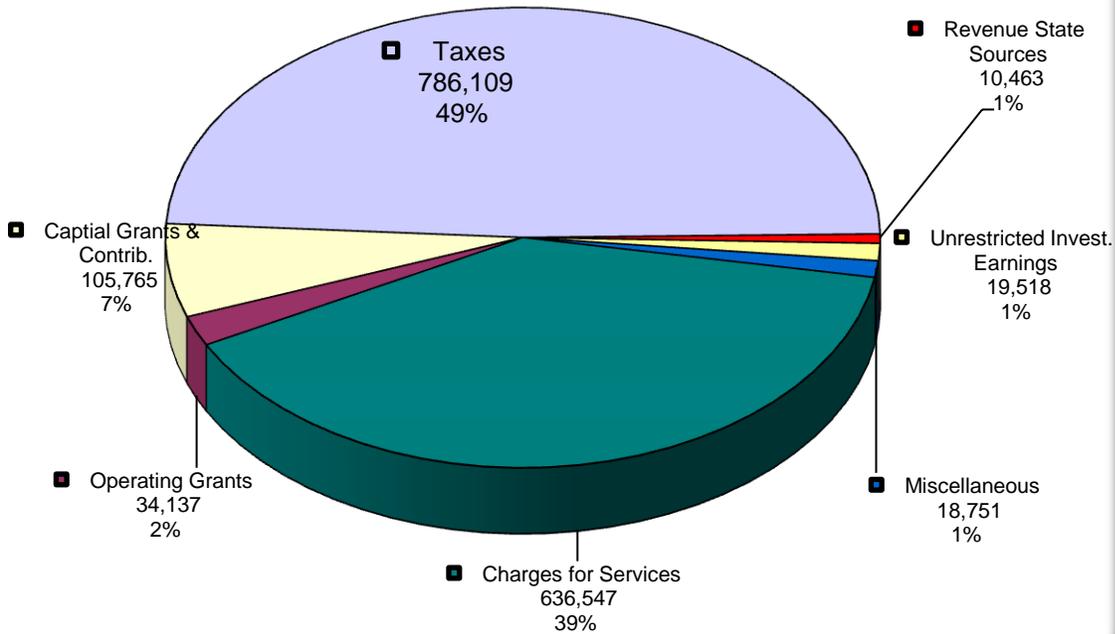


Figure A-6 City of Salem, Sources of Revenue for Fiscal Year 2012



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

The City's expenses cover a range of services 64% 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 14%; General Government (Publications, Council, Attorney, Insurance, Finance Office & City Hall) accounted for 14%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 7%; and Miscellaneous, Conservation & Development and Health & Welfare expenditures each account for 1% of the 2014 expenditures. The expenditures service percentages varied from 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.

