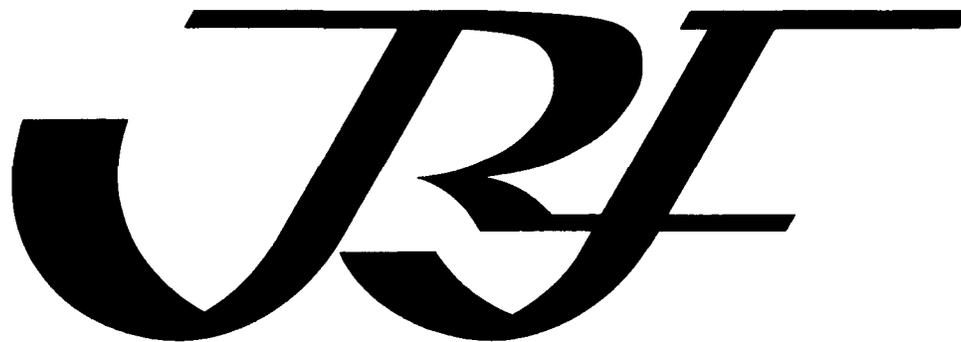


TOWN OF SALEM
AUDITED FINANCIAL
STATEMENTS

DECEMBER 31, 2011

A large, stylized, black monogram logo consisting of the letters 'JRF' in a bold, cursive font. The 'J' is a large, sweeping curve that starts high on the left and ends low on the right. The 'R' is a tall, vertical stroke with a curved top and a horizontal base. The 'F' is a tall, vertical stroke with a horizontal top bar and a horizontal base.

JAMES R. FRECHETTE

CERTIFIED PUBLIC ACCOUNTANT

TOWN OF SALEM
December 31, 2011
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James R. Frechette

CERTIFIED PUBLIC ACCOUNTANT

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262/594-3995
Fax: 262/594-3995

Independent Auditor's Report

To the Town Board
Town of Salem
Salem, Wisconsin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Salem as of and for the year ended December 31, 2011, which collectively comprise the town's basic financial statements as listed in table of contents. These financial statements are the responsibility of the Town of Salem's management. Our responsibility is to express opinions 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. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Salem as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2-11 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Salem's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 6, 2012

JAMES R. FRECHETTE
CERTIFIED PUBLIC ACCOUNTANT

TOWN OF SALEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Town of Salem financial performance provides an overview of the Town's financial activities for the year ended December 31, 2011.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Activities and the Fund financial statements provide information about the long term finances and the activities of the Town as a whole. Governmental activities reflect how services were financed in the short term and what balance remains for future spending. The Town's fund financial statements report the Town's operations in more detail than government-wide statements. The statement of net assets and statement of activities provide information about the Town's most significant funds. Our analysis of the Town as a whole begins on page 12.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances - "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting. Most private-sector companies use accrual basis of accounting. All the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Town's net assets and changes in them. You can think of the Town's net assets - the difference between assets and liabilities - as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other non-financial factors, however such as changes in the Town's property tax base and the condition of the Town's roads, to assess the overall health of the Town.

To aid in the understanding of the Statement of Activities, some additional explanation is given. Of particular interest is the format that is significantly different than a typical Statement of Revenues, Expenses, and Changes in Fund Balance. You will notice that expenses are listed in the first column with revenues from that particular program reported to the right. The result is a Net (Expense)/Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions on the Town's taxpayers. It also identifies how much each function draws from the general revenues or if it is self-financing, through fees and grants.

In the Statement of Net Assets and the Statement of Activities, we divide the Town into two kinds of activities:

Governmental activities: Most of the Town's basic services are reported here, including public safety, public works, parks, planning, capital projects, and administration. Property taxes, licensure, fines, donations and state and federal grants finance most of these activities.

TOWN OF SALEM MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities (continued)

The functions and programs of the primary government, along with the composition of each function by Town department follows.

- General Government includes the Town Board, Municipal Court, Town Hall, Clerk/Treasurer, Elections, Board of Review, Town Assessor, Audit Fees, Legal Fees, Engineering, Town Hall, Membership Dues, Advertising and Publications, Property and Liability Insurance, Debt payment.
- Public Safety includes the Public Safety Officer, Salem Fire and Rescue, Town Building Inspection, and Water Patrol.
- Public Works includes the Roads and Related facilities, Street Lighting, and Garbage/Recycling collection which is contracted.
- Health and Social Services includes Animal Control.
- Culture and Recreation Activities includes Parks and the Recreation program.
- Conservation and Development includes the Plan Commission and the Board of Review along with Land Development.
- Debt Service accounts for general government debt payments.
- Capital Outlay reports the capital projects underway in the Town.

Business-type activities: The Town charges a fee to customers to help it cover all or most of the cost of certain services it provides. The business type activities include the Salem sewer utility and the recently established stormwater utility. Rates for the sewer utilities are established and should be reviewed on an annual basis by the Salem Town Board. Rates for the stormwater utility are also established by the Town Board.

Reporting the Town's Most Significant Funds

The fund financial statements provide detailed information about the most significant funds - not the Town as a whole. The Town's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental funds: Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliations following the respective governmental funds' statements.

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Reporting the Town's Most Significant Funds (continued)

Governmental funds (continued)

The governmental funds include the General Fund, Park Fund, Debt Service Fund and Capital Projects Fund. All other governmental activities including Trails and Maintenance Fees are included in the non-major funds, special revenue. The General fund includes General Government, Public Safety, Public Works, Health and Human Services, Culture and Recreation, Conservation and Development. The Capital Projects Fund is used to account for capital equipment and infrastructure replacement projects and building projects. The Debt Service Fund is the fund in which payments of principal and interest are recorded.

Proprietary funds: When the Town charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. The Town's enterprise fund is the same as the business-type activities we report in the government-wide statements but provides more detail and additional information, such as cash flows. The proprietary funds include the Utility District and the Stormwater Utility.

The Town as a Whole

Government-wide Financial Analysis

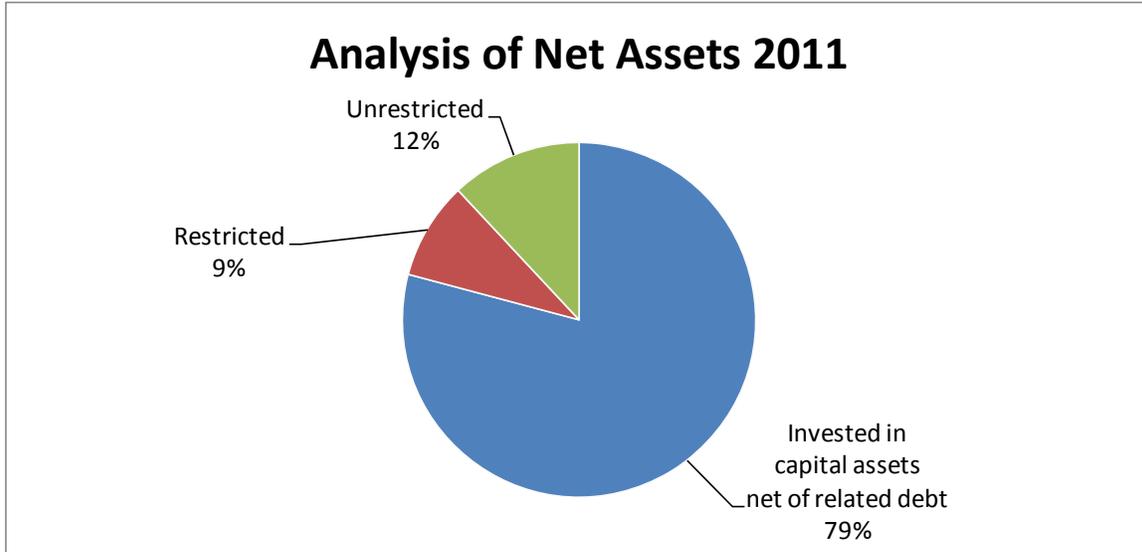
The condensed financial statements on the next two pages present the net assets of the Town and changes in net assets. These statements are presented with comparisons to 2010. Net assets may serve over time as a useful indicator of a government's financial position. In 2011, the Town's assets exceeded liabilities by \$42,415,073.

