

**MUNICIPALITY OF SALEM
SALEM, SOUTH DAKOTA**

AUDIT REPORT

**FOR THE YEAR JANUARY 1, 2016 TO DECEMBER 31, 2016
AND
FOR THE YEAR JANUARY 1, 2017 TO DECEMBER 31, 2017**

Schoenfish & Co., Inc.

CERTIFIED PUBLIC ACCOUNTANTS

P.O. Box 247

105 EAST MAIN, PARKSTON, SOUTH DAKOTA 57366

MUNICIPALITY OF SALEM

MUNICIPAL OFFICIALS
DECEMBER 31, 2017

MAYOR:

Robin Rayman

GOVERNING BOARD:

George Eichacker, President
Ron Mayrose, Vice-President
MaryJo Heiberger
Ben Johnson
Doug Mokros
Robin Westhoff

FINANCE OFFICER:

Lori Heumiller

ATTORNEY:

Roger Gerlach

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TABLE OF CONTENTS

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 <i>Government Auditing Standards</i>	1-2
Schedule of Prior Audit Findings.....	3
Schedule of Current Audit Findings.....	4
Independent Auditor's Report	5-7
Management's Discussion and Analysis (MD&A).....	8-31
BASIC FINANCIAL STATEMENTS:	
As Of and For the Year Ended December 31, 2017:	
Government-Wide Financial Statements:	
Statement of Net Position.....	32
Statement of Activities.....	33
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	34
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	35
Statement of Revenues, Expenditures, and Changes In Fund Balances.....	36-38
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities.....	39
Proprietary Funds:	
Statement of Net Position.....	40
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	41
Statement of Cash Flows.....	42
As Of and For the Year Ended December 31, 2016:	
Government-Wide Financial Statements:	
Statement of Net Position.....	43
Statement of Activities.....	44

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TABLE OF CONTENTS
(Continued)

As Of and For the Year Ended December 31, 2016 (Cont.):

Fund Financial Statements:

Governmental Funds:

Balance Sheet	45
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	46
Statement of Revenues, Expenditures, and Changes In Fund Balances	47-49
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities	50

Proprietary Funds:

Statement of Net Position	51
Statement of Revenues, Expenses, and Changes in Fund Net Position	52
Statement of Cash Flows	53
Notes to the Financial Statements	54-74

Required Supplementary Information Other than MD&A:

For the Year Ended December 31, 2017:

Budgetary Comparison Schedule – Budgetary Basis:

General Fund	75-76
Liquor, Lodging & Dining Fund	77
Street Assessment Fund	78
Storm Sewer Maintenance Fund	79

For the Year Ended December 31, 2016:

Budgetary Comparison Schedule – Budgetary Basis:

General Fund	80-81
Liquor, Lodging & Dining Fund	82
Street Assessment Fund	83
Storm Sewer Maintenance Fund	84
Notes to the Required Supplementary Information – Budgetary Comparison Schedules	85
Schedule of the Municipality’s Proportionate Share of the Net Pension Liability (Asset)	86
Schedule of the Municipality Contributions - South Dakota Retirement System	87

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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, 2017 and 2016, 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 July 30, 2018. 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 2017-001 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
July 30, 2018

Schoenfish & Co., Inc.

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SCHEDULE OF PRIOR AUDIT FINDINGS

PRIOR OTHER AUDIT FINDINGS:

Internal Control Over Revenues:

Finding Number 2015-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This comment has not been corrected and is restated as current audit finding number 2017-001.

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SCHEDULE OF CURRENT AUDIT FINDINGS

CURRENT OTHER AUDIT FINDINGS:

Internal Control – Related Finding – Material Weakness:

Finding Number 2017-001:

A material weakness in internal controls was noted due to a lack of proper segregation of duties for revenues. This has been a continuing audit comment since 1997.

Criteria:

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

Condition:

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

Effect:

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

Recommendation:

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

Management's Response:

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

CLOSING CONFERENCE

The audit findings and recommendations were discussed with the officials during the course of the audit and with the Mayor and Finance Officer on August 15, 2018.

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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, 2017 and 2016, 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, 2017 and 2016, balances and activities for each of the years in the biennial period then ended of the component unit column.

Disclaimer of Opinion

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

Unmodified Opinions

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Municipality of Salem as of December 31, 2017 and 2016, 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), the Budgetary Comparison Schedules, the Schedule of the Municipality's Proportionate Share of the Net Pension Liability (Asset), and the Schedule of the Municipality's Contributions on pages 8 through 31, 75 through 84, 86, and 87, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. As a result of such limited procedures, we believe that the Management's Discussion and Analysis is not in conformity with guidelines established by the Governmental Accounting Standards Board because the information presented is not confined to the topics discussed in Section 2200.109 of Codification of Governmental Accounting and Financial Reporting Standards. One of the more significant departures is the Economic Factors and Next Year's Budgets and Rates section which is not limited to prescribed items.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2018 on our consideration of the Municipality's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Municipality's internal control over financial reporting and compliance.



Schoenfish & Co., Inc.
Certified Public Accountants
July 30, 2018

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**MUNICIPALITY OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017**

This section of Salem Municipality's annual financial report presents our discussion and analysis of the Municipality's financial performance during the fiscal year ending December 31, 2017. Please read it in conjunction with the Municipality's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- In FY2017, the Municipality's revenues generated from taxes, charges for services, and other revenues for the governmental programs were \$369,316 more than the \$801,457 governmental expenditures. This is a decline over FY2016 and improvement over FY2015 when revenues exceeded expenditures by \$457,906 and \$333,401, respectively.
- In the Municipality's Water & Sewer Funds (business-type activities), revenues increased to \$653,397 a (16.0%) increase from FY2016 and a 29.8% increase from FY2015. Expenses show a \$30,807 (7.5%) increase from FY2016 and a (19.5%) decrease from FY2015.
- The total cost of the Municipality's Governmental programs decreased \$47,756 (5.6%) from FY2016 and 1.3% from FY2015. There were many variables for this decrease and are explained in detail on page 9 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

Figure A-1
Major Features of Municipality of Salem's Government-wide and Fund Financial Statements

	Government-Wide	Fund Statements	
	Statements	Governmental Funds	Proprietary Funds
Scope	Entire Municipality government	The activities of the Municipality that are not proprietary or fiduciary, such as finance office, police, streets, park	Activities the Municipality operates similar to private businesses, the water and sewer systems
Required Financial Statements	*Statement of Net Position * Statement of Activities	*Balance Sheet *Statement of Revenues, Expenditures and Changes in Fund Balances	* Balance Sheet *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 Municipality as a whole using accounting methods similar to those used by private-sector companies. The statement of Net Position includes all of the government's assets 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 Municipality's Net Position and how they have changed. Net Position – the difference between the Municipality's assets and deferred outflows of resources less liabilities and deferred inflows of resources – are one way to measure the Municipality's financial health or position.

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

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

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

Fund Financial Statements

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

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

The Municipality has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE MUNICIPALITY AS A WHOLE – NET POSITION

The Municipality's combined net position increased by 8% - \$581,754 between FY2016 and FY2017 – a decrease from the 9% increase shown in 2016. (See Table A-1)

TABLE A-1 CITY OF SALEM NET POSITION - FISCAL YEAR 2017

	Governmental Activities			Business-Type Activities			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Current and Other Assets	1,903,476	1,935,361	2,277,234	754,045	917,549	1,073,051	2,657,521	2,852,910	3,350,285
Net Pension Asset	29,161	-	617	11,911	-	265	41,072	-	882
Capital Assets	2,455,622	2,881,490	2,884,028	3,711,205	3,606,512	3,604,764	6,166,827	6,488,002	6,488,792
Total Assets	4,388,259	4,816,851	5,161,879	4,477,161	4,524,061	4,678,080	8,865,420	9,340,912	9,839,959
Def Outflows of Resources	51,053	51,418	62,196	20,853	22,036	26,655	71,906	73,454	88,852
Net Pension Liability	-	22,890	-	-	9,810	-	-	32,700	-
LT Debt Outstanding	12,913	13,941	10,579	1,883,478	1,789,054	1,690,575	1,896,392	1,802,995	1,701,154
Other Liabilities	35,723	27,810	28,610	43,987	38,962	88,333	79,710	66,772	116,943
Total Liabilities	48,636	64,641	39,189	1,927,465	1,837,826	1,778,908	1,976,101	1,902,467	1,818,097
Def Inflows of Resources	43,028	-	11,942	17,575	-	5,118	60,603	-	17,060
Capital Assets Net of Related Debt	2,455,622	2,881,490	2,884,028	1,833,130	1,823,263	1,919,531	4,288,752	4,704,753	4,803,559
Restricted	373,845	407,481	509,568	209,504	214,544	233,411	583,349	622,025	742,979
Unrestricted	1,518,181	1,514,657	1,779,348	510,340	670,464	767,767	2,028,521	2,185,121	2,547,115
Total Net Position	4,347,648	4,803,628	5,172,944	2,552,973	2,708,271	2,920,709	6,900,622	7,511,899	8,093,653
Beginning Net Position	3,981,481	4,347,648	4,803,628	2,583,631	2,552,973	2,708,271	6,565,112	6,900,621	7,511,899
Prior Period Adj for GASB 68	32,766	(524)	-	13,383	524	-	46,150	-	-
Prior Period Adj SpecAssessmnt	-	(1,402)	-	-	-	-	-	(1,402)	-
Adj Beginning Net Position	4,014,247	4,345,722	4,803,628	2,597,014	2,553,497	2,708,271	6,611,261	6,899,219	7,511,899
Net Position Increase (Decrease)	333,401	457,906	369,316	(44,041)	154,774	212,438	289,360	612,680	581,754
Percentage +/- Net Position	8%	11%	8%	(2%)	6%	8%	4%	9%	8%

The Statement of Net Position presents the assets and liabilities in order of relative liquidity. Liabilities with average maturities greater than one year are reported in two components – the amount due within one year and the amount due in more than one year. Long-term liabilities of the Municipality, consisting of compensated absences payable and water revenue bonds payable, have been reported in this manner on the Statement of Net Position. The difference between the Municipality's assets and liabilities is its net position.

The Municipality's net position reflect its investment in capital assets (e.g., land, buildings, improvements other than buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The Municipality uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The 2.1% increase in net position invested in capital assets net of related debt relates to the depreciation of \$98,806 being less than the Municipality's purchases in 2017 and the reduction of revenue bond debt.

The City purchased the following capital items in 2017:

FUND	ITEM	DEPTS	COST
BUILDING			
General	Pool Bathhouse	Pool	364,720
TOTAL BUILDINGS			364,720
EQUIPMENT			
General	International Truck F2554	Streets	7,075
General	Baseball Sound System	Parks	10,560
TOTAL EQUIPMENT			17,635
IMPROVEMENTS OTHER THAN BLDGS			
General	Pool Sidewalk/Deck	Pool	60,188
General	Batting Cages - Little League Field	Parks	10,735
General	Radius	ST/Sewer	385
Water	Water Main Dakota (Lightner/Center)	Water	19,839
TOTAL IOTB			91,147
CONSTRUCTION IN PROGRESS			
General	Street/Water/Sewer Project Engr	Streets	45,625
Water	Street/Water/Sewer Project Engr	Water	44,517
Sewer	Street/Water/Sewer Project Engr	Sewer	44,517
TOTAL CIP			134,659
TOTAL 2017 CAPITAL ASSET ADDTS			608,161

The Municipality's restricted net position represent resources that are subject to external restrictions on how they may be used. These restrictions are normally set by state statute, federal regulations or debt covenants. There was an increase in restricted net position due to more income than spending in the Storm Sewer, Street Assessment and Sales Tax Funds; more water surcharge receipts than the total bond payment.

The remaining balance of net position is unrestricted and may be used to meet the Municipality's ongoing obligations to citizens and creditors. The overall unrestricted net position increased 16.6% in 2017.

At the end of the current year, the Municipality is able to report positive balances in all three categories of net position, for the government as a whole as well as the business-type activities and Governmental activities. 2017 reflects an increase of 17.5% in the Governmental Unrestricted Net Position category.

The Municipality as a whole reports an increase in Net Position of \$581,772 (7.7%).

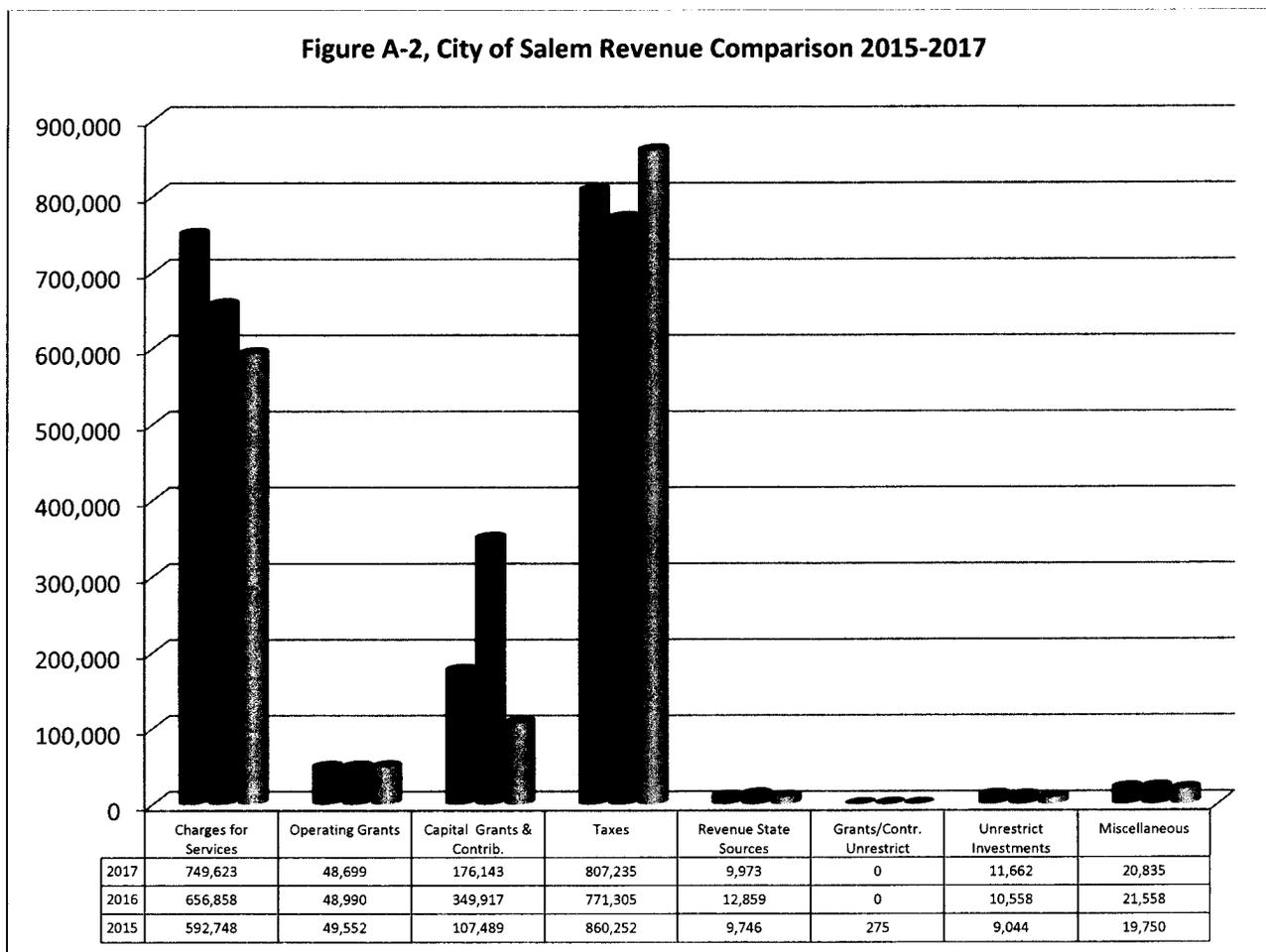
- The Current & Other Assets (cash & receivables) increased \$497,375 (17.4%).
- Net Pension Asset shows a balance of \$882 up from a zero balance in 2016.
- The 2017 Capital purchases listed above, less depreciation, resulted in an \$790 increase in Capital Assets.
- Total Assets increased \$499,047 (5.3%).

- The LT Debt decreased \$134,541 (7.3%) - due to payments of on the SRF Revenue Bonds, reduction in accrued leave and pension liability.
- The Other liabilities increased \$50,171 (75.1%) this is a fluctuation in Claims Payable, Accrued Leave, and Taxes Payable.
- Total Liabilities for the Municipality decreased \$84,370 (4.4%).

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

TABLE A-2
MUNICIPALITY OF SALEM
Changes in Net Position 12/31/2017

	Governmental Activities			Business-Type Activities			Total		
	2015	2016	2017	2015	2016	2017	2015	2016	2017
Revenues									
Charges for Services	99,717	102,567	107,870	493,031	554,291	641,752	592,748	656,858	749,623
Operating Grants	49,552	48,990	48,699				49,552	48,990	48,699
Capital Grants & Contrib.	107,489	349,917	176,143				107,489	349,917	176,143
Taxes	860,252	771,305	807,235				860,252	771,305	807,235
Revenue State Sources	9,746	12,859	9,973				9,746	12,859	9,973
Grants/Contrib Unrestrict	275	-	-				275	-	-
Unrestricted Invest	6,308	7,421	7,732	2,736	3,137	3,931	9,044	10,558	11,662
Miscellaneous	12,024	14,060	13,121	7,726	7,498	7,714	19,750	21,558	20,835
Total Revenues	1,145,363	1,307,119	1,170,773	503,493	564,926	653,397	1,648,856	1,872,045	1,824,170
Expenses									
General Government	180,478	198,800	185,819				180,478	198,800	185,819
Public Safety	92,177	121,833	97,329				92,177	121,833	97,329
Public Works	323,863	299,328	278,596				323,863	299,328	278,596
Health & Welfare	8,979	6,869	2,045				8,979	6,869	2,045
Culture & Recreation	193,035	199,740	209,496				193,035	199,740	209,496
Conservation/Development	13,430	22,643	28,172				13,430	22,643	28,172
Water Services				412,674	307,449	343,948	412,674	307,449	343,948
Sewer Services				134,860	102,703	97,011	134,860	102,703	97,011
Total Expenses	811,962	849,213	801,457	547,534	410,152	440,959	1,359,496	1,259,365	1,242,416
Net Change in Net Position	333,401	457,906	369,316	(44,041)	154,774	212,438	289,360	612,680	581,754
Adj to Net Position - Beginning	32,766	(1,926)	-	13,383	524	-	46,149	(1,402)	-
Ending Net Position	4,347,648	4,803,628	5,172,944	2,552,973	2,708,271	2,920,709	6,900,621	7,511,899	8,093,653



The Municipality's 2017 revenues totaled \$1,824,170 a 2.6% decrease of \$47,875 from FY2016, and a 10.6% increase of \$175,314 from 2015; a decline over the increase of 13.5% - \$223,189 from 2015 to 2016.

