

**MUNICIPALITY OF SALEM
SALEM, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2012 TO DECEMBER 31, 2012
AND
FOR THE YEAR JANUARY 1, 2013 TO DECEMBER 31, 2013**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS
P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SALEM

MUNICIPAL OFFICIALS
DECEMBER 31, 2013

MAYOR:

Robin Rayman

GOVERNING BOARD:

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

FINANCE OFFICER:

Lori Heumiller

ATTORNEY:

Roger Gerlach

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

Governing Board
Municipality of Salem
Salem, South Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Salem, South Dakota (Municipality), as of December 31, 2013 and 2012, and for each of the years in the biennial period then ended which collectively comprise the Municipality's basic financial statements and have issued our report thereon dated June 16, 2014, which was qualified for the business-type activities and water fund because interfund services were not recorded. A disclaimer of opinion was issued on the aggregate discretely presented component units because we were unable to obtain audited financial statements.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Municipality's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Current Audit Findings as item 2013-001 to be a material weakness.

Compliance and Other Matters

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

regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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



Schoenfish & Co., Inc.
Certified Public Accountants
June 16, 2014

Schoenfish & Co., Inc.

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105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2011-01:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2013-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2013-001:

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

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

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

Management's Response:

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

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on June 30, 2014.

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INDEPENDENT AUDITOR'S REPORT

Governing Board
Municipality of Salem
Salem, South Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Municipality of Salem, South Dakota, (Municipality) as of December 31, 2013 and for each of the years in the biennial period then ended, and the related notes to the financial statements, which collectively comprise the Municipality's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Disclaimer of Opinion

We were unable to obtain audited financial statements supporting the financial balances and activities of the Salem Housing and Redevelopment Commission and we did not attempt to satisfy ourselves as to those amounts by other auditing procedures. Those financial activities are included on the basic financial statements referred to above as a component of the Municipality of Salem and represent one hundred percent of the December 31, 2013 and 2012, balances and activities for each of the years in the biennial period then ended of the component unit column.

Basis for Qualified Opinion

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

Disclaimer of Opinion

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

Qualified Opinions

In addition, in our opinion, except for the effects, if any, of not reporting interfund services, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the water fund of the Municipality of Salem as of December 31, 2013 and 2012, and the respective changes in financial position and cash flows, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, except the water fund, of the Municipality of Salem as of December 31, 2013 and 2012, and the respective changes in the financial position and cash flows, where applicable, thereof for each of the years in the biennial period then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A) and the Budgetary Comparison Schedules, on pages 8 through 27, and 67 through 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the

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information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2014 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



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Certified Public Accountants
June 16, 2014

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**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 two fiscal years ended December 31, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

For the 2013 Year:

- During the year, the City's revenues generated from taxes, charges for services, and other revenues for the governmental programs were \$302,388 more than the \$733,482 governmental expenditures. This is a 19% decrease over the prior year when revenues exceeded expenditures by \$371,312.
- In the City's business-type activities, revenues decreased 3% to \$492,323 and expenses increased 8%.
- The total cost of the City's Governmental programs was \$6,289 less than 2012 - down (1%). There were many variables for this decrease and are explained in detail later in this report.
- The revenues for the governmental activities show a decrease of 9% or \$108,239. 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 \$302,388 increase to Net Position.

For the 2012 Year:

- During the year, the City's revenues generated from taxes, charges for services, and other revenues for the governmental programs were \$371,312 more than the \$772,796 governmental expenditures. This is a 9% decrease over the prior year when revenues exceeded expenditures by \$406,269.
- In the City's business-type activities, revenues increased 7% to \$508,380 (this does not include the transfer from the General Fund to pay off the 2003 Drinking Water Bond) and expenses increased 3%.
- The total cost of the City's Governmental programs was \$134,107 more than 2011 - up (21%). There were many variables for this increase and are explained in detail later in this report.
- The revenues for the governmental activities show an increase of 9% or \$99,150. The increase in revenue is largely due to an increase in tax revenue. The result of the increase of revenues, increase in expenditures and transfer of dollars to the Water Dept is a \$334,220 increase to Net Position.

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 Position * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	* Statement of Net Position *Statement of Revenues, Expenditures and Changes in Net Position * Statement of Cash Flows
Type of Asset/Liability Information	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter no capital assets included.	All assets and liabilities, both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during or soon thereafter	All revenues and expenses during year, regardless of when cash 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 position 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 position and how they have changed. Net position – 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 position 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 position increased by 6% between FY2012 and FY2013; a \$364,780 increase (See Table A-1).

TABLE A-1 CITY OF SALEM NET POSITION

	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	2,301,173	4,083,991	3,998,987	3,919,220	5,785,163	5,879,449	6,220,393
Total Assets	3,168,818	3,476,604	3,899,826	4,764,908	4,790,933	4,770,502	7,933,726	8,267,537	8,670,328
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						40,400	0	0
Other Liabilities	25,407	37,392	159,752	40,585	37,350	40,711	65,993	74,742	200,463
Total Liabilities	76,945	50,510	171,344	2,310,322	2,187,782	2,104,959	2,387,267	2,238,292	2,276,303
Net Position:									
Net Investment in Capital Assets	1,701,172	1,880,462	2,301,173	1,819,654	1,854,542	1,860,645	3,520,826	3,735,004	4,161,818
Restricted	276,542	249,988	300,826	162,079	170,172	178,620	438,621	420,160	479,446
Unrestricted	1,114,159	1,295,644	1,126,483	472,853	578,437	626,278	1,587,012	1,874,081	1,716,361
Total Net Position	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
Beginning Net Position	2,685,605	3,091,874	3,426,094	2,367,536	2,454,585	2,603,151	5,053,141	5,546,459	6,029,245
Increase (Decrease) in Net Position	406,269	334,220	302,388	87,049	148,566	62,392	493,318	482,786	364,780
Percentage of Increase (Decrease) in Net Position	15%	11%	9%	4%	6%	2%	10%	9%	6%

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

For 2013, the city as a whole reports an increase in net position of 6%. The Current Assets (cash & receivables) increased 3% 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 6% increase in Capital Assets. Total Assets increased 5%. Liabilities for the city increased 2%.

For 2012, the city as a whole reports an increase in net position of 9%. The Current Assets (cash & receivables) increased 11% or \$239,525. The increase of tax revenue and a flat fee rate increase in both the Water & Sewer departments are the main reasons for the increase. The 2012 Street Project and other small projects, less depreciation, resulted in a 2% increase in Capital Assets. Total Assets Increased 4%. Liabilities for the city decreased 6%.

There are three categories of Net Position reported in Table A-1. Net Investment in Capital Assets, Net Position Restricted and Net Position Unrestricted.

For the year 2013:

- The Net Investment in Capital Assets increased \$426,814 or 11%. The addition of Capital Assets was more than depreciation. No additional debt was incurred.
- The Restricted Net Position increased 14%. The amount collected in fees exceeded the dollars spent on projects in 2013.
- The Unrestricted Net Position decreased 8%. Unrestricted cash was used for projects and supplements.

For the year 2012:

- The Net Investment in Capital Assets increased \$214,178 or 6%. The addition of Capital Assets was more than depreciation. No additional debt was incurred and the 2003 DWSRF loan was paid off in January 2012.
- The Restricted Net Position decreased 4%. The amount spent on projects exceeded the amount collected in fees.
- The Unrestricted Net Position increased 18%. Additional revenue was received from the flat fee rate increases and taxes in 2012.

The Statement of Net Position 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 Position. The difference between the city's assets and liabilities is its net position.

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

TABLE A-2
MUNICIPALITY OF SALEM
Changes in Net Position

	Governmental			Business-Type			Total		
	Activities			Activities					
	2011	2012	2013	2011	2012	2013	2011	2012	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	827,309	743,851				737,766	827,309	743,851
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	26,348	6,650	7,372	6,656	80,473	18,751	33,004
Total Revenues	1,044,958	1,144,108	1,035,869	473,690	508,380	492,323	1,518,649	1,652,488	1,528,192
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 Transfers	406,269	371,312	302,388	87,050	111,474	62,392	493,319	482,786	364,780
Transfers		(37,092)			37,092		-	-	-
Increase (Decrease) in Net Position	406,269	334,220	302,388	87,050	148,566	62,392	493,319	482,786	364,780
Ending Net Position	3,091,874	3,426,094	3,728,482	2,454,586	2,603,151	2,665,543	5,546,460	6,029,245	6,394,025

The City's total 2013 revenues were \$1,528,192 which is a decrease from FY2012 of 8% or \$124,296.

- Charges for Goods and Services decreased 5% The user fees in the Business-Type activities saw a decrease mainly due to the 6% decline in water usage from 2012 (2,221,165 gallons or \$8,885 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 17% (\$5,644) due mainly to the dollars received from insurance for roof replacement on the park buildings.
- Capital Grants & Contributions decreased by 19%. 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

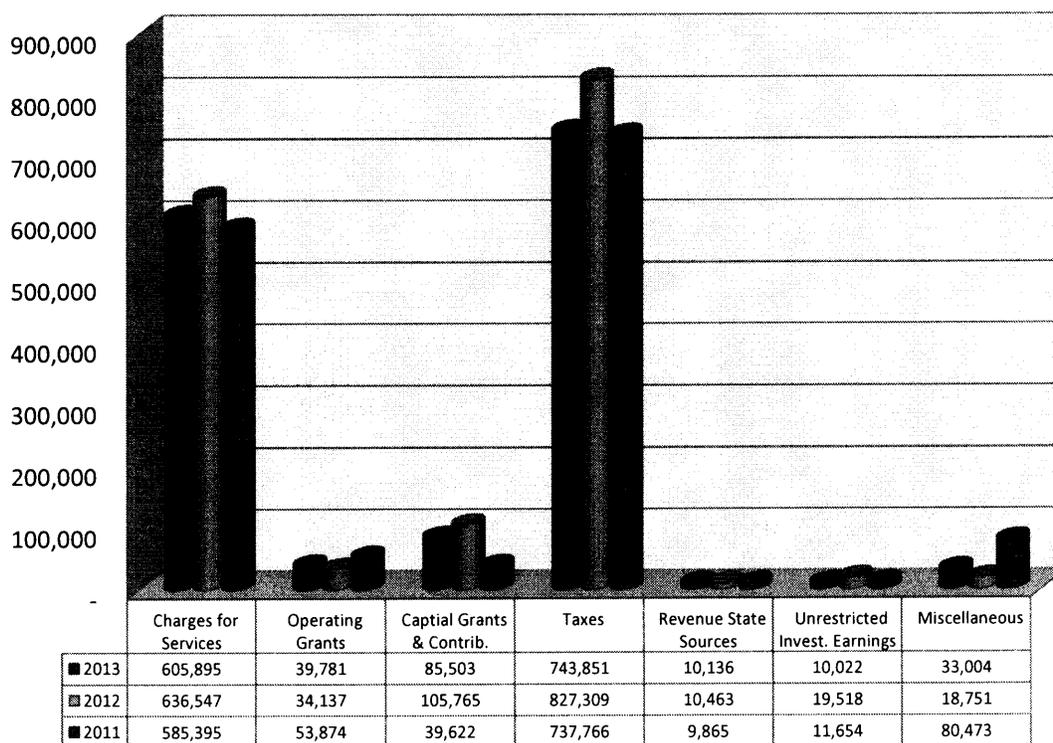
\$43,581, which is a 13% decrease from the 2012 contribution. Special Assessments decreased as there was no Street Special Assessment Revenues for petitioned streets as there were in 2012.

- Taxes decreased by \$83,458 this reflects a decrease in sales tax & increase in property tax revenues. The sales tax revenue decreased \$100,762 - 18% and the property taxes increased \$17,304 - 6%.
- Revenue from State Sources saw a 3% decrease \$327 - these dollars are from Liquor Tax Reversion and Bank Franchise.
- Investment earnings show a 49% decrease in revenue. The cash on hand EOY 2013 is \$90,202 higher than EOY12 but interest rates had declined in 2013 when CD came due.
- Miscellaneous revenues increased 76% - \$14,253. 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 10% as dollars were received for the insurance claim on the Water Treatment Plant failure in June 2012.

The City's total 2012 revenues were \$1,652,488 which is an increase from FY2011 of 9% or \$133,839.

- Charges for Goods and Services increased 9% (Business Type activities increased 7% and the Governmental Activities increased 16%). The user fees in the Business-Type activities increased as a result of a Water and Sewer rate increases; the General Fund's increase is from a reduction in the garbage hauling contract; a dollar rate decrease was passed onto the residents and the remaining money collected was used to fix streets.
- Operating grants decreased 37% as an EECBG grant was received in 2011 to replace the lights in the armory.
- Capital Grants & Contributions increased by 167%. Governmental Activities saw the increase from the donation of the cold storage building by the SD National Guards with a fair market value of \$50,000.
- Taxes increased by \$89,543 this reflects an increase in sales tax & property tax revenues. The sales tax revenue increased 17% and the property taxes increased 3%.
- Revenue from State Sources saw a 6% increase \$598 - these dollars are from Liquor Tax Reversion, Bank Franchise, Motor Vehicle Licenses, Hwy Bridge Funds & County Wheel taxes.
- Investment earnings show a 68% increase in revenue. The interest rates stabilized and the cash on hand invested was higher than in 2011.
- Miscellaneous revenues decreased 77% - (\$61,722). The City sold the bar building in 2011 for a gain of \$65,936. Other misc. revenue fluctuated slightly (cable franchise, dividends and recovery of prior year expenses) showing a \$463 increase. Business activities show an increase 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

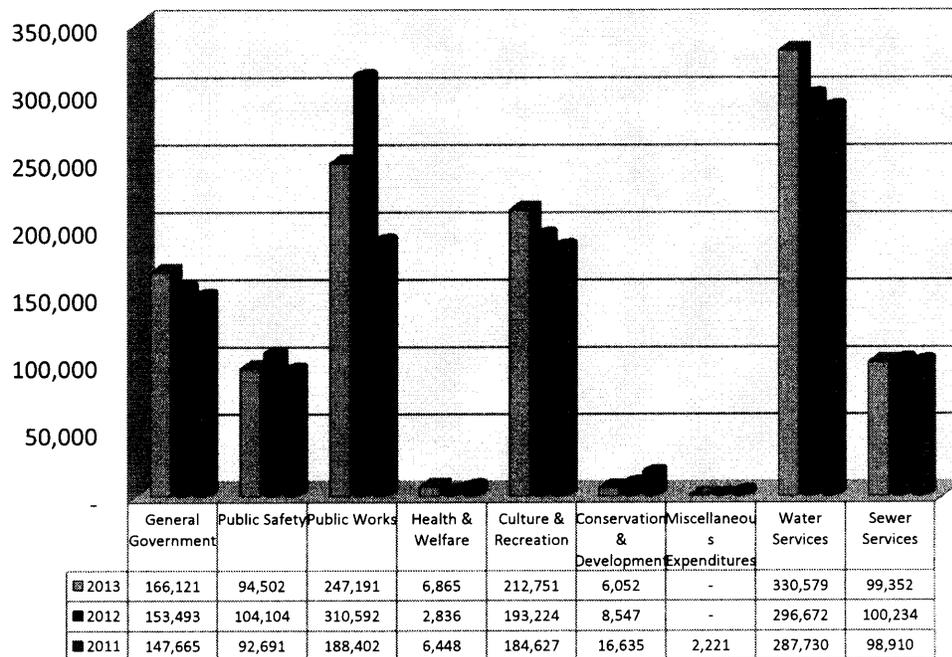
The city's expenses show an overall 1% decrease (2013 vs. 2012).