The largest portion of the Town's net assets (79 percent) reflects the Town's investment in capital assets less any outstanding related debt used to acquire those assets. The Town uses these capital assets to provide services to the citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The Town had 9 percent of net assets that are restricted for a certain purpose. The remaining 12 percent is the category of unrestricted net assets which may be used to meet the Town's ongoing obligations to citizens and creditors.

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Town as a Whole (continued)

Government-wide Financial Analysis (continued)



**TOWN OF SALEM
NET ASSETS
As of December 31, 2011**

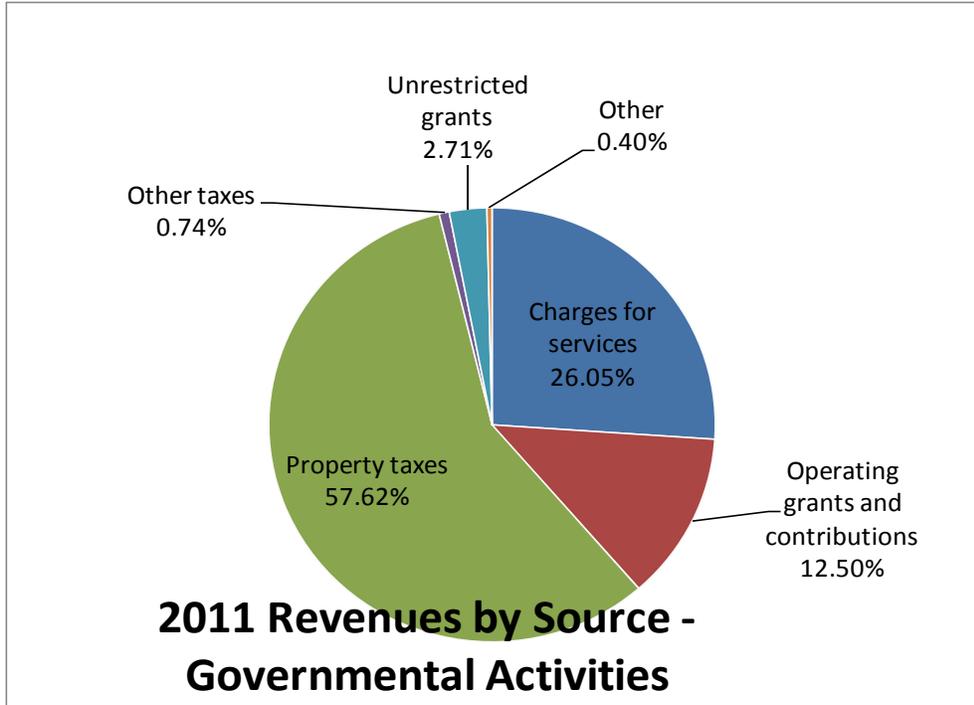
	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 7,438,202	\$9,321,474	\$ 6,741,487	\$ 6,453,923	\$14,179,689	\$15,775,397
Capital assets	<u>20,516,770</u>	<u>19,087,548</u>	<u>38,651,390</u>	<u>39,477,712</u>	<u>59,168,160</u>	<u>58,565,260</u>
Total assets	27,954,972	28,409,022	45,392,877	45,931,635	73,347,849	74,340,657
Long-term liabilities outstanding	12,887,639	13,507,319	11,056,427	11,968,555	23,944,066	25,475,874
Other liabilities	<u>5,877,729</u>	<u>6,058,785</u>	<u>1,110,981</u>	<u>1,065,006</u>	<u>6,988,710</u>	<u>7,123,791</u>
Total liabilities	18,765,368	19,566,104	12,167,408	13,033,561	30,932,776	26,512,705
Net assets:						
Invested in capital assets, net of related debt	7,009,451	5,091,867	26,689,359	26,634,440	33,698,810	31,726,307
Restricted	697,669	2,206,575	3,094,866	3,090,586	3,792,535	5,297,161
Unrestricted	<u>1,482,484</u>	<u>1,544,476</u>	<u>3,441,244</u>	<u>3,173,048</u>	<u>4,923,728</u>	<u>4,717,524</u>
Total net assets	<u>\$ 9,189,604</u>	<u>\$8,842,918</u>	<u>\$ 33,225,469</u>	<u>\$ 32,898,074</u>	<u>\$42,415,073</u>	<u>\$41,740,992</u>

The Town's total net assets increased by \$674,081 mainly due to the net pay down of debt related to the capital projects with no additional bond issues in 2011.

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

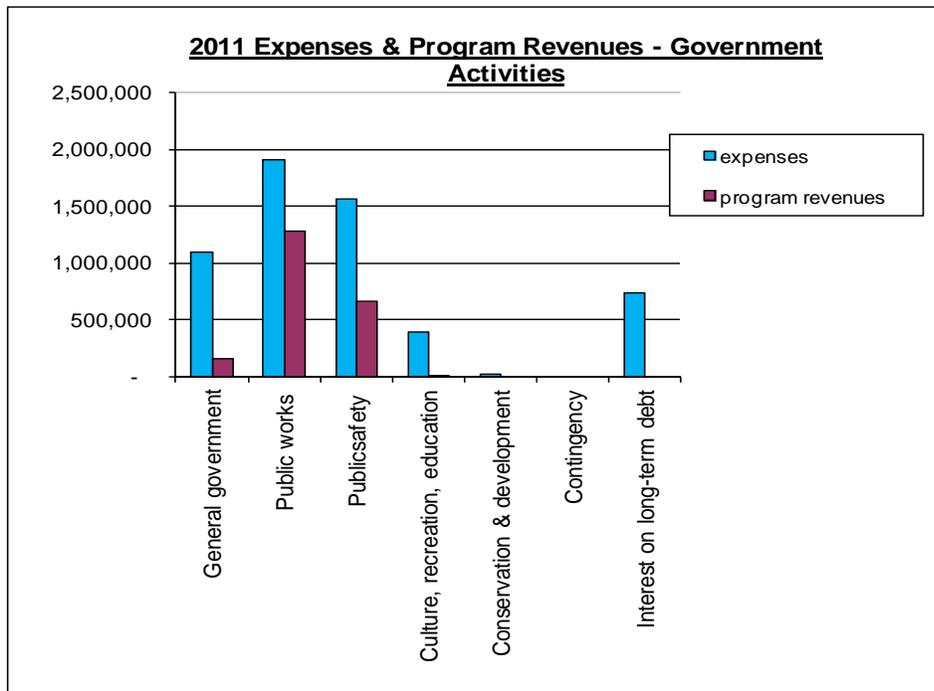
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES

This chart illustrates the percent of revenue sources that fund the Town's governmental activities.



EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES

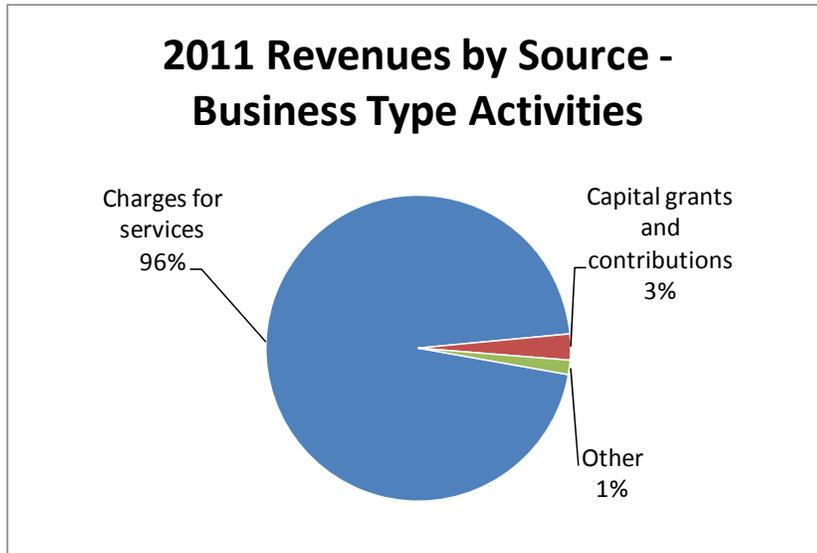
The following chart shows the portion of expenses by function that is covered by program revenues.