- **Charges for Goods and Services** increased 14.1% from 2016; 26.5% from 2015; and 2015 to 2016 – 10.8%.

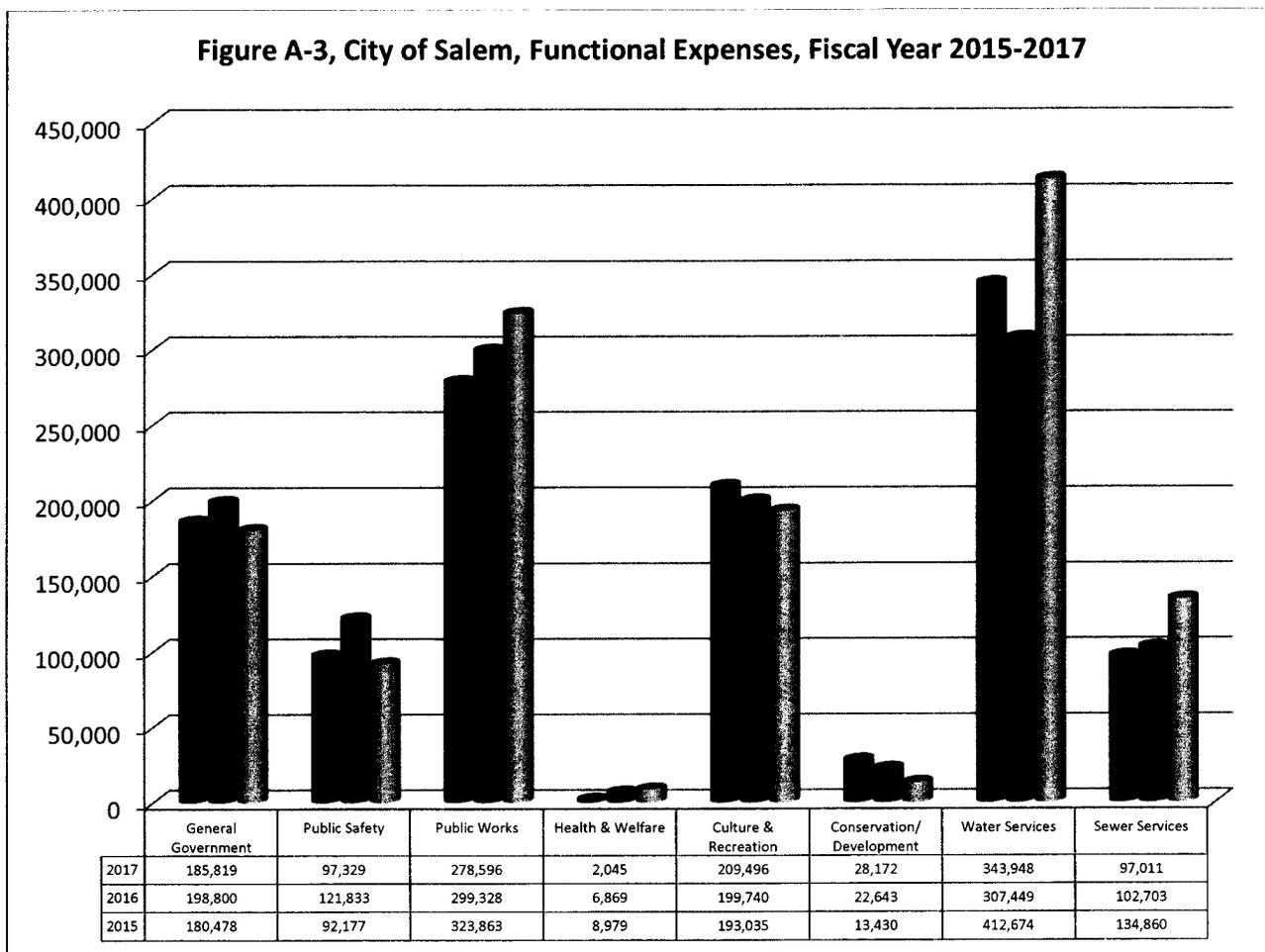
Business Type Activities: The 2017 user fees in the Business-Type activities increased 15.8% from 2016 and 30.2% from 2015; and 12.4% from 2015 to 2016 – \$87,461; \$148,721 & \$61,260; respectively. The user rates increased all three years.

General Fund Activities: 2017 reflects a 5.2% increase over 2016; 8.2% over 2015; and 2.9% from 2015 to 2016 - \$5,303; \$8,153 & \$2,850; respectively. Licenses, street sweeping, sanitation operating agreements and recreation charges all increased in 2017; sale of junk and rentals show a decrease.

- **Operating Grants** decreased 0.6% from 2016; decreased 1.7% from 2015; and a decrease of 1.1% from 2015 to 2016. Decrease in between 2015 and 2016 is directly related to the compensation for equipment breakdown loss in January 2015 which would also figure into the 2017 vs. 2015 decline.
- **Capital Grants & Contributions** 2017 revenues show a decline of 50% from 2016 and an increase of 63.9% from 2015. 2016 vs. 2015 increased 227.5%. The reason for the fluctuation is

contributions between the years and collection of nuisance assessments. In 2016, donations to the pool & playground renovations were at their highest; and 2017 shows a higher than usual nuisance collections.

- **Taxes** increased 4.7% (\$3,590) from 2016; decreased 6.1% (\$53,017) from 2015; and decreased 10.3% (\$88,947) from 2015 to 2016. **Property Taxes** decreased 5.8% from 2016 and increased 4.5% from 2015; where 2015 to 2016 reflects a 10.9% increase - \$19,681, \$13,752 and \$33,433 respectively. **Sales Tax** increased 12.9% (\$55,611) compared to 2016; and 12.1% (\$66,769) compared to 2015. 2016 sales tax declined 22.1% (\$122,380) compared to 2015 – the sales tax audits in 2016 subtracted \$9,808 from the City’s revenues; 2015 audits brought in an additional \$17,791.50. The state doesn’t disclose what year(s) or businesses are audited.
- **Revenue from State Sources** is derived from Liquor Tax Reversion and Bank Franchise collections. 2017 revenues reflect a 22.4% (\$2,886) decline from 2016 and a 2.3% (\$228) increase from 2015. 2016 revenues show a 31.9% increase from 2015.
- **Investment earnings** increased 10.5% from 2016 (\$1,104) and 29% (\$2,618) from 2015. Investments in 2016 reflect a 16.7 % (\$1,514) increase in revenue from 2015. These figures directly reflect the low interest rates and cash on hand during the year.
- **Miscellaneous revenues** consist of cable franchise, dividends and recovery of prior year expenses in the governmental funds and Verizon’s water tower lease and dividends in the Business funds. The dollars in this category typically increase and decrease slightly due to the difference in the sale of surplus property. 2017 shows a 3.4% decrease (\$723) from 2016; and an increase of 5.5% (\$1,085) from 2015; 2016 revenue increased 9.2% (\$1,808) from 2015.



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

The Municipality's expenses show a decrease of 1.3% from 2016 and 8.6% from 2015; and a 7.4% decrease in 2016 from 2015 – (\$16,949); (\$117,080) & (\$100,131) respectively.

- General Government Expenditures** decreased 6.5% (\$12,981) from 2016 and increased 3% (\$5,341) from 2015; 2016 vs. 2015 increased 10.2% (\$18,322). Insurance increased all three years, an audit was paid for in 2016 and the allocation of wages to the Finance Department increased in 2015, 2016 and 2017. The Assistant Finance Officer became a full-time position in October 2016.
- Public Safety** decreased \$24,504 (20.1%) from 2016 due to improvements to the fire hall in 2016; increased \$5,152 (5.6%) from 2015 reflecting an increase in the law enforcement agreement in 2016. 2016 increased 32.2% (\$29,656).
- Public Works** expenses consist of Street Administration, Maintenance [overlays, sealing (chip, crack & fog), gravel], Street Lighting and Snow Removal; Storm Sewer maintenance. The 2017 expenses decreased \$20,732 (6.9%) from 2016 and \$45,267 (14%) from 2015. The 2016 expenses decreased \$24,535 (7.6%) from 2015. The expenses directly reflect the decrease or increase in dollars spent on street repairs between the years; street overlay spending 2017 - \$41,989; 2016 - \$50,964; 2015 - 54,594; street sealing 2017 - \$33,229, 2016 - \$33,571, 2015 - 43,175. 2016 expenses reflect repairs to the West Shop in the amount of \$32,500. Snow

removal varied slightly between the years.

- **Health & Welfare** consists of the Mosquito Control program. All fluctuation is based on chemicals purchased from year to year. Expenses decreased \$4,824 from 2016 and \$6,934 from 2015. The 2016 expenses decreased \$2,110 from 2015.
- **Culture & Recreation** expenses are derived from the Summer Recreation Programs, Pool, Parks & Armory. Expenses increased \$9,756 (4.7%) from 2016 and \$16,461 (8.5%) from 2015. The 2016 expenses increased \$6,705 (3.5%) from 2015. Some of the fluctuations are from the following:
 - Summer Recreation costs increased \$121.40 in 2017 and \$3,091.24 from 2015. Costs in 2016 increased \$2,970 from 2015. A softball coach was added to the costs and league and tournament fee increases.
 - Swimming Pool expenses in 2017 increased \$5,572.30 from 2016 and \$17,790.67 from 2015. 2016 costs increased \$12,228 from 2015. The large increase is due to wages (added a 5th guard to the daily rotation) increases, pump repairs and chemical costs.
 - Park expenses declined \$650 from 2016 and \$6,280 from 2015; and 2016 declined \$5,733. The fluctuation in costs is mainly due to fewer wages paid out of the park department; and specific projects from one year to another (tree removal, bleacher repairs, etc).
 - Auditorium costs in 2017 increased \$2,130 from 2016 and decreased \$8,485 from 2015; and 2016 costs decreased \$10,617 from 2015. The Maintenance and repairs were higher in 2015 due to the door replacement (\$16T – 2015) and repairs to the HAVC system (\$11,425 in 2015). Generally cost fluctuations in the armory are due to number of rentals and repairs throughout a given year.
- **Conservation & Development:** The 2017 Planning and Zoning and Promoting the Municipality reflects a \$5,529 (24.4%) increase from 2016 and \$14,742 (109.8%) increase from 2015; and 2016 increased \$9,213 (68.6%) increase from 2015. The increases are due to the hiring of a code enforcement officer and actively pursuing the need to cleanup dilapidated buildings and junk vehicles.
- **Water Fund** 2017 expenditures increased \$36,499 (11.9%) from 2016 and decreased \$68,726 (16.7%) from 2015; 2016 expenditures decreased \$105,225 (25.5%) from 2015. The increase from 2016 is relative to the replacement of NANO filters (\$9,350) and \$8,600 in pumps and valves in the WTP and increase in water breaks in 2017. 2015 show higher costs due to the replacement of UF & NANO filters; \$76,778 expensed in 2015.
- **Sewer Fund** 2017 expenditures decreased \$5,692 (5.5%) from 2016 and \$37,849 (28.1%) from 2015. 2016 expenditures decreased \$32,157 (23.8%) from 2015. The decreases are relative to the cleaning & televising the entire sewer system. The cleaning and televising is considered maintenance reflecting \$48,622 in maintenance costs in 2015. Sewer lagoon repairs in 2016 and 2017 reflect the difference.

SOURCE OF REVENUE (Table A-2, Figure A-2, A-4, A-5 and A-6)

Eighty-five percent (85%) of the Municipality’s revenue is from taxes and charges for goods and services; with 41 cents of every dollar raised coming from charges for services (primarily water and sewer operations) and 44 cents of every dollar raised coming from some type of tax. (See Figure A-4). Another 10% is from Capital Grants & Contributions (Pool Fund Raising) and 3% is from state and federal grants for operating purposes and the remaining revenue is from state-shared revenues, miscellaneous revenue and interest earnings. This varied from 2016 & 2015 due to the large contributions for the Pool Renovation in 2016.