- General Government Expenditures increased 8% 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%. The police contract remained the same. The fire hall roof was replaced in 2012.
- Public Works expenses decreased 20%. In 2013, \$86,583 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%. Summer Recreation costs increased \$37,115; Parks increased \$3,325; Auditorium costs decreased \$21,264. 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 showed a decrease of \$2,495 or 29%.
- Miscellaneous Expenditures were zero in 2013 & 2012.
- Water Fund Expenditures increased 11%- \$33,907. In 2013, chemical usage and filter usage increased slightly; power and pumping costs increased by 25% from increased rates and increased number of cleanings. Another contributing factor to the overall increase was the purchase of new pumps (\$5,200) and computer (\$3,645) 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.

The city's expenses show an overall 14.1% increase (2012 vs. 2011).

- General Government Expenditures increased 4% or \$5,828. City Hall/Govmt Bldgs saw a significant decrease due to the elimination of the bar building. Administration saw the largest increase as a bi-annual audit was performed in 2012.
- Public Safety increased 12%. The police contract remained the same. The fire hall's roof was in need of re-shingling (a metal roof was put on instead).
- Public Works expenses increased 65%. In 2012, \$132,366 dollars were spent on street patching, overlays & chip/seal compared to \$32,632 in 2011. Also in 2012, \$11,684 was spent on cleaning out the storm sewer drainage ditches throughout town.
- Health & Welfare expenses decreased 56% - (\$3,612). The dry weather resulted in less mosquito spraying; therefore, fewer chemicals were purchased.
- Culture & Recreation expenses increased \$8,597 or 5%. Summer Recreation costs decreased \$3,220.72; Parks increased \$1,641.91; Auditorium costs increased \$8,615.62. Recreation decrease was due to less pool chemical usage and repairs; parks saw an increase in wages, and the auditorium increased as 2-sets of doors were replaced in 2012.
- Conservation & Development was a new category in 2010, the Zoning, Promoting and Advertising of Salem moved from General Governmental expenditures. The Planning and Zoning decreased largely due to the cost of updating the Zoning maps in 2011; and "Promoting & Advertising the City" decreased as the fire show was canceled in 2012. Total decrease was 49% or \$8,088.
- Miscellaneous Expenditures was back to zero in 2012. 2011 reported expenses for the buy-back of inventory from the operators of the Salem Bar.
- Water Fund Expenditures increased 3% - \$8,942. Chemical usage and filter usage increased in the WTP, but there were less water break repairs in 2012 (48% less \$7885) and wages decreased 9% directly due to this.
- Sewer Fund Expenditures increased \$1,324 - from repairs to the lagoon pumps.

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 2%.

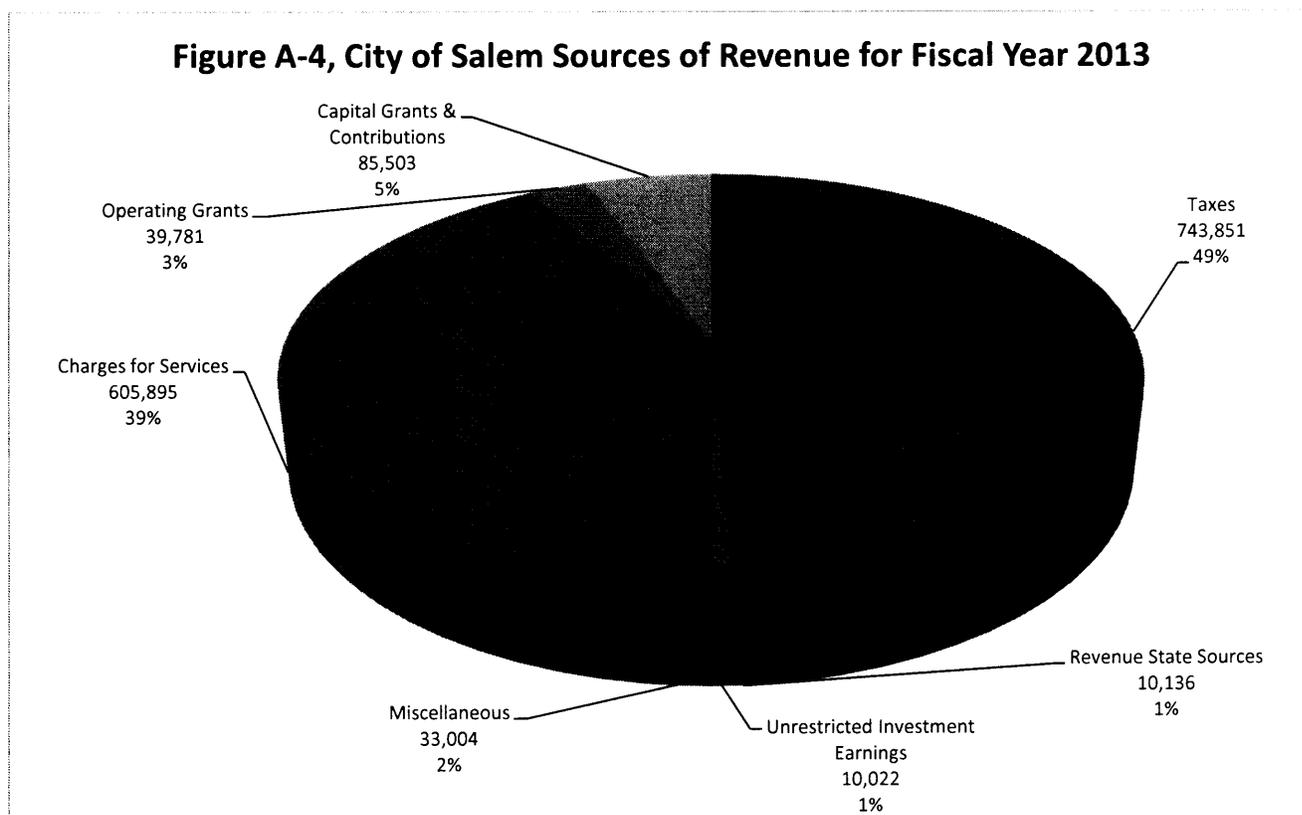


Figure A-5 City of Salem, Sources of Revenue for Fiscal Year 2012

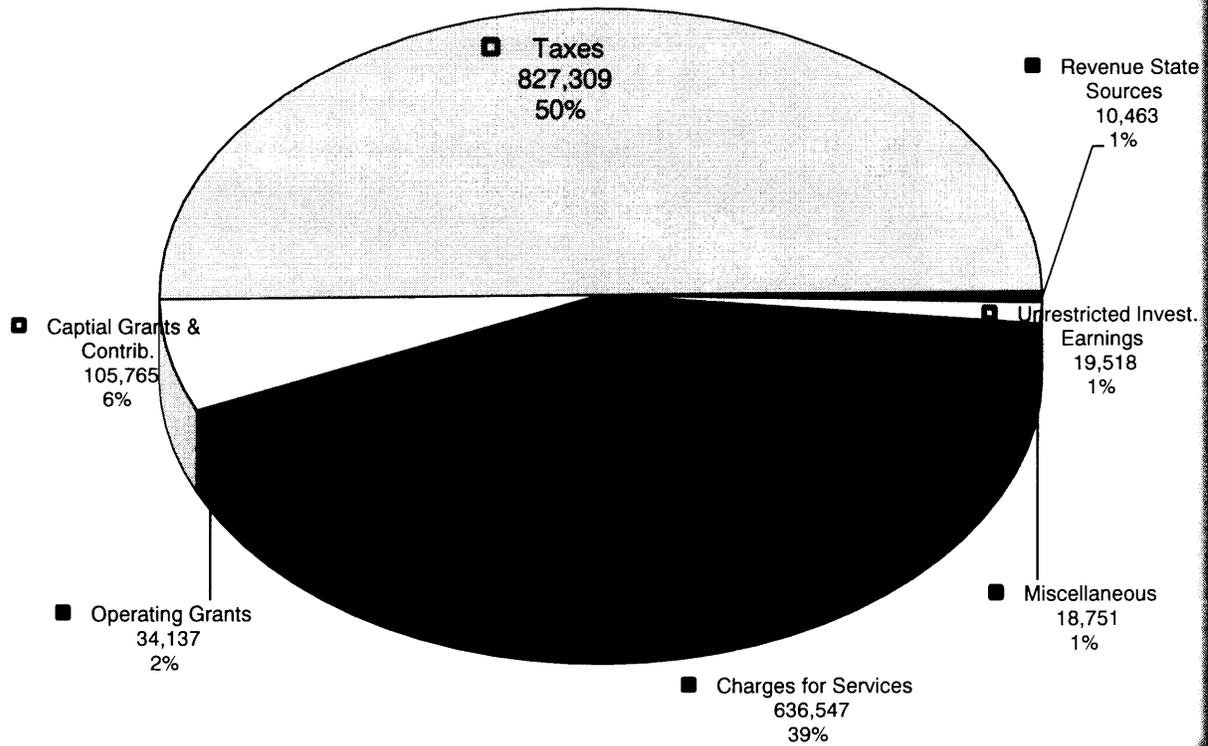
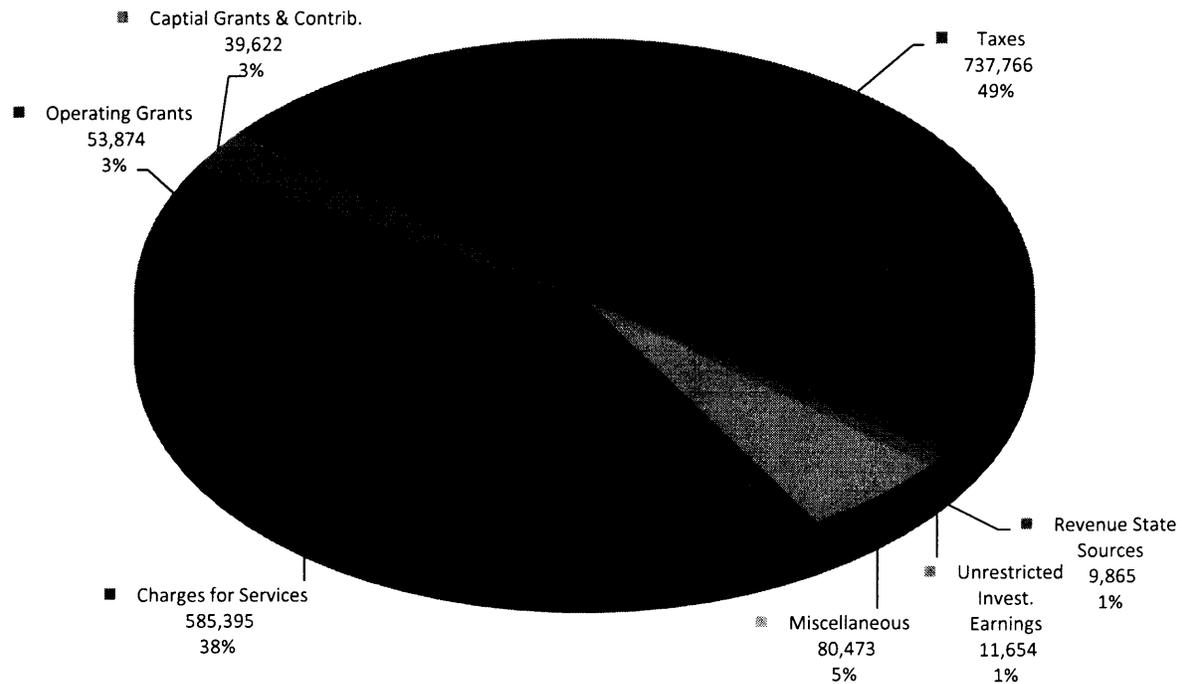


Figure A-6, City of Salem, Sources of Revenue for Fiscal Year 2011



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 expenses service percentages varied slightly from 2012. The Public Works declined mainly from the decrease for the 2013 road repair costs and Water increased due to the chemical, filter, power cost increases; as well as the replacement of pumps and computer.