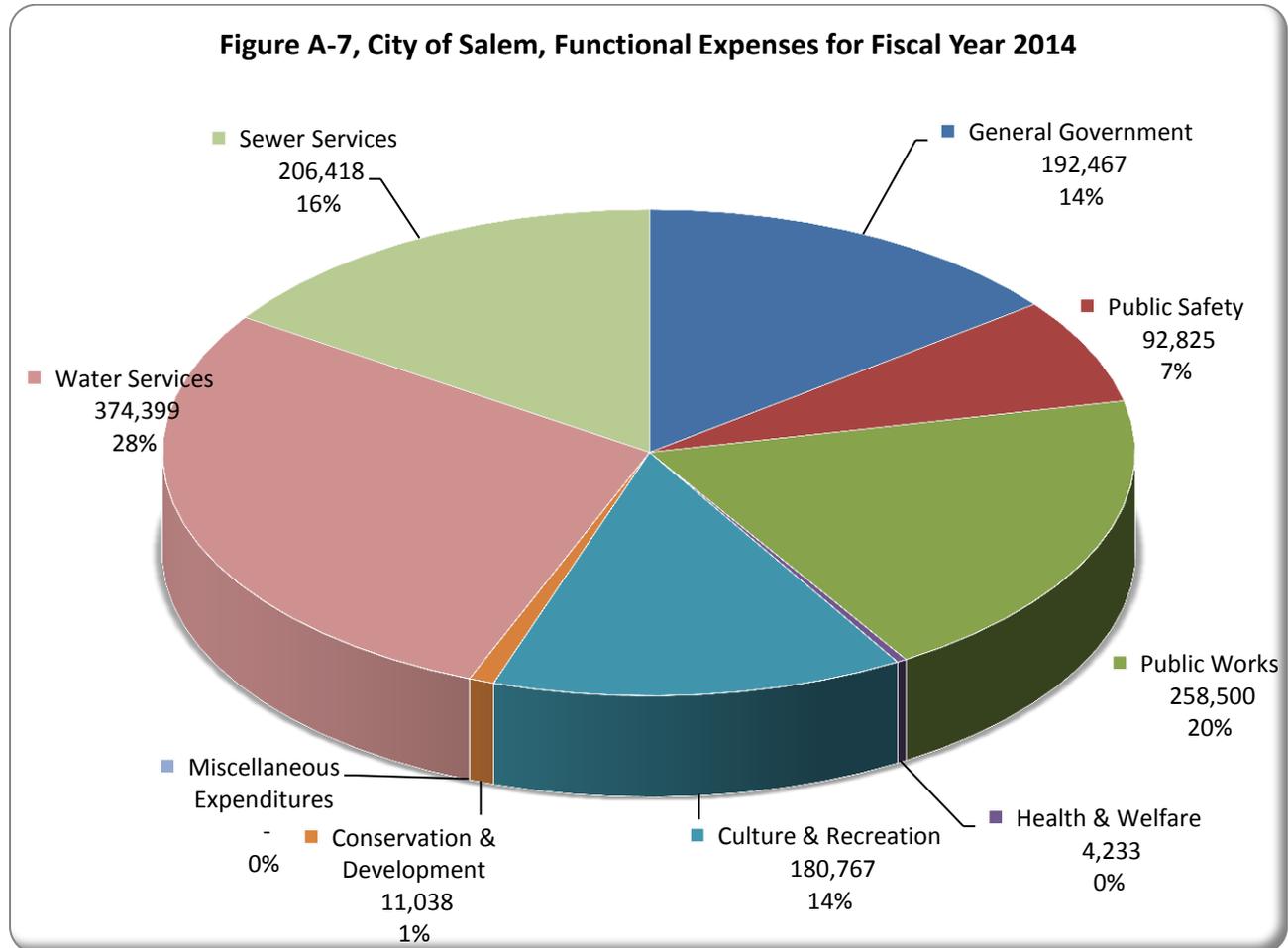


Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2013

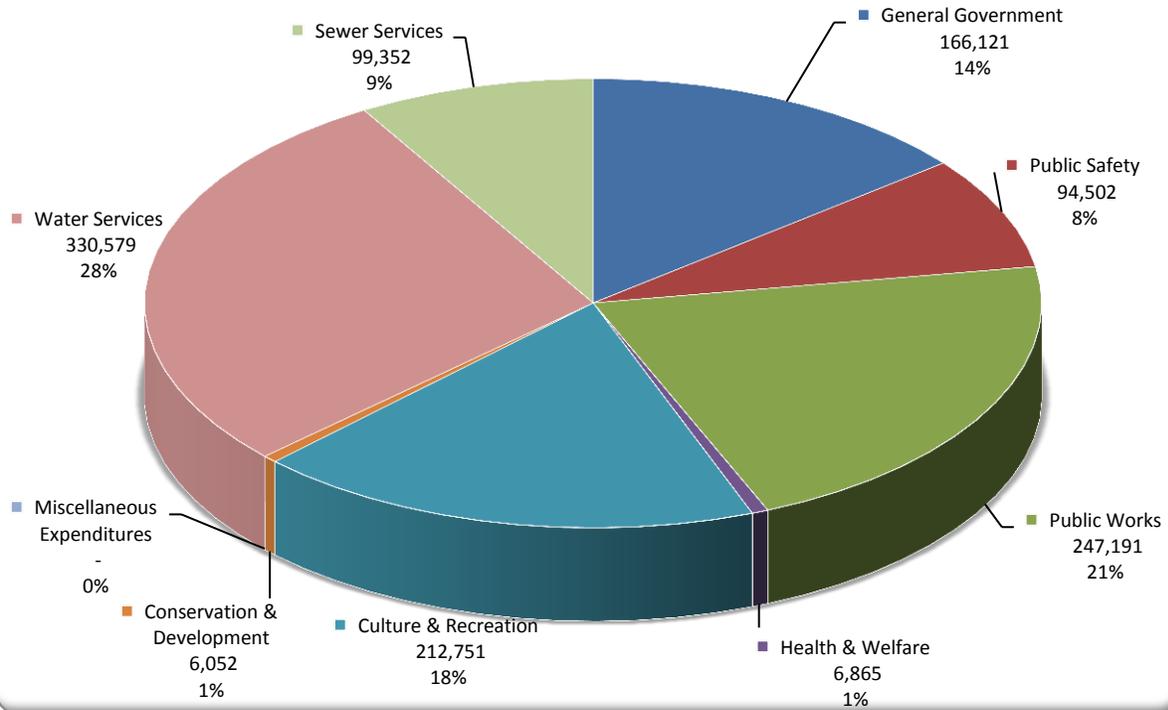
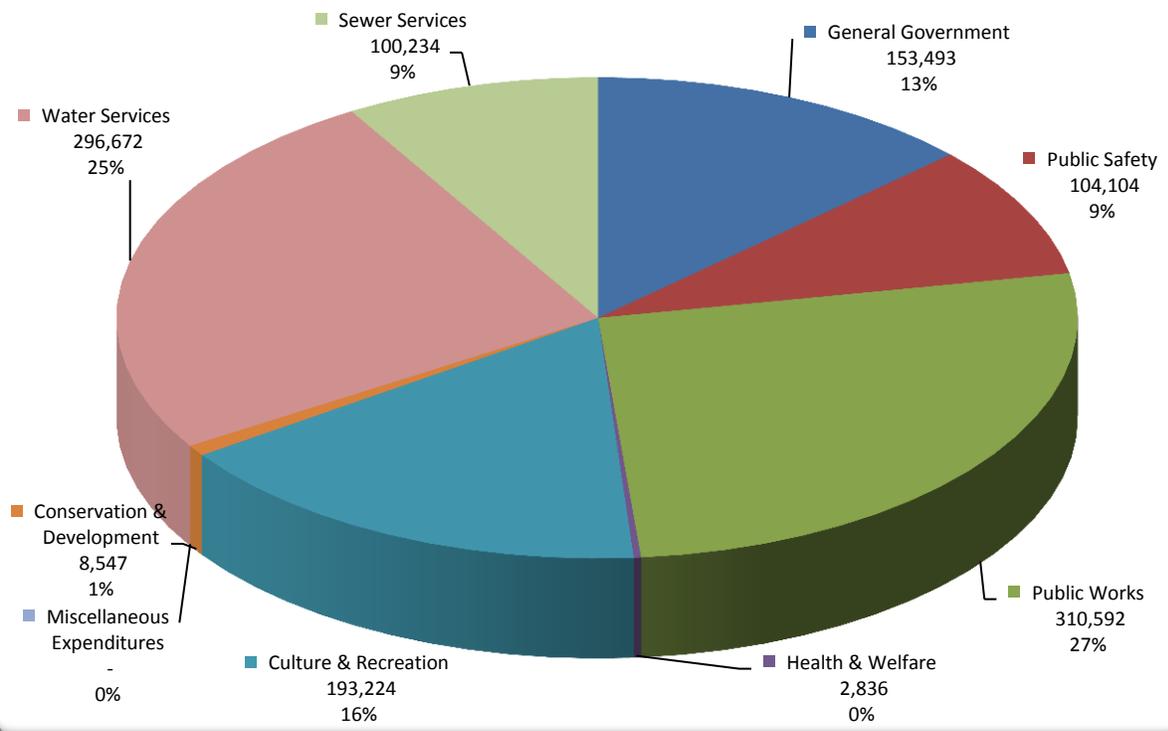


Figure A-9, City of Salem, Functional Expenses for Fiscal Year 2012



Governmental Activities

The City's Governmental activity revenues decreased by 4.4%; property tax saw an increase & sales tax a decrease; the Operating Grants, and Capital Grants & Contributions increased 6%; Investment Earnings decreased 14%; and the Miscellaneous Revenue showed a decrease of 47% from the sale of property in 2013 (no sales in 2014).