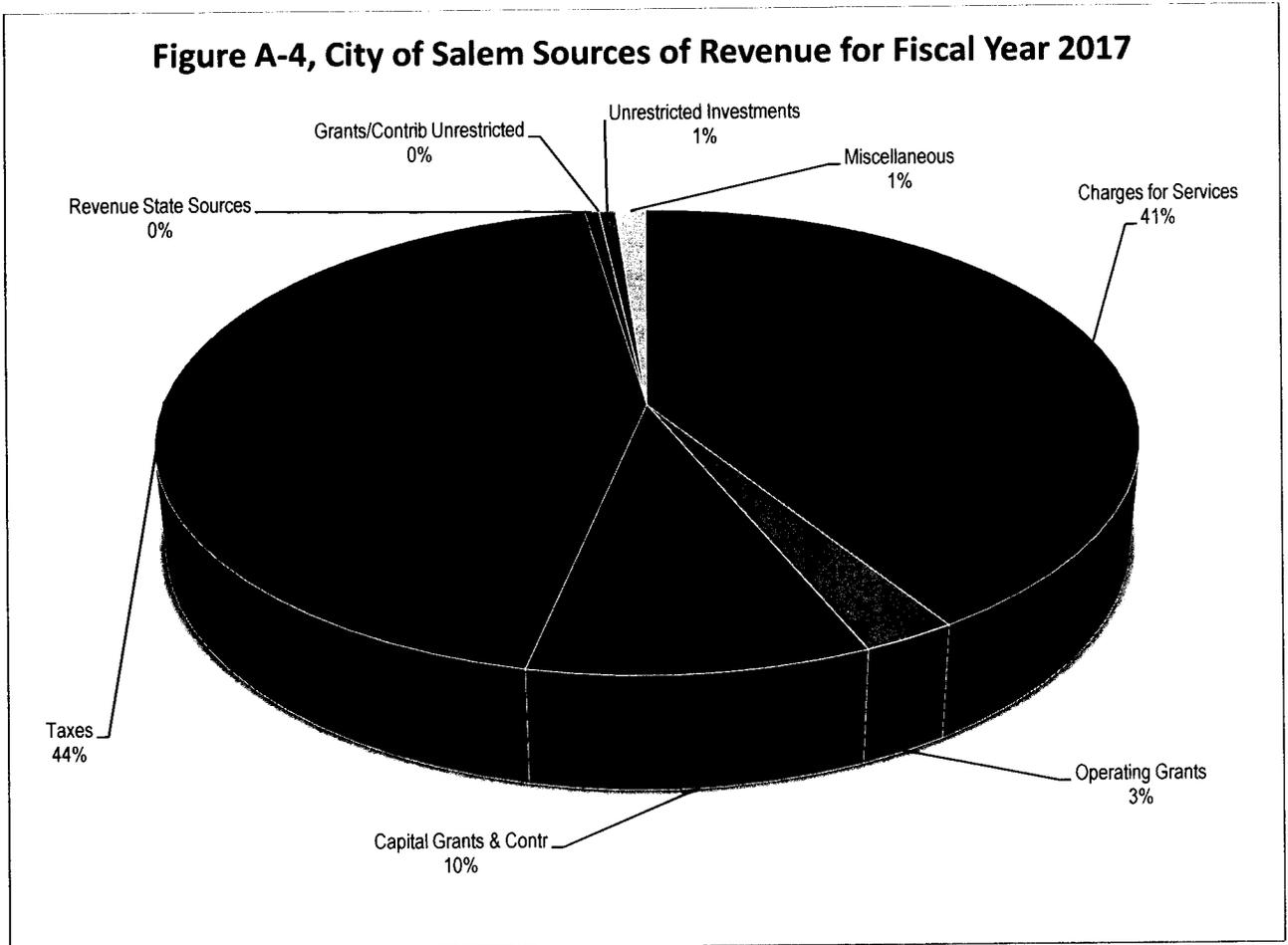


Figure A-5, City of Salem Sources of Revenue for Fiscal Year 2016

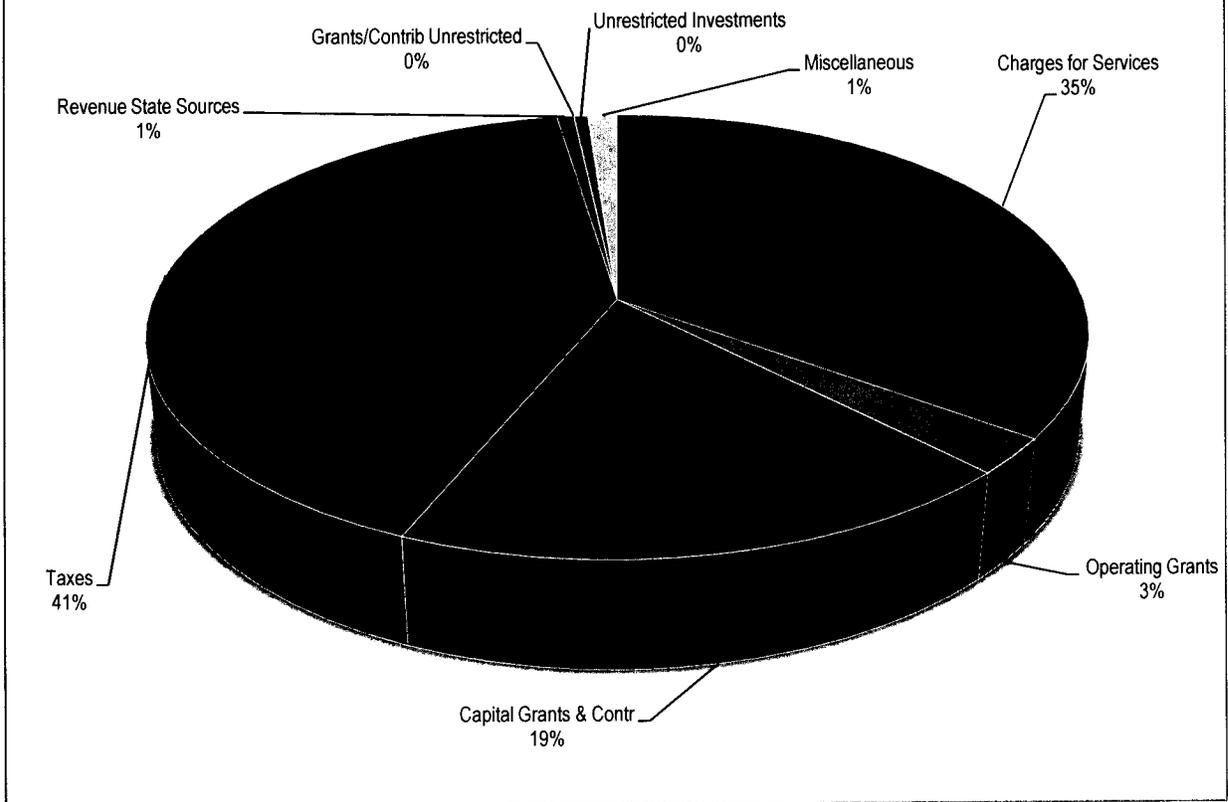
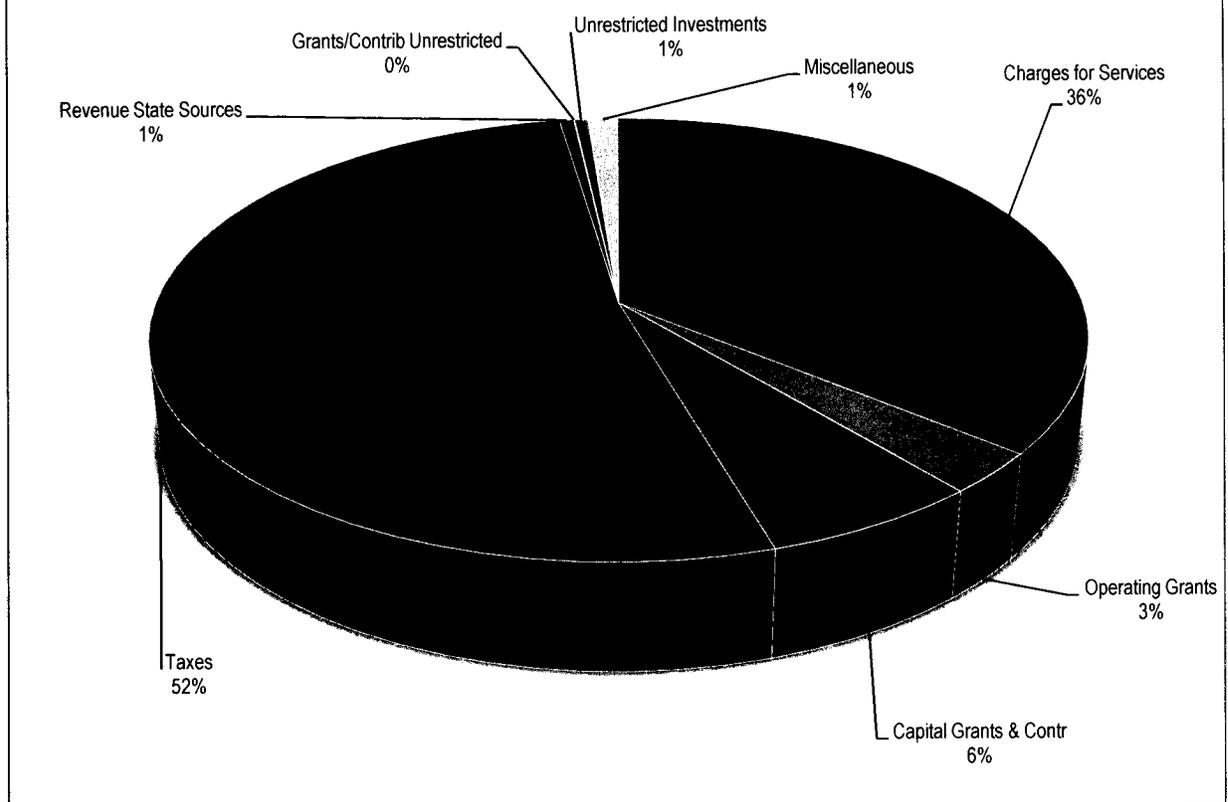


Figure A-6, City of Salem Sources of Revenue for Fiscal Year 2015



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

The Municipality’s expenses cover a range of services 50.10% related to public works services [road maintenance – sealing (crack, chip & fog) – street sweeping – snow plowing; water & sewer system services]. Culture and Recreation (Summer Recreation, Pool, Parks and Armory) make up 16.9%; General Government (Publications, Council, Attorney, Insurance, Finance Office & Municipality Hall) accounted for 15%; Public Safety (Police, Civil Defense, and Fire Department) accounted for 7.8%; and the remaining are Miscellaneous 0%, Conservation & Development 2.3% and Health & Welfare .2 of the 2017 expenditures. The expenditures service percentages are different due to the filters and chemical purchases decreased from 2015; cleaning and televising of the sewer mains in 2015; and the increase in spending in the property cleanup under Conservation and Development.

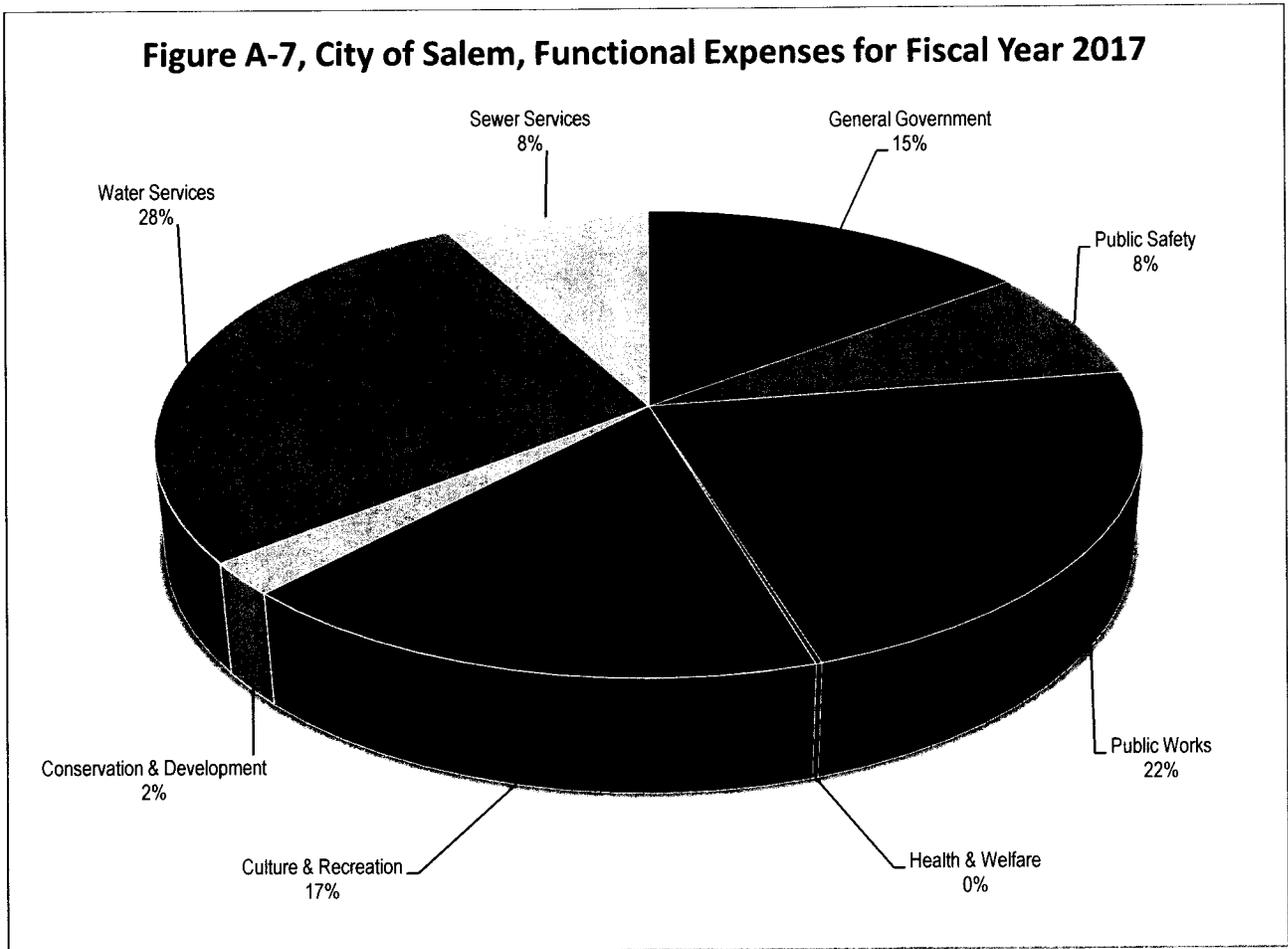


Figure A-8, City of Salem, Functional Expenses for Fiscal Year 2016

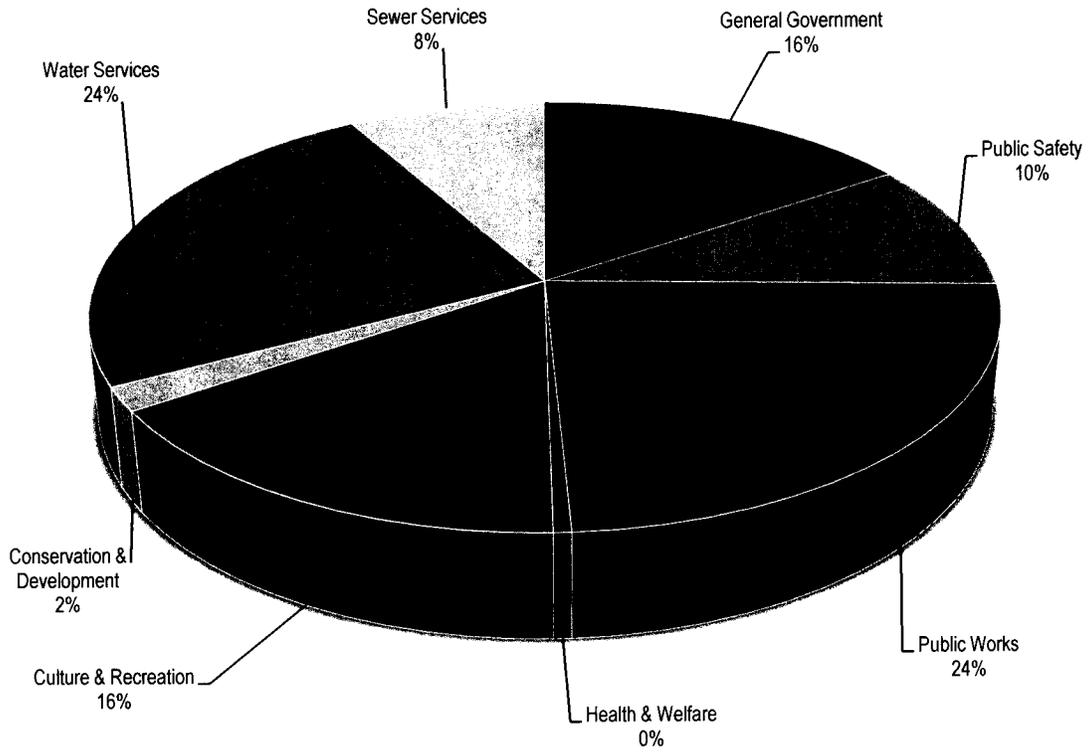
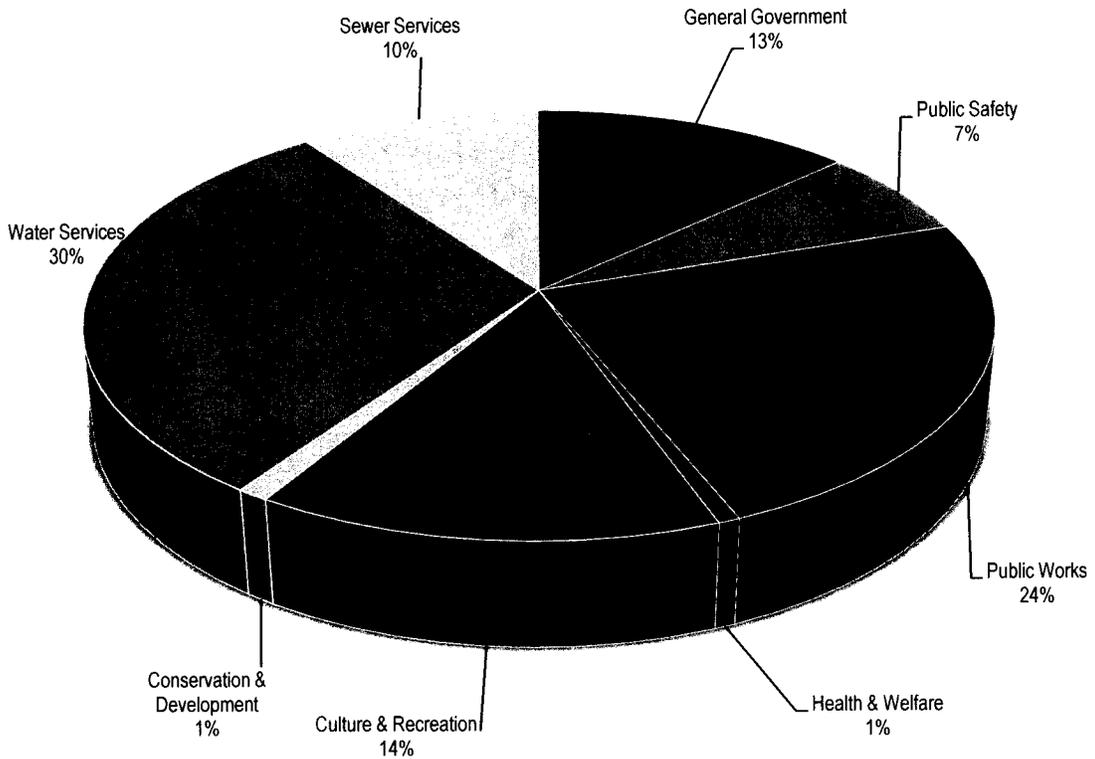


Figure A-9, City of Salem, Functional Expenses for Fiscal Year 2015



Governmental Activities

Table A-2 and Figure A-3 & A-4 and the narrative that follows consider the operations of the governmental activities.

The Municipality's Governmental activity revenues decreased in 2017 by \$136,346 (10.4%) and increased by \$25,410 (2.2%) from 2015; and 2016 increased by \$161,756 (14.1%) from 2015. The expenses decreased \$47,756 (5.6%) from 2016 and \$10,505 (1.3%) from 2015 and increased \$37,251 (4.6%) in 2016 compared to 2015. The main contributing factor for the decrease in 2017 & 2016 is the fluctuation of the Contributions for the Pool Renovation Project, below are other details on the revenue fluctuations.

- o Property taxes can be raised by CIP and growth annually the following chart depicts the increases over the past several years and show the CPI for tax year 2018.

PROPERTY TAX GROWTH & CPI

BASE AMOUNT	PROPERTY TAX		
	GROWTH	CPI	TOTAL
2011 68,507.00	1.30% 3,490.59	2.10% 5,638.65	3.40% 277,636
2012 277,621.00	1.40% 3,886.69	3.00% 8,328.63	4.40% 289,836
2013 289,823.36	1.20% 3,477.88	2.10% 6,086.29	3.30% 299,388
2014 299,385.00	0.80% 2,395.08	1.40% 4,191.39	2.20% 305,971
2015 305,982.00	1.10% 3,365.80	1.50% 4,589.73	2.60% 313,938
2016 313,952.22	1.40% 4,395.33	0.00% -	1.40% 318,348
2017 318,347.55	0.80% 2,546.78	1.00% 3,183.48	1.80% 324,078
2018 324,077.81	? -	2.10% 6,805.63	2.10% 330,883

- o Sales Tax analysis is misconstrued due to the audits from 2015 and 2016. The 2015 sales tax audits increased sales tax by \$17,791 and in 2016 decreased by \$9,808. The audits do not state what year(s) the tax belongs; therefore, is hard to analyze when such large numbers come into play. The following chart shows the sales tax fluctuation between years with these two figures removed from the analysis –

CITY OF SALEM SALES TAX COMPARISON

YEAR	2014	2015	2016	2017
2% BASE	22,613,968	24,459,474	23,625,425	23,227,471
CHANGE	576,416	1,845,506	(834,049)	(397,954)
% CHANGE	2.62%	8.16%	-3.41%	-1.68%
1% BASE	2,101,033	2,105,121	2,268,114	2,422,041
CHANGE	246,687	4,088	162,993	153,927
% CHANGE	13.30%	0.19%	7.74%	6.79%

Business-type Activities

Operating revenues of the Municipality's business-type activities increased 15.7% (2017 vs 2016); 29.8% (2017 vs. 2015); and 12.2% (2016 vs 2015). The expenses increased 7.5% (2017 vs. 2016); decreased 19.5% (2017 vs. 2015); and decreased 25.1% (2016 vs 2015). The following are the rate increases and other factors affecting the revenues:

- The Water Rates were adjusted all three years for the Filter Replacement, Equipment Repair and Replacement reserve accounts and operating expenses. It has been an on-going struggle to accommodate the ever fluctuating operating expenses in the Water Treatment Plant. The sewer rates are being adjusted for funding requirements for a projected need to fix sewer mains.
 - **2017:** the water flat fee increased to \$23.00 a 21% increase and sewer to \$30.00 a 30.4% increase. The Charges for Services water revenues increased \$37,578 (10.1%) from 2016 and \$86,285 (26.6%) from 2015. The water produced decreased by 621,766 (1.7%) from 2016 and 941,879 (2.6%) from 2016. The water loss ratio for 2017 was 9.36% which is within the acceptable limits. The sewer revenues increased \$50,413 (27.8%) from 2016 and \$62,437 (36.9%) from 2015. All the revenue increases are from the rate increases.
 - **2016:** the water flat fee increased to \$19.00 a 28.4% increase and sewer to \$23.00 a .045% increase. The Charges for Services water revenues increased \$48,707 (15%) from 2015 and \$48,083 (14.8%) from 2014. The water produced declined .87% from 2015 and 3.4% from 2014. The water loss ratio for 2016 was 11.35% which is within the acceptable limits. The sewer revenues increased \$12,024 (7%) from 2015 and \$17,622 (10.8%) from 2014 strictly due to the rate increases.
 - **2015:** the water flat fee increased to \$14.80 a 2% increase and sewer to \$22.00 a 4.8% increase. The Charges for Services water revenues decreased \$623 (.19%) from 2014 and increased \$5,256 (1.6%) from 2013. The water produced declined from 2014 by 3.4% - 1,307,308 gallons and 5.5% 2,157,709 gallons from 2013 due to less water used. The water loss ratio for 2015 was 8.98% well within the acceptable limits. The sewer revenues increased \$5,598 (3.4%) from 2014 & \$5,741 (3.5%) from 2013 due to the rate increase.
- The increase in expenditures between 2016 and 2017 are reflective of the replacement of NANO filters and pumps in the Water Treatment Plant, increase in water main breaks and replacement of Lagoons controls and pumps; the decrease of expenditures in the water and sewer departments when comparing 2017 and 2016 vs. 2015 are directly related to replacement of filters in the water treatment plant and the cleaning and televising of sewer mains in 2015. The UF and NANO filters were replaced at the beginning of 2015 driving the use of chemicals and filters down. The increase in the overall expenditures is due to the purchase of the filters. The sewer main cleaning & televising project was finished in 2015. The details on these expenditures are listed on page 9 and 10.