**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

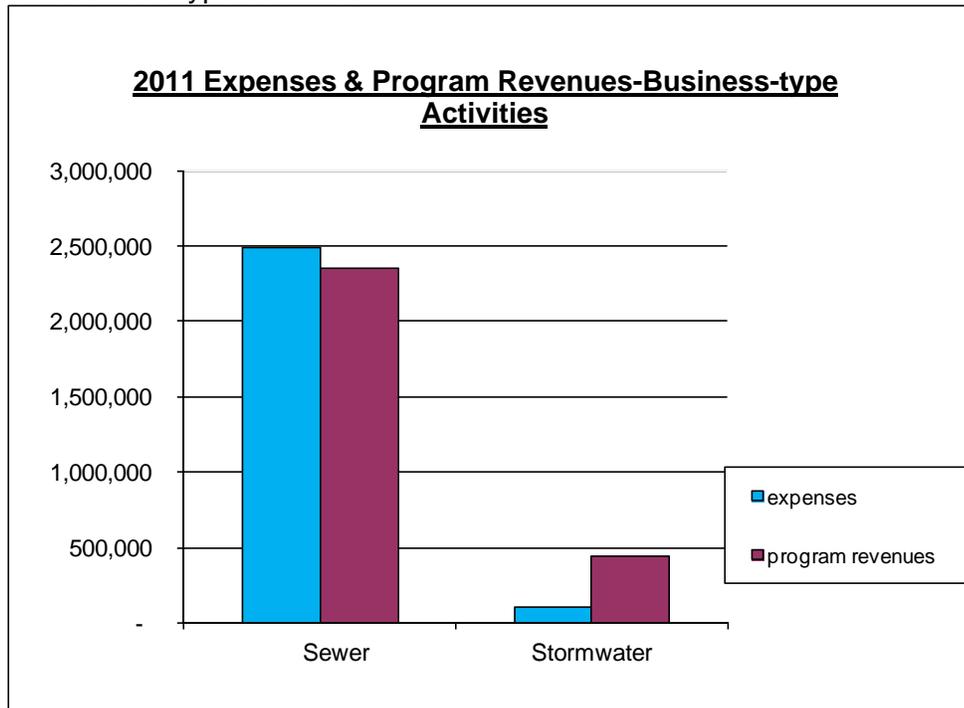
REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES

This chart illustrates the percent of revenue sources that fund the Town's business-type activities.



EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES

The following chart shows the portion of expenses by function that is covered by program revenues for business-type activities.



**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Town's Funds

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. These funds, along with major changes that occurred in the Town's funds are described below.

General Fund

The General Fund will close out in 2011 with a decrease in fund balance of \$88,753. The taxes collected in total across all funds for the Town were lower by \$41,659 in 2011. Revenues for the General Fund in 2011 decreased by a net of \$376,197 to those collected in 2010. For the General Fund, the decrease can be explained by the use of more than \$438,000 of the tax levy to pay for debt service in the Debt Service fund.

Expenditures also decreased by approximately \$138,114 in 2011 over 2010. This decrease can be seen in all areas including General Government, Public Safety, Culture and Recreation, and Conservation and Development.

Park Fund

The Park fund is used for accumulation of park impact fees and the expenditure of those fees for park development costs. The Park Fund used \$354,592 of its reserves to purchase new park land for later development. As expected, the impact fees were similar than 2010 due to the continued slowdown in development.

Capital Projects Fund

The Capital Project fund was created to account for current and future capital assets. A capital improvement plan, established with the help of a financial advisor, provides a means to fund current and future capital expenditures. The Town's main capital project in progress during 2011 was the completion of the fire/rescue building. The building is financed through bonds issued by the Town. At the end of 2011, the Capital Projects fund had net assets of \$204,115. The 2012 budget will initiate a plan to replenish this fund so to continue with capital improvement projects such as street repaving and equipment replacement for the long term.

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Debt Service Fund

The Town has created a Debt Service Fund to isolate the debt service tax levy and payments. With the completion of the fire/rescue building, the debt payments have increased by over \$600,000.

Enterprise Funds

Salem Sewer Utility and Storm Water funds are enterprise funds and as such are required to follow GASB statement #34. All of the enterprise funds account for contributed capital as revenue received in the year the capital asset is recognized.

Sewer Utility District Fund

The Sewer Utility has overseen a number of projects designed to improve the sewer system. The \$3.6 million equalization basin project and major repairs to the digester equipment were completed in 2010. Both the wet weather flow (\$1.8 million) and the plant renovations (\$1.1 million) were projects that were completed in 2010. These projects were funded by Clean Water Fund notes and the sewer replacement fund.

The sewer revenues were very similar in 2011 to those in 2010 as rates stayed at the same level as 2010. The Sewer Fund experienced a net decrease in net assets of \$5,345. Net operating income was over \$200,000 but not enough to cover interest expense. Capital contributions helped to keep the fund at a breakeven point. The Town will need to review its rate structure with this in mind.

Stormwater Utility Fund

The Stormwater Utility fund was created as a proprietary fund to record the charges for service and the operation and maintenance expenses of the newly established Stormwater Utility district in 2010. This utility is administered by the Town and overseen by the Town of Salem Board. Charges are billed quarterly with the Sewer billing. Revenues billed in 2011 increased by over \$25,000 compared to 2010.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town created an administrator position in 2009 to oversee the growth of the Town and the related projects as well as the day-to-day operations including the areas of financial services, public works, public safety, capital projects, sewer and storm water utilities and communication with the Town Board.

The administrator has reorganized the budget process with a published budget book and a chart of accounts that will improve reporting. With this reorganization, the fire and rescue operations were combined into the General Fund in 2010 to better coordinate this operation within the Town.

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GENERAL FUND BUDGETARY HIGHLIGHTS (continued)

The administrator has also made a priority of improving the fiscal reporting of the Town and the internal controls of the operations. The administrator goal is to communicate the fiscal status of the Town on a monthly basis. Policies and procedures are being written and improved in order to strengthen internal controls.

To improve efficiencies, the administrator implemented the use of lockboxes at the bank to collect the utility bills. This has saved manual entry of receipts at the Town hall. The collections are now posted to the Town's general ledger system by uploading an electronic file from the bank.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of December 2011, the Town had \$58.9 million invested in capital assets including buildings, parks, vehicles, equipment and infrastructure.

A summary report of capital assets is as follows:

	Governmental Activities		Business-Type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Construction in Progress	\$ -	\$ 9,519,596	\$ -	\$ -	\$ -	\$ 9,519,596
Land	4,270,521	3,915,929	290,189	290,189	4,560,710	4,206,118
Buildings & Improvements	13,295,358	2,453,270	57,412,211	57,259,519	70,707,569	59,712,789
Equipment	3,752,764	3,741,298	-	-	3,752,764	3,741,298
Infrastructure	1,478,206	1,478,206	-	-	1,478,206	1,478,206
Total Capital Assets	22,796,849	21,108,299	57,702,400	57,549,708	80,499,249	78,658,007
Less: Accumulated Depreciation	(2,526,151)	(2,020,751)	(19,051,010)	(18,071,996)	(21,577,161)	(20,092,747)
Total Net Capital Assets	<u>\$ 20,270,698</u>	<u>\$ 19,087,548</u>	<u>\$ 38,651,390</u>	<u>\$ 39,477,712</u>	<u>\$ 58,922,088</u>	<u>\$ 58,565,260</u>

Debt

At the end of the year, the Town's outstanding debt totaled \$25,469,350. No additional debt was issued in 2011.

