

TOWN OF SALEM, WISCONSIN
ANNUAL FINANCIAL REPORT
DECEMBER 31, 2013

TOWN OF SALEM, WISCONSIN

December 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Town Board
Town of Salem, Wisconsin

Report on the Financial Statements

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, Wisconsin ("the Town ") as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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 control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 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 auditors' 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 Town '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 Town '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.

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 as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note A.4.h., the Town has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, for the year ended December 31, 2013. Our opinions are not modified with respect to this matter.

As described in Note A.6, the Town reclassified the activities of the Storm Water Utility from an enterprise to a special revenue fund. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The financial information listed in the table of contents as supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 2014, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 Town's internal control over financial reporting and compliance.



Certified Public Accountants
Green Bay, Wisconsin
June 24, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2013.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position, 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 position and statement of activities provide information about the Town's most significant funds. Our analysis of the Town as a whole begins on page 14.

Reporting the Town as a Whole

One of the most important questions asked about the Town's finances is- "Is the Town as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position 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, liabilities and deferred inflows/outflows of resources using the accrual basis of accounting. Most private-sector companies use the 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 position and changes in them. You can think of the Town's net position - the difference between assets and liabilities and deferred inflows - as one way to measure the Town's financial health, or financial position. Over time, increases or decreases in the Town's net position 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 Position 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

Reporting the Town as a Whole (continued)

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, Storm Water Utility 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. Rates for the sewer utilities are established and should be reviewed on an annual basis by the Salem Town Board. The Storm Water utility has been reclassified in 2013 as a Special Revenue fund and a governmental activity. Rates for the storm water 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 Position 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 major governmental funds include the General Fund, Storm Water Utility Fund, Debt Service Fund and Capital Improvements Fund. All other governmental activities including Trails and Maintenance Fees are included in the non-major funds, special revenue funds. The General fund includes General Government, Public Safety, Public Works, Health and Human Services, Culture and Recreation, Conservation and Development. The Capital Improvements 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. The Storm Water Utility accounts for fees collected to maintain the Town's storm water infrastructure.

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 Position 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 fund includes the Utility District.

The Town as a Whole

Government-wide Financial Analysis

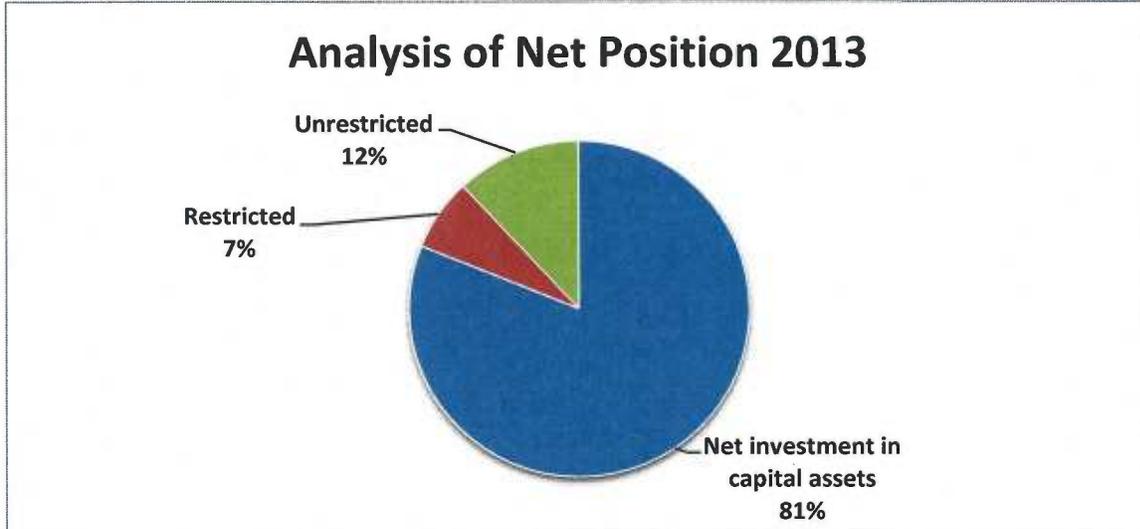
The condensed financial statements on the next two pages present the net position of the Town and changes in net position. These statements are presented with comparisons to 2012. Net position may serve over time as a useful indicator of a government's financial position. In 2013, the Town's assets exceeded liabilities and deferred inflows by \$43,083,247.