FINANCIAL ANALYSIS OF THE MUNICIPALITY'S FUNDS

The financial analysis of the Municipality's funds mirror those highlighted in the analysis of governmental and business-type activities presented above. The Municipality maintains four governmental funds - General, Sales Tax, Street Assessment, and Storm Sewer Funds and only two business type funds – Water and Sewer Funds. All six funds increased their Net Position in 2017.

General Fund Budgetary Highlights

Over the course of the FY2017, FY2016, & FY2015, the Municipality Council revised the Municipality's budget. These amendments fall into these categories:

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

FY2017: The three budget changes during the year were for the Pool and Park Improvements; City Bldgs Professional Services; Street & Utility Improvement Design; Park Equipment, and publications.

FY2016: The four budget changes during the year were for the Pool and Park improvements (new playground equipment and new bathhouse); City Hall and Park Supplies; Street Sweeper purchase.

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

CAPITAL ASSET ADMINISTRATION

By the end of 2017, the Municipality had invested in a broad range of capital assets, including, land, buildings, infrastructure, and various machinery and equipment - totaling \$6,488,792; FY2016, reflects a 6,488,002 investment; FY2015, reflects a \$6,166,867 investment; which includes additions, deductions and depreciation (See Table A-3.)

FY2017 capital assets increased \$790 for FY2016; FY2016 capital assets increased \$321,175 from 2015; FY2015 shows a net decrease of \$117,311 over FY2014.

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

	Governmental Activities			Business-Type Activities		
	2015	2016	2017	2015	2016	2017
Land	60,591	60,591	60,591	41,866	41,866	41,866
Buildings	314,686	302,625	647,989	1,116,800	1,090,828	1,064,856
Improvements Other Than Buildings	1,757,135	1,713,324	1,701,143	1,626,871	1,573,129	1,538,830
Machinery & Equipment	297,569	445,921	427,430	925,668	898,188	867,679
Construction In Progress	25,642	359,030	46,875	-	2,500	91,533
Total Capital Assets (Net)	2,455,622	2,881,490	2,884,028	3,711,205	3,606,512	3,604,764

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

Governmental additions:

- **2017**
 - Buildings. Addition of the Pool Bathhouse
 - Improvements Other than Bldgs. Additions were Pool sidewalk and deck, little league batting cages, 1 new radius.
 - Equipment. Addition of a International Truck F2554 and sound system at the baseball field.
 - CIP addition to the Street & Utility Improvement Project.
- **2016**
 - Equipment: Addition of (6) 8' Picnic Tables for shelter at baseball field, new playground equipment; skid steer angle broom, 2010 Elgin Street Sweeper and 84 chairs for the armory. Equipment sold: 1993 Street Sweeper.
 - Improvements Other than BLDG additions of radius & alley approach and playground improvements (sidewalk and drainage).
 - CIP – Pool bathhouse, little league field batting cages and engineering for a Street & Utility Improvement Project.
- **2015**
 - Buildings: Addition of a Restroom/Concession Stand facility at the baseball field park.
 - Improvements Other than BLDG additions of sidewalk, finishing batting cages and green area at the baseball field; culvert at softball field; 2 new radiuses & 1 alley approach.
 - Equipment: Grasshopper mower for parks and 10 Alulite tables for the armory.
 - CIP Pool Bathhouse Project.

Business-type additions are:

- **2017**
 - Improvements Other than Bldg: Installation of water main on Dakota between Center and Lightner Ave.
 - CIP Street & Utility Improvement Project.
- **2016**
 - Equipment addition of Meters & MXU units.
 - CIP engineering for a Street & Utility Improvement Project.
- **2015**
 - Improvements Other than BLDGS: Three hydrants replaced and water & sewer lines at the baseball park.
 - Equipment: (1) 2" & (1) 3" meters and (4) MXU.

The Municipality's fiscal year 2018 Budget for capital projects include the following:

General Fund: replacement of sidewalk and entryway cement at the Armory; additional sidewalk at the pool; portable pressure washer. Capital Outlay for city equipment, loader and ULV sprayer; Capital Replacement Reserves – Street Projects, new fire hall, little league playground, armory renovations. The Street & Utility Improvement project will begin construction in 2018. In 2016, the City was awarded a \$450,000 Community Access Grant for the aforementioned project. See details in the next paragraph on the project scope and funding package.

Water & Sewer Funds: The review of the sewer cleaning & televising project revealed areas of concern. The first, by priority, is the sewer main on Vermont from Dakota to Pierce; Dakota from Essex to Norton;

and Norton from Dakota to Idaho. The project scope was decided on in 2016 and the following were added to the project Main Street from Norton to Drake; Essex from Main to Minnesota; streets only – Washington from Hwy 81 to Idaho; Adams from Washington to Essex; Hill from Drake to Old RR line; and storm sewer from Main to Dakota (east and north through alley Norton to Dakota); Dakota to Vermont; and Vermont to Hill. The project will replace approximately 5,000 LF of Vitrified Clay Pipe with eight” Polyvinyl Chloride, approximately 2,300 FL of sanitary sewer service piping and 14 sewer manholes; replace 1,240’ and add 1,620’ of storm sewer and add 1 Substandard water distribution will be addressed with the replacement of over 1,400 LF of Cast Iron Pipe with eight-inch PVD; 1,600 LF of CIP with six-inch PVC; and 1,400 LF of one-inch service line. All utility work will take place concurrently and in conjunction with a street replacement project. The project was placed on the State Water Plan and SRF funding was applied for in 2016. The funding package approved in March of 2017 is as follows:

Community Access Grant -	\$ 400,000.00
Consolidated Grant -	\$ 500,000.00
CW SRF Loan -	\$2,256,000.00
DW SRF Loan -	\$ 302,000.00
City Funds -	\$ 155,000.00

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

In 2017, \$7,000 was contributed back to the Sales Tax Fund by the Salem Summer Youth Boosters for the Baseball Field Concession Stand built in 2015. General Fund building purchases totaled \$364,720 (bathhouse); equipment purchases totaled \$17,635 (International truck and sound system); \$39,264 in Improvements OT Bldg; \$60,188 pool sidewalk/deck; \$10,735 little league batting cages; \$385 on a radius and \$19,839 on new water main (Dakota between Center & Lightner). Construction in Progress \$134,659 for the design of the Street & Utility Improvement Project.

In 2016, \$7,500 was contributed back to the Sales Tax fund by the Salem Summer Youth Boosters and Salem Baseball supports for the Baseball Field Concession Stand built in 2015. General Fund equipment purchases totaled \$184,411 (Playground equipment, skid steer angle brook, 2010 Street Sweeper, (6) picnic tables, (84) armory chairs); Park Improvements - \$33,975 (sidewalk, playground curb/sidewalk); and \$3,064 in Radiuses. Construction in Progress consists of the pool bathhouse project \$329,005; Little League Filed batting cages \$3,133; and Street & Utility Improvement Project \$1,250. The water department spent \$3,058 on meters and MXU’s.

In 2015, the improvements at the ball field were completed using Contributions and \$44,562 in Sales Tax reserves (new building). By the end of 2015, \$20,000 was contributed back to the Sales Tax fund by the Salem Summer Youth Boosters and Salem Baseball supporters. General fund equipment purchases totaled \$16,352; new baseball field building - \$49,562; Park improvements totaling \$16,263 – sidewalk, batting cage, green area, and storm sewer improvements at baseball & softball field; and \$1,607 in radiuses & an alley approach. Construction in Progress consists of the pool bathhouse project - \$26,642. The water and sewer spent \$2,280 in new meters and MXU’s and \$8,762 adding water and sewer lines at the baseball field and replacing three fire hydrants.

The Municipality had \$822,710.64 in the General Fund Capital Replacement Reserve Account at the end of 2017 – specifically for Park Fencing; Summer Rec Complex Improvements; New Fire Hall; Softball Field Complex Playground Equipment; Sidewalk Projects; Baseball Field Improvements; and Street projects. The 2018 Budget placed an additional \$201,000 into the Capital Reserve Account – specifically for Street Project, Fire Hall, SB Playground, Armory Kitchen/Bathroom renovations and Trail Improvements.

LONG-TERM DEBT

At year-end, the Municipality had \$1,685,233 in SRF Loans (Revenue Bonds), and \$15,921 in other long-term obligations. This is a decrease of 5.6% from 2016; 2016 vs. 2015 shows a 4.9% decline as shown on Table A-4 below.

TABLE A-4
CITY OF SALEM - OUTSTANDING DEBT & OBLIGATIONS

	Governmental Activities			Business-Type Activities		
	2015	2016	2017	2015	2016	2017
Compensated Absences	12,913	13,941	10,579	5,403	5,805	5,342
Drinking Water SRF Loan 2005	-	-	-	214,541	198,891	182,725
Drinking Water SRF Loan 2008	-	-	-	1,153,041	1,119,758	1,085,379
Clean Water SRF Loan 2003	-	-	-	271,265	244,282	216,343
Clean Water SRF Loan 2005	-	-	-	239,228	220,318	200,785
Total Outstanding Debt Obligations	12,913	13,941	10,579	1,883,478	1,789,054	1,690,575

The Municipality is liable for the accrued vacation leave payable to all full-time and permanent part-time employees who have been employed for more than one year. The up and down between the Governmental Activities and Business Type activities is due to the varying time worked in the funds from year to year and the amount of hours carried over annually (in 2016 the vacation hour policy changed to allow employees to use their vacation hours after 90 days of employment and allow 200 hours of carry over).

The Municipality's obligation for compensated absences decreased \$3,825 from 2016 and \$2,395 from 2015; 2016 increased \$1,430 from 2015.

The Municipality has outstanding \$1,268,105 in Drinking Water SRF Loans and \$417,128 in Clean Water SRF Loans (Revenue Bonds). The bonds are secured and paid for from the Water and Sewer Funds. The Municipality does not anticipate the use of any tax dollars to pay for these bonds. The SRF loan balances decreased \$91,742 in 2015; \$94,826 in 2016 and \$98,016 in 2017 from debt payments.

- The 2003 bonds were used for the 2003 Street and Utility Project (This project extended water and sewer service on S. Main Street and on Brown Ave; and started the Storm Sewer System in Southeast Salem.) The 2003 DWSRF Loan was fully paid off on January 9, 2012, two and one half years earlier than the scheduled date of July 15, 2014 and the 2003 CWSRF will be fully paid off on July 15, 2024.
- The 2005 bonds were used for the 2005 Street and Utility Project (This project replaced Water main on Nebraska and Essex Streets; extended storm sewer on George Ave and replaced storm sewer on Essex Ave.) The 2005 CW SRF Loan closed in 2006 and the DWSRF Loan closed in 2007. Both are 20 year loans – the CWSRF will be paid off in July 2026, and the DWSRF will be paid off in April 2027.
- The 2008 DWSRF Loan closed in 2009, this is a 30 year loan and will be paid off in 4/15/2039. The loan is specifically for the Water Filtration (Treatment) project, and a Water Surcharge was established to pay off the debt on this bond. Each household pays \$9.90 per month or 118.80 annually to retire the debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Municipality's current economic position has continued to increase annually over the past several years. The Municipality experienced growth of .8% in 2017; 1.4% in 2016; 1.1% in 2015; .8% in 2014; 1.2% in 2013; 1.4% in 2012; 1.3% in 2011 and 1% in 2010. The growth factor gives the Municipality the ability to increase the amount of revenue generated from property taxes, the increases were \$2,547 in 2018; \$4,395 in 2017; \$3,366 in 2016; \$2,395 in 2015; \$3,478 in 2014; and \$3,887 in 2013. Under the state mandated property tax freeze, property taxes from one year to the next may increase 3% or an amount based on the Consumer Price Index (CPI) whichever is lower plus the growth factor. The following are tax levy request for the past several years:

- 2017 property tax levy request payable in 2018 increased 1.8% (Growth .8%; CPI 1%) - \$5,730.26 up \$1,334.93 from 2016.
- 2016 property tax levy request payable in 2017 increased 1.4% (Growth 1.4%; CPI 0%) - \$4,395.33 down \$3,570 from 2015.
- 2015 property tax levy request payable in 2016 increased 2.6% (Growth 1.1%; CPI 1.5%) - \$7,967 up \$1381 from 2014.
- 2014 property tax levy request payable in 2015 increased 2.2% (Growth .8%; CPI 1.4%) - \$6,586.47 down from 2013 - \$2,977.71.
- 2013 property tax levy request payable in 2014 increased 3.3% (Growth 1.2%; CPI 2.1%) - \$9,564.18 down from 2012.
- 2012 property tax levy request payable in 2013 which increased 4.4% (Growth 1.4%; CPI 3%) - \$12,215.00 up from 2011.
- 2011 property tax levy request payable in 2012 which increased 3.4% (Growth 1.3%; CPI 2.1%) or \$9,129.00 up from 2010.

2017 Building Permits Values:

Businesses – Total \$268,500; New: \$125,000; Additions/Remodel: \$143,500.

Residential – Total \$845,315; New: \$583,000; Additions/Remodels \$93,998; Accessory Bldgs Fences - \$39,090.

Total Citywide - \$1,113,815

Property tax revenue accounted for 17.43% of the annual General Fund Revenues in 2017.

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

- 2017 vs. 2016 taxable sales base decreased 4.775% (\$1,151,579);
- 2016 vs. 2015 taxable sales base increased 2.31% (\$545,935);
- 2015 vs. 2014 taxable sales base increased 8.161% (\$1,845,506);
- 2014 vs. 2013 taxable sales base increased 1.946% (\$431,616);
- 2013 vs. 2012 taxable sales base decreased 6.117% (\$1,445,390.50);
- 2012 vs. 2011 taxable sales base increased 4.415% (\$999,150).

The Municipality passed an Ordinance in 2007 implementing an additional 1% tax on gross receipts from the sale of leases or rentals of hotel, motel, campsites or other lodging accommodations; the sale of alcoholic beverages as defined in SDCL 35-1-1; establishments where the public is invited to eat, dine or purchase and carry out prepared food for immediate consumption; and ticket sales or admissions to places of amusement, athletic and cultural events within the municipality. The tax was not payable until

January 2008 and was estimated to generate \$11,000.00 in revenue; this revenue can only be used for the purpose of land acquisition, architectural fees, construction costs, payment for civic center, auditoriums or athletic facility buildings, including the maintenance, staffing and operations of such facilities, and the promotion and advertising of the municipality, its facilities, attractions and activities.

The actual dollars raised by the 1% gross receipts are as follows:

- 2017 tax revenues were \$24,220.41 an increase of 6.787% from 2016
- 2016 tax revenues were \$22,781.14 an increase of 7.7% from 2015
- 2015 tax revenues were \$21,054.21 an increase of .19% from 2014
- 2014 tax revenues were \$21,010.33 an increase of 13.3% from 2013
- 2013 tax revenues were \$18,543.46 a decline of 9.72% from 2012
- 2012 tax revenues were \$20,538.96 a decline of 13.75% from 2011

The Municipality's 2018 budget does have an appropriation for Economic Development – a contract with SEPF through McCook County. The revenues are in a "Special Revenue Fund" as designated by SDCL 10-45.

The Municipality passed Resolution #2017-010 for the Street Assessment fee increasing the rate to \$1.10 cents per front foot a .30 cent increase - \$25,667. This revenue source is restricted to the maintenance of the city's streets. The Street Department expended \$75,218 on street sealing (Crack & Chip), over lays and general repairs of the dollars spent \$41,989 came out of the Street Assessment Fund.

The Municipality's adopted 2018 General Fund budget decreased 12.58% to \$1,114,380 from the 2017 Supplemented Budget. The 2018 Budget places \$278,000 into the Capital Outlay & Capital Replacement Reserves; provides for cement replacement at the armory and pool and portable pressure washer. The operating budget increased 5% (42,510) to provide for a bi-annual audit; establishing a revised Capital Improvement Plan, and to accommodate a raise for the Municipality's employees (4% full-time & 2% part-time); wages are not set until January.

The Municipality's business-type activities (water and sewer operations) expect that the revenues for the 2018 financials will increase as a consequence of the addition of two surcharges for the SRF loans: \$2.00 water surcharge and \$17.75 sewer surcharge. The water flat rate was not reduced and the sewer flat fee was reduced to \$22.25 which reflects a \$2.00 increase to the water rate and a \$10.00 increase to the sewer rate. The flat fee in the Water Department was not decreased as we are still accommodating high operating costs and expensive repairs to the Water Treatment Plant and water main replacement. The Sewer rate was adjusted to the recommended rate by DENR. The Street & Utility Improvement Project will be bid early 2018 with anticipated construction between April and October 2018.

The 2018 Water Operating Budget decreased 2.5% (\$5,350) from 2018. Operating costs for water main breaks were increased and chemicals in the water treatment plant were decreased. The 2018 Sewer Operating Budget decreased 32.8% due to repairs to the lagoon budgeted for in 2017.

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

environment.

The Council hired Infrastructure Design Group to design the Pool Bathhouse Renovation project. As a part of their contract they conducted a survey on the pool and park renovation. 574 hard copies of the survey were sent out and we received a 46% response or 264. The results of the survey changed the scope of Phase II of the pool project. The survey results revealed the public was not interested in a splash park but an aquatic facility to include various aspects of a standard pool facility along with spray features, zero depth entries, slides, and/or a whole host of available features to suit the community's needs. Phase I is the replacement of the Bathhouse and as the design was being completed the addition of the playground replacement was included. The Pool Bath house and Playground Improvement Project was bid in 2016 and work started in August 2016. The Playground portion is complete and bathhouse will be finished the spring of 2017. The projected costs and funding are as follows:

Pool Bathhouse: The final cost of the new 45' x 26' bathhouse, deck, sidewalks and landscaping is \$422,946.77 – this includes engineering fees, construction and removal of the old bathhouse. The City's portion of the funding is \$183,752.28 the remaining \$239,194.49 came from fund raising and donations.

Playground Renovation: The cost was \$121,495 which includes sidewalk access to playground with concrete play curb and access ramp; drain tile and 6" storm sewer running to existing storm sewer on Main street; play area layered with soil, rock & fabric for drainage with engineered wood fiber on top; playground equipment will consist of or be comparable to a play structure with (2) slides and an upper and lower deck; 3 bay swing set; 2 bay tire swing set; free standing play elements – Fly Wheel Spinner; (3) Saddle Spinners; We-Saw; Double Bobble Spring Rider. The project was funded with a \$40,000 LWCF Grant, a \$4,764.85 donation and \$76,430.15 in city reserves.