Debt Outstanding at 12/31/2010	\$ 26,838,953
Principal Retired in 2011	<u>(1,369,603)</u>
Debt Outstanding at 12/31/2011	<u>\$ 25,469,350</u>

**TOWN OF SALEM
MANAGEMENT'S DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Town, along with the nation, continues to recover from the economic recession. The reduction in State shared revenues and the reduction in revenues generated by building permits, impact fees, connection fees and interest earnings continue to challenge the financial status of the Town of Salem. A self imposed 0% increase in the tax levy for 2011 and a state mandated 0% tax increase for fiscal year 2012 and 2013 has and will challenge the budget process even more. The Town, having withdrawn from the Teamsters Pension Fund, will incur a withdrawal liability that will be addressed in 2012.

The Town continues to plan for the future and the maintenance of its infrastructure. A long term plan for the Sewer Utility will be presented in 2012. The Sewer Utility Plan will outline the capital improvement needs of the utility and propose a maintenance and replacement schedule. The sewer plan will also look at long term user rates to support identified improvements.

The Town needs to upgrade its financial software system. The current system is three versions behind what is currently offered by the vendor. In addition the Town needs to add an accounts receivable and budget preparation module to further improve billing and financial integration.

The Town of Salem also needs to address the ongoing issues of street maintenance, street resurfacing, and equipment replacement. Street resurfacing and equipment replacement was removed from the 2010 budget as a cost saving measure. The long term impact of this decision has to be reviewed and a plan to improve the Town's infrastructure and replace its equipment should be a priority. A plan to address this situation may require an increase in the property tax levy or assuming additional debt.

CONTACTING THE TOWN'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to show the Town's accountability for the money it receives. If you have questions about this report or need additional information, contact the Town of Salem at 9814 Antioch Road, PO Box 443, Salem, WI, 53168.

Patrick Casey
Town Administrator
Town of Salem, Wisconsin

BASIC FINANCIAL STATEMENTS

TOWN OF SALEM
STATEMENT OF NET ASSETS
December 31, 2011

<u>ASSETS</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Current Assets:			
Cash and Investments	\$ 1,588,626	\$ 744,713	\$ 2,333,339
Taxes Receivable	4,907,906		4,907,906
Accounts Receivable	184,548	732,271	916,819
Due from (to) Other Funds	(482,868)	482,868	0
Due from Other Governments		427,105	427,105
Prepayments	140,420	70,833	211,253
Noncurrent Assets:			
Cash and Investments - Restricted	917,093	3,094,866	4,011,959
Special Assessments Receivable		1,188,831	1,188,831
Capital Assets	23,139,149	57,702,400	80,841,549
Less: Accumulated Depreciation	(2,622,379)	(19,051,010)	(21,673,389)
Unamortized Debt Issuance Costs	182,477	0	182,477
Total Assets	<u>27,954,972</u>	<u>45,392,877</u>	<u>73,347,849</u>
<u>LIABILITIES</u>			
Current Liabilities:			
Accounts Payable	503,984	101,929	605,913
Deposits	51,500	16,800	68,300
Accrued Salaries and Benefits	71,986	17,821	89,807
Accrued Interest Payable	205,542	68,827	274,369
Deferred Revenue	4,425,037		4,425,037
Notes and Bonds Payable - Current	619,680	684,805	1,304,485
Revenue Bonds Payable - Current		220,799	220,799
Noncurrent Liabilities:			
Notes and Bonds Payable	12,887,639	10,529,273	23,416,912
Revenue Bonds Payable	0	527,154	527,154
Total Liabilities	<u>18,765,368</u>	<u>12,167,408</u>	<u>30,932,776</u>
<u>NET ASSETS</u>			
Invested in Capital Assets	7,009,451	26,689,359	33,698,810
Restricted for:			
Capital Projects	192,349		192,349
Park	430,796		430,796
Maintenance Impact Fees	35,991		35,991
Debt Service	38,533	907,381	945,914
Equipment Replacement		2,187,485	2,187,485
Unrestricted	1,482,484	3,441,244	4,923,728
Total Net Assets	<u>\$ 9,189,604</u>	<u>\$ 33,225,469</u>	<u>\$ 42,415,073</u>

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

TOWN OF SALEM
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
General Government	\$ 1,093,555	\$ 159,181	\$ 0	\$ 0	\$ (934,374)	\$ 0	\$ (934,374)
Public Safety	1,564,310	371,059	287,127		(906,124)		(906,124)
Public Works	2,071,541	1,015,026	229,399	35,202	(791,914)		(791,914)
Culture and Recreation	391,177	965		11,324	(378,888)		(378,888)
Conservation and Development	27,430				(27,430)		(27,430)
Interest on Long-Term Debt	737,875		225,487		(512,388)		(512,388)
Total Governmental Activities	<u>5,885,888</u>	<u>1,546,231</u>	<u>742,013</u>	<u>46,526</u>	<u>(3,551,118)</u>	<u>0</u>	<u>(3,551,118)</u>
Business-type Activities:							
Sewer Utility District	2,486,969	2,357,030	0	80,744		(49,195)	(49,195)
Stormwater Utility	104,953	437,693				332,740	
Total Support Services	<u>2,591,922</u>	<u>2,794,723</u>	<u>0</u>	<u>80,744</u>	<u>0</u>	<u>283,545</u>	<u>(49,195)</u>
Total Primary Government	<u>\$ 8,477,810</u>	<u>\$ 4,340,954</u>	<u>\$ 742,013</u>	<u>\$ 127,270</u>	<u>(3,551,118)</u>	<u>283,545</u>	<u>(3,600,313)</u>
General Revenues:							
Property Taxes					3,419,447	0	3,419,447
Mobile Home Fees					43,923		43,923
State Aids - Unrestricted					161,040		161,040
Interest on Investments					9,931	43,850	53,781
Other					12,045		12,045
Transfers					<u>0</u>	<u>0</u>	<u>0</u>
Total General Revenues and Transfers					<u>3,646,386</u>	<u>43,850</u>	<u>3,690,236</u>
Change in Net Assets					95,268	327,395	422,663
Net Assets - Beginning of Year					8,842,918	32,898,074	41,740,992
Prior Period Adjustment (See Note 3-C)					251,418	0	251,418
Net Assets - End of Year					<u>\$ 9,189,604</u>	<u>\$ 33,225,469</u>	<u>\$ 42,415,073</u>

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

TOWN OF SALEM
BALANCE SHEET - GOVERNMENTAL FUNDS
December 31, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 1,334,833	\$ 0	\$ 38,533	\$ 214,960	\$ 1,588,326
Taxes Receivable	3,727,306	130,700	1,049,900		4,907,906
Accounts Receivable	184,548				184,548
Prepayments	140,420				140,420
Cash and Investments - Restricted		450,606		466,787	917,393
TOTAL ASSETS	\$ 5,387,107	\$ 581,306	\$ 1,088,433	\$ 681,747	\$ 7,738,593
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 257,493	\$ 246,491	\$ 0	\$ 0	\$ 503,984
Deposits	51,500				51,500
Accrued Salaries and Fringes	71,986				71,986
Deferred Revenue	3,244,437	130,700	1,049,900		4,425,037
Due to Other Funds	482,868				482,868
Total Liabilities	4,108,284	377,191	1,049,900	0	5,535,375
Fund Balances:					
Nonspendable for:					
Prepayments	140,420				140,420
Restricted for:					
Parks				430,796	430,796
Capital Projects		204,115			204,115
Maintenance Fees				35,991	35,991
Debt Service			38,533		38,533
Assigned for:					
Trails				214,960	214,960
Unassigned	1,138,403				1,138,403
Total Fund Balances	1,278,823	204,115	38,533	681,747	2,203,218
TOTAL LIABILITIES AND FUND BALANCES	\$ 5,387,107	\$ 581,306	\$ 1,088,433	\$ 681,747	\$ 7,738,593

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

TOWN OF SALEM
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET ASSETS
As of December 31, 2011

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balances - Governmental Funds	\$	2,203,218
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. This includes:		
Capital Assets		23,139,149
Accumulated Depreciation		(2,622,379)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. These include:		
Notes and Bonds Payable		(13,507,319)
Accrued Interest on Long-Term Debt		(205,542)
Unamortized Debt Discount and Expense		182,477
Net Assets of Governmental Activities	\$	<u><u>9,189,604</u></u>