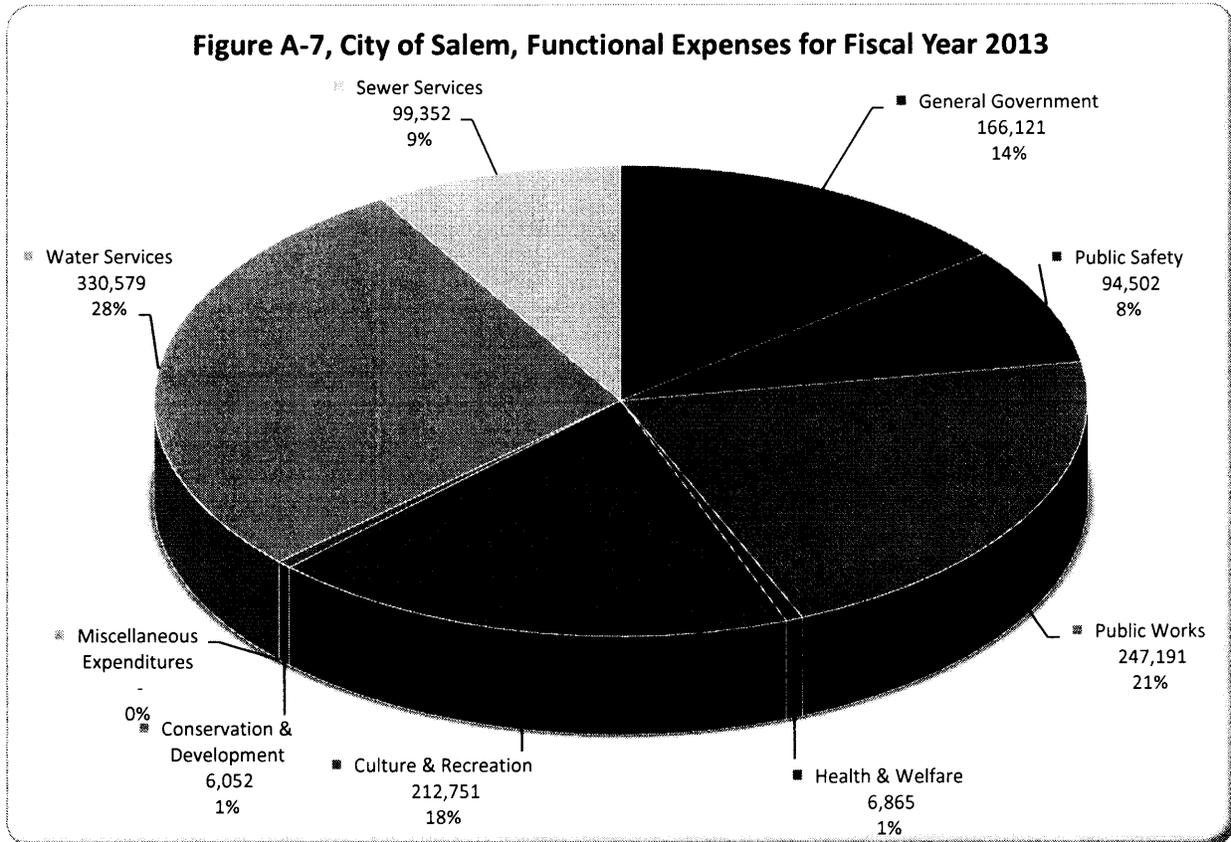


Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2012

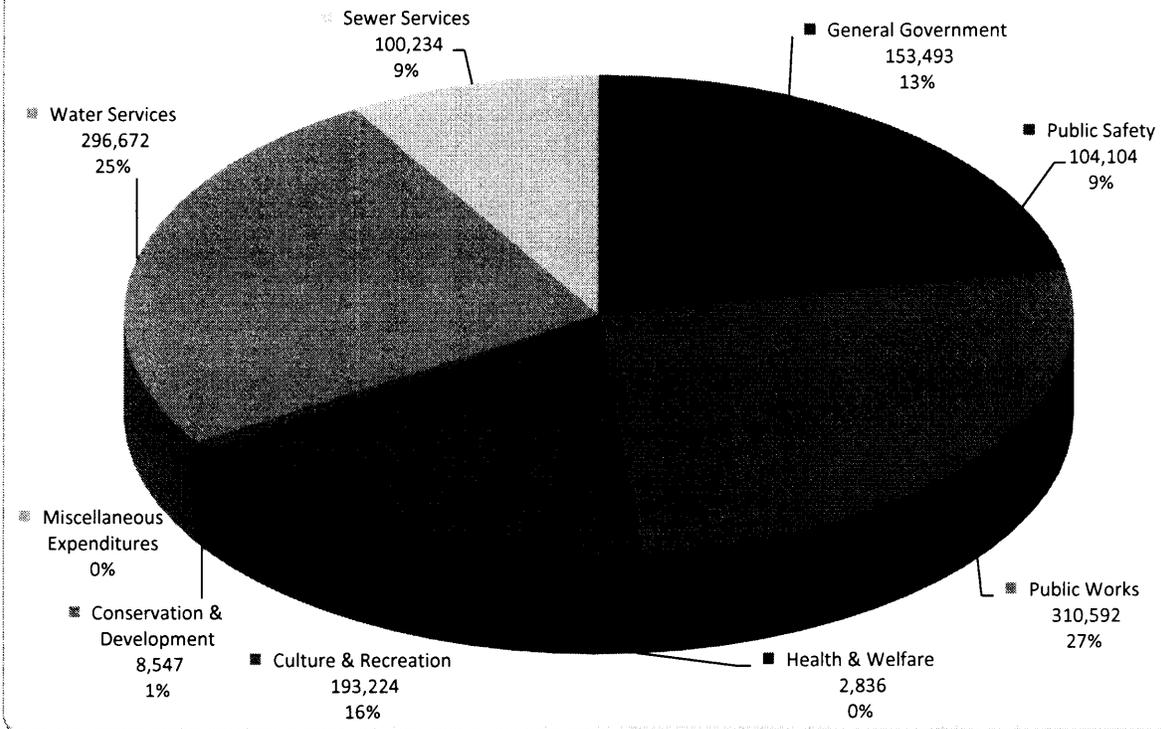
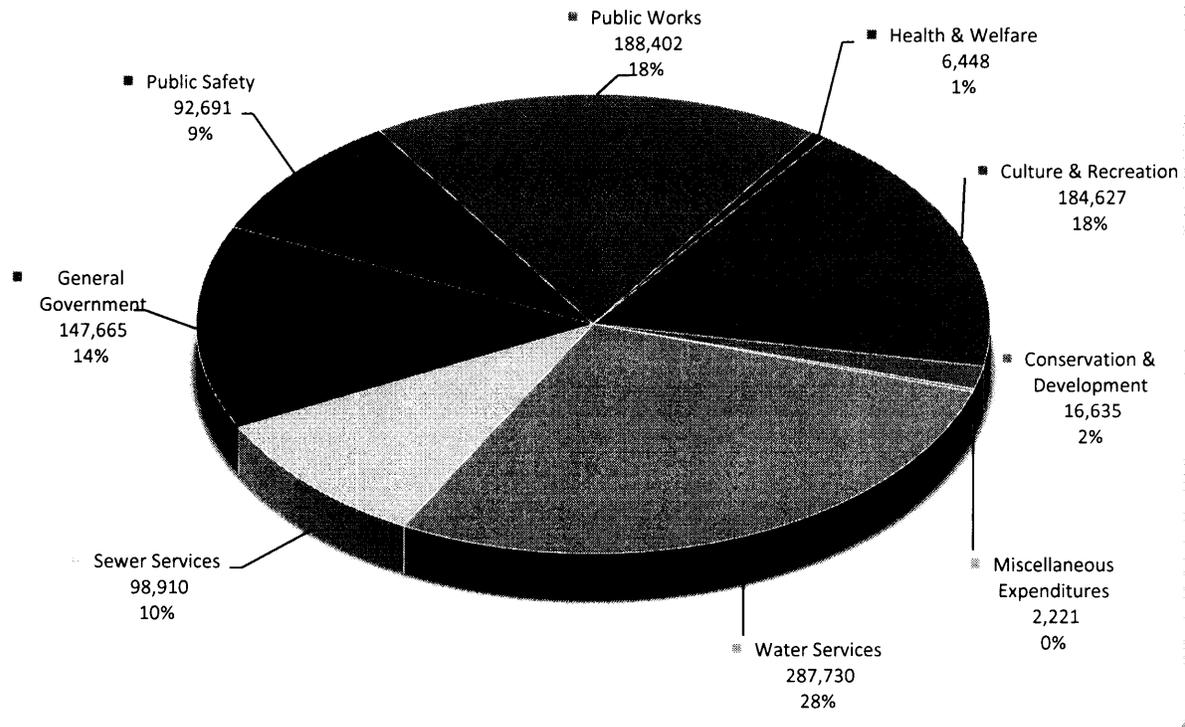


Figure A-9, City of Salem, Functional Expenses for Fiscal Year 2011



Governmental Activities

For the Year 2013:

The City's Governmental activity revenues decreased by 9%; property tax saw an increase & sales tax a decrease; the Operating Grants, and Capital Grants & Contributions decreased 10%; Investment Earnings decreased 49%; and the Miscellaneous Revenue showed an increase of 132% from the sale of the 1973 maintainer.

The Governmental expenditures decreased 5%. General Government expenses increased 8% due to new software costs and allocation of 100% of the Finance Officers wages to general fund; Public Safety costs decreased 9% - the fire hall roof was replaced in 2012. The Public Works costs decreased by 20% less was spent on street patching, overlays & chip seal in 2013. Health & Welfare increased 142% (\$4,029) more Mosquito Control chemicals were purchased in 2013. Culture & Rec increased 10% 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% 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.

For the Year 2012:

The City's Governmental activity revenues increased by 9%; both property tax & sales tax saw an increase; the Operating Grants, and Capital Grants & Contributions increased 50% - due to the donation of the building north of the armory; Investment Earnings increased 73%; and the Miscellaneous Revenue showed a decrease of 85% from the sale of the liquor store building in 2011.

The Governmental expenditures increased 21%. General Government expenses increased 4% due to a bi-annual audit in 2012; Public Safety costs increased 12% - the fire hall roof was replaced in 2012. The Public Works costs increased by 65% as \$99,734 more was spent on street patching, overlays & chip seal in 2012. Health & Welfare decreased 56% as less Mosquito Control chemicals were used in 2012. Culture & Rec increased 5% from the replacement of the south doors at the Armory. Conservation & Development decreased 49% in 2011 new zoning maps were purchased and in the 2012 fireworks show was cancelled due to dry weather. Miscellaneous Expenditures were zero as there was no buyback of inventory from the operating agreements; which was the case in 2011.

Business-type Activities

For the Year 2013:

Operating revenues of the City's business-type activities decreased 3%. The flat rates increased \$.30 in water and \$.60 cent in sewer. The amount of water produced and pumped into the system was 10% less than in 2012 and the water loss was at 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%). Water Department saw an increase in chemical & filter usage; power & pumping costs; and \$5,200 was spent on new pumps and \$3,364 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% to \$13.40. The revenues generated from Charges for Services decreased 2% - the water produced declined 10% a direct result of less water used. The sewer department saw a 2% 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; 4% in chemicals and 11% in filters; and the power & pumping cost increased - 25%. \$8,854 was spent on WTP pumps and computer replacement. Wages decreased 4%. 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 1% in sewer expenditures. Removing \$10,000 from the 2012 expenditures for sewer cleaning makes costs comparable and shows an 8% increase in operating expenses for 2013.

For the Year 2012:

Operating revenues of the City's business-type activities increased 7%. The \$.60 increase to the water flat fee and \$.40 cent increase to the sewer fee; the amount of water produced and pumped into the system was 14% less than in 2011 and the water loss was at 10% in 2012 compared to 35% in 2011; which are all contributing factors to the operating revenue increase. The expenditures increased by \$10,265 (2.65%). The General Fund transferred \$37,092 (revenue from the sale of the liquor store building) to pay off the 2003 DW Loan; resulting in an increase to net position of 6%.

- The Water Rates were adjusted in 2012 for the Filter Replacement and Equipment Repair and Replacement reserve accounts and operating expenses. The revenues generated from Charges for Services increased 11% (\$.60 Flat Fee increase) plus an increase in water usage paid (2011 saw a large water loss); the water surcharge fee collection and investment earnings also increased. The sewer department saw a 3% increase in revenues from user fees (\$.40 Flat Fee increase); investment earnings also increased in 2012.
- The increase in expenses was mainly from the Water Department. The Water Department's water treatment plant operating costs for filters and chemicals increased to what is now going to be the normal as the cleaning processes have been established and require more chemicals; the alternative to less cleanings is a reduction in the life of the filters. Wages decreased as there were less water main breaks. The sewer department's wages decreased but more dollars were spent on cleaning and televising the sewer mains and lagoon repairs.

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 & Street Improvement Capital Projects Funds saw a decrease in Net Position.

General Fund Budgetary Highlights

Over the course of the year 2013 and of the year 2012, the City Council revised the City's budget three times each year. 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 2013 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 Street Improvement Capital Projects Fund.

The three budget changes during the year 2012 were for the 2012 Street Project, cleaning of the storm drainage ditches, street repairs, the new restroom/concession stand building at the softball field, three radios for the fire department, street lighting utilities, and rubble site & park wages.

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 6% 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

The 2013 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 2012 year's major capital asset additions include:

- The Governmental additions for 2012 are -
 6. Buildings increased for the donation of the cold storage building north of the armory.
 7. Improvements Other than Bldg increased from the rebuilding and matting of 2 streets - one petitioned and the other for repairs.
 8. Equipment shows a decrease for depreciation.

9. CIP increased as the Softball field Concession Stand/Restroom expenses accrue.
- Business-type additions for 2012 are -
 5. Building decreased from depreciations.
 6. Improvements Other than Bldg decreased from depreciation being more than the cost of the Water Department's addition of a water main to the new building at the softball field, and the Sewer Department's refurbishing of four manholes and installation of a 2" forced sewer main for the new softball field building.
 7. Equipment decreased from depreciation
 8. The Construction in Progress dollars are from the purchase of Water Tower Telemetry Equipment but not installed.

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 \$296,650 in local cash for the 2013 Main Street Lighting Project and 2014 Street Project; \$1,503 for radius improvements & 6,167 for curb & gutter improvements; \$105,640 for equipment; and \$21,663 for the building at the softball field complex with all money donated from the Summer Recreation Booster's; \$47,085 on the new baseball field grandstand (city money); \$35,267 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 \$354,570 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.

In 2012, the General Fund and Sales Tax Fund used \$196,279 in local cash for the 2012 Street Project, \$1,808 for radius improvements, and \$12,919 for the building at the softball field complex (\$5,135 was the Summer Recreation Booster's share). The Water Department installed a water main to the new softball field complex building and purchased Water Tower Telemetry equipment with local cash of \$15,045. The Sewer Dept refurbished four manholes at a cost of \$8,750 and finished the 2" forced sewer main for the softball field complex concession/restroom building project - 2012 dollars spent were \$3253 and the total project cost was \$11,078.