The Council hired DGR Engineering as their City Engineers in 2016. Work began on the Street, Water & Sewer Project. The project was implemented after review of the Sewer Cleaning/Televising Project. The project area is Vermont from Dakota to Pierce; Dakota from Essex to Norton; Norton from Dakota to Idaho; Main from Norton to Drake; Essex from Main to Minnesota; (streets only) Adams from Washington to Essex; Washington from Idaho to Hwy 81; Hill from Drake to old RR line. The project will replace approximately 5,000 LF of Vitrified Clay Pipe with eight" Polyvinyl Chloride, approximately 2,300 FL of sanitary sewer service piping and 14 sewer manholes. Replace 1,240' and add 1,620' of storm sewer pipe. Replace Substandard water distribution will be addressed with the replacement of over 1,400 LF of Cast Iron Pipe with eight-inch PVD; 1,600 LF of CIP with six-inch PVC; and 1,400 LF of one-inch service line. All utility work will take place concurrently and in conjunction with a street replacement project. The project is scheduled to begin in April 2018 with substantial completion in October 2018. The funding package for this project is detailed on page 20.

The Water Flat Fee was not increased in 2018 and City provides a \$3.00 reduction to those living alone on social security with no other retirement income. Those residents qualifying are required to file an affidavit claiming they meet the qualifications for the reduced rate with Municipality Hall. The 2018 rates are a water flat fee of \$23.00, .0045 cents per gallon used, plus a \$9.90 and \$2.00 Water Surcharge fee (the \$2.00 Surcharge is new in 2018). The Sewer Rates are the Residential flat fee of \$22.25, and 40% of the Water Usage Fee but not less than \$22.25 for commercial users; a new Sewer Surcharge of \$17.75. The water flat rate was not increased, but a \$2.00 surcharge was added for the 2018 project. The Sewer Flat Rate decreased \$7.75; a new \$17.75 surcharge for debt retirement was added resulting in a \$10.00 increase in the sewer rates.

At the end of 2017, the Water Fund Equipment Repair & Replacement Fund had a balance of \$217,917.44, an increase of 44.74%. 2017 reserves allowed for the transfer of \$92,920 into the WTP Filter, Meter/WTP Repair & Main Replacement reserves. This fund is necessary for the replacement of water main, meters and the Nano & Ultra Filters at their scheduled life expectancies; and to repair the WTP. The 2018 budget is projected to allocate \$42,000 to the filter reserve, \$30,000 to the water main reserve and \$23,500 to a Meter/WTP Reserve all designated in the Equipment Repair/Replacement Fund.

The Sewer Department rates were increased a total of \$10.00 in 2018. The flat fee was decreased to \$22.25 and a debt retirement surcharge of \$17.75 was added increasing sewer charges to \$40.00. All rates are reviewed annually. The water & sewer customers saw a \$12.00 increase on their monthly bill; or \$144 annually.

CONTACTING THE MUNICIPALITY'S FINANCIAL MANAGEMENT

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	2,189,080.92	1,038,536.33	3,227,617.25	17,156.85
Accounts Receivable, Net	52,886.80	635.57	53,522.37	1,876.68
Due from Component Unit	34,113.00		34,113.00	(34,113.00)
Inventories	1,152.90	33,879.52	35,032.42	
Other Assets			0.00	
Net Pension Asset	617.34	264.57	881.91	
Capital Assets:				
Land and Construction Work in Progress	107,466.19	133,399.52	240,865.71	56,293.45
Other Capital Assets, Net of Depreciation	2,776,562.26	3,471,364.12	6,247,926.38	806,885.84
TOTAL ASSETS	5,161,879.41	4,678,079.63	9,839,959.04	848,099.82
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows	62,196.11	26,655.48	88,851.59	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	62,196.11	26,655.48	88,851.59	0.00
LIABILITIES :				
Accounts Payable	26,075.71	54,813.64	80,889.35	2,429.21
Other Current Liabilities	2,535.15	33,518.94	36,054.09	10,450.00
Noncurrent Liabilities:				
Due Within One Year	9,202.11	106,401.09	115,603.20	37,979.63
Due in More than One Year	1,376.86	1,584,173.90	1,585,550.76	1,016,471.07
TOTAL LIABILITIES	39,189.83	1,778,907.57	1,818,097.40	1,067,329.91
DEFERRED INFLOWS OF RESOURCES:				
Pension Related Deferred Inflows	11,942.10	5,118.04	17,060.14	
TOTAL DEFERRED INFLOWS OF RESOURCES	11,942.10	5,118.04	17,060.14	0.00
NET POSITION:				
Net Investment in Capital Assets	2,884,028.45	1,919,530.86	4,803,559.31	(289,005.35)
Restricted for:				
Street Maintenance Purposes	83,675.76		83,675.76	
City Promotion Purposes	101,091.84		101,091.84	
Storm/Sewer Maint/Improv Purposes	273,929.15		273,929.15	
Debt Service Purposes		211,609.03	211,609.03	
SDRS Pension Purposes	50,871.35	21,802.01	72,673.36	
Unrestricted (Deficit)	1,779,347.04	767,767.60	2,547,114.64	69,775.26
TOTAL NET POSITION	5,172,943.59	2,920,709.50	8,093,653.09	(219,230.09)

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, 2017**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Total
					Governmental Activities	Business-Type Activities		
Primary Government:								
Governmental Activities:								
General Government	188,488.54	19,408.43			(169,080.11)	(169,080.11)		
Public Safety	97,329.02	75.00			(97,254.02)	(97,254.02)		
Public Works	278,595.62	34,864.59	46,766.14	119,686.29	(77,278.60)	(77,278.60)		
Health and Welfare	2,044.87	1,933.00			(111.87)	(111.87)		
Culture and Recreation	209,496.38	23,798.41		56,456.61	(129,241.36)	(129,241.36)		
Conservation and Development	28,172.22				(28,172.22)	(28,172.22)		
Miscellaneous		29,723.86			29,723.86	29,723.86		
Total Governmental Activities	804,126.65	107,870.29	48,699.14	176,142.90	(471,414.32)	(471,414.32)		
Business-type Activities:								
Water	343,948.03	410,252.41			66,304.38	66,304.38		
Sewer	97,011.14	231,500.00			134,488.86	134,488.86		
Total Business-type Activities	440,959.17	641,752.41	0.00	0.00	200,793.24	200,793.24		
Total Primary Government	1,245,085.82	749,622.70	48,699.14	176,142.90	(471,414.32)	(270,621.08)		
Component Units:								
Housing and Redevelopment Commission	119,513.78	118,718.78					(795.00)	
General Revenues:								
Taxes:								
Property Taxes					320,424.90	320,424.90		
Sales Taxes					486,809.91	486,809.91		
State Shared Revenues					9,973.27	9,973.27		
Unrestricted Investment Earnings					7,731.64	11,662.20		
Miscellaneous Revenue					15,790.61	23,504.77		
Total General Revenues					840,730.33	852,375.05	0.00	
Change in Net Position					369,316.01	581,753.97	(795.00)	
Net Position - Beginning					4,803,627.58	7,511,899.12	(166,119.31)	
Adjustments:								
Balancing entry for Housing and Redevelopment Commission					2,708,271.54	7,511,899.12	0.00	
Adjusted Net Position-Beginning					4,803,627.58	7,511,899.12	(218,435.09)	
NET POSITION - ENDING					5,172,943.59	8,093,653.09	(219,230.09)	

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

MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2017

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Cash and Cash Equivalents	1,730,662.38				1,730,662.38
Taxes Receivable--Delinquent	15,175.92	100,565.70	83,928.69	273,924.15	2,189,080.92
Accounts Receivable, Net	2,337.72		3,571.00		18,746.92
Special Assessments Receivable--Current	1,865.38			5.00	2,342.72
Special Assessments Receivable--Delinquent	4,589.68				1,865.38
Due from State & County Governments	24,300.05	526.14	515.91		4,589.68
Due from Component Unit	34,113.00				25,342.10
Inventory of Supplies	1,152.90				34,113.00
TOTAL ASSETS	1,814,197.03	101,091.84	88,015.60	273,929.15	2,277,233.62

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

Liabilities:					
Claims Payable	25,306.87		768.84		26,075.71
Due to State Government	546.09				546.09
Accrued Wages Payable	1,744.66				1,744.66
Accrued Taxes Payable	244.40				244.40
Total Liabilities	27,842.02	0.00	768.84	0.00	28,610.86

Deferred Inflows of Resources:

Unavailable Revenue - Property Taxes	15,175.92				15,175.92
Unavailable Revenue - Special Assessments	6,455.06				6,455.06
Unavailable Revenue - Street Assessments			3,571.00		3,571.00
Total Deferred Inflows of Resources	21,630.98	0.00	3,571.00	0.00	25,201.98

Fund Balances:

Nonspendable - Inventory	1,152.90				1,152.90
Restricted for City Promotion		101,091.84			101,091.84
Restricted for Street Maintenance Purposes			83,675.76		83,675.76
Restricted for Storm Sewer Maintenance & Improvements				273,929.15	273,929.15
Committed for Capital Improvements	822,710.64				822,710.64
Assigned for Next Year's Budget	250,000.00				250,000.00
Assigned for Equipment Repair and/or Replacement	46,370.00				46,370.00
Assigned for Loader	35,000.00				35,000.00
Assigned for ULV Sprayer	4,000.00				4,000.00
Unassigned	605,490.49				605,490.49
Total Fund Balances	1,764,724.03	101,091.84	83,675.76	273,929.15	2,223,420.78

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

	1,814,197.03	101,091.84	88,015.60	273,929.15	2,277,233.62
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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, 2017

Total Fund Balances - Governmental Funds	<u>2,223,420.78</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset reported in governmental activities is not an available financial resource and therefore is not reported in the funds.	<u>617.34</u>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>2,884,028.45</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>62,196.11</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payables in the current period and therefore are not reported in the funds.	<u>(10,578.97)</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>25,201.98</u>
Pension related deferred inflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>(11,942.10)</u>
Net Position - Governmental Activities	<u><u>5,172,943.59</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, 2017

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes	318,827.83				318,827.83
General Sales and Use Taxes	463,045.39	23,764.52			486,809.91
Gross Receipts Business Taxes	2,120.94				2,120.94
Amusement Taxes	36.00				36.00
Penalties and Interest on Delinquent Taxes	1,318.63				1,318.63
Licenses and Permits	10,170.00				10,170.00
Intergovernmental Revenue:					
State Grants	1,933.00				1,933.00
State Shared Revenue:					
Bank Franchise Tax	1,221.50				1,221.50
Prorate License Fees	3,485.44				3,485.44
Liquor Tax Reversion	8,751.77				8,751.77
Motor Vehicle Licenses	19,859.51				19,859.51
Local Government Highway and Bridge Fund	14,811.88				14,811.88
County Shared Revenue:					
County Road Tax	2,674.43				2,674.43
County Wheel Tax	5,934.88				5,934.88
Charges for Goods and Services:					
General Government	900.00				900.00
Highways and Streets	2,400.00				2,400.00
Sanitation	32,464.59				32,464.59
Culture and Recreation	23,798.41				23,798.41
Fines and Forfeits:					
Other	75.00				75.00

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, 2017

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues (Cont.):					
Miscellaneous Revenue:					
Investment Earnings	5,985.37	339.15	372.05	1,035.07	7,731.64
Rentals	7,527.00				7,527.00
Special Assessments	14,316.91		67,794.41	37,927.50	14,316.91
Maintenance Assessments					105,721.91
Contributions and Donations from Private Sources	50,268.04	7,000.00			57,268.04
Liquor Operating Agreement Income	29,723.86				29,723.86
Other	13,121.22				13,121.22
Total Revenue	1,034,771.60	31,103.67	68,166.46	38,962.57	1,173,004.30
Expenditures:					
General Government:					
Legislative	5,367.38				5,367.38
Executive	16,267.03				16,267.03
Financial Administration	146,789.79				146,789.79
Other	29,470.83				29,470.83
Total General Government	197,895.03	0.00	0.00	0.00	197,895.03
Public Safety:					
Police	87,880.00				87,880.00
Fire	2,662.80				2,662.80
Other Protection	326.38				326.38
Total Public Safety	90,869.18	0.00	0.00	0.00	90,869.18
Public Works:					
Highways and Streets	134,503.87		41,989.11	6,911.84	183,404.82
Sanitation	8,037.56				8,037.56
Total Public Works	142,541.43	0.00	41,989.11	6,911.84	191,442.38
Health and Welfare:					
Health	2,044.87				2,044.87
Total Health and Welfare	2,044.87	0.00	0.00	0.00	2,044.87

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, 2017

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Expenditures (Cont.):					
Culture and Recreation:					
Recreation	82,094.04				82,094.04
Parks	42,433.47				42,433.47
Libraries	500.00				500.00
Auditorium	45,632.87				45,632.87
Total Culture and Recreation	170,660.38	0.00	0.00	0.00	170,660.38
Conservation and Development:					
Economic Development and Assistance	22,784.22	5,388.00			28,172.22
Total Conservation and Development	22,784.22	5,388.00	0.00	0.00	28,172.22
Capital Outlay	140,014.69	0.00	0.00	1,493.50	141,508.19
Total Expenditures	766,809.80	5,388.00	41,989.11	8,405.34	822,592.25
Excess of Revenue Over (Under) Expenditures	267,961.80	25,715.67	26,177.35	30,557.23	350,412.05
Other Financing Sources (Uses):					
Compensation for Loss or Damage to Capital Assets	2,669.39				2,669.39
Total Other Financing Sources (Uses)	2,669.39	0.00	0.00	0.00	2,669.39
Net Change in Fund Balances	270,631.19	25,715.67	26,177.35	30,557.23	353,081.44
Changes in Nonspendable	(9,777.65)	0.00	0.00	0.00	(9,777.65)
Fund Balance - Beginning	1,503,870.49	75,376.17	57,498.41	243,371.92	1,880,116.99
FUND BALANCE - ENDING	1,764,724.03	101,091.84	83,675.76	273,929.15	2,223,420.78

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

MUNICIPALITY OF SALEM
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2017

Net Change in Fund Balances - Total Governmental Funds	<u>353,081.44</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>141,508.19</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>(138,969.95)</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>(1,878.50)</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments and street assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>(352.53)</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>3,361.84</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g. pension expense)	<u>172.37</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 increase/(decrease) in inventory of supplies.	<u>(9,777.65)</u>
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>22,170.80</u>
Change in Net Position of Governmental Activities	<u><u>369,316.01</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, 2017

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	501,465.93	537,070.40	1,038,536.33
Accounts Receivable, Net	580.95	54.62	635.57
Inventory of Supplies	33,879.52		33,879.52
Total Current Assets	535,926.40	537,125.02	1,073,051.42
Noncurrent Assets:			
Net Pension Asset	176.38	88.19	264.57
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	1,651,795.43	1,045,497.38	2,697,292.81
Machinery and Equipment	1,158,087.35	32,665.78	1,190,753.13
Construction Work in Progress	45,766.67	45,766.66	91,533.33
Less: Accumulated Depreciation	(1,208,681.45)	(506,605.11)	(1,715,286.56)
Total Noncurrent Assets	2,947,959.07	657,069.14	3,605,028.21
TOTAL ASSETS	3,483,885.47	1,194,194.16	4,678,079.63
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	17,770.31	8,885.17	26,655.48
TOTAL DEFERRED OUTFLOWS OF RESOURCES	17,770.31	8,885.17	26,655.48
LIABILITIES:			
Current Liabilities:			
Claims Payable	42,237.20	12,576.44	54,813.64
Accrued Wages Payable	1,324.26	342.21	1,666.47
Accrued Taxes Payable	180.76	46.71	227.47
Customer Deposits	31,625.00		31,625.00
Bonds Payable Current:			
Revenue	52,206.48	49,105.38	101,311.86
Compensated Absences Payable -- Current	3,986.61	1,102.62	5,089.23
Total Current Liabilities	131,560.31	63,173.36	194,733.67
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,215,898.25	368,022.67	1,583,920.92
Accrued Leave Payable	202.38	50.60	252.98
Total Noncurrent Liabilities	1,216,100.63	368,073.27	1,584,173.90
TOTAL LIABILITIES	1,347,660.94	431,246.63	1,778,907.57
DEFERRED INFLOWS OF RESOURCES:			
Pension Related Deferred Inflows	3,412.03	1,706.01	5,118.04
TOTAL DEFERRED INFLOWS OF RESOURCES	3,412.03	1,706.01	5,118.04
NET POSITION:			
Net Investment in Capital Assets	1,679,677.96	239,852.90	1,919,530.86
Restricted For:			
Revenue Bond Debt Service	191,555.78	20,053.25	211,609.03
SDRS Pension Purposes	14,534.66	7,267.35	21,802.01
Unrestricted Net Position	264,814.41	502,953.19	767,767.60
TOTAL NET POSITION	2,150,582.81	770,126.69	2,920,709.50

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, 2017

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	330,527.71	231,500.00	562,027.71
Revenue Dedicated to Servicing Debt	79,724.70		79,724.70
Total Operating Revenue	410,252.41	231,500.00	641,752.41
Operating Expenses:			
Personal Services	55,779.53	21,948.77	77,728.30
Other Current Expense	159,503.54	35,753.65	195,257.19
Depreciation	86,420.74	24,199.01	110,619.75
Total Operating Expenses	301,703.81	81,901.43	383,605.24
Operating Income (Loss)	108,548.60	149,598.57	258,147.17
Nonoperating Revenue (Expense):			
Investment Earnings	1,920.32	2,010.24	3,930.56
Rental Revenue	6,900.00		6,900.00
Interest Expense	(42,244.22)	(15,109.71)	(57,353.93)
Other	198.68	615.48	814.16
Total Nonoperating Revenue (Expense)	(33,225.22)	(12,483.99)	(45,709.21)
Change in Net Position	75,323.38	137,114.58	212,437.96
Net Position - Beginning	2,075,259.43	633,012.11	2,708,271.54
NET POSITION - ENDING	2,150,582.81	770,126.69	2,920,709.50