The Governmental expenditures increased .9%. General Government expenses increased 18% due to the audit of FY2012 & 2013, increase in insurance costs and allocation of more wages to the Finance Officer Department; Public Safety costs decreased 1.8%- 2013 saw a few more repairs to the fire truck. The Public Works costs increased 4.6% less was spent on street patching, overlays & chip seal and more on equipment repairs in 2014. Health & Welfare decreased 38% (\$2,632) more Mosquito Control chemicals were purchased in 2013 than 2014. Culture & Rec decreased 15% overall. Pool chemicals costs increased and pool maintenance decreased (2013 a pool liner was installed). The auditorium costs increased due to the replacement of the front doors in 2014. Conservation & Development increased 82% the dollars to the Greater McCook Alliance were not needed in 2013 as the McCook Alliance was disbanded and reserves were used to pay SEFP; in 2014, the City paid the fee directly to Southeastern Enterprise Facilitation Project.

Business-type Activities

Operating revenues of the City's business-type activities increased 1.3%. The water flat rate increased \$1.10 and the cost per gallon .0001 cents. The amount of water produced and pumped into the system was 2% less than in 2013 and the water loss was 9.14% in 2014 compared to 4.4% in 2013; which are all contributing factors to the operating revenue increase. The expenditures increased by \$150,886 (35%). Water Department saw an increase in chemical & filter usage; a decrease in power & pumping costs; and close to \$41,000 was spent on (5) new UF Filters. The Sewer Department started a complete cleaning & televising of the sewer mains - increasing maintenance by \$71,455.60 with the project one-half paid for at the end of 2014.

- The Water Rates were adjusted in 2014 for the Filter Replacement and Equipment Repair and Replacement reserve accounts and operating expenses. The flat fee increased 8.2% to \$14.50. The revenues generated from Charges for Services increased 2.6% - the water produced declined 2.2% a direct result of less water used. The sewer department saw a 0% increase in revenues from user fees as there was no rate increase in 2014.
- The increase in expenses was shared between the Water & Sewer Departments. The Water Department's water treatment plant operating costs for filters and chemicals increased; 18.6% in chemicals and 47.4% in filters. \$40,934 was spent on UF Filters. Wages decreased 1.7%. The sewer department's wages increased 19% as the lagoons (pump & float replacement) & sewer main emergency repairs incurred heavier costs than in 2013. A sewer main cleaning & televising project was started in 2014 - maintenance costs at the end of the year on this project were \$71,455.60; approximately one-half paid for.

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 Water, Sewer & Capital Projects funds saw an increase 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, Storm Drainage Improvements, Sidewalk Improvements at City Hall; Park Improvements; Wages in the Finance Office and Insurance.

CAPITAL ASSET ADMINISTRATION

By the end of 2014, the City had invested \$6,284,138 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 \$63,745 or 1% over FY2013.

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

	Governmental			Business-type		
	Activities			Activities		
	2012	2013	2014	2012	2013	2014
Land	62,938	60,591	60,591	41,866	41,866	41,866
Buildings	197,532	288,428	277,185	1,194,716	1,168,744	1,142,772
Improvements Other Than Buildings	1,394,652	1,362,903	1,815,301	1,734,584	1,713,748	1,674,611
Machinery & Equipment	206,782	292,604	307,560	1,013,871	994,861	961,895
Construction In Progress	18,558	296,648	2,358	13,950	-	-
Total Capital Assets (Net)	1,880,462	2,301,173	2,462,994	3,998,987	3,919,220	3,821,144

This year's major capital asset additions include:

- The Governmental additions for 2014 are -
 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 decreased: the 2013 Main Street Lighting Project & 2014 Street Project were completed, and a new established green area at the baseball field was started but not finished in 2014.
- Business-type additions for 2014 are -
 1. Improvements Other than Bldg: No additions in the Water Department. A new Sanitary Sewer Manhole was installed along with 1 block of sewer main on Washington between Hwy 81 & Idaho.

The City's 2015 capital budget projects include the following: The Water Department has no plans for any replacement until there are funds available; the Sewer Department will use the televising project reports to develop projects based on necessity. The baseball field "Green Area" will be completed in the spring - sod will be installed. 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. The City was notified of their award of a Land Water & Conservation fund grant of \$40,000 in December of 2014. The grant was for the replacement of the Playground equipment and rehabilitation of the park area. The Council decided in December of 2014 to put out Requests for Proposals for Engineering & Architectural services for the Pool/Park Renovation Project in January of 2015.

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 City 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.