The City had \$384,459 in the General Fund Capital Replacement Reserve Account at the end of 2012 - specifically for Main Street Lighting; baseball field fencing & improvements; Softball field complex Concession Stand/Restroom & playground equipment; Pool Bathhouse/Improvements; Armory Door Replacement and Street projects. The 2013 Budget placed an additional \$147,861 into the Capital Reserve Account - specifically for Street Projects; Main Street Lighting; Pool Renovation and sidewalk projects. The City will continue to put block(s) of water main in as money is available.

LONG-TERM DEBT

At year-end 2013, the City had \$2,058,575 in SRF Loans (Revenue Bonds), and \$17,265 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 10% (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	5,673
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	2,064,248

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 15, 2026, and the DWSRF will be paid off in April 15, 2027.
- The 2008 DWSRF Loan closed in 2009, this is a 30 year loan and will be paid off in April 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 \$3,478; in 2013 was \$3,887; in 2012 it was \$3,491; and 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. 2013 property tax levy request payable in 2014 increased 3.3% (Growth 1.2%; CPI 2.1%) - \$9,564 down from 2012 property tax levy request payable in 2013 which increased 4.4% (Growth 1.4%; CPI 3%) - \$12,215; up from 2011 property tax levy request payable in 2012 which increased 3.4% (Growth 1.3%; CPI 2.1%) or \$9,129; 2010 property tax levy request payable in 2011 only increased 1% (Growth 1%; CPI 0%) or \$2,660.

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% (1,445,391); the 2013 vs. 2011 taxable sales base decreased 1.972% (\$446,240) and the 2013 vs. 2010 taxable sales base increased 14.905% (2,877,458). 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 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 a decline of 9.72% from 2012 tax revenues of \$20,539; a decline of 13.75% from FY2011 receipts of \$21,500. 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 \$50,000 - \$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%.

At the end of 2013, 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 \$6,633 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).

At the end of 2012, 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 2013 rates are a water flat fee of \$13.40, .004 cents per gallon used, plus a \$9.90 Water Surcharge fee. The Sewer Rates increased by .60 cents to a Residential flat fee of \$21.00, and 40% of the Water Usage Fee but not less than \$21.00 for commercial users. A CIP increase to the water rate was projected; the need to replace 30 blocks of 4" CIP water main and filters in the Water Treatment Plant required a minimum of the 3% CPI. (.30 cents is a 3.05% increase). At the end of 2012, the Equipment Repair & Replacement Fund had a balance of \$125,716.29; a 37.77% increase; a direct result of the rate increases in 2011 & 2012. 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 \$.30 cent increase was necessary to increase the dollars for water main replacement. The water department allocated \$33,600 to the filter reserve and \$16,000 to water main replacement in 2012 and in 2013 is projected to allocate \$16,500 to the filter reserve and \$31,000 to the water main reserve both designated in the Equipment Repair/Replacement Fund. The Sewer Department rates were increased by .60 cents (2.9%) and will be increased annually to eventually reach the \$22.00 State rate for 5,000 gallons. All rates are reviewed annually. The water & sewer customers saw a .90 cent increase to their monthly bill; or \$10.80 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.

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2013

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	1,484,809.22	818,846.81	2,303,656.03	25,773.51
Accounts Receivable, Net	81,419.40	(1,083.96)	80,335.44	45,733.94
Due from Component Unit	30,817.00		30,817.00	
Inventories	1,607.18	33,519.53	35,126.71	
Capital Assets:				
Land, Improvements and Construction in Progress	357,238.80	41,866.19	399,104.99	56,293.45
Other Capital Assets, Net of Depreciation	1,943,934.61	3,877,353.86	5,821,288.47	865,715.12
TOTAL ASSETS	3,899,826.21	4,770,502.43	8,670,328.64	993,516.02
LIABILITIES :				
Accounts Payable	155,908.14	9,384.25	165,292.39	
Other Current Liabilities	3,844.27	31,327.02	35,171.29	85,505.94
Noncurrent Liabilities:				
Due Within One Year	9,273.43	92,766.97	102,040.40	35,811.24
Due in More than One Year	2,318.36	1,971,480.77	1,973,799.13	1,166,943.10
TOTAL LIABILITIES	171,344.20	2,104,959.01	2,276,303.21	1,288,260.28
NET POSITION:				
Net Investment in Capital Assets	2,301,173.41	1,860,645.32	4,161,818.73	(250,745.77)
Restricted for:				
Debt Service Purposes		178,619.84	178,619.84	
Street Maintenance	120,385.53		120,385.53	
City Promotion	13,849.97		13,849.97	
Storm Sewer Maintenance	166,590.16		166,590.16	
Unrestricted (Deficit)	1,126,482.94	626,278.26	1,752,761.20	(43,998.49)
TOTAL NET POSITION	3,728,482.01	2,665,543.42	6,394,025.43	(294,744.26)

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

**MUNICIPALITY OF SALEM
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2013**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating		Governmental Activities	Primary Government Business-Type Activities	Total	
			Grants and Contributions	Capital Grants and Contributions				
Primary Government:								
Governmental Activities:								
General Government	166,121.42	8,086.75			(158,034.67)		(158,034.67)	
Public Safety	94,502.05				(94,502.05)		(94,502.05)	
Public Works	247,191.02	64,313.67	36,483.14	41,922.11	(104,472.10)		(104,472.10)	
Health and Welfare	6,864.68				(6,864.68)		(6,864.68)	
Culture and Recreation	212,750.51	25,330.30	3,298.11	43,580.95	(140,541.15)		(140,541.15)	
Conservation and Development	6,052.15				(6,052.15)		(6,052.15)	
Miscellaneous Expenditures		26,030.75			26,030.75		26,030.75	
Total Governmental Activities	733,481.83	123,761.47	39,781.25	85,503.06	(484,436.05)		(484,436.05)	
Business-type Activities:								
Water	330,578.57	318,711.96				(11,866.61)	(11,866.61)	
Sewer	99,352.44	163,421.72				64,069.28	64,069.28	
Total Business-type Activities	429,931.01	482,133.68	0.00	0.00		52,202.67	52,202.67	
Total Primary Government	1,163,412.84	605,895.15	39,781.25	85,503.06	(484,436.05)		(432,233.38)	
Component Units:								
Housing and Redevelopment Commission	134,735.99	121,009.00						(13,726.99)
General Revenues:								
Taxes:								
Property Taxes					295,906.50		295,906.50	
Sales Taxes					447,944.83		447,944.83	
State Shared Revenues					10,136.10		10,136.10	
Unrestricted Investment Earnings					6,488.77	3,533.69	10,022.46	
Miscellaneous Revenue					26,348.14	6,656.02	33,004.16	
Total General Revenues					786,824.34	10,189.71	797,014.05	0.00
Change in Net Position					302,388.29	62,392.38	364,780.67	(13,726.99)
Net Position - Beginning					3,426,093.72	2,603,151.04	6,029,244.76	(297,335.43)
Adjustments:								
Prior Correction							0.00	16,318.16
Adjusted Net Position-Beginning					3,426,093.72	2,603,151.04	6,029,244.76	(281,017.27)
NET POSITION - ENDING					3,728,482.01	2,665,543.42	6,394,025.43	(294,744.26)

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

**MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2013**

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
ASSETS:						
Cash and Cash Equivalents	1,057,313.32	13,406.06	68,856.85	168,479.70	176,753.29	1,484,809.22
Taxes Receivable--Delinquent	9,473.58		1,596.44			11,070.02
Accounts Receivable, Net	15,741.65			(90.00)		15,651.65
Special Assessments Receivable--Current	719.80					719.80
Special Assessments Receivable--Delinquent	219.56					219.56
Special Assessments Receivable--Deferred	547.77					547.77
Interest Receivable--Special Assessments	145.30					145.30
Due from County/State Governments	50,461.17	1,843.91	760.22			53,065.30
Due from Component Unit	30,817.00					30,817.00
Inventory of Supplies	1,607.18					1,607.18
TOTAL ASSETS	1,167,046.33	15,249.97	71,213.51	168,389.70	176,753.29	1,598,652.80
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES:						
Liabilities:						
Claims Payable	26,527.33					26,527.33
Accrued Wages Payable	2,925.42			1,799.54	127,581.27	155,908.14
Accrued Taxes Payable	918.85					918.85
Total Liabilities	30,371.60	0.00	0.00	1,799.54	127,581.27	159,752.41
Deferred Inflows of Resources:						
Unavailable Revenue - Property Taxes	9,473.58					9,473.58
Unavailable Revenue - Special Assessments	1,632.43		1,596.44			3,228.87
Other Deferred Inflows of Resources - Sales Tax	35,000.00	1,400.00				36,400.00
Total Deferred Inflows of Resources	46,106.01	1,400.00	1,596.44	0.00	0.00	49,102.45
Fund Balances:						
Nonspendable - Inventory	1,607.18					1,607.18
Nonspendable - Due from Component Unit Restricted	30,817.00					30,817.00
Committed for Capital Improvements	354,569.99	13,849.97	69,617.07	166,590.16	49,172.02	403,742.01
Assigned for Next Year's Budget	150,000.00					150,000.00
Assigned for Capital Outlay	49,360.00					49,360.00
Unassigned	504,214.55					504,214.55
Total Fund Balances	1,090,568.72	13,849.97	69,617.07	166,590.16	49,172.02	1,389,797.94
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,167,046.33	15,249.97	71,213.51	168,389.70	176,753.29	1,598,652.80

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

MUNICIPALITY OF SALEM
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Position
December 31, 2013

Total Fund Balances - Governmental Funds	<u>1,389,797.94</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>2,301,173.41</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(11,591.79)</u>
Assets such as taxes receivable (delinquent), special assessment receivables (current, delinquent and deferred), and sales tax receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>49,102.45</u>
Net Position - Governmental Activities	<u><u>3,728,482.01</u></u>

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues:						
Taxes:						
General Property Taxes	289,281.31					289,281.31
General Sales and Use Taxes	434,293.04	18,451.79				452,744.83
Gross Receipts Business Taxes	1,942.02					1,942.02
Amusement Taxes	36.00					36.00
Penalties and Interest on Delinquent Taxes	721.11					721.11
Licenses and Permits	7,587.75					7,587.75
Intergovernmental Revenue:						
State Shared Revenue:						
Bank Franchise Tax	1,310.27					1,310.27
Motor Vehicle Commercial Prorate	3,280.31					3,280.31
Liquor Tax Reversion	8,825.83					8,825.83
Motor Vehicle Licenses	13,389.59					13,389.59
Local Government Highway and Bridge Fund	14,863.11					14,863.11
County Shared Revenue:						
County Road Tax	2,674.43					2,674.43
County Wheel Tax	5,556.01					5,556.01
Charges for Goods and Services:						
General Government	499.00					499.00
Highways and Streets	1,800.00					1,800.00
Sanitation	21,692.14			37,541.22		59,233.36
Culture and Recreation	18,940.30					18,940.30

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues (Cont.):						
Miscellaneous Revenue:						
Investment Earnings	5,297.11	140.12	410.73	640.81		6,488.77
Rentals	6,390.00					6,390.00
Special Assessments	5,507.80		34,179.30			5,507.80
Maintenance Assessments						34,179.30
Contributions and Donations from Private Sources	46,605.95					46,605.95
Liquor Operating Agreement Income	26,030.75					26,030.75
Other	11,645.09					11,645.09
Total Revenue	928,168.92	18,591.91	34,590.03	38,182.03	0.00	1,019,532.89
Expenditures:						
General Government:						
Legislative	4,419.50					4,419.50
Executive	14,578.00					14,578.00
Financial Administration	120,123.92					120,123.92
Other	23,158.47					23,158.47
Total General Government	162,279.89	0.00	0.00	0.00	0.00	162,279.89
Public Safety:						
Police	83,824.00					83,824.00
Fire	3,891.87					3,891.87
Other Protection	326.34					326.34
Total Public Safety	88,042.21	0.00	0.00	0.00	0.00	88,042.21
Public Works:						
Highways and Streets	132,713.26		46,164.24	2,514.54		181,392.04
Sanitation	5,544.71					5,544.71
Total Public Works	138,257.97	0.00	46,164.24	2,514.54	0.00	186,936.75
Health and Welfare:						
Health	6,864.68					6,864.68
Total Health and Welfare	6,864.68	0.00	0.00	0.00	0.00	6,864.68

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2013

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Expenditures (Cont.):						
Culture and Recreation:						
Recreation	97,902.60					97,902.60
Parks	43,159.89					43,159.89
Libraries	500.00					500.00
Auditorium	49,924.33					49,924.33
Total Culture and Recreation	191,486.82	0.00	0.00	0.00	0.00	191,486.82
Conservation and Development:						
Economic Development and Assistance (Industrial Development)	6,052.15	0.00	0.00	0.00	0.00	6,052.15
Total Conservation and Development	6,052.15	0.00	0.00	0.00	0.00	6,052.15
Capital Outlay	215,821.74	0.00	0.00	1,502.66	296,647.98	513,972.38
Total Expenditures	808,805.46	0.00	46,164.24	4,017.20	296,647.98	1,155,634.88
Excess of Revenue Over (Under) Expenditures	119,363.46	18,591.91	(11,574.21)	34,164.83	(296,647.98)	(136,101.99)
Other Financing Sources (Uses):						
Transfers In						
Sale of Municipal Property	17,050.00				345,820.00	345,820.00
Compensation for Loss or Damage to Capital Assets	3,273.11					3,273.11
Transfers Out	(305,820.00)	(40,000.00)				(345,820.00)
Total Other Financing Sources (Uses)	(285,496.89)	(40,000.00)	0.00	0.00	345,820.00	20,323.11
Net Change in Fund Balances	(166,133.43)	(21,408.09)	(11,574.21)	34,164.83	49,172.02	(115,778.88)
Changes in Nonspendable	(2,431.53)	0.00	0.00	0.00	0.00	(2,431.53)
Fund Balance - Beginning	1,259,133.68	35,258.06	81,191.28	132,425.33	0.00	1,508,008.35
FUND BALANCE - ENDING	1,090,568.72	13,849.97	69,617.07	166,590.16	49,172.02	1,389,797.94

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

MUNICIPALITY OF SALEM
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended December 31, 2013