The largest portion of the Town's net position (81 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 7 percent of net position that are restricted for a certain purpose. The remaining 12 percent is the category of unrestricted net position 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 POSITION
As of December 31, 2013**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 30,799,549	\$ 27,951,469	\$ 5,815,645	\$ 5,970,754	\$ 36,615,194	\$ 33,922,223
Capital assets	21,206,030	20,137,570	37,181,477	37,718,416	58,387,507	57,855,986
Total assets	52,005,579	48,089,039	42,997,122	43,689,170	95,002,701	91,778,209
Long-term liabilities outstanding	14,441,256	12,342,899	9,290,932	10,182,143	23,732,188	22,525,042
Other liabilities	23,459,535	21,247,134	1,132,887	1,011,005	24,592,422	22,258,139
Total liabilities	37,900,791	33,590,033	10,423,819	11,193,148	48,324,610	44,783,181
Deferred inflows of resources	3,594,844	4,409,819	-	-	3,594,844	4,409,819
Net position:						
Net investment in capital assets	7,947,048	7,112,128	26,992,752	26,661,988	34,939,800	33,774,116
Restricted	543,522	713,206	2,443,634	2,449,013	2,987,156	3,162,219
Unrestricted	2,019,374	2,263,853	3,136,917	3,385,021	5,156,291	5,648,874
Total net position	<u>\$ 10,509,944</u>	<u>\$ 10,089,187</u>	<u>\$ 32,573,303</u>	<u>\$ 32,496,022</u>	<u>\$ 43,083,247</u>	<u>\$ 42,585,209</u>

The Town's total net position increased by almost \$500,000. The governmental-type increase in net position of \$420,757 was mainly due a donation for parks of over \$125,000 and a decrease in public works costs of close to \$300,000. In the business-type activities, the Sewer Utility had a reduction in expenses of \$116,117.