The City had \$373,808.82 in the General Fund Capital Replacement Reserve Account at the end of 2014 - specifically for Park Fencing; Summer Rec Complex Improvements; New Fire Hall; Softball Field Complex Playground Equipment; Sidewalk Projects; Pool Renovation Project; and Street projects. The 2015 Budget placed an additional \$272,580 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 \$1,975,073 in SRF Loans (Revenue Bonds), and \$18,010 in other long-term obligations. This is a decrease of 4.2% as shown on Table A-4 below. The City's obligation for compensated absences increased 10%, and the SRF loan balances decreased \$88,758 from debt payments.

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

	Governmental Activities			Business-type Activities		
	2012	2013	2014	2012	2013	2014
Compensated Absences	13,118	11,592	12,754	5,987	5,373	5,256
Drinking Water SRF Loan 2005	-	-	-	258,564	244,362	229,693
Drinking Water SRF Loan 2008	-	-	-	1,246,665	1,216,462	1,185,265
Clean Water SRF Loan 2003	-	-	-	346,793	322,489	297,323
Clean Water SRF Loan 2005	-	-	-	292,422	275,262	257,537
Total Outstanding Debt Obligations	13,118	11,592	12,754	2,150,432	2,063,948	1,975,073

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 \$1,414,958 in Drinking Water SRF Loans and \$554,860 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 .8% in 2014; 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 2015 is \$2,395.08; in 2014 is \$3,477.88; and in 2013 is was \$3,886.69. 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:

- 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.

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), the following are annual comparisons:

- 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 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 the 1% gross receipts are as follows:

- 2014 tax revenues were \$21,010.33 and 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 City's 2015 budget does have an appropriation for Economic Development – a contract with SEFP through McCook County. The revenues are in a "Special Revenue Fund" as designated by SDCL 10-45.

The City's adopted 2015 General Fund budget increased 3.7% to \$1,047,450 from the original 2014 Budget and decreased 15.4% from the 2014 Supplemented Budget. The 2015 Budget places \$312,580 into the Capital Outlay & Capital Replacement Reserves; provides for the purchase of a new mower for the parks and \$5000 for new tables at the Armory. The difference between the operating budgets is due to the audit performed in 2014 and a shift in maintenance items and wages between the departments. Maintenance shifts and supply shifts for 2015 are an increase in Mosquito Spray; replacement of the final two walk-out doors at the Armory; and the addition of dollars for nuisance abatement. The 2015 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 2015 financials will increase as a consequence of a \$.30 cent Water flat fee and \$1.00 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 Sewer Department was raised to the dollar amount required to qualify for SRF Loans & Grants. In 2014, it was determined the UF filters all needed to be replaced.

The 2015 Water Operating Budget decreased 23.5% (\$65,612) from 2014; due to the purchase of \$45,000 in UF Filters in 2014; and the 2015 Sewer Operating Budget decreased 9% (Cleaning & Televising Project in 2014).

The Council increased the Water Flat Fee \$.30 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 2015 rates are a water flat fee of \$14.80, .0041 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates are the Residential flat fee of \$22.00, and 40% of the Water Usage Fee but not less than \$22.00 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 1.4% CPI, but the ever increasing operating costs made it necessary for the higher increase (.30 cents is a 2% increase).

At the end of 2014, the Equipment Repair & Replacement Fund had a balance of \$98,244.67 a 28% decrease. The rate increase did help on the revenue side, but the purchase of 5 UF Filters (\$40,934.45) caused a reduction in the reserves. \$30,000 set aside for water main replacement was moved to the filter replacement reserve. This fund is necessary for the replacement of water main and the Nano & Ultra Filters at their scheduled life expectancies. The \$.30 cent flat fee increase was necessary for the water main and filter replacement reserves. The water department allocated \$26,237.24 to the filter reserve and \$.00 to water main replacement in 2014. The 2015 is budget is projected to allocate \$42,000 to the filter reserve and \$30,000 to the water main reserve both designated in the Equipment Repair/Replacement Fund. The remaining 8 UF Filters will be replaced in January of 2015 at a cost of \$54,062.68. This is projected to reduce the small filter & chemical costs in 2015.

The Sewer Department rates were increased \$1.00 in 2015. The increase puts the City in the position to apply for SRF Grants. All rates are reviewed annually. The water & sewer customers saw a 1.30 cent increase to flat fees on their monthly bill; or \$15.60 annually.

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.