Net Change in Fund Balances - Total Governmental Funds	<u>(115,778.88)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>513,972.38</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(90,914.00)</u>
In the statement of activities, gains and losses on disposal of capital assets are reported, whereas, in the governmental funds, the proceeds from the disposal of capital assets are reflected, regardless of whether a gain or loss is realized.	<u>(2,346.95)</u>
Sales tax revenue that is not received in the availability period is deferred in the fund financial statements.	<u>(4,800.00)</u>
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>4,409.18</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>(1,248.11)</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>1,526.20</u>
Vacation Leave	<u>1,526.20</u>
Supplies acquired are an expenditure on the fund statements when purchased but are expensed on the statement of activities when consumed. This amount represents the "change in" inventory of supplies.	<u>(2,431.53)</u>
Change in Net Position of Governmental Activities	<u><u>302,388.29</u></u>

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	358,808.41	460,038.40	818,846.81
Accounts Receivable, Net	(708.71)	(375.25)	(1,083.96)
Inventory of Supplies	33,519.53		33,519.53
Total Current Assets	391,619.23	459,663.15	851,282.38
Noncurrent Assets:			
Capital Assets:			
Land	2,209.95	39,656.24	41,866.19
Buildings	1,298,604.74		1,298,604.74
Improvements Other Than Buildings	1,630,614.62	1,029,688.48	2,660,303.10
Machinery and Equipment	1,209,989.35	34,373.39	1,244,362.74
Less: Accumulated Depreciation	(915,132.90)	(410,783.82)	(1,325,916.72)
Total Noncurrent Assets	3,226,285.76	692,934.29	3,919,220.05
TOTAL ASSETS	3,617,904.99	1,152,597.44	4,770,502.43
LIABILITIES:			
Current Liabilities:			
Claims Payable	8,737.20	647.05	9,384.25
Accrued Wages Payable	1,949.68	889.78	2,839.46
Accrued Taxes Payable	266.12	121.44	387.56
Customer Deposits	28,100.00		28,100.00
Bonds Payable - Current:			
Revenue	45,866.36	42,891.07	88,757.43
Total Current Liabilities	84,919.36	44,549.34	129,468.70
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,414,957.58	554,859.72	1,969,817.30
Accrued Leave Payable	4,510.73	1,162.28	5,673.01
Total Noncurrent Liabilities	1,419,468.31	556,022.00	1,975,490.31
TOTAL LIABILITIES	1,504,387.67	600,571.34	2,104,959.01
NET POSITION:			
Net Investment in Capital Assets	1,765,461.82	95,183.50	1,860,645.32
Restricted for:			
Revenue Bond Debt Service	158,619.84	20,000.00	178,619.84
Equipment Repair and/or Replacement	136,774.12	180,102.97	316,877.09
Unrestricted	52,661.54	256,739.63	309,401.17
TOTAL NET POSITION	2,113,517.32	552,026.10	2,665,543.42

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	240,271.87	163,421.72	403,693.59
Revenue Dedicated to Servicing Debt	78,440.09		78,440.09
Total Operating Revenue	318,711.96	163,421.72	482,133.68
Operating Expenses:			
Personal Services	47,025.47	18,886.28	65,911.75
Other Current Expense	145,049.10	34,657.99	179,707.09
Depreciation	90,121.59	24,691.08	114,812.67
Total Operating Expenses	282,196.16	78,235.35	360,431.51
Operating Income (Loss)	36,515.80	85,186.37	121,702.17
Nonoperating Revenue (Expense):			
Investment Earnings	1,583.28	1,950.41	3,533.69
Rental Revenue	6,000.00		6,000.00
Interest Expense	(48,382.41)	(21,117.09)	(69,499.50)
Other	402.08	253.94	656.02
Total Nonoperating Revenue (Expense)	(40,397.05)	(18,912.74)	(59,309.79)
Change in Net Position	(3,881.25)	66,273.63	62,392.38
Net Position - Beginning	2,117,398.57	485,752.47	2,603,151.04
NET POSITION - ENDING	2,113,517.32	552,026.10	2,665,543.42

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

MUNICIPALITY OF SALEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2013

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	319,756.69	164,021.97	483,778.66
Other Operating Cash Receipts	180.16		180.16
Cash Payments to Employees for Services	(46,806.59)	(18,473.23)	(65,279.82)
Cash Payments to Suppliers of Goods and Services	(141,098.79)	(35,079.34)	(176,178.13)
Net Cash Provided (Used) by Operating Activities	<u>132,031.47</u>	<u>110,469.40</u>	<u>242,500.87</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Subsidies	6,402.08	253.94	6,656.02
Net Cash Provided (Used) by Noncapital Financing Activities	<u>6,402.08</u>	<u>253.94</u>	<u>6,656.02</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(35,045.82)		(35,045.82)
Principal Paid on Capital Debt	(44,405.51)	(41,464.63)	(85,870.14)
Interest Paid on Capital Debt	(48,382.41)	(21,117.09)	(69,499.50)
Net Cash (Used) by Capital and Related Financing Activities	<u>(127,833.74)</u>	<u>(62,581.72)</u>	<u>(190,415.46)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	1,583.28	1,950.41	3,533.69
Net Cash Provided by Investing Activities	<u>1,583.28</u>	<u>1,950.41</u>	<u>3,533.69</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>12,183.09</u>	<u>50,092.03</u>	<u>62,275.12</u>
Balances - Beginning	<u>346,625.32</u>	<u>409,946.37</u>	<u>756,571.69</u>
Balances - Ending	<u>358,808.41</u>	<u>460,038.40</u>	<u>818,846.81</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	36,515.80	85,186.37	121,702.17
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	90,121.59	24,691.08	114,812.67
Change in Assets and Liabilities:			
Receivables	1,044.73	600.25	1,644.98
Inventories	1,294.03		1,294.03
Accounts and Other Payables	2,697.31	(421.35)	2,275.96
Accrued Wages Payable	606.78	298.25	905.03
Accrued Leave Payable	(428.93)	114.80	(314.13)
Customer Deposits	180.16		180.16
Net Cash Provided (Used) by Operating Activities	<u>132,031.47</u>	<u>110,469.40</u>	<u>242,500.87</u>

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2012

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	1,397,079.44	707,642.24	2,104,721.68	26,417.73
Investments	59,802.63	48,929.45	108,732.08	
Accounts Receivable, Net	104,404.25	561.02	104,965.27	45,733.94
Due from Component Unit	30,817.00		30,817.00	
Inventories	4,038.71	34,813.56	38,852.27	
Capital Assets:				
Land, Improvements and Construction in Progress	81,495.89	41,866.19	123,362.08	56,293.45
Other Capital Assets, Net of Depreciation	1,798,966.09	3,957,120.71	5,756,086.80	912,953.21
TOTAL ASSETS	3,476,604.01	4,790,933.17	8,267,537.18	1,041,398.33
LIABILITIES :				
Accounts Payable	33,047.02	7,108.29	40,155.31	
Other Current Liabilities	4,345.28	30,241.83	34,587.11	101,824.10
Noncurrent Liabilities:				
Due Within One Year	11,399.71	90,689.85	102,089.56	
Due in More than One Year	1,718.28	2,059,742.16	2,061,460.44	1,236,909.66
TOTAL LIABILITIES	50,510.29	2,187,782.13	2,238,292.42	1,338,733.76
NET POSITION:				
Net Investment in Capital Assets	1,880,461.98	1,854,542.03	3,735,004.01	(267,662.40)
Restricted for:				
Debt Service Purposes		170,172.05	170,172.05	
Street Maintenance	82,304.60		82,304.60	
City Promotion	35,258.06		35,258.06	
Storm Sewer Maintenance	132,425.33		132,425.33	
Unrestricted (Deficit)	1,295,643.75	578,436.96	1,874,080.71	(29,673.03)
TOTAL NET POSITION	3,426,093.72	2,603,151.04	6,029,244.76	(297,335.43)

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

MUNICIPALITY OF SALEM
STATEMENT OF ACTIVITIES
 For the Year Ended December 31, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Capital		Governmental Activities	Primary Government			Total
			Operating Grants and Contributions	Grants and Contributions		Business-Type Activities	Total		
Primary Government:									
Governmental Activities:									
General Government	153,493.18	42,422.05		50,000.00	(61,071.13)		(61,071.13)		
Public Safety	104,103.61	200.00			(103,903.61)		(103,903.61)		
Public Works	310,591.88	65,040.36	34,136.58	55,514.67	(155,900.27)		(155,900.27)		
Health and Welfare	2,836.36				(2,836.36)		(2,836.36)		
Culture and Recreation	193,224.11	34,759.31		250.00	(158,214.80)		(158,214.80)		
Conservation and Development	8,547.00				(8,547.00)		(8,547.00)		
Total Governmental Activities	772,796.14	142,421.72	34,136.58	105,764.67	(490,473.17)		(490,473.17)		
Business-type Activities:									
Water	296,672.06	334,024.02				37,351.96	37,351.96		
Sewer	100,233.77	160,100.94				59,867.17	59,867.17		
Total Business-type Activities	396,905.83	494,124.96	0.00	0.00		97,219.13	97,219.13		
Total Primary Government	1,169,701.97	636,546.68	34,136.58	105,764.67	(490,473.17)	97,219.13	(393,254.04)		
Component Units:								(1,215.89)	
Housing and Redevelopment Commission	117,779.88	116,563.99							
General Revenues:									
Taxes:									
Property Taxes					278,601.79		278,601.79		
Sales Taxes					548,706.83		548,706.83		
State Shared Revenues					10,463.07		10,463.07		
Unrestricted Investment Earnings					12,634.58	6,882.99	19,517.57		
Miscellaneous Revenue					11,378.91	7,371.60	18,750.51		
Transfers					(37,091.85)	37,091.85	0.00		
Total General Revenues and Transfers					824,693.33	51,346.44	876,039.77	0.00	
Change in Net Position					334,220.16	148,565.57	482,785.73	(1,215.89)	
Net Position - Beginning					3,091,873.56	2,454,585.47	5,546,459.03	(296,119.54)	
NET POSITION - ENDING					3,426,093.72	2,603,151.04	6,029,244.76	(297,335.43)	

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

**MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2012**

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	1,149,945.62	33,798.52	80,964.97	132,370.33	1,397,079.44
Investments	59,802.63				59,802.63
Taxes Receivable--Delinquent	5,547.52		1,113.32		6,660.84
Accounts Receivable, Net	12,791.96			55.00	12,846.96
Special Assessments Receivable--Current	1,582.10				1,582.10
Special Assessments Receivable--Deferred	1,122.94				1,122.94
Interest Receivable--Special Assessments	175.50				175.50
Due from County/State Governments	79,130.06	2,659.54	226.31		82,015.91
Due from Component Unit	30,817.00				30,817.00
Inventory of Supplies	4,038.71				4,038.71
TOTAL ASSETS	1,344,954.04	36,458.06	82,304.60	132,425.33	1,596,142.03

**LIABILITIES, DEFERRED INFLOWS OF
RESOURCES AND FUND BALANCES:**

Liabilities:					
Claims Payable	33,047.02				33,047.02
Accrued Wages Payable	3,403.21				3,403.21
Accrued Taxes Payable	942.07				942.07
Total Liabilities	37,392.30	0.00	0.00	0.00	37,392.30
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	5,547.52				5,547.52
Unavailable Revenue - Special Assessments	2,880.54		1,113.32		3,993.86
Other Deferred Inflows of Resources - Sales Tax	40,000.00	1,200.00			41,200.00
Total Deferred Inflows of Resources	48,428.06	1,200.00	1,113.32	0.00	50,741.38
Fund Balances:					
Nonspendable - Inventory	4,038.71				4,038.71
Nonspendable - Due from Component Unit Restricted	30,817.00				30,817.00
Committed for Capital Improvements	384,458.99	35,258.06	81,191.28	132,425.33	248,874.67
Assigned for Next Year's Budget	150,000.00				150,000.00
Assigned for Capital Outlay	29,267.00				29,267.00
Unassigned	660,551.98				660,551.98
Total Fund Balances	1,259,133.68	35,258.06	81,191.28	132,425.33	1,508,008.35
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,344,954.04	36,458.06	82,304.60	132,425.33	1,596,142.03

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

MUNICIPALITY OF SALEM
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2012

Total Fund Balances - Governmental Funds	<u>1,508,008.35</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	<u>1,880,461.98</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(13,117.99)</u>
Assets such as taxes receivable (delinquent), special assessment receivables (current, delinquent and deferred), and sales tax receivable are not available to pay for current period expenditures and therefore are deferred in the funds.	<u>50,741.38</u>
Net Position - Governmental Activities	<u><u>3,426,093.72</u></u>

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues:						
Taxes:						
General Property Taxes	278,389.69					278,389.69
General Sales and Use Taxes	486,619.84	20,886.99				507,506.83
Gross Receipts Business Taxes	1,779.48					1,779.48
Amusement Taxes	36.00					36.00
Tax Deed Revenue	46.63					46.63
Penalties and Interest on Delinquent Taxes	672.84					672.84
Licenses and Permits	10,969.25					10,969.25
Intergovernmental Revenue:						
State Shared Revenue:						
Bank Franchise Tax	1,338.45					1,338.45
Motor Vehicle Commercial Prorate	3,175.54					3,175.54
Liquor Tax Reversion	9,124.62					9,124.62
Motor Vehicle Licenses	11,874.65					11,874.65
Local Government Highway and Bridge Fund	14,129.23					14,129.23
County Shared Revenue:						
County Road Tax	2,674.43					2,674.43
County Wheel Tax	5,458.27					5,458.27
Charges for Goods and Services:						
General Government	2,900.00					2,900.00
Highways and Streets	1,800.00					1,800.00
Sanitation	22,447.32			37,617.50		60,064.82
Culture and Recreation	20,260.31					20,260.31
Fines and Forfeits:						
Other Fines	200.00					200.00