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

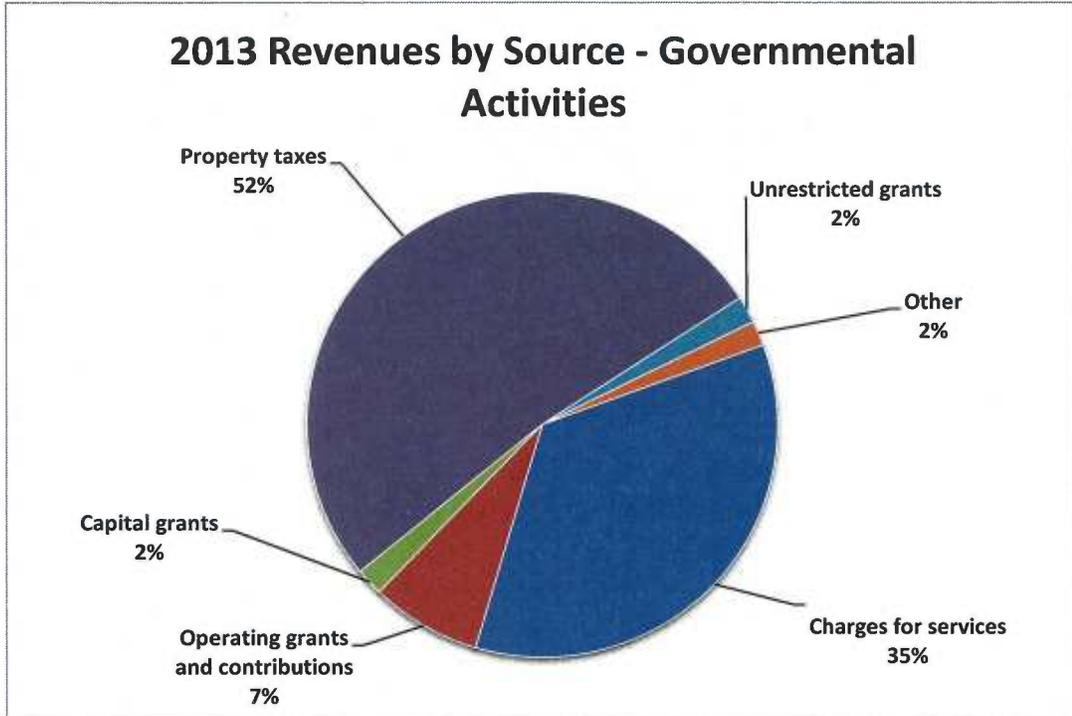
**TOWN OF SALEM
CHANGES IN NET POSITION
Year Ended December 31, 2013**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,330,218	\$ 2,043,255	\$ 2,490,676	\$ 2,406,463	\$ 4,820,894	\$ 4,449,718
Operating grants and contributions	504,873	724,740	-	-	504,873	724,740
Capital grants and contributions	125,321	25,153	-	82,600	125,321	107,753
General revenues:						
Property taxes	3,425,697	3,419,464	-	-	3,425,697	3,419,464
Other taxes	47,774	44,502	-	-	47,774	44,502
Grants and contributions not restricted to specific programs	123,632	123,407	-	-	123,632	123,407
Other	66,535	53,344	24,209	32,522	90,744	85,866
Total revenues	<u>6,624,050</u>	<u>6,433,865</u>	<u>2,514,885</u>	<u>2,521,585</u>	<u>9,138,935</u>	<u>8,955,450</u>
Expenses:						
General government	1,146,482	1,054,714	-	-	1,146,482	1,054,714
Public safety	1,563,137	1,552,944	-	-	1,563,137	1,552,944
Public works	2,260,818	2,558,162	-	-	2,260,818	2,558,162
Health and human services	5,500	-	-	-	5,500	-
Culture and recreation	344,447	428,927	-	-	344,447	428,927
Conservation and development	72,024	29,575	-	-	72,024	29,575
Interest on long-term debt	642,911	607,269	-	-	642,911	607,269
Sewer Utility District	-	-	2,437,604	2,553,721	2,437,604	2,553,721
Stormwater	-	-	-	-	-	-
Total expenses	<u>6,035,319</u>	<u>6,231,591</u>	<u>2,437,604</u>	<u>2,553,721</u>	<u>8,472,923</u>	<u>8,785,312</u>
Increase in net position	588,731	202,274	77,281	(32,136)	666,012	170,138
Cumulative effect of change in accounting principle	(167,974)	-	-	-	(167,974)	-
Net position beginning of year, restated	<u>10,089,187</u>	<u>9,886,913</u>	<u>32,496,022</u>	<u>32,528,158</u>	<u>42,585,209</u>	<u>42,415,071</u>
Net position end of year	<u>\$ 10,509,944</u>	<u>\$ 10,089,187</u>	<u>\$ 32,573,303</u>	<u>\$ 32,496,022</u>	<u>\$ 43,083,247</u>	<u>\$ 42,585,209</u>