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, 2017

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	410,830.15	231,217.34	642,047.49
Cash Payments to Employees for Services	(61,510.89)	(25,016.71)	(86,527.60)
Cash Payments to Suppliers of Goods and Services	(130,402.23)	(24,274.18)	(154,676.41)
Net Cash Provided (Used) by Operating Activities	<u>218,917.03</u>	<u>181,926.45</u>	<u>400,843.48</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Other	7,098.68	615.48	7,714.16
Net Cash Provided (Used) by Noncapital Financing Activities	<u>7,098.68</u>	<u>615.48</u>	<u>7,714.16</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(64,355.21)	(44,516.66)	(108,871.87)
Principal Paid on Capital Debt	(50,543.70)	(47,472.01)	(98,015.71)
Interest Paid on Capital Debt	(42,244.22)	(15,109.71)	(57,353.93)
Net Cash (Used) by Capital and Related Financing Activities	<u>(157,143.13)</u>	<u>(107,098.38)</u>	<u>(264,241.51)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	1,920.32	2,010.24	3,930.56
Net Cash Provided by Investing Activities	<u>1,920.32</u>	<u>2,010.24</u>	<u>3,930.56</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>70,792.90</u>	<u>77,453.79</u>	<u>148,246.69</u>
Balances - Beginning	430,673.03	459,616.61	890,289.64
Balances - Ending	<u>501,465.93</u>	<u>537,070.40</u>	<u>1,038,536.33</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	108,548.60	149,598.57	258,147.17
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	86,420.74	24,199.01	110,619.75
(Increase) decrease in Receivables	(662.26)	(282.66)	(944.92)
(Increase) decrease in Inventories	(6,310.32)		(6,310.32)
(Increase) decrease in Net Pension Asset	(176.38)	(88.19)	(264.57)
(Increase) decrease in Pension Related Deferred Outflows	(3,079.52)	(1,539.78)	(4,619.30)
(Decrease) increase in Accounts and Other Payables	35,411.63	11,479.47	46,891.10
(Decrease) increase in Accrued Wages Payable	1,046.19	193.35	1,239.54
(Decrease) increase in Accrued Leave Payable	(393.79)	(69.39)	(463.18)
(Decrease) increase in Net Pension Liability	(6,539.89)	(3,269.94)	(9,809.83)
(Decrease) increase in Pension Related Deferred Inflows	3,412.03	1,706.01	5,118.04
(Decrease) increase in Customer Deposits	1,240.00		1,240.00
Net Cash Provided (Used) by Operating Activities	<u>218,917.03</u>	<u>181,926.45</u>	<u>400,843.48</u>

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

MUNICIPALITY OF SALEM
STATEMENT OF NET POSITION
December 31, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	1,837,173.18	890,289.64	2,727,462.82	20,422.97
Accounts Receivable, Net	56,439.75	(309.35)	56,130.40	(50.00)
Due from Component Unit	30,817.00		30,817.00	(30,817.00)
Inventories	10,930.55	27,569.20	38,499.75	
Capital Assets:				
Land and Construction Work in Progress	419,620.91	41,866.19	461,487.10	56,293.45
Other Capital Assets, Net of Depreciation	2,461,869.30	3,564,645.33	6,026,514.63	872,892.36
TOTAL ASSETS	4,816,850.69	4,524,061.01	9,340,911.70	918,741.78
DEFERRED OUTFLOWS OF RESOURCES:				
Pension Related Deferred Outflows	51,417.79	22,036.18	73,453.97	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	51,417.79	22,036.18	73,453.97	0.00
LIABILITIES :				
Accounts Payable	25,422.55	7,922.54	33,345.09	
Other Current Liabilities	2,387.93	31,039.40	33,427.33	7,930.85
Noncurrent Liabilities:				
Due Within One Year	12,481.74	102,970.07	115,451.81	37,979.63
Due in More than One Year	1,459.07	1,686,083.81	1,687,542.88	1,038,950.61
Net Pension Liability	22,889.61	9,809.83	32,699.44	
TOTAL LIABILITIES	64,640.90	1,837,825.65	1,902,466.55	1,084,861.09
NET POSITION:				
Net Investment in Capital Assets	2,881,490.21	1,823,263.03	4,704,753.24	(245,478.37)
Restricted for:				
Street Maintenance Purposes	60,204.46		60,204.46	
City Promotion Purposes	75,376.17		75,376.17	
Storm Sewer Maint/Improv Purposes	243,371.92		243,371.92	
Debt Service Purposes		202,318.08	202,318.08	
SDRS Pension Purposes	28,528.18	12,226.35	40,754.53	
Unrestricted (Deficit)	1,514,656.64	670,464.08	2,185,120.72	79,359.06
TOTAL NET POSITION	4,803,627.58	2,708,271.54	7,511,899.12	(166,119.31)

**MUNICIPALITY OF SALEM
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2016**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Component Units
	Expenses	Charges for Services	Operating		Governmental Activities	Business-Type Activities	Total	
			Grants and Contributions	Capital Contributions				
Primary Government:								
Governmental Activities:								
General Government	198,799.80	12,343.75			(186,456.05)		(186,456.05)	
Public Safety	121,833.01				(121,833.01)		(121,833.01)	
Public Works	299,327.53	32,279.88	47,116.61	84,488.23	(135,442.81)		(135,442.81)	
Health and Welfare	6,869.31		1,873.00		(4,996.31)		(4,996.31)	
Culture and Recreation	199,739.78	28,448.15		265,428.38	94,136.75		94,136.75	
Conservation and Development	22,642.86				(22,642.86)		(22,642.86)	
Miscellaneous		29,495.04			29,495.04		29,495.04	
Total Governmental Activities	849,212.29	102,566.82	48,989.61	349,916.61	(347,739.25)		(347,739.25)	
Business-type Activities:								
Water	307,449.01	373,054.65				65,605.64	65,605.64	
Sewer	102,702.83	181,236.64				78,533.81	78,533.81	
Total Business-type Activities	410,151.84	554,291.29	0.00	0.00	144,139.45		144,139.45	
Total Primary Government	1,259,364.13	656,858.11	48,989.61	349,916.61	(347,739.25)	144,139.45	(203,599.80)	
Component Units:								41,361.63
Housing and Redevelopment Commission	74,066.23	115,427.86						
General Revenues:								
Taxes:								
Property Taxes					340,106.15		340,106.15	
Sales Taxes					431,198.60		431,198.60	
State Shared Revenues					12,859.25		12,859.25	
Unrestricted Investment Earnings					7,420.68	3,137.42	10,558.10	
Miscellaneous Revenue					14,059.95	7,497.66	21,557.61	
Total General Revenues					805,644.63	10,635.08	816,279.71	0.00
Change in Net Position					457,905.38	154,774.53	612,679.91	41,361.63
Net Position - Beginning					4,347,648.46	2,552,973.25	6,900,621.71	(329,753.97)
Adjustments:								
A/R 2015 Revenue unpaid - 2016 Special Assessments					(1,402.50)		(1,402.50)	122,273.03
SDRS Pension Net Position Adjust Percentage					(523.76)	523.76	0.00	
Adjusted Net Position-Beginning					4,345,722.20	2,553,497.01	6,899,219.21	(207,480.94)
NET POSITION - ENDING					4,803,627.58	2,708,271.54	7,511,899.12	(166,119.31)

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

**MUNICIPALITY OF SALEM
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2016**

	General Fund	Liquor, Lodging and Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
ASSETS:					
Cash and Cash Equivalents	1,459,330.67	74,698.46	59,737.13	243,406.92	1,837,173.18
Taxes Receivable--Delinquent	17,054.42		2,706.05		19,760.47
Accounts Receivable, Net	2,394.26			(35.00)	2,359.26
Special Assessments Receivable--Current	3,842.58				3,842.58
Special Assessments Receivable--Delinquent	3,829.96				3,829.96
Due from State & County Governments	25,391.60	677.71	578.17		26,647.48
Due from Component Unit	30,817.00				30,817.00
Inventory of Supplies	10,930.55				10,930.55
TOTAL ASSETS	1,553,591.04	75,376.17	63,021.35	243,371.92	1,935,360.48

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

Liabilities:					
Claims Payable	22,605.66		2,816.89		25,422.55
Accrued Wages Payable	1,649.12				1,649.12
Accrued Taxes Payable	738.81				738.81
Total Liabilities	24,993.59	0.00	2,816.89	0.00	27,810.48
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	17,054.42				17,054.42
Unavailable Revenue - Special Assessments	7,672.54				7,672.54
Unavailable Revenue - Street Assessments	24,726.96	0.00	2,706.05	0.00	27,433.01
Total Deferred Inflows of Resources	49,453.92		2,706.05	0.00	52,160.97
Fund Balances:					
Nonspendable - Inventory	10,930.55				10,930.55
Restricted for City Promotion		75,376.17			75,376.17
Restricted for Street Maintenance Purposes			57,498.41		57,498.41
Restricted for Storm Sewer Maintenance & Improvements				243,371.92	243,371.92
Committed for Capital Improvements	641,710.15				641,710.15
Assigned for Next Year's Budget	250,000.00				250,000.00
Assigned for Capital Outlay	38,445.00				38,445.00
Unassigned	562,784.79				562,784.79
Total Fund Balances	1,503,870.49	75,376.17	57,498.41	243,371.92	1,880,116.99
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	1,553,591.04	75,376.17	63,021.35	243,371.92	1,935,360.48

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, 2016

Total Fund Balances - Governmental Funds	<u>1,880,116.99</u>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>2,881,490.21</u>
Pension related deferred outflows are components of pension liability (asset) and therefore are not reported in the funds.	<u>51,417.79</u>
Long-term liabilities, including bonds payable and accrued leave payable, are not due and payables in the current period and therefore are not reported in the funds.	<u>(13,940.81)</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>27,433.01</u>
Net pension liability reported in the governmental activities is not due and payable in the current period and therefore is not reported in the funds.	<u>(22,889.61)</u>
Net Position - Governmental Activities	<u><u>4,803,627.58</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, 2016

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues:					
Taxes:					
General Property Taxes	311,442.98				311,442.98
General Sales and Use Taxes	471,051.86	22,492.35			493,544.21
Gross Receipts Business Taxes	2,088.70				2,088.70
Amusement Taxes	36.00				36.00
Penalties and Interest on Delinquent Taxes	963.11				963.11
Licenses and Permits	10,600.00				10,600.00
Intergovernmental Revenue:					
Federal Grants	40,000.00				40,000.00
State Grants	1,873.00				1,873.00
State Shared Revenue:					
Bank Franchise Tax	1,914.75				1,914.75
Prorate License Fees	3,613.81				3,613.81
Liquor Tax Reversion	10,944.50				10,944.50
Motor Vehicle Licenses	18,947.81				18,947.81
Local Government Highway and Bridge Fund	15,967.57				15,967.57
County Shared Revenue:					
County Road Tax	2,674.43				2,674.43
County Wheel Tax	5,912.99				5,912.99
Charges for Goods and Services:					
General Government	1,743.75				1,743.75
Highways and Streets	1,800.00				1,800.00
Sanitation	30,404.88				30,404.88
Culture and Recreation	19,393.15				19,393.15
Fines and Forfeits:					
Other	75.00				75.00

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, 2016

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Revenues (Cont.):					
Miscellaneous Revenue:					
Investment Earnings	5,984.14	231.00	289.61	915.93	7,420.68
Rentals	9,055.00				9,055.00
Special Assessments	769.56				769.56
Maintenance Assessments			42,838.42	37,587.67	80,426.09
Contributions and Donations					
from Private Sources	217,928.38	7,500.00			225,428.38
Liquor Operating Agreement Income	29,495.04				29,495.04
Other	12,059.95				12,059.95
Total Revenue	1,226,740.36	30,223.35	43,128.03	38,503.60	1,338,595.34
Expenditures:					
General Government:					
Legislative	4,996.29				4,996.29
Executive	16,535.81				16,535.81
Financial Administration	150,157.83				150,157.83
Other	21,805.68				21,805.68
Total General Government	193,495.61	0.00	0.00	0.00	193,495.61
Public Safety:					
Police	87,880.00				87,880.00
Fire	27,166.58				27,166.58
Other Protection	326.59				326.59
Total Public Safety	115,373.17	0.00	0.00	0.00	115,373.17
Public Works:					
Highways and Streets	139,305.62		50,964.44	9,142.97	199,413.03
Sanitation	6,843.94				6,843.94
Total Public Works	146,149.56	0.00	50,964.44	9,142.97	206,256.97
Health and Welfare:					
Health	6,869.31				6,869.31
Total Health and Welfare	6,869.31	0.00	0.00	0.00	6,869.31

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, 2016

	General Fund	Liquor, Lodging, & Dining Fund	Street Assessment Fund	Storm Sewer Maintenance Fund	Total Governmental Funds
Expenditures (Cont.):					
Culture and Recreation:					
Recreation	76,410.34				76,410.34
Parks	43,083.13				43,083.13
Libraries	500.00				500.00
Auditorium	43,500.22				43,500.22
Total Culture and Recreation	163,493.69	0.00	0.00	0.00	163,493.69
Conservation and Development:					
Economic Development and Assistance	17,254.86	5,388.00			22,642.86
Total Conservation and Development	17,254.86	5,388.00	0.00	0.00	22,642.86
Capital Outlay	551,774.57	0.00	0.00	3,064.34	554,838.91
Total Expenditures	1,194,410.77	5,388.00	50,964.44	12,207.31	1,262,970.52
Excess of Revenue Over (Under) Expenditures	32,329.59	24,835.35	(7,836.41)	26,296.29	75,624.82
Other Financing Sources (Uses):					
Sale of Municipal Property	2,000.00				2,000.00
Total Other Financing Sources (Uses)	2,000.00	0.00	0.00	0.00	2,000.00
Net Change in Fund Balances	34,329.59	24,835.35	(7,836.41)	26,296.29	77,624.82
Changes in Nonspendable	(2,947.91)	0.00	0.00	0.00	(2,947.91)
Fund Balance - Beginning	1,473,891.31	50,540.82	65,334.82	217,075.63	1,806,842.58
Adjustments:					
Accts Rec (2015 Rev) Unpaid to Spec Assess	(1,402.50)				(1,402.50)
Adjusted Fund Balance - Beginning	1,472,488.81	50,540.82	65,334.82	217,075.63	1,805,440.08
FUND BALANCE - ENDING	1,503,870.49	75,376.17	57,498.41	243,371.92	1,880,116.99

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

MUNICIPALITY OF SALEM
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities
For the Year Ended December 31, 2016

Net Change in Fund Balances - Total Governmental Funds	<u>77,624.82</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>554,838.91</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>(128,970.61)</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>5,171.71</u>
The fund financial statement governmental fund sales and use tax accruals differ from the government-wide statement sales and use tax accruals in that the fund financial statements require the amounts to be "available".	<u>(41,941.96)</u>
Governmental funds report special assessments as revenue when "available", but the statement of activities includes the full amount of special assessments and street assessments as revenue upon completion of the project at the point when an enforceable legal claim arises.	<u>3,292.58</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>(1,027.39)</u>
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (e.g. pension expense)	<u>259.11</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 increase/(decrease) in inventory of supplies.	<u>(2,947.91)</u>
Changes in the pension related deferred outflows/inflows are direct components of pension liability (asset) and are not reflected in the governmental funds.	<u>(8,393.88)</u>
Change in Net Position of Governmental Activities	<u><u>457,905.38</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, 2016

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
ASSETS:			
Current Assets:			
Cash and Cash Equivalents	430,673.03	459,616.61	890,289.64
Accounts Receivable, Net	(81.31)	(228.04)	(309.35)
Inventory of Supplies	27,569.20		27,569.20
Total Current Assets	458,160.92	459,388.57	917,549.49
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	1,631,956.89	1,045,497.38	2,677,454.27
Machinery and Equipment	1,158,087.35	32,665.78	1,190,753.13
Construction Work in Progress	1,250.00	1,250.00	2,500.00
Less: Accumulated Depreciation	(1,122,260.71)	(482,406.10)	(1,604,666.81)
Total Noncurrent Assets	2,969,848.22	636,663.30	3,606,511.52
TOTAL ASSETS	3,428,009.14	1,096,051.87	4,524,061.01
DEFERRED OUTFLOWS OF RESOURCES:			
Pension Related Deferred Outflows	14,690.79	7,345.39	22,036.18
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,690.79	7,345.39	22,036.18
LIABILITIES:			
Current Liabilities:			
Claims Payable	6,825.57	1,096.97	7,922.54
Accrued Wages Payable	409.60	172.08	581.68
Accrued Taxes Payable	49.23	23.49	72.72
Customer Deposits	30,385.00		30,385.00
Bonds Payable Current:			
Revenue	50,543.70	47,472.01	98,015.71
Compensated Absences Payable -- Current	3,901.96	1,052.40	4,954.36
Total Current Liabilities	92,115.06	49,816.95	141,932.01
Noncurrent Liabilities:			
Bonds Payable:			
Revenue	1,268,104.73	417,128.05	1,685,232.78
Accrued Leave Payable	680.82	170.21	851.03
Net Pension Liability	6,539.89	3,269.94	9,809.83
Total Noncurrent Liabilities	1,275,325.44	420,568.20	1,695,893.64
TOTAL LIABILITIES	1,367,440.50	470,385.15	1,837,825.65
NET POSITION:			
Net Investment in Capital Assets	1,651,199.79	172,063.24	1,823,263.03
Restricted For:			
Revenue Bond Debt Service	182,318.08	20,000.00	202,318.08
Equipment Repair and/or Replacement	79,552.83	164,469.57	244,022.40
SDRS Pension Purposes	8,150.90	4,075.45	12,226.35
Unrestricted Net Position	154,037.83	272,403.85	426,441.68
TOTAL NET POSITION	2,075,259.43	633,012.11	2,708,271.54

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, 2016

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
Operating Revenue:			
Charges for Goods and Services	293,643.31	181,086.64	474,729.95
Revenue Dedicated to Servicing Debt	78,511.34		78,511.34
Miscellaneous	900.00	150.00	1,050.00
Total Operating Revenue	373,054.65	181,236.64	554,291.29
Operating Expenses:			
Personal Services	52,689.21	25,195.29	77,884.50
Other Current Expense	124,853.61	36,619.83	161,473.44
Depreciation	86,052.12	24,199.01	110,251.13
Total Operating Expenses	263,594.94	86,014.13	349,609.07
Operating Income (Loss)	109,459.71	95,222.51	204,682.22
Nonoperating Revenue (Expense):			
Investment Earnings	1,461.83	1,675.59	3,137.42
Rental Revenue	6,900.00		6,900.00
Interest Expense	(43,854.07)	(16,688.70)	(60,542.77)
Other	144.28	453.38	597.66
Total Nonoperating Revenue (Expense)	(35,347.96)	(14,559.73)	(49,907.69)
Change in Net Position	74,111.75	80,662.78	154,774.53
Net Position - Beginning	2,001,671.43	551,301.82	2,552,973.25
Adjustments:			
SDRS Pension Net Position Percentage	(523.75)	1,047.51	523.76
Adjusted Net Position - Beginning	2,001,147.68	552,349.33	2,553,497.01
NET POSITION - ENDING	2,075,259.43	633,012.11	2,708,271.54

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, 2016

	Enterprise Funds		Totals
	Water Fund	Sewer Fund	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Receipts from Customers	372,911.13	181,118.68	554,029.81
Other Operating Cash Receipts	900.00	150.00	1,050.00
Cash Payments to Employees for Services	(51,559.43)	(25,264.72)	(76,824.15)
Cash Payments to Suppliers of Goods and Services	(132,561.70)	(37,306.63)	(169,868.33)
Net Cash Provided (Used) by Operating Activities	<u>189,690.00</u>	<u>118,697.33</u>	<u>308,387.33</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Operating Subsidies Other	7,044.28	453.38	7,497.66
Net Cash Provided (Used) by Noncapital Financing Activities	<u>7,044.28</u>	<u>453.38</u>	<u>7,497.66</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(4,307.62)	(1,250.00)	(5,557.62)
Principal Paid on Capital Debt	(48,933.85)	(45,893.02)	(94,826.87)
Interest Paid on Capital Debt	(43,854.07)	(16,688.70)	(60,542.77)
Net Cash (Used) by Capital and Related Financing Activities	<u>(97,095.54)</u>	<u>(63,831.72)</u>	<u>(160,927.26)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash Received for Interest	1,461.83	1,675.59	3,137.42
Net Cash Provided by Investing Activities	<u>1,461.83</u>	<u>1,675.59</u>	<u>3,137.42</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>101,100.57</u>	<u>56,994.58</u>	<u>158,095.15</u>
Balances - Beginning	329,572.46	402,622.03	732,194.49
Balances - Ending	<u>430,673.03</u>	<u>459,616.61</u>	<u>890,289.64</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating Income (Loss)	109,459.71	95,222.51	204,682.22
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	86,052.12	24,199.01	110,251.13
(Increase) decrease in Receivables	186.48	32.04	218.52
(Increase) decrease in Inventories	(5,628.28)		(5,628.28)
(Increase) decrease in Pension Related Deferred Outflows	409.52	(1,592.88)	(1,183.36)
(Increase) decrease in Net Pension Asset	8,625.16	3,285.77	11,910.93
(Decrease) increase in Accounts and Other Payables	(2,079.81)	(686.80)	(2,766.61)
(Decrease) increase in Accrued Wages Payable	(1,874.90)	(953.56)	(2,828.46)
(Decrease) increase in Accrued Leave Payable	680.45	(277.99)	402.46
(Decrease) increase in Pension Related Deferred Inflows	(12,726.59)	(4,848.22)	(17,574.81)
(Decrease) increase in Net Pension Liability	6,016.14	4,317.45	10,333.59
(Decrease) increase in Customer Deposits	570.00		570.00
Net Cash Provided (Used) by Operating Activities	<u>189,690.00</u>	<u>118,697.33</u>	<u>308,387.33</u>

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

NOTES TO THE FINANCIAL STATEMENTS1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIESa. 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.