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Revenues (Cont.):						
Miscellaneous Revenue:						
Investment Earnings	10,764.62	327.95	746.43	795.58		12,634.58
Rentals	14,474.00					14,474.00
Special Assessments	20,925.87					20,925.87
Maintenance Assessments			34,215.80			34,215.80
Contributions and Donations from Private Sources	275.00					275.00
Liquor Operating Agreement Income	28,552.80					28,552.80
Other	8,349.47					8,349.47
Total Revenue	957,238.31	21,214.94	34,962.23	38,413.08	0.00	1,051,828.56
Expenditures:						
General Government:						
Legislative	4,226.36					4,226.36
Executive	15,577.14					15,577.14
Elections	611.02					611.02
Financial Administration	119,444.39					119,444.39
Other	11,141.39					11,141.39
Total General Government	151,000.30	0.00	0.00	0.00	0.00	151,000.30
Public Safety:						
Police	83,824.00					83,824.00
Fire	13,496.52					13,496.52
Other Protection	323.25					323.25
Total Public Safety	97,643.77	0.00	0.00	0.00	0.00	97,643.77
Public Works:						
Highways and Streets	176,851.34		55,350.00	11,683.69		243,885.03
Sanitation	5,408.00					5,408.00
Total Public Works	182,259.34	0.00	55,350.00	11,683.69	0.00	249,293.03
Health and Welfare:						
Health	2,836.36					2,836.36
Total Health and Welfare	2,836.36	0.00	0.00	0.00	0.00	2,836.36

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended December 31, 2012

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Street Improvement Capital Projects Fund	Total Governmental Funds
Expenditures (Cont.):						
Culture and Recreation:						
Recreation	60,787.31					60,787.31
Parks	39,834.78					39,834.78
Libraries	500.00					500.00
Auditorium	71,188.54					71,188.54
Total Culture and Recreation	172,310.63	0.00	0.00	0.00	0.00	172,310.63
Conservation and Development:						
Economic Development and Assistance (Industrial Development)	3,323.00	5,224.00	0.00	0.00	0.00	8,547.00
Total Conservation and Development	3,323.00	5,224.00	0.00	0.00	0.00	8,547.00
Capital Outlay	19,862.02	0.00	0.00	0.00	196,279.32	216,141.34
Total Expenditures	629,235.42	5,224.00	55,350.00	11,683.69	196,279.32	897,772.43
Excess of Revenue Over (Under) Expenditures	328,002.89	15,990.94	(20,387.77)	26,729.39	(196,279.32)	154,056.13
Other Financing Sources (Uses):						
Transfers In					196,279.32	196,279.32
Compensation for Loss or Damage to Capital Assets	3,029.44					3,029.44
Transfers Out	(183,371.17)	(50,000.00)				(233,371.17)
Total Other Financing Sources (Uses)	(180,341.73)	(50,000.00)	0.00	0.00	196,279.32	(34,062.41)
Net Change in Fund Balances	147,661.16	(34,009.06)	(20,387.77)	26,729.39	0.00	119,993.72
Change in Nonspendable	(2,333.33)	0.00	0.00	0.00	0.00	(2,333.33)
Fund Balance - Beginning	1,113,805.85	69,267.12	101,579.05	105,695.94	0.00	1,390,347.96
FUND BALANCE - ENDING	1,259,133.68	35,258.06	81,191.28	132,425.33	0.00	1,508,008.35

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

MUNICIPALITY OF SALEM
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances to the Government-Wide Statement of Activities
For the Year Ended December 31, 2012

Net Change in Fund Balances - Total Governmental Funds	<u>119,993.72</u>
Amounts reported for governmental activities in the statement of activities are different because:	
This amount represents capital asset purchases which are reported as expenditures on the fund financial statements but increase assets on the government-wide statements.	<u>216,141.34</u>
This amount represents the current year depreciation expense reported in the statement of activities which is not reported on the fund financial statements because it does not require the use of current financial resources.	<u>(86,851.23)</u>
The receipt of donated capital assets is not reported on the fund statements, but is reported as a program revenue on the government-wide statements.	<u>50,000.00</u>
Sales tax revenue that is not received in the availability period is deferred in the fund financial statements.	<u>41,200.00</u>
The fund financial statement governmental fund property tax accruals differ from the government-wide statement property tax accruals in that the fund financial statements require the amounts to be "available".	<u>(2,582.89)</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>633.04</u>
Governmental funds recognize expenditures for amounts of compensated absences actually paid to employees with current financial resources during the fiscal year. Amounts of compensated absences earned by employees are not recognized in the funds. In the statement of activities, expenses for these benefits are recognized when the employees earn leave credits.	<u>(1,980.49)</u>
Vacation Leave	<u>1,980.49</u>
Supplies acquired are an expenditure on the fund statements when purchased but are expensed on the statement of activities when consumed. This amount represents the "change in" inventory of supplies.	<u>(2,333.33)</u>
Change in Net Position of Governmental Activities	<u><u>334,220.16</u></u>

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
December 31, 2012

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	324,878.89	382,763.35	707,642.24
Investments	21,746.43	27,183.02	48,929.45
Accounts Receivable, Net	336.02	225.00	561.02
Inventory of Supplies	34,813.56		34,813.56
Total Current Assets	381,774.90	410,171.37	791,946.27
Noncurrent Assets:			
Capital Assets:			
Land	2,209.95	39,656.24	41,866.19
Buildings	1,298,604.74		1,298,604.74
Improvements Other Than Buildings	1,605,061.78	1,029,688.48	2,634,750.26
Machinery and Equipment	1,195,510.97	34,373.39	1,229,884.36
Construction Work in Progress	13,950.00		13,950.00
Less: Accumulated Depreciation	(833,975.91)	(386,092.74)	(1,220,068.65)
Total Noncurrent Assets	3,281,361.53	717,625.37	3,998,986.90
TOTAL ASSETS	3,663,136.43	1,127,796.74	4,790,933.17
LIABILITIES:			
Current Liabilities:			
Claims Payable	6,039.89	1,068.40	7,108.29
Accrued Wages Payable	1,415.76	627.34	2,043.10
Accrued Taxes Payable	193.26	85.63	278.89
Customer Deposits	27,919.84		27,919.84
Bonds Payable - Current:			
Revenue	44,405.51	41,464.63	85,870.14
Total Current Liabilities	79,974.26	43,246.00	123,220.26
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,460,823.94	597,750.79	2,058,574.73
Accrued Leave Payable	4,939.66	1,047.48	5,987.14
Total Noncurrent Liabilities	1,465,763.60	598,798.27	2,064,561.87
TOTAL LIABILITIES	1,545,737.86	642,044.27	2,187,782.13
NET POSITION:			
Net Investment in Capital Assets	1,776,132.08	78,409.95	1,854,542.03
Restricted for:			
Revenue Bond Debt Service	150,172.05	20,000.00	170,172.05
Equipment Repair and/or Replacement	125,716.29	178,466.97	304,183.26
Unrestricted	65,378.15	208,875.55	274,253.70
TOTAL NET POSITION	2,117,398.57	485,752.47	2,603,151.04

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

MUNICIPALITY OF SALEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended December 31, 2012

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	255,214.39	160,050.94	415,265.33
Revenue Dedicated to Servicing Debt	78,509.63		78,509.63
Miscellaneous	300.00	50.00	350.00
Total Operating Revenue	334,024.02	160,100.94	494,124.96
Operating Expenses:			
Personal Services	49,197.87	18,511.54	67,709.41
Other Current Expense	110,040.55	34,535.16	144,575.71
Depreciation	87,360.45	24,691.08	112,051.53
Total Operating Expenses	246,598.87	77,737.78	324,336.65
Operating Income (Loss)	87,425.15	82,363.16	169,788.31
Nonoperating Revenue (Expense):			
Investment Earnings	3,162.08	3,720.91	6,882.99
Rental Revenue	6,000.00		6,000.00
Interest Expense	(50,073.19)	(22,495.99)	(72,569.18)
Other	1,371.60		1,371.60
Total Nonoperating Revenue (Expense)	(39,539.51)	(18,775.08)	(58,314.59)
Income (Loss) Before Transfers	47,885.64	63,588.08	111,473.72
Transfers In	37,091.85		37,091.85
Change in Net Position	84,977.49	63,588.08	148,565.57
Net Position - Beginning	2,032,421.08	422,164.39	2,454,585.47
NET POSITION - ENDING	2,117,398.57	485,752.47	2,603,151.04

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

**MUNICIPALITY OF SALEM
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended December 31, 2012**

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	333,999.57	159,972.49	493,972.06
Other Operating Cash Receipts	1,775.00		1,775.00
Cash Payments to Employees for Services	(48,351.73)	(19,046.46)	(67,398.19)
Cash Payments to Suppliers of Goods and Services	(112,358.84)	(34,748.85)	(147,107.69)
Other Operating Cash Payments	(28,983.96)		(28,983.96)
Net Cash Provided (Used) by Operating Activities	<u>146,080.04</u>	<u>106,177.18</u>	<u>252,257.22</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Subsidies	7,371.60		7,371.60
Transfers In	37,091.85		37,091.85
Net Cash Provided (Used) by Noncapital Financing Activities	<u>44,463.45</u>	<u>0.00</u>	<u>44,463.45</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(17,246.92)	(12,002.56)	(29,249.48)
Principal Paid on Capital Debt	(79,806.58)	(40,085.73)	(119,892.31)
Interest Paid on Capital Debt	(50,073.19)	(22,495.99)	(72,569.18)
Net Cash (Used) by Capital and Related Financing Activities	<u>(147,126.69)</u>	<u>(74,584.28)</u>	<u>(221,710.97)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	3,162.08	3,720.91	6,882.99
Net Cash Provided by Investing Activities	<u>3,162.08</u>	<u>3,720.91</u>	<u>6,882.99</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>46,578.88</u>	<u>35,313.81</u>	<u>81,892.69</u>
Balances - Beginning	300,046.44	374,632.56	674,679.00
Balances - Ending	<u>346,625.32</u>	<u>409,946.37</u>	<u>756,571.69</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	87,425.15	82,363.16	169,788.31
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	87,360.45	24,691.08	112,051.53
Change in Assets and Liabilities:			
Receivables	(24.45)	(128.45)	(152.90)
Inventories	(28,983.96)		(28,983.96)
Accounts and Other Payables	(2,318.29)	(213.69)	(2,531.98)
Accrued Wages Payable	(208.71)	(67.46)	(276.17)
Accrued Leave Payable	1,054.85	(467.46)	587.39
Customer Deposits	1,775.00		1,775.00
Net Cash Provided (Used) by Operating Activities	<u>146,080.04</u>	<u>106,177.18</u>	<u>252,257.22</u>

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

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Financial Reporting Entity:

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

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

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

b. Basis of Presentation:

Government-wide Financial Statements:

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Fund Financial Statements:

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

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

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

Governmental Funds:

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

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Proprietary Funds:

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

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

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

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

c. Measurement Focus and Basis of Accounting:

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

Measurement Focus:

Government-wide Financial Statements:

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

Fund Financial Statements:

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

Basis of Accounting:

Government-wide Financial Statements:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

accounting, revenues and related assets are recorded when earned (usually when the right to receive cash vests); and, expenses and related liabilities are recorded when an obligation is incurred (usually when the obligation to pay cash in the future vests).

Fund Financial Statements:

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues, including property taxes, are recognized when they become measurable and available. "Available" means resources are collected or to be collected soon enough after the end of the fiscal year that they can be used to pay the bills of the current period. The accrual period does not exceed one bill-paying cycle, and for the Municipality of Salem, the length of that cycle is 30 days. The revenues which are accrued at December 31, 2013 are sales tax and miscellaneous revenue.

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

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

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

d. Deposits and Investments:

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

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

e. Capital Assets:

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

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

Government-Wide Statements

Capital assets are recorded at historical cost. Donated capital assets are valued at their estimated fair value on the date donated. Reported cost values include ancillary charges necessary to place the asset into its intended

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

location and condition for use. Subsequent to initial capitalization, improvements or betterments that are significant and which extend the useful life of a capital asset are also capitalized.

The total December 31, 2013 balance of governmental activities capital assets and business-type capital assets are all valued at original cost.

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

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

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the government-wide Statement of Activities, except for that portion related to common use assets for which allocation would be unduly complex, and which is reported as Unallocated Depreciation, with net capital assets reflected in the Statement of Net Position. Accumulated depreciation is reported on the government-wide Statement of Net Position and on each proprietary fund's Statement of Net Position/Balance Sheet.

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

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

Land is an inexhaustible capital asset and is not depreciated.