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

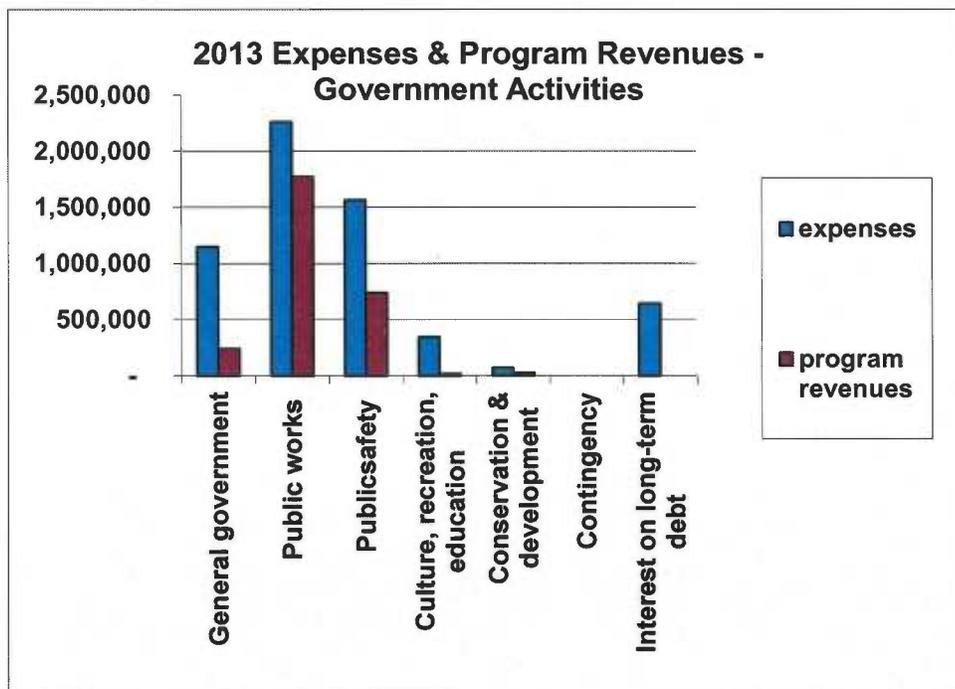
REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES

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



EXPENSES AND PROGRAM REVENUES – GOVERNMENTAL ACTIVITIES

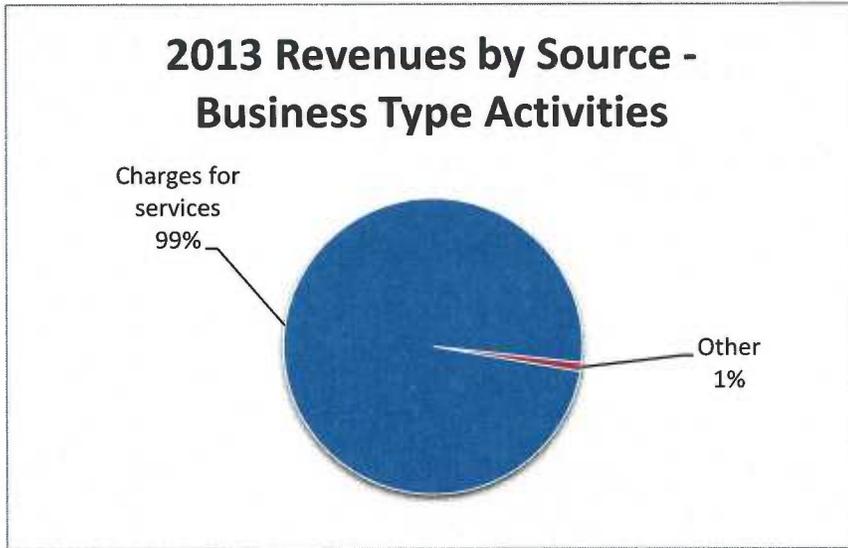
The following chart shows the portion of expenses by function that is covered by program revenues.