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

TOWN OF SALEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For The Year Ended December 31, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 2,289,785	\$ 130,700	\$ 1,049,900	\$ 0	\$ 3,470,385
Intergovernmental	439,630		225,487		665,117
License and Permits	183,029				183,029
Fire and Rescue	550,768				550,768
Forfeitures and Penalties	41,837				41,837
Public Charges for Services	1,043,186			11,771	1,054,957
Miscellaneous	12,045	1,666		1,352	15,063
TOTAL REVENUES	4,560,280	132,366	1,275,387	13,123	5,981,156
EXPENDITURES					
Current:					
General Government	1,086,734	0	0	0	1,086,734
Public Safety	1,213,451				1,213,451
Public Works	1,916,083				1,916,083
Culture and Recreation	379,686				379,686
Conservation and Development	27,430				27,430
Contingency	25,649				25,649
Capital Outlay		1,322,492		354,592	1,677,084
Debt Service:					
Principal			488,362		488,362
Interest and Other			752,258		752,258
TOTAL EXPENDITURES	4,649,033	1,322,492	1,240,620	354,592	7,566,737
Excess of Revenues Over (Under) Expenditures	(88,753)	(1,190,126)	34,767	(341,469)	(1,585,581)
OTHER FINANCING SOURCES (USES)					
Proceeds from Long-Term Debt	0	0	0	0	0
Transfers In (Out)	0	0	0	0	0
Total Other Financing Sources (Uses)	0	0	0	0	0
Net Change in Fund Balances	(88,753)	(1,190,126)	34,767	(341,469)	(1,585,581)
Fund Balances - Beginning	1,367,576	1,394,241	3,766	1,023,216	3,788,799
Fund Balances - Ending	<u>\$ 1,278,823</u>	<u>\$ 204,115</u>	<u>\$ 38,533</u>	<u>\$ 681,747</u>	<u>\$ 2,203,218</u>

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

TOWN OF SALEM
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For The Year Ended December 31, 2011

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	(1,585,581)
The issuance of long-term debt is reported in the governmental funds as a other financing source, but has no effect on the statement of activities. (net of issuance costs)		0
Repayment of principal on long-term debt is reported in the governmental funds as an expenditure, but is recorded as a reduction in long-term debt in the statement of net assets and does not affect the statement of activities. These include:		
Principal Paid on Long-Term Loans		488,362
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays		1,688,550
Depreciation on Fixed Assets		(510,746)
Payment of interest on long-term debt is reported in the governmental funds as an expenditure when paid, but is recorded in the statement of activities as incurred.		
Interest Paid on Long-Term Debt		752,558
Interest Incurred for the Year		(719,521)
Amortization Incurred for the Year		(18,354)
Change in net assets of governmental activities	\$	95,268

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

TOWN OF SALEM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For The Year Ended December 31, 2011

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<u>REVENUES</u>				
Taxes	\$ 2,287,970	\$ 2,287,970	\$ 2,289,785	\$ 1,815
Intergovernmental	407,497	407,497	439,630	32,133
License and Permits	215,470	215,470	183,029	(32,441)
Fire and Rescue	496,500	496,500	550,768	54,268
Forfeitures and Penalties	39,600	39,600	41,837	2,237
Public Charges for Services	1,040,500	1,040,500	1,043,186	2,686
Miscellaneous	17,000	17,000	12,045	(4,955)
TOTAL REVENUES	<u>4,504,537</u>	<u>4,504,537</u>	<u>4,560,280</u>	<u>55,743</u>
<u>EXPENDITURES</u>				
Current:				
General Government	1,089,311	1,089,311	1,086,734	2,577
Public Safety	1,413,000	1,413,000	1,213,451	199,549
Public Works	1,864,679	1,864,679	1,916,083	(51,404)
Culture and Recreation	396,170	396,170	379,686	16,484
Conservation and Development	28,555	28,555	27,430	1,125
Contingency	25,000	25,000	25,649	(649)
TOTAL EXPENDITURES	<u>4,816,715</u>	<u>4,816,715</u>	<u>4,649,033</u>	<u>167,682</u>
Excess of Revenues Over (Under) Expenditures	<u>(312,178)</u>	<u>(312,178)</u>	<u>(88,753)</u>	<u>223,425</u>
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfer In	0	0	0	0
Operating Transfer (Out)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balances	(312,178)	(312,178)	(88,753)	223,425
Fund Balance - Beginning	1,367,576	1,367,576	1,367,576	0
Fund Balance - Ending	<u>\$ 1,055,398</u>	<u>\$ 1,055,398</u>	<u>\$ 1,278,823</u>	<u>\$ 223,425</u>

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

TOWN OF SALEM
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Utility District	Stormwater Utility	Totals Current Year
ASSETS			
Current Assets:			
Cash and Investments	\$ 262,948	\$ 481,765	\$ 744,713
Special Assessments Receivable	1,188,831	0	1,188,831
Accounts Receivable	619,193	113,078	732,271
Due from Other Funds	401,365	81,503	482,868
Due from Other Governments	403,260	23,845	427,105
Prepayments	70,833	0	70,833
Total Current Assets	2,946,430	700,191	3,646,621
Noncurrent Assets:			
Cash and Investments	3,094,866	0	3,094,866
Capital Assets	57,702,400	0	57,702,400
Less: Accumulated Depreciation	(19,051,010)	0	(19,051,010)
Total Noncurrent Assets	41,746,256	0	41,746,256
 Total Assets	44,692,686	700,191	45,392,877
LIABILITIES			
Current Liabilities:			
Accounts Payable	101,812	117	101,929
Accrued Salaries and Benefits	15,058	2,763	17,821
Deposits	16,800	0	16,800
Total Current Liabilities	133,670	2,880	136,550
Current Liabilities Payable from Restricted Assets:			
General Obligation Notes and Bonds	684,805	0	684,805
Revenue Bonds Payable	220,799	0	220,799
Accrued Interest Payable	68,827	0	68,827
Total Current Liabilities Payable from Restricted Assets	974,431	0	974,431
Noncurrent Liabilities:			
General Obligation Notes and Bonds Payable	10,529,273	0	10,529,273
Revenue Bonds Payable	527,154	0	527,154
Total Noncurrent Liabilities	11,056,427	0	11,056,427
 Total Liabilities	12,164,528	2,880	12,167,408
NET ASSETS			
Invested in Capital Assets, net of related debt	26,689,359	0	26,689,359
Restricted for:			
Equipment Replacement	2,187,485	0	2,187,485
Debt Service	907,381	0	907,381
Unrestricted	2,743,933	697,311	3,441,244
 Total Net Assets	\$ 32,528,158	\$ 697,311	\$ 33,225,469

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

TOWN OF SALEM
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS - PROPRIETARY FUNDS
For the Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		Totals Current Year
	Utility District	Stormwater Utility	
<u>REVENUES</u>			
Charges for Services	\$ 2,347,562	\$ 437,693	\$ 2,785,255
Other Operating Revenues	9,468	0	9,468
 Total Operating Revenues	 <u>2,357,030</u>	 <u>437,693</u>	 <u>2,794,723</u>
<u>EXPENSES</u>			
Operation and Maintenance	1,177,387	104,953	1,282,340
Depreciation	979,014	0	979,014
Total Operating Expenses	<u>2,156,401</u>	<u>104,953</u>	<u>2,261,354</u>
 Operating Income (Loss)	 200,629	 332,740	 533,369
<u>Nonoperating Revenues (Expenses):</u>			
Interest Income	43,850	0	43,850
Interest Expense	(330,568)	0	(330,568)
 Total Nonoperating Revenues (Expenses)	 <u>(286,718)</u>	 <u>0</u>	 <u>(286,718)</u>
Income Before Contributions and Transfers	(86,089)	332,740	246,651
Capital Contributions	80,744	0	80,744
Transfers In	0	0	0
Transfers (Out)	0	0	0
 Change in Net Assets	 (5,345)	 332,740	 327,395
Net Assets - Beginning	32,533,503	364,571	32,898,074
Net Assets - Ending	<u>\$ 32,528,158</u>	<u>\$ 697,311</u>	<u>\$ 33,225,469</u>