Fund Financial Statements

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

f. Long-Term Liabilities:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

g. Program Revenues:

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

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

h. Deferred Inflows and Deferred Outflows of Resources:

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

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

i. Proprietary Funds Revenue and Expense Classifications:

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

j. Cash and Cash Equivalents:

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

k. Equity Classifications:

Government-wide Statements:

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

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

Fund Financial Statements:

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

l. Application of Net Position:

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

m. Fund Balance Classification Policies and Procedures:

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

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

The Nonspendable Fund Balance is comprised of the following:

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

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

<u>Fund Balance Type</u>	<u>Amount</u> <u>12/31/13</u>	<u>Amount</u> <u>12/31/12</u>	<u>Action</u>
Capital Improvements	\$ 354,569.99	\$ 384,548.99	Resolution

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

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

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

<u>Major Special Revenue Fund:</u> City Promotion Street Assessment Fund Storm Sewer Fund	<u>Revenue Source:</u> Sales Tax Front Foot Assessment Utility Charge
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2. DEPOSITS AND INVESTMENTS CREDIT RISK, CONCENTRATIONS OF CREDIT RISK AND INTEREST RATE RISK

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

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

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

3. RECEIVABLES AND PAYABLES

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

4. INVENTORY

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

Government-wide Financial Statements:

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

Fund Financial Statements:

In the fund financial statements, inventory is recorded as an asset at the time of purchase, and charged to expense as it is consumed. Material supply inventories are off-set by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

5. PROPERTY TAXES

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

6. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the two years ended December 31, 2013, is as follows:

	Balance 01/01/2012	Increases	Decreases	Balance 12/31/2013
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	62,937.77		(2,346.95)	60,590.82
Construction Work in Progress	15,309.00	532,644.46	(251,305.48)	296,647.98
Total, not being depreciated	<u>78,246.77</u>	<u>532,644.46</u>	<u>(253,652.43)</u>	<u>357,238.80</u>
Capital Assets, being Depreciated:				
Buildings	396,198.17	152,051.73		548,249.90
Improvements Other Than Buildings	1,517,819.81	241,083.01	(5,736.39)	1,753,166.43
Machinery and Equipment	466,947.54	105,640.00	(12,592.25)	559,995.29
Total, being Depreciated	<u>2,380,965.52</u>	<u>498,774.74</u>	<u>(18,328.64)</u>	<u>2,861,411.62</u>
Less Accumulated Depreciation for:				
Buildings	(241,180.14)	(18,642.11)		(259,822.25)
Improvements Other Than Buildings	(278,944.68)	(117,054.93)	5,736.39	(390,263.22)
Machinery and Equipment	(237,915.60)	(42,068.19)	12,592.25	(267,391.54)
Total Accumulated Depreciation	<u>(758,040.42)</u>	<u>(177,765.23)</u>	<u>18,328.64</u>	<u>(917,477.01)</u>
Total Capital Assets, being Depreciated, Net	<u>1,622,925.10</u>	<u>321,009.51</u>	<u>0.00</u>	<u>1,943,934.61</u>
Governmental Activity Capital Assets, Net	<u>1,701,171.87</u>	<u>853,653.97</u>	<u>(253,652.43)</u>	<u>2,301,173.41</u>

Depreciation expense was charged to functions as follows:

	2012	2013
Governmental Activities:		
General Government	1,547.04	2,980.67
Public Safety	6,459.84	6,459.84
Public Works	59,269.46	57,425.63
Culture and Recreation	19,574.89	24,047.86
Total Depreciation Expense - Governmental Activities	<u>86,851.23</u>	<u>90,914.00</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	<u>Balance</u> 01/01/2012	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> 12/31/2013
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	41,866.19			41,866.19
Construction Work in Progress	7,825.03	17,730.94	(25,555.97)	0.00
Total, not being depreciated	<u>49,691.22</u>	<u>17,730.94</u>	<u>(25,555.97)</u>	<u>41,866.19</u>
Capital Assets, being Depreciated:				
Buildings	1,298,604.74			1,298,604.74
Improvements Other Than Buildings	2,613,827.83	55,439.87	(8,964.60)	2,660,303.10
Machinery and Equipment	1,229,884.36	14,478.38		1,244,362.74
Total, being Depreciated	<u>5,142,316.93</u>	<u>69,918.25</u>	<u>(8,964.60)</u>	<u>5,203,270.58</u>
Less Accumulated Depreciation for:				
Buildings	(77,916.27)	(51,944.18)		(129,860.45)
Improvements Other Than Buildings	(846,609.90)	(108,909.63)	8,964.60	(946,554.93)
Machinery and Equipment	(183,490.95)	(66,010.39)		(249,501.34)
Total Accumulated Depreciation	<u>(1,108,017.12)</u>	<u>(226,864.20)</u>	<u>8,964.60</u>	<u>(1,325,916.72)</u>
Total Capital Assets, being Depreciated, Net	<u>4,034,299.81</u>	<u>(156,945.95)</u>	<u>0.00</u>	<u>3,877,353.86</u>
Business-Type Activity Capital Assets, Net	<u>4,083,991.03</u>	<u>(139,215.01)</u>	<u>(25,555.97)</u>	<u>3,919,220.05</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	<u>2012</u>	<u>2013</u>
Water	87,360.45	90,121.59
Sewer	24,691.08	24,691.08
Total Depreciation Expense - Business-Type Activities	<u>112,051.53</u>	<u>114,812.67</u>

Construction Work in Progress at December 31, 2013, is composed of the following:

<u>Project Name</u>	<u>Project</u> <u>Authorization</u>	<u>Expended</u> <u>thru</u> <u>12/31/2013</u>	<u>Committed</u>	<u>Required</u> <u>Future</u> <u>Financing</u>
2014 Street Project	211,745.00	12,000.00	199,745.00	0.00
2013 Main Street Lighting Project	296,199.40	284,647.98	11,551.42	0.00
TOTAL	<u>507,944.40</u>	<u>296,647.98</u>	<u>211,296.42</u>	<u>0.00</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

7. CHANGES IN COMPONENT UNIT CAPITAL ASSETS

A summary of changes in component unit capital assets for the two years ended December 31, 2013, is as follows:

	Balance 1/1/2012	Additions	Deletions	Balance 12/31/2013
Land	56,293.45			56,293.45
Buildings	1,275,619.81			1,275,619.81
Organization Costs	52,000.00			52,000.00
Accumulated Depreciation	(367,428.51)	(94,476.18)		(461,904.69)
TOTAL	<u>1,016,484.75</u>	<u>(94,476.18)</u>	<u>0.00</u>	<u>922,008.57</u>

8. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
Accrued Compensated Absences-					
Governmental Funds	11,137.50	15,841.74	15,387.45	11,591.79	9,273.43
Total Governmental Activities	<u>11,137.50</u>	<u>15,841.74</u>	<u>15,387.45</u>	<u>11,591.79</u>	<u>9,273.43</u>
Business-Type Activities:					
Clean Water SRF Loan # 1	370,264.79		47,775.80	322,488.99	25,165.95
Drinking Water SRF Loan # 1	36,815.40		36,815.40	0.00	0.00
Clean Water SRF Loan # 2	309,036.36		33,774.56	275,261.80	17,725.12
Drinking Water SRF Loan # 2	272,314.14		27,951.86	244,362.28	14,669.32
Drinking Water SRF Loan # 3	1,275,906.49		59,444.83	1,216,461.66	31,197.04
Total Debt	<u>2,264,337.18</u>	<u>0.00</u>	<u>205,762.45</u>	<u>2,058,574.73</u>	<u>88,757.43</u>
Accrued Compensated Absences -					
Business-Type Funds	5,399.75	9,305.76	9,032.50	5,673.01	4,009.54
Total Business-Type Activities	<u>2,269,736.93</u>	<u>9,305.76</u>	<u>214,794.95</u>	<u>2,064,247.74</u>	<u>92,766.97</u>
TOTAL PRIMARY GOVERNMENT	<u>2,280,874.43</u>	<u>25,147.50</u>	<u>230,182.40</u>	<u>2,075,839.53</u>	<u>102,040.40</u>
	Balance	Additions	Deletions	Balance	One Year
Component Unit:					
Bonds Payable:					
Revenue - Series 2005	809,375.35		38,951.09	770,424.26	21,119.86
Revenue - Series 2001	459,401.45		27,071.37	432,330.08	14,691.39
TOTAL COMPONENT UNIT	<u>1,268,776.80</u>	<u>0.00</u>	<u>66,022.46</u>	<u>1,202,754.34</u>	<u>35,811.25</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Debt payable at December 31, 2013, is comprised of the following:

Clean Water SRF Loan #1:

Clean Water State Revolving Fund Loan #C461057-01 for Sewer Improvements, 3.5% Interest; Final Maturity 7-15-2024, Payable from Sewer Fund	\$ 322,488.99
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Clean Water SRF Loan #2:

Clean Water State Revolving Fund Loan #C461057-02 for Sewer Improvements, 3.25% Interest; Final Maturity 7-15-2026, Payable from Sewer Fund	\$ 275,261.80
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Drinking Water SRF Loan #2:

Drinking Water State Revolving Fund Loan #C462057-02 for Water Line Improvements; 3.25% Interest; Final Maturity 4-15-2027, Payable from Water Fund	\$ 244,362.28
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Drinking Water SRF Loan #3:

Drinking Water State Revolving Fund Loan #C462057-03 for Water Treatment Plant; 3.25% Interest; Final Maturity 4-15-2039, Payable from Water Fund	\$ 1,216,461.66
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Compensated Absences:

Vacation and Sick Leave for eligible employees:	
General Fund	\$ 11,591.79
Water Fund	\$ 4,510.73
Sewer Fund	\$ 1,162.28

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The annual requirements to amortize all debt outstanding as of December 31, 2013, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2013

Year Ending December 31,	Clean Water SRF Loan C461057-01		Clean Water SRF Loan C461057-02		Drinking Water SRF Loan C462057-02	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	25,165.95	10,959.21	17,725.12	8,731.44	14,669.32	7,764.20
2015	26,058.39	10,066.77	18,308.25	8,148.31	15,151.92	7,281.60
2016	26,982.47	9,142.69	18,910.55	7,546.01	15,650.39	6,783.13
2017	27,939.33	8,185.83	19,532.68	6,923.88	16,165.26	6,268.26
2018	28,930.11	7,195.05	20,175.27	6,281.29	16,697.06	5,736.46
2019-2023	160,786.63	19,839.17	111,279.94	21,002.86	92,095.37	20,072.23
2024-2028	26,626.11	467.76	69,329.99	3,425.55	73,932.96	4,584.36
2029-2033						
2034-2038						
2039-2043						
Totals	<u>322,488.99</u>	<u>65,856.48</u>	<u>275,261.80</u>	<u>62,059.34</u>	<u>244,362.28</u>	<u>58,490.24</u>

Year Ending December 31,	Drinking Water SRF Loan C462057-03		Totals	
	Principal	Interest	Principal	Interest
2014	31,197.04	39,157.36	88,757.43	66,612.21
2015	32,223.38	38,131.02	91,741.94	63,627.70
2016	33,283.46	37,070.94	94,826.87	60,542.77
2017	34,378.44	35,975.96	98,015.71	57,353.93
2018	35,509.42	34,844.98	101,311.86	54,057.78
2019-2023	195,857.93	155,914.07	560,019.87	216,828.33
2024-2028	230,265.50	121,506.50	400,154.56	129,984.17
2029-2033	270,717.64	81,054.36	270,717.64	81,054.36
2034-2038	318,276.27	33,495.73	318,276.27	33,495.73
2039-2043	34,752.58	424.62	34,752.58	424.62
Totals	<u>1,216,461.66</u>	<u>577,575.54</u>	<u>2,058,574.73</u>	<u>763,981.60</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2012 and 2013 were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>12/31/2012</u>	<u>12/31/2013</u>
<u>Major Funds:</u>			
City Promotion Fund	Law	\$ 35,258.06	\$ 13,849.97
Street Assessment Fund	Law	81,191.28	69,617.07
Storm Sewer Maintenance Fund	Law	132,425.33	166,590.16
Water Fund - Debt Service	Debt Covenants	150,172.05	158,619.84
Sewer Fund - Debt Service	Debt Covenants	20,000.00	20,000.00
Total Restricted Net Assets		<u>\$ 419,046.72</u>	<u>\$ 428,677.04</u>

10. INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2013 were as follows:

	<u>Transfers to:</u>
	<u>Governmental</u>
	<u>Activities</u>
	<u>Capital Projects</u>
<u>Transfers from:</u>	<u>Fund</u>
<u>Major Funds:</u>	
General Fund	\$ 305,820.00
Liquor, Lodging & Dining Fund	40,000.00
	<u>\$ 345,820.00</u>

Interfund transfers for the year ended December 31, 2012 were as follows:

	<u>Transfers to:</u>		
	<u>Governmental</u>	<u>Proprietary</u>	
	<u>Activities</u>	<u>Fund</u>	
	<u>Capital Projects</u>	<u>Water</u>	
<u>Transfers from:</u>	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
<u>Major Funds:</u>			
General Fund	\$ 146,279.32	\$ 37,091.85	\$ 183,371.17
Liquor, Lodging & Dining Fund	50,000.00		50,000.00
	<u>\$ 196,279.32</u>	<u>\$ 37,091.85</u>	<u>\$ 233,371.17</u>

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

11. RETIREMENT PLAN

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

Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee's contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality's share of contributions to the SDRS for the fiscal years ended December 31, 2013, 2012, and 2011 were \$9,526.74, \$9,895.93, and \$9,656.55, respectively, equal to the required contributions each year.

12. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2013, the Municipality was not involved in any significant litigation.

13. RISK MANAGEMENT

The Municipality is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the period ended December 31, 2013, the Municipality managed its risks as follows:

Employee Health Insurance:

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

Liability Insurance:

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

Worker's Compensation:

The Municipality joined the South Dakota Municipal League Worker's Compensation Fund (Fund), a public entity risk pool currently operating as a common risk management and insurance program for South Dakota local government entities. The objective of the fund is to formulate, develop, and administer, on behalf of the member organizations, a program of worker's compensation coverage, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. The Municipality's responsibility is to initiate and maintain a safety program to give its employees safe and sanitary working conditions and to promptly report to and cooperate with the Fund to resolve any worker's compensation claims. The Municipality pays an annual premium, to provide worker's compensation coverage for its employees, under a retrospectively rated policy and the premiums are accrued based on the ultimate cost of the experience to date of the Fund members. Coverage limits are set by state statute. The pool pays the first \$650,000 of any claim per individual. The pool has reinsurance which covers up to an additional \$2,000,000 per individual per incident.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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

Unemployment Benefits:

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

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	289,836.00	289,836.00	289,281.31	(554.69)
General Sales and Use Taxes	355,000.00	355,000.00	434,293.04	79,293.04
Gross Receipts Business Taxes	1,200.00	1,200.00	1,942.02	742.02
Amusement Taxes	0.00	0.00	36.00	36.00
Penalties and Interest on Delinquent Taxes	0.00	0.00	721.11	721.11
Licenses and Permits	7,300.00	7,300.00	7,587.75	287.75
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	750.00	750.00	1,310.27	560.27
Motor Vehicle Commercial Prorate	0.00	0.00	3,280.31	3,280.31
Liquor Tax Reversion	8,000.00	8,000.00	8,825.83	825.83
Motor Vehicle Licenses	10,000.00	10,000.00	13,389.59	3,389.59
Local Government Highway and Bridge Fund	10,000.00	10,000.00	14,863.11	4,863.11
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	5,000.00	5,000.00	5,556.01	556.01
Charges for Goods and Services:				
General Government	0.00	0.00	499.00	499.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	18,000.00	18,000.00	21,692.14	3,692.14
Culture and Recreation	18,000.00	18,000.00	18,940.30	940.30
Miscellaneous Revenue:				
Investment Earnings	7,500.00	7,500.00	5,297.11	(2,202.89)
Rentals	2,700.00	2,700.00	6,390.00	3,690.00
Special Assessments	0.00	0.00	5,507.80	5,507.80
Contributions and Donations from Private Sources	0.00	0.00	46,605.95	46,605.95
Liquor Operating Agreement Income	26,000.00	26,000.00	26,030.75	30.75
Other	6,000.00	6,000.00	11,645.09	5,645.09
Total Revenue	769,686.00	769,686.00	928,168.92	158,482.92
Expenditures:				
General Government:				
Legislative	5,000.00	5,000.00	4,419.50	580.50
Contingency	16,000.00	16,000.00		
Amount Transferred		(1,500.00)		14,500.00
Executive	16,820.00	16,820.00	14,578.00	2,242.00
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	124,960.00	128,960.00	120,123.92	8,836.08
Other	19,845.00	23,845.00	23,158.47	686.53
Total General Government	183,625.00	190,125.00	162,279.89	27,845.11