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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 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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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, 2017 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.

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 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, 2017 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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

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.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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.

I. 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.

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

<u>Fund Balance Type</u>	<u>Amount</u> <u>12/31/17</u>	<u>Amount</u> <u>12/31/16</u>	<u>Action</u>
Capital Improvements	\$ 822,710.64	\$ 641,710.15	Ordinance

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

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>	<u>Revenue Source:</u>
City Promotion	Sales Tax
Street Assessment Fund	Front Foot Assessment
Storm Sewer Fund	Utility Charge

n. Pensions:

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

2. DEPOSITS AND INVESTMENTS, FAIR VALUE MEASUREMENT, 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.

As of December 31, 2017 and 2016, the Municipality did not have any investments.

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, 2017, is as follows:

	Balance 01/01/2016	Increases	Decreases	Balance 12/31/2017
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land	60,590.82			60,590.82
Construction Work in Progress	25,641.67	379,013.79	(357,780.09)	46,875.37
Total, not being depreciated	<u>86,232.49</u>	<u>379,013.79</u>	<u>(357,780.09)</u>	<u>107,466.19</u>
Capital Assets, being Depreciated:				
Buildings	596,086.71	364,719.77		960,806.48
Improvements Other Than Buildings	2,304,151.72	108,347.52		2,412,499.24
Machinery and Equipment	580,575.68	202,046.11	(42,300.00)	740,321.79
Total, being Depreciated	<u>3,480,814.11</u>	<u>675,113.40</u>	<u>(42,300.00)</u>	<u>4,113,627.51</u>
Less Accumulated Depreciation for:				
Buildings	(281,400.47)	(31,417.30)		(312,817.77)
Improvements Other Than Buildings	(547,017.19)	(164,338.95)		(711,356.14)
Machinery and Equipment	(283,007.03)	(72,184.31)	42,300.00	(312,891.34)
Total Accumulated Depreciation	<u>(1,111,424.69)</u>	<u>(267,940.56)</u>	<u>42,300.00</u>	<u>(1,337,065.25)</u>
Total Capital Assets, being Depreciated, Net	<u>2,369,389.42</u>	<u>407,172.84</u>	<u>0.00</u>	<u>2,776,562.26</u>
Governmental Activity Capital Assets, Net	<u>2,455,621.91</u>	<u>786,186.63</u>	<u>(357,780.09)</u>	<u>2,884,028.45</u>

Depreciation expense was charged to functions as follows:

	2016	2017
Governmental Activities:		
General Government	1,474.92	1,474.92
Public Safety	6,459.84	6,459.84
Public Works	87,019.91	86,931.11
Culture and Recreation	34,015.94	44,104.08
Total Depreciation Expense - Governmental Activities	<u>128,970.61</u>	<u>138,969.95</u>

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Balance 01/01/2016	Increases	Decreases	Balance 12/31/2017
Business-Type Activities:				
Capital Assets, not being Depreciated:				
Land	41,866.19			41,866.19
Construction Work in Progress	0.00	91,533.33		91,533.33
Total, not being depreciated	41,866.19	91,533.33	0.00	133,399.52
Capital Assets, being Depreciated:				
Buildings	1,298,604.74			1,298,604.74
Improvements Other Than Buildings	2,677,454.27	19,838.54		2,697,292.81
Machinery and Equipment	1,187,695.51	3,057.62		1,190,753.13
Total, being Depreciated	5,163,754.52	22,896.16	0.00	5,186,650.68
Less Accumulated Depreciation for:				
Buildings	(181,804.63)	(51,944.18)		(233,748.81)
Improvements Other Than Buildings	(1,050,583.52)	(107,879.79)		(1,158,463.31)
Machinery and Equipment	(262,027.53)	(61,046.91)		(323,074.44)
Total Accumulated Depreciation	(1,494,415.68)	(220,870.88)	0.00	(1,715,286.56)
Total Capital Assets, being Depreciated, Net	3,669,338.84	(197,974.72)	0.00	3,471,364.12
Business-Type Activity Capital Assets, Net	3,711,205.03	(106,441.39)	0.00	3,604,763.64

Depreciation expense was charged to functions as follows:

	2016	2017
Business-Type Activities:		
Water	86,052.12	86,420.74
Sewer	24,199.01	24,199.01
Total Depreciation Expense - Business-Type Activities	110,251.13	110,619.75

Construction Work in Progress at December 31, 2017, is composed of the following:

	Project Authorization	Expended thru 12/31/2017	Committed	Required Future Financing
Street & Utility Improvement Project	3,658,277.66	138,408.70	16,449.79	3,503,419.17
TOTAL	3,658,277.66	138,408.70	16,449.79	3,503,419.17

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, 2017, is as follows:

	Balance 1/1/2016	Additions	Deletions	Balance 12/31/2017
Land	56,293.45			56,293.45
Buildings	1,275,619.81	44,510.56		1,320,130.37
Organization Costs	52,000.00			52,000.00
Accumulated Depreciation	(556,380.87)	(8,863.66)		(565,244.53)
TOTAL	<u>827,532.39</u>	<u>35,646.90</u>	<u>0.00</u>	<u>863,179.29</u>

8. LONG-TERM DEBT

A summary of changes in long-term debt follows:

	Beginning Balance 1/1/2016	Additions	Deletions	Ending Balance 12/31/2017	Due Within One Year
Primary Government:					
Governmental Activities:					
Accrued Compensated Absences-					
Governmental Funds	12,913.42	19,143.35	21,477.80	10,578.97	9,202.11
Total Governmental Activities	<u>12,913.42</u>	<u>19,143.35</u>	<u>21,477.80</u>	<u>10,578.97</u>	<u>9,202.11</u>
Business-Type Activities:					
Clean Water SRF Loan # 1	271,264.65		54,921.80	216,342.85	28,930.11
Clean Water SRF Loan # 2	239,228.43		38,443.23	200,785.20	20,175.27
Drinking Water SRF Loan # 2	214,541.04		31,815.65	182,725.39	16,697.06
Drinking Water SRF Loan # 3	1,153,041.24		67,661.90	1,085,379.34	35,509.42
Total Debt	<u>1,878,075.36</u>	<u>0.00</u>	<u>192,842.58</u>	<u>1,685,232.78</u>	<u>101,311.86</u>
Accrued Compensated Absences -					
Business-Type Funds	5,402.93	9,879.31	9,940.03	5,342.21	5,089.23
Total Business-Type Activities	<u>1,883,478.29</u>	<u>9,879.31</u>	<u>202,782.61</u>	<u>1,690,574.99</u>	<u>106,401.09</u>
TOTAL PRIMARY GOVERNMENT	<u>1,896,391.71</u>	<u>29,022.66</u>	<u>224,260.41</u>	<u>1,701,153.96</u>	<u>115,603.20</u>
Component Unit:					
Bonds Payable:					
Revenue - Series 2005	728,291.49		42,443.16	685,848.33	21,221.58
Revenue - Series 2001	402,118.46		33,516.09	368,602.37	16,758.05
TOTAL COMPONENT UNIT	<u>1,130,409.95</u>	<u>0.00</u>	<u>75,959.25</u>	<u>1,054,450.70</u>	<u>37,979.63</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Debt payable at December 31, 2017, 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	\$ 216,342.85
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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	\$ 200,785.20
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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	\$ 182,725.39
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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	\$ 1,085,379.34
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Compensated Absences:

Vacation and Sick Leave for eligible employees:	
General Fund	\$ 10,578.97
Water Fund	\$ 4,188.99
Sewer Fund	\$ 1,153.22
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, 2017, except for compensated absences, are as follows:

Annual Requirements to Maturity for Long-Term Debt
December 31, 2017

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
2018	28,930.11	7,195.05	20,175.27	6,281.29	16,697.06	5,736.46
2019	29,956.03	6,169.13	20,839.00	5,617.56	17,246.38	5,187.14
2020	31,018.34	5,106.82	21,524.56	4,932.00	17,813.74	4,619.78
2021	32,118.31	4,006.85	22,232.69	4,223.87	18,399.79	4,033.73
2022	33,257.29	2,867.87	22,964.10	3,492.46	19,005.11	3,428.41
2023-2027	61,062.77	2,156.26	93,049.58	6,162.52	93,563.31	7,387.53
2028-2032						
2033-2037						
2038-2042						
Totals	216,342.85	27,501.98	200,785.20	30,709.70	182,725.39	30,393.05

Year Ending December 31,	Drinking Water SRF Loan C462057-03		Totals	
	Principal	Interest	Principal	Interest
2018	35,509.42	34,844.98	101,311.86	54,057.78
2019	36,677.62	33,676.78	104,719.03	50,650.61
2020	37,884.25	32,470.15	108,240.89	47,128.75
2021	39,130.58	31,223.82	111,881.37	43,488.27
2022	40,417.90	29,936.50	115,644.40	39,725.24
2023-2027	222,931.45	128,840.55	470,607.11	144,546.86
2028-2032	262,095.17	89,676.83	262,095.17	89,676.83
2033-2037	308,139.03	43,632.97	308,139.03	43,632.97
2038-2042	102,593.92	2,937.68	102,593.92	2,937.68
Totals	1,085,379.34	427,240.26	1,685,232.78	515,844.99

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

9. RESTRICTED NET POSITION

Restricted net position for the years ended December 31, 2016 and 2017 were as follows:

<u>Purpose</u>	<u>Restricted By</u>	<u>12/31/2016</u>	<u>12/31/2017</u>
Major Purposes:			
City Promotion Fund	Law	\$ 75,376.17	\$ 101,091.84
Street Assessment Fund	Law	60,204.46	83,675.76
Storm Sewer Maintenance Fund	Law	243,371.92	273,929.15
Debt Service	Debt Covenants	202,318.08	211,609.03
	Governmental		
SDRS Pension	Accounting Standards	40,754.43	72,673.36
Total Restricted Net Position		<u>\$ 622,025.06</u>	<u>\$ 742,979.14</u>

10. PENSION PLAN

Plan Information:

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

Benefits Provided:

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

The 2017 legislation modified the COLA, effective for the July 1, 2018 increase:

- Baseline actuarial accrued liabilities will be calculated assuming the COLA is equal to the long-term inflation assumption of 2.25%.
- If the fair value of assets is greater or equal to the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than 3.5%.
- If the fair value of assets is less than the baseline actuarial accrued liabilities, the COLA will be:
 - The increase in the 3rd quarter CPI-W, no less than 0.5% and no greater than a restricted maximum such that, that if the restricted maximum is assumed for future COLAs, the fair value of assets will be greater or equal to the accrued liabilities.

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

Contributions:

Per SDCL 3-12, contribution requirements of the active employees and the participating employers are established and may be amended by the SDRS Board. Covered employees are required by state statute to contribute the following percentages of their salary to the plan; Class A Members, 6.0% of salary; Class B Judicial Members, 9.0% of salary; and Class B Public Safety Members, 8.0% of salary. State statute also requires the employer to contribute an amount equal to the employee’s contribution. State statute also requires the employer to make an additional contribution in the amount of 6.2 percent for any compensation exceeding the maximum taxable amount for social security for general employees only. The Municipality’s share of contributions to the SDRS for the fiscal years ended December 31, 2017, 2016, and 2015 were \$12,092.90, \$11,414.53, and \$10,817.33, respectively, equal to the required contributions each year.

Pension Liabilities (Assets), Pension Expense (Revenue), and Deferred Outflows of Resources and Deferred Inflows of Resources to Pensions:

At June 30, 2016, SDRS is 96.89% funded and accordingly has a net pension liability. The proportionate shares of the components of the net pension liability of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2016 and reported by the Municipality as of December 31, 2016 are as follows:

Proportionate share of pension liability	\$ 1,050,444.63
Less proportionate share of net pension restricted for pension benefits	<u>1,017,745.19</u>
Proportionate share of net pension liability (asset)	<u><u>\$ 32,699.44</u></u>

At December 31, 2016, the Municipality reported a liability (asset) of \$32,699.44 for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2016 and the total pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality’s share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2016, the Municipality’s proportion was 0.0096804%, which is an increase of 0.0000035% from its proportion measured as of June 30, 2015.

For the year ended December 31, 2016, the Municipality recognized pension expense (reduction of pension expense) of \$23,035.67. At December 31, 2016 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

	Deferred Outflows Of Resources	Deferred Inflows Of Resources
Difference between expected and actual experience.	\$ 11,383.40	
Changes in assumption.	\$ 19,585.41	
Net Difference between projected and actual earnings on pension plan investments.	\$ 36,372.83	
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	\$ 279.92	
Municipality contributions subsequent to the measurement date.	\$ 5,832.41	
TOTAL	\$ 73,453.97	\$ -

\$5,832.41 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended
December 31:

2017	\$ 18,284.19
2018	\$ 11,104.84
2019	\$ 23,083.27
2020	\$ 15,149.26
TOTAL	\$ 67,621.56

At June 30, 2017, SDRS is 100.1% funded and accordingly has a net pension asset. The proportionate shares of the components of the net pension asset of South Dakota Retirement System, for the Municipality as of the measurement period ending June 30, 2017 and reported by the Municipality as of December 31, 2017 are as follows:

Proportionate share of pension liability	\$ 1,130,685.75
Less proportionate share of net pension restricted for pension benefits	1,131,567.66
Proportionate share of net pension liability (asset)	\$ (881.91)

At December 31, 2017, the Municipality reported a liability (asset) of \$(881.91) for its proportionate share of the net pension liability (asset). The net pension liability (asset) was measured as of June 30, 2017 and the total

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

pension liability (asset) used to calculate the net pension liability (asset) was based on a projection of the Municipality's share of contributions to the pension plan relative to the contributions of all participating entities. At June 30, 2017, the Municipality's proportion was 0.0097180%, which is an increase of 0.0000376% from its proportion measured as of June 30, 2016.

For the year ended December 31, 2017, the Municipality recognized pension expense (reduction of pension expense) of \$(19,825.93). At December 31, 2017 the Municipality reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows Of Resources</u>	<u>Deferred Inflows Of Resources</u>
Difference between expected and actual experience.	\$ 14,130.76	
Changes in assumption.	\$ 68,475.50	
Net Difference between projected and actual earnings on pension plan investments.		\$ 16,955.75
Changes in proportion and difference between Municipality contributions and proportionate share of contributions.	\$ 166.68	\$ 104.39
Municipality contributions subsequent to the measurement date.	<u>\$ 6,078.65</u>	
TOTAL	<u>\$ 88,851.59</u>	<u>\$ 17,060.14</u>

\$6,078.65 reported as deferred outflow of resources related to pensions resulting from Municipality contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense (reduction of pension expense) as follows:

Year Ended December 31:	
2018	\$ 17,889.28
2019	\$ 29,914.47
2020	\$ 21,949.84
2021	<u>\$ (4,040.80)</u>
TOTAL	<u>\$ 65,712.79</u>

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

Actuarial Assumptions:

The total pension liability (asset) in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25 percent
Salary Increases	5.83 percent at entry to 3.87 percent after 30 years of service
Investment Rate of Return	7.25 percent through 2017 and 7.50 percent thereafter, net of pension plan investment expense

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

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

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2016 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.5%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100%</u>	

The total pension liability (asset) in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.25 percent
Salary Increases	Graded by years of service, from 6.50% at entry to 3.00%
Discount Rate	6.50% net of plan investment expense

Mortality rates were based on 97% of the RP-2014 Mortality Table, projected generationally with Scale MP-2016, white collar rates for female and total dataset rates for males. Mortality rates for disabled members were based on the RP-2014 Disabled Retiree Mortality Table, projected generationally with Scale MP-2016.

Investment portfolio management is the statutory responsibility of the South Dakota Investment Council (SDIC), which may utilize the services of external money managers for management of a portion of the portfolio. SDIC

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

is governed by the Prudent Man Rule (i.e., the council should use the same degree of care as a prudent man). Current SDIC investment policies dictate limits on the percentage of assets invested in various types of vehicles (equities, fixed income securities, real estate, cash, private equity, etc.). The long-term expected rate of return on pension plan investments was determined using a method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of real rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2017 (see the discussion of the pension plan's investment policy) are summarized in the following table using geometric means:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	58.0%	4.8%
Fixed Income	30.0%	1.8%
Real Estate	10.0%	4.6%
Cash	2.0%	0.7%
Total	<u>100%</u>	

Discount Rate:

The discount rate used to measure the total pension liability (asset) was 6.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that matching employer contributions from will be made at rates equal to the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability (asset).