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

TOWN OF SALEM
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For The Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		Totals
	Utility District	Stormwater Utility	
<u>Cash Flows From Operating Activities:</u>			
Receipts from Customers	\$ 2,440,974	\$ 443,334	\$ 2,884,308
Payments to Suppliers/Employees	(1,179,503)	(107,986)	(1,287,489)
Net Cash Flows from Operating Activities	<u>1,261,471</u>	<u>335,348</u>	<u>1,596,819</u>
<u>Cash Flows From Noncapital Financing Activities:</u>			
Deposits	(925)	0	(925)
Net Cash Flows from Noncapital Related Financing Activities	<u>(925)</u>	<u>0</u>	<u>(925)</u>
<u>Cash Flows From Capital and Related Financing Activities:</u>			
Proceeds from Capital Debt	0	0	0
Capital Contributions	80,744	0	80,744
Special Assessments Received	92,960	0	92,960
Purchases of Capital Assets	(152,692)	0	(152,692)
Principal Paid on Capital Debt	(881,241)	0	(881,241)
Interest Paid on Capital Debt	(336,529)	0	(336,529)
Net Cash Flow from Capital and Related Financing Activities	<u>(1,196,758)</u>	<u>0</u>	<u>(1,196,758)</u>
<u>Cash Flow From Investing Activities:</u>			
Interest Income	43,850	0	43,850
Net Cash Flow from Investing Activities	<u>43,850</u>	<u>0</u>	<u>43,850</u>
Net Increase (Decrease) in Cash and Cash Equivalents	107,638	335,348	442,986
Cash and Cash Equivalents - January 1	3,250,176	146,417	3,396,593
Cash and Cash Equivalents - December 31 \$	<u><u>3,357,814</u></u>	<u><u>481,765</u></u>	<u><u>3,839,579</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

TOWN OF SALEM
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
For The Year Ended December 31, 2011

	Business-Type Activities - Enterprise Funds		
	Utility District	Stormwater Utility	Totals
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:			
Operating Income (Loss)	\$ 200,629	\$ 332,740	\$ 533,369
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:			
Depreciation Expense	979,014	0	979,014
(Increase) Decrease in Accounts Receivable	48,233	23,642	71,875
(Increase) Decrease in Due From Other Funds	28,395	5,844	34,239
(Increase) Decrease in Due From Other Governments	7,316	(23,845)	(16,529)
(Increase) Decrease in Prepayments	(27,123)	0	(27,123)
Increase (Decrease) in Accounts Payable	45,221	(5,796)	39,425
Increase (Decrease) in Accrued Liabilities	(20,214)	2,763	(17,451)
Total Adjustments	1,060,842	2,608	1,063,450
Net Cash Provided by Operating Activities	\$ 1,261,471	\$ 335,348	\$ 1,596,819
<u>Noncash Investing, Capital, and Financing Activities:</u>			
Capital Contributions by Developers	\$ 0	\$ 0	

The Notes to the Financial Statements are an Integral Part of this Statement.

TOWN OF SALEM
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS

December 31, 2011

		Agency Funds	
			Tax Collection Fund
<u>ASSETS</u>			
Cash and Investments	\$	6,087,351	
Taxes Receivable		13,853,966	
		19,941,317	
<u>LIABILITIES</u>			
Due to Other Taxing Units	\$	19,941,317	
<u>NET ASSETS</u>			
Net Assets	\$	0	

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

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Salem, Wisconsin is a municipality governed by a town chairman and a four-member town board.

The financial statements of the Town of Salem have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the town are described below:

This report includes all of the funds of the Town of Salem.

B. Government-wide and Fund Financial Statements

Government-wide statements

The Government-wide financial statements (i.e., statement of net assets and statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Funds are organized as major funds or non-major funds within the governmental and proprietary statements. The town reports the following major governmental and business-type funds:

Governmental Funds

General Fund is the town's primary operating fund. It accounts for all financial resources of the town, except those required to be accounted for in another fund.

Capital Projects Fund accounts for the proceeds from long-term debt and expenditures of debt proceeds for capital projects.

Debt Service Fund accounts for the accumulation for and payment of all long-term obligations of the governmental funds.

Enterprise Funds

Utility District accounts for the transactions of the town's sewer utility.

Stormwater Utility accounts for the transactions of the town's stormwater utility.

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

The town also reports the following non-major governmental funds:

- Trails Fund
- Maintenance Fees Fund
- Park Fund

Additionally, the town reports the following fund types that are not included in the government-wide financial statements:

The *Tax Collection Agency Fund* accounts for assets received from taxpayers held for distribution to other taxing units.

C. Measurement Focus and Basis of Accounting

Government-wide statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Taxes receivable for the following year are recognized as receivables and deferred revenues. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule the effect of interfund activity has been removed from the government-wide financial statements. Exceptions to this general rule are charges between the town's utility district and stormwater utility and the town's governmental activities. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those statements do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to the same limitation. The town has elected not to follow subsequent private-sector guidance.

Fund financial statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state aids, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The town's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes permit the town to invest available cash balances, other than debt service funds, in time deposits of authorized depositories, U.S. Treasury obligations, U.S. Agency issues, high grade commercial paper, and the State Treasurer's Investment Pool. Available balances in the debt service fund may be invested in municipal obligations, U.S. Government obligations, and the State Treasurer's Investment Pool. Investments are reported at fair value unless the difference between amortized costs and fair value are immaterial.

The State Treasurer's Investment Pool is not registered with the Securities and Exchange Commission as an investment company. The Investment pool is managed by the State of Wisconsin Investment Board with oversight by a Board of Trustees as authorized in Wisconsin Statutes Chapter 25.

Receivables

Property taxes are levied in December on the assessed value as of the prior January 1. In addition to property taxes for the town, taxes are collected for the state, county, school district, and technical college district. Property taxes levied for town purposes as well as other governmental units are recorded as "Taxes Receivable" in the fund statements. The town portion of the levy is shown as "Deferred Revenue" and the other governmental units portion is shown as "Due to Other Taxing Units". The town share is recognized as revenue in the following year when the services financed by the levy are provided. Taxes collected in advance of the year for which they are levied are shown as reduction of the taxes receivable balance at December 31. The lien date and levy date are both in December 2011. Due dates for collection of taxes are January 31, 2012 and July 31, 2012.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Accounts receivable are recorded at gross amounts with uncollectible amounts recognized under the direct write-off method. An allowance for uncollectible rescue billings in the General Fund has been established in the amount of \$85,301 at December 31, 2011. No allowance for uncollectible accounts has been provided for any other receivables since such allowance would not be material.

Inventories and Prepayments

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include land, buildings, land improvements, equipment, and infrastructure are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Infrastructure assets prior to January 1, 2004 have not been capitalized.

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Depreciable capital assets of the town are depreciated using the straight line method over the following estimated useful lives:

<u>Assets:</u>	<u>Years</u>
Buildings and Improvements	20-50
Equipment	10-20
Infrastructure	40

In the fund financial statements, governmental fund fixed assets are accounted for as capital outlay expenditures in the year purchased. No depreciation is recorded in the governmental fund financial statements. Fixed assets in the proprietary funds are accounted for the same way as in the government-wide statements.

Compensated Absences

Under terms of employment, town employees are granted vacations and sick leave (casual days) in varying amounts. All vested vacation and sick leave pay are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured.

Benefits are recorded as expenditures in the fund statements as paid while recorded in the statement of activities as earned. All employee vacations must be taken in the year earned. In addition, all full-time employees earn five casual days per year. All unused casual days are accrued at year end and paid to the employee in the subsequent year. The total vacation pay accrual is immaterial at December 31, 2011. The liability was calculated based upon rate of pay in effect at December 31, 2011.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds or notes using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

In the fund statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Claims and Judgments

Claims and judgments are recorded as liabilities if all the conditions of Governmental Accounting Standards Board pronouncements are met. Claims and judgments that would normally be liquidated with expendable available financial resources are recorded during the year as expenditures in the governmental funds. If they are not to liquidated with expendable available financial resources, no liability is recognized in the governmental fund statements. The related expenditure is recognized when the liability is liquidated. Claims and judgments are recorded in the government-wide statements and proprietary funds as expenses when the related liabilities are incurred. There were no significant claims or judgments at year-end.