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

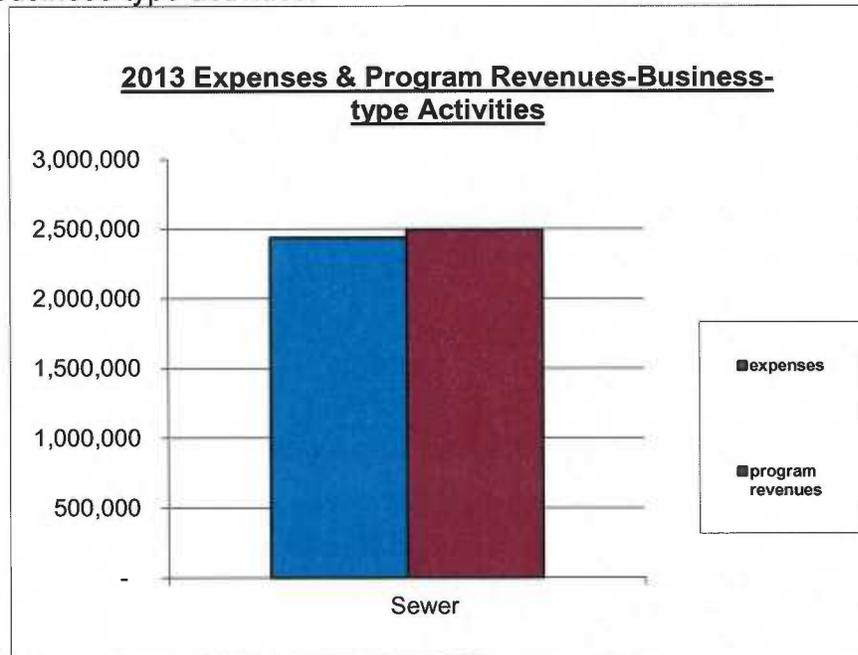
REVENUES BY SOURCE – BUSINESS-TYPE ACTIVITIES

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 2013 with an increase in fund balance of \$19,607. Most revenue sources remained similar to the amounts received in 2012. EMS charges increased \$36,000 and a razing order added \$42,000. Building permits decreased by close to \$17,000 and fines and fees also decreased.

Expenditures decreased by approximately \$52,000 in 2013 over 2012. This decrease is the net result of a savings of over \$200,000 in garbage collection and recycling due to a contract change. This savings is offset by an increase in fuel and salt use of \$75,000 due to the severe winter and one time engineering costs increase of \$146,495. There were also savings of \$25,000 in lease payments and \$40,000 savings resulting from a lower library payment.

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 \$125,442 of its reserves to fund park improvements in 2013. The park reserves were replenished by collection of \$9,706 of impact fees.

Capital Improvements Fund

The Capital Improvements 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. In 2013, capital outlay expenditures included major road improvements in the amount of \$1,342,874 in conjunction with the installation of new sewer mains. These improvements were funded by bonds issued in the amount of \$3,030,000. This project will extend in to 2014. The Town also received a donation for park improvements of \$125,000 which has been committed in this fund. At the end of 2013, the Capital Improvements fund's net position improved from \$186,258 to \$2.2 million which is set aside for future projects. The Town's plan is to replenish this fund 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 will remain steady at about \$1.2 million for 18 years forward.

Storm Water Utility Fund

The Storm Water Utility fund has been reclassified in 2013 as a special revenue fund to record the charges for service and the operation and maintenance expenses of the Storm water Utility district. 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 2013 increased by \$7,000 compared to 2012. The Town spent \$102,000 for equipment replacement and \$178,000 for improvement of storm water infrastructure in 2013.

Enterprise Funds

Salem Sewer Utility fund is an enterprise fund and as such is 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 increased approximately \$84,000 to those in 2012 as rates stayed at the same level as 2012 but the customer base grew. The Sewer Fund experienced a net increase in net position of \$77,281. Net operating income was over \$328,000 which was more than enough to cover interest expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town operates with an administrator 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 continues to improve the budget process and the financial information and analysis necessary for the Town to plan for the future.

**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 at a minimum on a quarterly basis. Policies and procedures are being written and improved in order to strengthen internal controls.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Position

At the end of December 2013, the Town had \$58.3 million invested in capital assets including buildings, parks, vehicles, equipment and infrastructure.

A summary report of capital assets is as follows:

	Governmental		Business-Type		Totals	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Construction in Progress	\$ 34,128	\$ -	\$ 146,700	\$ -	\$ 180,828	\$ -
Land	4,470,963	4,345,521	376,185	376,185	4,847,148	4,721,706
Buildings & Improvements	13,562,658	13,562,658	57,614,554	57,340,935	71,177,212	70,903,593
Equipment	4,014,276	3,890,568	-	-	4,014,276	3,890,568
Infrastructure	2,821,080	1,478,206	-	-	2,821,080	1,478,206
Total Capital Assets	24,903,105	23,276,953	58,137,439	57,717,119	83,040,544	80,994,073
Less: Accumulated Depreciation	(3,697,075)	(3,139,383)	(20,955,962)	(19,998,703)	(24,653,037)	(23,138,086)
Total Net Capital Assets	\$ 21,206,030	\$ 20,137,570	\$ 37,181,477	\$ 37,718,416	\$ 58,387,507	\$ 57,855,987

Debt

At the end of the year, the Town's outstanding debt totaled \$25,556,625. Notes were issued in 2013 in the amount of \$4,060,000 mainly for road and infrastructure improvements with a portion of the new notes a refunding of an older bond issue.