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued):				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	2,500.00	4,000.00	3,891.87	108.13
Other Protection	790.00	790.00	326.34	463.66
Total Public Safety	<u>87,120.00</u>	<u>88,620.00</u>	<u>88,042.21</u>	<u>577.79</u>
Public Works:				
Highways and Streets	300,915.00	353,695.00	238,353.26	115,341.74
Sanitation	7,985.00	7,985.00	5,544.71	2,440.29
Total Public Works	<u>308,900.00</u>	<u>361,680.00</u>	<u>243,897.97</u>	<u>117,782.03</u>
Health and Welfare:				
Health	7,380.00	7,380.00	6,864.68	515.32
Total Health and Welfare	<u>7,380.00</u>	<u>7,380.00</u>	<u>6,864.68</u>	<u>515.32</u>
Culture and Recreation:				
Recreation	74,010.00	119,510.00	97,902.60	21,607.40
Parks	51,300.00	153,000.00	147,174.50	5,825.50
Libraries	500.00	500.00	500.00	0.00
Auditorium	86,520.00	86,520.00	56,091.46	30,428.54
Total Culture and Recreation	<u>212,330.00</u>	<u>359,530.00</u>	<u>301,668.56</u>	<u>57,861.44</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	7,470.00	7,470.00	6,052.15	1,417.85
Total Conservation and Development	<u>7,470.00</u>	<u>7,470.00</u>	<u>6,052.15</u>	<u>1,417.85</u>
Total Expenditures	<u>806,825.00</u>	<u>1,014,805.00</u>	<u>808,805.46</u>	<u>205,999.54</u>
Excess of Revenue Over (Under) Expenditures	<u>(37,139.00)</u>	<u>(245,119.00)</u>	<u>119,363.46</u>	<u>364,482.46</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	17,050.00	17,050.00
Compensation for Loss or Damage to Capital Assets	0.00	0.00	3,273.11	3,273.11
Transfers Out	0.00	(305,820.00)	(305,820.00)	0.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(305,820.00)</u>	<u>(285,496.89)</u>	<u>20,323.11</u>
Net Change in Fund Balances	<u>(37,139.00)</u>	<u>(550,939.00)</u>	<u>(166,133.43)</u>	<u>384,805.57</u>
Changes in Nonspendable	<u>0.00</u>	<u>0.00</u>	<u>(2,431.53)</u>	<u>(2,431.53)</u>
Fund Balance - Beginning	1,259,133.68	1,259,133.68	1,259,133.68	0.00
FUND BALANCE - ENDING	<u>1,221,994.68</u>	<u>708,194.68</u>	<u>1,090,568.72</u>	<u>382,374.04</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	18,000.00	18,000.00	18,451.79	451.79
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	140.12	140.12
Total Revenue	<u>18,000.00</u>	<u>18,000.00</u>	<u>18,591.91</u>	<u>591.91</u>
Expenditures:				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	0.00	5,390.00
Total Conservation and Development	<u>5,390.00</u>	<u>5,390.00</u>	<u>0.00</u>	<u>5,390.00</u>
Total Expenditures	<u>5,390.00</u>	<u>5,390.00</u>	<u>0.00</u>	<u>5,390.00</u>
Excess of Revenue Over (Under) Expenditures	<u>12,610.00</u>	<u>12,610.00</u>	<u>18,591.91</u>	<u>5,981.91</u>
Other Financing Sources (Uses):				
Transfers Out	0.00	(40,000.00)	(40,000.00)	0.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(40,000.00)</u>	<u>(40,000.00)</u>	<u>0.00</u>
Net Change in Fund Balances	<u>12,610.00</u>	<u>(27,390.00)</u>	<u>(21,408.09)</u>	<u>5,981.91</u>
Fund Balance - Beginning	<u>35,258.06</u>	<u>35,258.06</u>	<u>35,258.06</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>47,868.06</u></u>	<u><u>7,868.06</u></u>	<u><u>13,849.97</u></u>	<u><u>5,981.91</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	410.73	410.73
Maintenance Assessments	34,025.00	34,025.00	34,179.30	154.30
Total Revenue	34,025.00	34,025.00	34,590.03	565.03
Expenditures:				
Public Works:				
Highways and Streets	60,000.00	60,000.00	46,164.24	13,835.76
Total Public Works	60,000.00	60,000.00	46,164.24	13,835.76
Total Expenditures	60,000.00	60,000.00	46,164.24	13,835.76
Net Change in Fund Balances	(25,975.00)	(25,975.00)	(11,574.21)	14,400.79
Fund Balance - Beginning	81,191.28	81,191.28	81,191.28	0.00
FUND BALANCE - ENDING	55,216.28	55,216.28	69,617.07	14,400.79

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Goods and Services:				
Sanitation	37,000.00	37,000.00	37,541.22	541.22
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	640.81	640.81
Total Revenue	37,000.00	37,000.00	38,182.03	1,182.03
Expenditures:				
Public Works:				
Highways and Streets	10,000.00	10,000.00	4,017.20	5,982.80
Total Public Works	10,000.00	10,000.00	4,017.20	5,982.80
Total Expenditures	10,000.00	10,000.00	4,017.20	5,982.80
Net Change in Fund Balances	27,000.00	27,000.00	34,164.83	7,164.83
Fund Balance - Beginning	132,425.33	132,425.33	132,425.33	0.00
FUND BALANCE - ENDING	159,425.33	159,425.33	166,590.16	7,164.83

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	277,636.00	277,636.00	278,389.69	753.69
General Sales and Use Taxes	330,000.00	330,000.00	486,619.84	156,619.84
Gross Receipts Business Taxes	1,200.00	1,200.00	1,779.48	579.48
Amusement Taxes	0.00	0.00	36.00	36.00
Tax Deed Revenue	0.00	0.00	46.63	46.63
Penalties and Interest on Delinquent Taxes	0.00	0.00	672.84	672.84
Licenses and Permits	6,600.00	6,600.00	10,969.25	4,369.25
Intergovernmental Revenue:				
State Shared Revenue:				
Bank Franchise Tax	750.00	750.00	1,338.45	588.45
Motor Vehicle Commercial Prorate	0.00	0.00	3,175.54	3,175.54
Liquor Tax Reversion	7,500.00	7,500.00	9,124.62	1,624.62
Motor Vehicle Licenses	9,500.00	9,500.00	11,874.65	2,374.65
Local Government Highway and Bridge Fund	9,000.00	9,000.00	14,129.23	5,129.23
County Shared Revenue:				
County Road Tax	2,600.00	2,600.00	2,674.43	74.43
County Wheel Tax	5,000.00	5,000.00	5,458.27	458.27
Charges for Goods and Services:				
General Government	0.00	0.00	2,900.00	2,900.00
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	18,000.00	18,000.00	22,447.32	4,447.32
Culture and Recreation	18,000.00	18,000.00	20,260.31	2,260.31
Fines and Forfeits:				
Court Fines and Costs	0.00	0.00	200.00	200.00
Miscellaneous Revenue:				
Investment Earnings	7,500.00	7,500.00	10,764.62	3,264.62
Rentals	17,100.00	17,100.00	14,474.00	(2,626.00)
Special Assessments	0.00	0.00	20,925.87	20,925.87
Contributions and Donations from Private Sources	0.00	0.00	275.00	275.00
Liquor Operating Agreement Income	19,800.00	19,800.00	28,552.80	8,752.80
Other	6,000.00	6,000.00	8,349.47	2,349.47
Total Revenue	737,986.00	737,986.00	957,238.31	219,252.31
Expenditures:				
General Government:				
Legislative	5,000.00	5,000.00	4,226.36	773.64
Contingency	20,000.00	20,000.00		
Amount Transferred		(5,950.00)		14,050.00
Executive	16,720.00	16,720.00	15,577.14	1,142.86
Elections	1,000.00	1,000.00	611.02	388.98
Financial Administration	130,940.00	130,940.00	119,444.39	11,495.61
Other	16,825.00	16,825.00	11,141.39	5,683.61
Total General Government	190,485.00	184,535.00	151,000.30	33,534.70

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued):				
Public Safety:				
Police	83,830.00	83,830.00	83,824.00	6.00
Fire	13,150.00	14,800.00	13,496.52	1,303.48
Other Protection	790.00	790.00	323.25	466.75
Total Public Safety	<u>97,770.00</u>	<u>99,420.00</u>	<u>97,643.77</u>	<u>1,776.23</u>
Public Works:				
Highways and Streets	232,215.00	237,215.00	178,659.24	58,555.76
Sanitation	5,850.00	6,150.00	5,408.00	742.00
Total Public Works	<u>238,065.00</u>	<u>243,365.00</u>	<u>184,067.24</u>	<u>59,297.76</u>
Health and Welfare:				
Health	7,180.00	7,180.00	2,836.36	4,343.64
Total Health and Welfare	<u>7,180.00</u>	<u>7,180.00</u>	<u>2,836.36</u>	<u>4,343.64</u>
Culture and Recreation:				
Recreation	70,580.00	70,580.00	60,787.31	9,792.69
Parks	34,390.00	69,890.00	57,888.90	12,001.10
Libraries	500.00	500.00	500.00	0.00
Auditorium	80,080.00	80,080.00	71,188.54	8,891.46
Total Culture and Recreation	<u>185,550.00</u>	<u>221,050.00</u>	<u>190,364.75</u>	<u>30,685.25</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	7,510.00	7,510.00	3,323.00	4,187.00
Total Conservation and Development	<u>7,510.00</u>	<u>7,510.00</u>	<u>3,323.00</u>	<u>4,187.00</u>
Total Expenditures	<u>726,560.00</u>	<u>763,060.00</u>	<u>629,235.42</u>	<u>133,824.58</u>
Excess of Revenue Over (Under) Expenditures	<u>11,426.00</u>	<u>(25,074.00)</u>	<u>328,002.89</u>	<u>353,076.89</u>
Other Financing Sources (Uses):				
Compensation for Loss or Damage to Capital Assets	0.00	0.00	3,029.44	3,029.44
Transfers Out	0.00	(212,342.00)	(183,371.17)	28,970.83
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(212,342.00)</u>	<u>(180,341.73)</u>	<u>32,000.27</u>
Net Change in Fund Balances	<u>11,426.00</u>	<u>(237,416.00)</u>	<u>147,661.16</u>	<u>385,077.16</u>
Changes in Nonspendable	<u>0.00</u>	<u>0.00</u>	<u>(2,333.33)</u>	<u>(2,333.33)</u>
Fund Balance - Beginning	<u>1,113,805.85</u>	<u>1,113,805.85</u>	<u>1,113,805.85</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>1,125,231.85</u>	<u>876,389.85</u>	<u>1,259,133.68</u>	<u>382,743.83</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Sales and Use Taxes	14,000.00	14,000.00	20,886.99	6,886.99
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	327.95	327.95
Total Revenue	<u>14,000.00</u>	<u>14,000.00</u>	<u>21,214.94</u>	<u>7,214.94</u>
Expenditures:				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	5,224.00	166.00
Total Conservation and Development	<u>5,390.00</u>	<u>5,390.00</u>	<u>5,224.00</u>	<u>166.00</u>
Total Expenditures	<u>5,390.00</u>	<u>5,390.00</u>	<u>5,224.00</u>	<u>166.00</u>
Excess of Revenue Over (Under) Expenditures	<u>8,610.00</u>	<u>8,610.00</u>	<u>15,990.94</u>	<u>7,380.94</u>
Other Financing Sources (Uses):				
Transfers Out	0.00	(50,000.00)	(50,000.00)	0.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>(50,000.00)</u>	<u>(50,000.00)</u>	<u>0.00</u>
Net Change in Fund Balances	<u>8,610.00</u>	<u>(41,390.00)</u>	<u>(34,009.06)</u>	<u>7,380.94</u>
Fund Balance - Beginning	69,267.12	69,267.12	69,267.12	0.00
FUND BALANCE - ENDING	<u>77,877.12</u>	<u>27,877.12</u>	<u>35,258.06</u>	<u>7,380.94</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2012

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	746.43	746.43
Maintenance Assessments	34,114.00	34,114.00	34,215.80	101.80
Total Revenue	34,114.00	34,114.00	34,962.23	848.23
Expenditures:				
Public Works:				
Highways and Streets	0.00	55,350.00	55,350.00	0.00
Total Public Works	0.00	55,350.00	55,350.00	0.00
Total Expenditures	0.00	55,350.00	55,350.00	0.00
Net Change in Fund Balances	34,114.00	(21,236.00)	(20,387.77)	848.23
Fund Balance - Beginning	101,579.05	101,579.05	101,579.05	0.00
FUND BALANCE - ENDING	135,693.05	80,343.05	81,191.28	848.23

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2012

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> <u>(Budgetary Basis)</u>	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for Goods and Services:				
Sanitation	36,600.00	36,600.00	37,617.50	1,017.50
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	795.58	795.58
Total Revenue	36,600.00	36,600.00	38,413.08	1,813.08
Expenditures:				
Public Works:				
Highways and Streets	0.00	16,000.00	11,683.69	4,316.31
Total Public Works	0.00	16,000.00	11,683.69	4,316.31
Total Expenditures	0.00	16,000.00	11,683.69	4,316.31
Net Change in Fund Balances	36,600.00	20,600.00	26,729.39	6,129.39
Fund Balance - Beginning	105,695.94	105,695.94	105,695.94	0.00
FUND BALANCE - ENDING	142,295.94	126,295.94	132,425.33	6,129.39

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

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

NOTE 1. Budgets and Budgetary Accounting:

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

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

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

The Municipality did not encumber any amounts at December 31, 2013 and 2012.

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

NOTE 2. GAAP/Budgetary Accounting Basis Differences:

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