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Equity Classifications

Equity in the government-wide financial statements is reflected in three components:

- Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, notes, land contracts, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net assets – consists of net assets with restrictions placed on their use either by external groups or state and federal law.
- Unrestricted net assets – All other net assets that do not meet the definition of the other two.

Equity in the Fund financial statements is reflected in the following categories:

- Nonspendable Fund Balance – This includes amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. The town shall report inventories, prepaid items, long-term receivables, and other amounts legally or contractually required to be maintained intact as nonspendable.
- Restricted Fund Balance – This includes amounts limited by external parties, laws or regulations, constitutional provisions or enabling legislation. The town shall report amounts as restricted that can be spent only for specific purposes stipulated by constitution, external source providers, or through legislation. When both restricted and unrestricted resources are available for use, it is town policy to use unrestricted resources first, then restricted resources as they are needed.
- Committed Fund Balance – This includes amounts that are committed for specific purposes by formal action of the Town Board.
- Assigned Fund Balance – This includes amounts that are intended to be used for specific purposes but are neither restricted nor formally committed. Intent can be expressed by the Board or by an individual or subordinate high level body to which the Town Board has delegated authority. The town board has not delegated authority to assign fund balance for a specific intended purpose.
- Unassigned Fund Balance – This includes any remaining amounts in the General Fund that are not classified as nonspendable, restricted, committed, or assigned. In other funds, the unassigned classification shall be used only to report a deficit balance resulting from overspending for specific purposes for which amounts have been restricted, committed, or assigned.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

A budget for the General Fund and Park Fund were adopted on a basis consistent with generally accepted accounting principles. The budgets were adopted in compliance with all material state statutes.

Budgetary information as presented in the fund financial statements is derived from:

- A public hearing to obtain taxpayer comments on the proposed budget
- The annual operating budget as originally adopted by the town board
- Individual amendments to the original budget as approved by the town board during the year.

Budget appropriations lapse at year-end unless specifically carried over to the next year.

TOWN OF SALEM
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2011

B. Excess of Expenditures over Appropriations

For the year ended December 31, 2011, expenditures exceeded budgeted amounts in the following funds:

The General Fund had excess expenditures for Public Works (\$51,404) and Contingency (\$649). These overexpenditures were funded by available fund balance and by other functions in which budgeted amounts were in excess of actual expenditures.

C. DNR Replacement Fund

The Wisconsin Department of Natural Resources required the creation of an equipment replacement fund as a condition of receiving a grant for the sewer utility. The equipment replacement fund has been established and the balance at December 31, 2011 was \$ 2,187,485.

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A - CASH AND INVESTMENTS

The town's deposits include checking accounts, savings accounts, and money market accounts. The town's investments consisted of deposits in the State Treasurer's Investment Pool.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of December 31, 2011, \$566,073 of the government's bank balance of \$7,053,844 was exposed to custodial credit risk as follows:

Uninsured and Uncollateralized	\$	440,878
Total	\$	440,878

Differences between bank balance and book balance represent deposits in transit and outstanding checks.

The FDIC insurance is in the amount of \$250,000. Depository insurance is also provided by the State Deposit Guarantee Fund of the State of Wisconsin. The coverage is limited to \$400,000 above the applicable insurance provided by the FDIC. However, due to the relatively small size of the Guarantee Fund in relation to the total coverage, total recovery of losses may not be available. As a result, this coverage was not considered in computing the above amount.

State Statutes authorize the town to invest in various types of investments as per Wisconsin Statute 66.04(2) and 67.11(2). During 2011, the town's investments consisted entirely of amounts in the State Treasurer's Investment Pool. The balance at December 31, 2011 was \$5,503,499.

Total cash and investments at December 31, 2011 consist of the following:

Deposits	\$	6,928,650
Investments – State Investment Pool		5,503,499
Petty Cash		500
Total Cash and Investments	\$	12,432,649
Total per financial statements:		
Cash and Investments – Current	\$	2,344,805
Cash and Investments – Restricted		4,000,493
Agency Fund – Tax Collection Fund		6,087,351
Total	\$	12,432,649

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

B – RESTRICTED ASSETS

The following represent the balances of restricted assets as of December 31, 2011:

Governmental activities:		
Park impact fees	\$	430,796
Maintenance fees		35,991
Capital Projects		450,306
Business-type activities:		
Department of Natural Resources Equipment Replacement Fund		2,187,485
Special Redemption Fund		907,381
Total	\$	<u>4,011,959</u>

C - CAPITAL ASSETS

Governmental activities:	<u>Balance</u> <u>1-01-2011</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance</u> <u>12-31-2011</u>
Land	\$ 3,990,929	\$ 354,592	\$ 0	\$ 4,345,521
Buildings & Improvements	2,720,570	10,842,088	0	13,562,658
Equipment	3,741,298	11,466	0	3,752,764
Infrastructure	1,478,206	0	0	1,478,206
Construction Work In Progress	9,519,596	(9,519,596)	0	0
Totals	<u>21,450,599</u>	<u>1,688,550</u>	<u>0</u>	<u>23,139,149</u>
Less: Accumulated Depreciation for:				
Buildings & Improvements	841,278	250,924	0	1,092,202
Equipment	1,117,723	223,170	0	1,340,893
Infrastructure	152,632	36,652	0	189,284
Total Accumulated Depreciation	<u>2,111,633</u>	<u>510,746</u>	<u>0</u>	<u>2,622,379</u>
Governmental Activities Capital Assets – Net	<u>\$ 19,338,966</u>	<u>\$ 1,177,804</u>	<u>\$ 0</u>	<u>\$ 20,516,770</u>

The January 1, 2011 balance was adjusted to reflect the Town of Salem's portion of the Salem Community Library land and buildings in the amount of \$342,300 less accumulated depreciation of \$90,882. The net change was \$251,418.

Construction Work In Progress at December 31, 2010 included \$9,519,596 for Fire/Rescue Building.

Business-type activities:	<u>Balance</u> <u>1-01-2011</u>	<u>Additions</u>	<u>Removals</u>	<u>Balance</u> <u>12-31-2011</u>
Land – Utility District	\$ 290,189	\$ 0	\$ 0	\$ 290,189
Utility District Infrastructure	57,259,519	152,692	0	57,412,211
Construction Work In Progress	0	0	0	0
Totals	<u>57,549,708</u>	<u>152,692</u>	<u>0</u>	<u>57,702,400</u>
Less: Accumulated Depreciation for:				
Utility District	18,071,996	979,014	0	19,051,010
Total Accumulated Depreciation	<u>18,071,996</u>	<u>979,014</u>	<u>0</u>	<u>19,051,010</u>
Governmental Activities Capital Assets – Net	<u>\$ 39,477,712</u>	<u>\$ (826,322)</u>	<u>\$ 0</u>	<u>\$ 38,651,390</u>

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Land and construction work in progress of governmental funds are not depreciated. Depreciation expense was charged to the following governmental functions as follows:

General Government	\$	7,121
Public Safety		350,859
Public Works		141,275
Culture and Recreation		11,491
Total Depreciation of Governmental Activities	\$	510,746

Land and construction work in progress of business-type funds are also not depreciated. Depreciation expense was charged to the following business-type functions as follows:

Utility District	\$	979,014
Stormwater Utility		0
Total Depreciation of Business-type activities	\$	979,014

E – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Utility District	General Fund	\$ 401,365
Stormwater Utility	General Fund	81,503
		\$ 482,868

F - LONG-TERM OBLIGATIONS

Long-term obligations of the town are as follows:

Governmental Activities:

	<u>Balance</u> <u>1-1-2011</u>		<u>Increases</u>		<u>Decreases</u>		<u>Balance</u> <u>12-31-2011</u>		<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
General Obligation:									
Notes & Bonds	\$ 13,995,681	\$	0	\$	488,362	\$	13,507,319	\$	619,680
Totals	\$ 13,995,681	\$	0	\$	488,362	\$	13,507,319	\$	619,680

Business-Type Activities:

	<u>Balance</u> <u>1-1-2011</u>		<u>Increases</u>		<u>Decreases</u>		<u>Balance</u> <u>12-31-2011</u>		<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
General Obligation:									
Notes and Bonds	\$ 640,790	\$	0	\$	73,784	\$	567,006	\$	76,825
Environmental Improvement Fund:									
General Obligation	11,239,487		0		592,415		10,647,072		607,980
Revenue bonds	962,995		0		215,042		747,953		220,799
Totals	\$ 12,843,272	\$	0	\$	881,241	\$	11,962,031	\$	905,604

All general obligation debt is secured by the full faith and credit and unlimited taxing powers of the town. Business-type activities debt is payable from user fees of those funds.