Sensitivity of liability (asset) to changes in the discount rate:

The following presents the Municipality's proportionate share of net pension liability (asset) calculated using the discount rate of 6.50 percent, as well as what the Municipality's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage point lower (5.50%) or 1-percentage point higher (7.50%) than the current rate:

	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
Municipality's proportionate share of the net pension liability (asset)	\$ 161,523.22	\$(881.91)	\$(133,132.52)

Pension Plan Fiduciary Net Position:

Detailed information about the plan's fiduciary net position is available in the separately issued SDRS financial report.

11. SIGNIFICANT CONTINGENCIES - LITIGATION

At December 31, 2017 and 2016, the Municipality was not involved in any significant litigation.

See Independent Auditor's Report.

NOTES TO THE FINANCIAL STATEMENTS
(Continued)

12. 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, 2017 and 2016, 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.

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.

13. NET POSITION BEGINNING BALANCE ADJUSTMENTS

In 2016, an adjustment was made for an amount recorded as a receivable in 2015 but should not have been as it will not be paid. Also, an adjustment was made for the SDRS pension amount because of the wrong allocation between funds for employee wages.

In 2017, an unexplained adjustment was made for the component unit because the amounts did not flow from 2016 to 2017.

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2017

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u> (Budgetary Basis)	<u>Variance with</u> <u>Final Budget -</u> <u>Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes:				
General Property Taxes	318,347.55	318,347.55	318,827.83	480.28
General Sales and Use Taxes	392,452.45	392,452.45	463,045.39	70,592.94
Gross Receipts Business Taxes	2,000.00	2,000.00	2,120.94	120.94
Amusement Taxes	0.00	0.00	36.00	36.00
Penalties and Interest on Delinquent Taxes	0.00	0.00	1,318.63	1,318.63
Licenses and Permits	8,700.00	8,700.00	10,170.00	1,470.00
Intergovernmental Revenue:				
Federal Grants	5,550.00	5,550.00	0.00	(5,550.00)
State Grants	0.00	0.00	1,933.00	1,933.00
State Shared Revenue:				
Bank Franchise Tax	1,200.00	1,200.00	1,221.50	21.50
Prorate License Fees	3,000.00	3,000.00	3,485.44	485.44
Liquor Tax Reversion	8,000.00	8,000.00	8,751.77	751.77
Motor Vehicle Licenses	16,000.00	16,000.00	19,859.51	3,859.51
Local Government Highway and Bridge Fund	15,000.00	15,000.00	14,811.88	(188.12)
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	5,934.88	934.88
Charges for Goods and Services:				
General Government	0.00	0.00	900.00	900.00
Highways and Streets	1,800.00	1,800.00	2,400.00	600.00
Sanitation	26,000.00	26,000.00	32,464.59	6,464.59
Culture and Recreation	14,900.00	14,900.00	23,798.41	8,898.41
Fines and Forfeits:				
Other	0.00	0.00	75.00	75.00
Miscellaneous Revenue:				
Investment Earnings	4,500.00	4,500.00	5,985.37	1,485.37
Rentals	5,000.00	5,000.00	7,527.00	2,527.00
Special Assessments	0.00	0.00	14,316.91	14,316.91
Contributions and Donations from Private Sources	0.00	0.00	50,268.04	50,268.04
Liquor Operating Agreement Income	24,500.00	24,500.00	29,723.86	5,223.86
Other	10,000.00	10,000.00	13,121.22	3,121.22
Total Revenue	864,550.00	864,550.00	1,034,771.60	170,221.60
Expenditures:				
General Government:				
Legislative	5,000.00	5,700.00	5,367.38	332.62
Contingency	16,000.00	16,000.00		
Amount Transferred		(4,800.00)		11,200.00
Executive	17,730.00	17,730.00	16,267.03	1,462.97
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	164,030.00	164,030.00	146,789.79	17,240.21
Other	21,710.00	32,810.00	29,470.83	3,339.17
Total General Government	225,470.00	232,470.00	197,895.03	34,574.97

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Expenditures (Continued):				
Public Safety:				
Police	87,880.00	87,880.00	87,880.00	0.00
Fire	4,100.00	4,100.00	2,662.80	1,437.20
Other Protection	800.00	800.00	326.38	473.62
Total Public Safety	<u>92,780.00</u>	<u>92,780.00</u>	<u>90,869.18</u>	<u>1,910.82</u>
Public Works:				
Highways and Streets	184,300.00	258,550.00	186,095.54	72,454.46
Sanitation	8,350.00	8,350.00	8,037.56	312.44
Total Public Works	<u>192,650.00</u>	<u>266,900.00</u>	<u>194,133.10</u>	<u>72,766.90</u>
Health and Welfare:				
Health	8,190.00	8,190.00	2,044.87	6,145.13
Total Health and Welfare	<u>8,190.00</u>	<u>8,190.00</u>	<u>2,044.87</u>	<u>6,145.13</u>
Culture and Recreation:				
Recreation	88,350.00	157,350.00	152,354.89	4,995.11
Parks	51,970.00	62,530.00	60,595.64	1,934.36
Libraries	500.00	500.00	500.00	0.00
Auditorium	69,060.00	69,060.00	45,632.87	23,427.13
Total Culture and Recreation	<u>209,880.00</u>	<u>289,440.00</u>	<u>259,083.40</u>	<u>30,356.60</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	61,990.00	61,990.00	22,784.22	39,205.78
Total Conservation and Development	<u>61,990.00</u>	<u>61,990.00</u>	<u>22,784.22</u>	<u>39,205.78</u>
Total Expenditures	<u>790,960.00</u>	<u>951,770.00</u>	<u>766,809.80</u>	<u>184,960.20</u>
Excess of Revenue Over (Under) Expenditures	<u>73,590.00</u>	<u>(87,220.00)</u>	<u>267,961.80</u>	<u>355,181.80</u>
Other Financing Sources (Uses):				
Compensation for Loss or Damage to Capital Assets	0.00	0.00	2,669.39	2,669.39
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>2,669.39</u>	<u>2,669.39</u>
Net Change in Fund Balances	<u>73,590.00</u>	<u>(87,220.00)</u>	<u>270,631.19</u>	<u>357,851.19</u>
Changes in Nonspendable	<u>0.00</u>	<u>0.00</u>	<u>(9,777.65)</u>	<u>(9,777.65)</u>
Fund Balance - Beginning	<u>1,503,870.49</u>	<u>1,503,870.49</u>	<u>1,503,870.49</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>1,577,460.49</u></u>	<u><u>1,416,650.49</u></u>	<u><u>1,764,724.03</u></u>	<u><u>348,073.54</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2017

	<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	20,000.00	20,000.00	23,764.52	3,764.52
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	339.15	339.15
Contributions and Donations from Private Sources	0.00	0.00	7,000.00	7,000.00
Total Revenue	<u>20,000.00</u>	<u>20,000.00</u>	<u>31,103.67</u>	<u>11,103.67</u>
Expenditures:				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	5,388.00	2.00
Total Conservation and Development	<u>5,390.00</u>	<u>5,390.00</u>	<u>5,388.00</u>	<u>2.00</u>
Total Expenditures	<u>5,390.00</u>	<u>5,390.00</u>	<u>5,388.00</u>	<u>2.00</u>
Net Change in Fund Balances	<u>14,610.00</u>	<u>14,610.00</u>	<u>25,715.67</u>	<u>11,105.67</u>
Fund Balance - Beginning	<u>75,376.17</u>	<u>75,376.17</u>	<u>75,376.17</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u><u>89,986.17</u></u>	<u><u>89,986.17</u></u>	<u><u>101,091.84</u></u>	<u><u>11,105.67</u></u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2017

	<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:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	372.05	372.05
Maintenance Assessments	68,201.22	68,201.22	67,794.41	(406.81)
Total Revenue	68,201.22	68,201.22	68,166.46	(34.76)
Expenditures:				
Public Works:				
Highways and Streets	65,000.00	65,000.00	41,989.11	23,010.89
Total Public Works	65,000.00	65,000.00	41,989.11	23,010.89
Total Expenditures	65,000.00	65,000.00	41,989.11	23,010.89
Net Change in Fund Balances	3,201.22	3,201.22	26,177.35	22,976.13
Fund Balance - Beginning	57,498.41	57,498.41	57,498.41	0.00
FUND BALANCE - ENDING	60,699.63	60,699.63	83,675.76	22,976.13

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2017

	<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:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	1,035.07	1,035.07
Maintenance Assessments	37,000.00	37,000.00	37,927.50	927.50
Total Revenue	37,000.00	37,000.00	38,962.57	1,962.57
Expenditures:				
Public Works:				
Highways and Streets	21,730.00	21,730.00	8,405.34	13,324.66
Total Public Works	21,730.00	21,730.00	8,405.34	13,324.66
Total Expenditures	21,730.00	21,730.00	8,405.34	13,324.66
Net Change in Fund Balances	15,270.00	15,270.00	30,557.23	15,287.23
Fund Balance - Beginning	243,371.92	243,371.92	243,371.92	0.00
FUND BALANCE - ENDING	258,641.92	258,641.92	273,929.15	15,287.23

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2016

	<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	313,938.00	313,938.00	311,442.98	(2,495.02)
General Sales and Use Taxes	387,262.00	387,262.00	471,051.86	83,789.86
Gross Receipts Business Taxes	1,800.00	1,800.00	2,088.70	288.70
Amusement Taxes	0.00	0.00	36.00	36.00
Penalties and Interest on Delinquent Taxes	0.00	0.00	963.11	963.11
Licenses and Permits	6,400.00	6,400.00	10,600.00	4,200.00
Intergovernmental Revenue:				
Federal Grants	40,000.00	40,000.00	40,000.00	0.00
State Grants	0.00	0.00	1,873.00	1,873.00
State Shared Revenue:				
Bank Franchise Tax	1,200.00	1,200.00	1,914.75	714.75
Prorate License Fees	3,000.00	3,000.00	3,613.81	613.81
Liquor Tax Reversion	8,500.00	8,500.00	10,944.50	2,444.50
Motor Vehicle Licenses	12,000.00	12,000.00	18,947.81	6,947.81
Local Government Highway and Bridge Fund	13,500.00	13,500.00	15,967.57	2,467.57
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	5,912.99	912.99
Charges for Goods and Services:				
General Government	0.00	0.00	1,743.75	1,743.75
Highways and Streets	1,800.00	1,800.00	1,800.00	0.00
Sanitation	21,000.00	21,000.00	30,404.88	9,404.88
Culture and Recreation	14,900.00	14,900.00	19,393.15	4,493.15
Fines and Forfeits:				
Other	0.00	0.00	75.00	75.00
Miscellaneous Revenue:				
Investment Earnings	4,500.00	4,500.00	5,984.14	1,484.14
Rentals	2,700.00	2,700.00	9,055.00	6,355.00
Special Assessments	0.00	0.00	769.56	769.56
Contributions and Donations from Private Sources	500.00	500.00	217,928.38	217,428.38
Liquor Operating Agreement Income	24,500.00	24,500.00	29,495.04	4,995.04
Other	8,000.00	8,000.00	12,059.95	4,059.95
Total Revenue	873,100.00	873,100.00	1,226,740.36	353,640.36
Expenditures:				
General Government:				
Legislative	5,000.00	5,700.00	4,996.29	703.71
Contingency	16,000.00	16,000.00		
Amount Transferred		(7,000.00)		9,000.00
Executive	17,730.00	17,730.00	16,535.81	1,194.19
Elections	1,000.00	1,000.00	0.00	1,000.00
Financial Administration	161,590.00	161,590.00	150,157.83	11,432.17
Other	18,750.00	22,215.00	21,805.68	409.32
Total General Government	220,070.00	217,235.00	193,495.61	23,739.39

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
GENERAL FUND
For the Year Ended December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual Amounts (Budgetary Basis)</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Expenditures (Continued):				
Public Safety:				
Police	87,880.00	87,880.00	87,880.00	0.00
Fire	27,700.00	27,700.00	27,166.58	533.42
Other Protection	800.00	800.00	326.59	473.41
Total Public Safety	<u>116,380.00</u>	<u>116,380.00</u>	<u>115,373.17</u>	<u>1,006.83</u>
Public Works:				
Highways and Streets	181,340.00	266,340.00	231,005.62	35,334.38
Sanitation	8,240.00	8,240.00	6,843.94	1,396.06
Total Public Works	<u>189,580.00</u>	<u>274,580.00</u>	<u>237,849.56</u>	<u>36,730.44</u>
Health and Welfare:				
Health	8,040.00	8,040.00	6,869.31	1,170.69
Total Health and Welfare	<u>8,040.00</u>	<u>8,040.00</u>	<u>6,869.31</u>	<u>1,170.69</u>
Culture and Recreation:				
Recreation	80,040.00	476,038.33	405,415.66	70,622.67
Parks	186,670.00	315,020.00	172,387.58	142,632.42
Libraries	500.00	500.00	500.00	0.00
Auditorium	66,770.00	66,770.00	45,265.02	21,504.98
Total Culture and Recreation	<u>333,980.00</u>	<u>858,328.33</u>	<u>623,568.26</u>	<u>234,760.07</u>
Conservation and Development:				
Economic Development and Assistance (Industrial Development)	42,840.00	42,840.00	17,254.86	25,585.14
Total Conservation and Development	<u>42,840.00</u>	<u>42,840.00</u>	<u>17,254.86</u>	<u>25,585.14</u>
Total Expenditures	<u>910,890.00</u>	<u>1,517,403.33</u>	<u>1,194,410.77</u>	<u>322,992.56</u>
Excess of Revenue Over (Under) Expenditures	<u>(37,790.00)</u>	<u>(644,303.33)</u>	<u>32,329.59</u>	<u>676,632.92</u>
Other Financing Sources (Uses):				
Sale of Municipal Property	0.00	0.00	2,000.00	2,000.00
Total Other Financing Sources (Uses)	<u>0.00</u>	<u>0.00</u>	<u>2,000.00</u>	<u>2,000.00</u>
Net Change in Fund Balances	<u>(37,790.00)</u>	<u>(644,303.33)</u>	<u>34,329.59</u>	<u>678,632.92</u>
Changes in Nonspendable	<u>0.00</u>	<u>0.00</u>	<u>(2,947.91)</u>	<u>(2,947.91)</u>
Fund Balance - Beginning	<u>1,473,891.31</u>	<u>1,473,891.31</u>	<u>1,473,891.31</u>	<u>0.00</u>
Adjustments:				
Unpaid Revenue (A/R) to Special Assessments	<u>(1,402.50)</u>	<u>(1,402.50)</u>	<u>(1,402.50)</u>	<u>0.00</u>
Adjusted Fund Balance - Beginning	<u>1,472,488.81</u>	<u>1,472,488.81</u>	<u>1,472,488.81</u>	<u>0.00</u>
FUND BALANCE - ENDING	<u>1,434,698.81</u>	<u>828,185.48</u>	<u>1,503,870.49</u>	<u>675,685.01</u>

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
LIQUOR, LODGING & DINING SALES TAX FUND
For the Year Ended December 31, 2016

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
General Sales and Use Taxes	19,000.00	19,000.00	22,492.35	3,492.35
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	231.00	231.00
Contributions and Donations from Private Sources	0.00	0.00	7,500.00	7,500.00
Total Revenue	19,000.00	19,000.00	30,223.35	11,223.35
Expenditures:				
Conservation and Recreation:				
Economic Development and Assistance (Industrial Development)	5,390.00	5,390.00	5,388.00	2.00
Total Conservation and Development	5,390.00	5,390.00	5,388.00	2.00
Total Expenditures	5,390.00	5,390.00	5,388.00	2.00
Net Change in Fund Balances	13,610.00	13,610.00	24,835.35	11,225.35
Fund Balance - Beginning	50,540.82	50,540.82	50,540.82	0.00
FUND BALANCE - ENDING	64,150.82	64,150.82	75,376.17	11,225.35

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STREET ASSESSMENT FUND
For the Year Ended December 31, 2016

	<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:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	289.61	289.61
Maintenance Assessments	42,625.76	42,625.76	42,838.42	212.66
Total Revenue	42,625.76	42,625.76	43,128.03	502.27
Expenditures:				
Public Works:				
Highways and Streets	70,000.00	70,000.00	50,964.44	19,035.56
Total Public Works	70,000.00	70,000.00	50,964.44	19,035.56
Total Expenditures	70,000.00	70,000.00	50,964.44	19,035.56
Net Change in Fund Balances	(27,374.24)	(27,374.24)	(7,836.41)	19,537.83
Fund Balance - Beginning	65,334.82	65,334.82	65,334.82	0.00
FUND BALANCE - ENDING	37,960.58	37,960.58	57,498.41	19,537.83

REQUIRED SUPPLEMENTARY INFORMATION
MUNICIPALITY OF SALEM
BUDGETARY COMPARISON SCHEDULE - BUDGETARY BASIS
STORM SEWER MAINTENANCE FUND
For the Year Ended December 31, 2016

	<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:				
Miscellaneous Revenue:				
Investment Earnings	0.00	0.00	915.93	915.93
Maintenance Assessments	37,000.00	37,000.00	37,587.67	587.67
Total Revenue	37,000.00	37,000.00	38,503.60	1,503.60
Expenditures:				
Public Works:				
Highways and Streets	19,620.00	19,620.00	12,207.31	7,412.69
Total Public Works	19,620.00	19,620.00	12,207.31	7,412.69
Total Expenditures	19,620.00	19,620.00	12,207.31	7,412.69
Net Change in Fund Balances	17,380.00	17,380.00	26,296.29	8,916.29
Fund Balance - Beginning	217,075.63	217,075.63	217,075.63	0.00
FUND BALANCE - ENDING	234,455.63	234,455.63	243,371.92	8,916.29

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, 2017 and 2016.

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.

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

South Dakota Retirement System

Last Three Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Municipality's proportion of the net pension liability/asset	0.0097180%	0.0096804%	0.0096839%
Municipality's proportionate share of net pension liability (asset)	\$ (882)	\$ 32,699	\$ (41,072)
Municipality's covered-employee payroll	\$ 197,442	\$ 184,073	\$ 176,799
Municipality's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.45%	17.76%	23.23%
Plan fiduciary net position as a percentage of the total pension liability (asset)	100.1%	96.89%	104.10%

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

SUPPLEMENTARY INFORMATION

SCHEDULE OF THE MUNICIPALITY CONTRIBUTIONS

South Dakota Retirement System

Last Three Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 12,093	\$ 11,415	\$ 10,817
Contributions in relation to the contractually required contribution	<u>\$ 12,093</u>	<u>\$ 11,415</u>	<u>\$ 10,817</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Municipality's covered-employee payroll	\$ 201,547	\$ 190,240	\$ 180,289
Contributions as a percentage of covered-employee payroll	6.00%	6.00%	6.00%