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Governmental funds debt at December 31, 2011 is comprised of the following individual issues:

Issue	Issue Dates	Interest Rates	Maturity Dates	Balances 12-31-2011
General Obligation:				
Note	2-1-03	1.8-3.9%	3-1-12	\$ 135,000
State Trust Fund Loan	10-6-05	4.00%	3-15-15	147,319
Note	3-1-06	3.45-4.00%	3-1-16	990,000
Note	6-3-08	2.60-3.60%	3-1-18	1,495,000
Refunding Bonds	5-26-10	1.375-5.500%	3-1-30	<u>10,740,000</u>
Total Governmental Funds Debt				<u>\$ 13,507,319</u>

Business-type debt at December 31, 2011 is comprised of the following individual issues:

Issue	Issue Dates	Interest Rates	Maturity Dates	Balances 12-31-2011
Utility District:				
Revenue Bond	11-10-92	1.148%	5-1-12	\$ 55,883
Revenue Bond	12-13-95	3.206%	5-1-15	692,070
General Obligation Note	2-26-97	2.998%	5-1-16	243,538
General Obligation Note	5-26-99	2.722%	5-1-19	95,513
General Obligation Note	9-27-00	2.97%	5-1-20	290,649
General Obligation Note	11-28-01	2.75%	5-1-21	644,878
State Trust Fund Loan	10-6-05	4.00%	3-15-15	51,258
General Obligation Note	12-26-07	2.464%	5-1-27	5,079,781
State Trust Fund Loan	9-16-08	4.25%	3-15-18	515,748
General Obligation Note	3-25-09	2.668%	5-1-28	<u>4,292,713</u>
Total Business-type Debt				<u>\$ 11,962,031</u>

In accordance with Wisconsin Statutes, total general obligation indebtedness of the town may not exceed five percent of the equalized value of taxable property within the town. The debt limit for general obligation debt as of December 31, 2011 was \$56,053,730. The general obligation debt outstanding at December 31, 2011 was \$24,721,397.

Aggregate cash flow requirements for the retirement of long-term principal and interest on December 31, 2011 follows:

Governmental Activities:

Year Ended December 31	Principal	Interest	Total
2012	\$ 619,680	\$ 599,426	\$ 1,219,106
2013	636,084	580,068	1,216,152
2014	657,527	559,929	1,217,456
2015	679,028	537,699	1,216,727
2016	700,000	512,804	1,212,804
2017-2021	3,285,000	2,157,056	5,442,056
2022-2026	3,520,000	1,384,046	4,904,046
2027-2031	3,410,000	382,250	3,792,250
Totals	<u>\$ 13,507,319</u>	<u>\$ 6,713,278</u>	<u>\$ 20,220,597</u>

TOWN OF SALEM
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2011

Business-type Activities:

Year Ended December 31	Principal	Interest	Total
2012	\$ 905,603	\$ 311,878	\$ 1,217,481
2013	874,285	286,697	1,160,982
2014	899,510	261,164	1,160,674
2015	925,487	234,876	1,160,363
2016	750,983	210,832	961,815
2017-2021	3,463,940	755,401	4,219,341
2022-2026	3,153,288	333,472	3,486,760
2027-2031	988,935	21,054	1,009,989
Totals	\$ 11,962,031	\$ 2,415,374	\$ 14,377,405

NOTE 5 – OTHER INFORMATION

A – RETIREMENT PLAN

The town contributes to a retirement plan for all union employees. In addition, eligible non-union employees receive a payment based upon years of service that can be deposited into an individual retirement plan of the employee or taken as wages. All payments in 2011 were added to the employees W-2 at year end. The payments made by the town were equal to the required amounts for 2011.

B – RISK MANAGEMENT

The town is exposed to various risks of loss; theft or damage to, or destruction of assets; errors and omissions; workers compensation; and health care for its employees. All of these risks are covered through the purchase of commercial insurance coverage, with minimal deductibles. Settled claims have not exceeded the commercial insurance coverage in any of the past three years. There were no significant reductions in coverage compared to the prior year.

C – COMMITMENTS AND CONTINGENCIES

The town has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grants. Management believes such disallowances, if any, would be immaterial.

D – BUILD AMERICA BONDS

The Town borrowed a \$10,740,000 Taxable General Obligation Refunding Bonds in 2010 for the purpose of refunding the \$3,535,000 Note Anticipation Notes dated October 1, 2009 and the \$7,025,000 Note Anticipation Notes dated March 24, 2010. The note anticipation notes were used to fund the highway/fire building project. The borrowing is qualified to be "Build America Bonds" within the meaning of Subsection 54AA(g) of the Internal Revenue Code of 1986, as amended and the applicable regulations promulgated under the Code so that the Town may claim refundable credits with respect to each interest payment on the borrowing. The amount of the refundable credit payment is determined by multiplying the interest payment that is payable by the town on an interest payment date by 35%. This amount is paid from the United States Department of the Treasury to the Town. The amount refunded in 2011 was \$225,487.

SUPPLEMENTAL INFORMATION

TOWN OF SALEM
 COMBINING BALANCE SHEET -
 NONMAJOR GOVERNMENTAL FUNDS
 December 31, 2011

	<u>Trails Fund</u>	<u>Park Fund</u>	<u>Maintenance Fees Fund</u>	<u>Total Nonmajor Funds</u>
ASSETS				
Cash and Investments	\$ 214,960	\$ 0	\$ 0	\$ 214,960
Cash and Investments-Restricted		430,796	35,991	466,787
TOTAL ASSETS	<u>\$ 214,960</u>	<u>\$ 430,796</u>	<u>\$ 35,991</u>	<u>\$ 681,747</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Vouchers Payable	\$ 0	\$ 0	\$ 0	\$ 0
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:				
Restricted	0	430,796	35,991	466,787
Assigned	214,960	0	0	214,960
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 214,960</u>	<u>\$ 430,796</u>	<u>\$ 35,991</u>	<u>\$ 681,747</u>

TOWN OF SALEM
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 For The Year Ended December 31, 2011

	<u>Trails Fund</u>	<u>Park Fund</u>	<u>Maintenance Fees Fund</u>	<u>Total Nonmajor Funds</u>
REVENUES				
Taxes	\$ 0	\$ 0	\$ 0	\$ 0
Public Charges for Services		11,324	447	11,771
Miscellaneous	312	991	49	1,352
TOTAL REVENUES	<u>312</u>	<u>12,315</u>	<u>496</u>	<u>13,123</u>
EXPENDITURES				
Capital Outlay:				
Culture and Recreation	0	354,592	0	354,592
TOTAL EXPENDITURES	<u>0</u>	<u>354,592</u>	<u>0</u>	<u>354,592</u>
Excess of Revenues Over (Under) Expenditures	<u>312</u>	<u>(342,277)</u>	<u>496</u>	<u>(341,469)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from Long-Term Debt				0
Operating Transfer In (Out)	0	0	0	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Changes in Fund Balances	312	(342,277)	496	(341,469)
Fund Balances - Beginning	214,648	773,073	35,495	1,023,216
Fund Balances - Ending	<u>\$ 214,960</u>	<u>\$ 430,796</u>	<u>\$ 35,991</u>	<u>\$ 681,747</u>