Debt Outstanding at 12/31/2012	\$ 24,081,870
Notes Issued	4,060,000
Principal Retired in 2013	(2,585,245)
Debt Outstanding at 12/31/2013	\$ 25,556,625

**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 2013 and a state mandated 0% tax increase for fiscal year 2013 and 2014 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 further in 2014.

The Town continues to plan for the future and the maintenance of its infrastructure. A long term plan for the Sewer Utility has been approved. The Sewer Utility Plan will outline the capital improvement needs of the utility and propose a maintenance and replacement schedule. The sewer plan also included a long term user rate schedule to support identified improvements. This schedule has been approved by the Town Board.

The Town Board has authorized the use of monies from the Storm Water Fund to address the long term flooding issues in the Salem Oaks neighborhood. It is estimated that the Town will spend approximately 1.1 million dollars to alleviate flooding issues.

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. The Town borrowed three million dollars in 2013 to fund the repaving of Town roads. It is anticipated that as state property tax restraints continue that the Town will have to find an alternative method to fund infrastructure and equipment replacement.

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, WISCONSIN
Statement of Net Position
December 31, 2013

	Governmental Activities	Business-type Activities	Totals
ASSETS			
Cash and investments	\$ 10,920,664	\$ 807,284	\$ 11,727,948
Receivables			
Taxes	17,172,096	-	17,172,096
Delinquent personal property taxes	28,775	-	28,775
Accounts, net	168,236	562,991	731,227
Special assessments	-	1,083,240	1,083,240
Internal balances	(420,627)	420,627	-
Due from other governments	126,823	451,030	577,853
Prepaid items	151,142	39,033	190,175
Restricted cash and investments	2,652,440	2,451,440	5,103,880
Capital assets, not being depreciated			
Land	4,470,963	376,185	4,847,148
Construction in progress	34,128	146,700	180,828
Capital assets, being depreciated			
Buildings and improvements	13,562,658	20,512,342	34,075,000
Machinery and equipment	4,014,276	4,591,981	8,606,257
Infrastructure	2,821,080	32,510,231	35,331,311
Accumulated depreciation	(3,697,075)	(20,955,962)	(24,653,037)
TOTAL ASSETS	52,005,579	42,997,122	95,002,701
LIABILITIES			
Accounts payable	356,267	152,341	508,608
Accrued liabilities	70,119	18,764	88,883
Accrued interest	214,665	40,914	255,579
Due to other governments	20,073,284	-	20,073,284
Deposits	791,320	16,800	808,120
Unearned revenues	980,995	-	980,995
Noncurrent liabilities			
Due within one year	972,885	904,068	1,876,953
Due in more than one year	14,441,256	9,290,932	23,732,188
TOTAL LIABILITIES	37,900,791	10,423,819	48,324,610
DEFERRED INFLOWS OF RESOURCES			
Property taxes	3,594,844	-	3,594,844
NET POSITION			
Net investment in capital assets	7,947,048	26,992,752	34,939,800
Restricted			
Debt service	48,257	-	48,257
Fire and rescue	125,321	-	125,321
Park land and facilities	329,944	-	329,944
Transportation system	40,000	-	40,000
Equipment replacement	-	2,443,634	2,443,634
Unrestricted	2,019,374	3,136,917	5,156,291
TOTAL NET POSITION	\$ 10,509,944	\$ 32,573,303	\$ 43,083,247

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

TOWN OF SALEM, WISCONSIN

Statement of Activities

For the Year Ended December 31, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Totals
Primary Government							
Governmental Activities							
General government	\$ 1,146,482	\$ 239,902	\$ -	\$ -	\$ (906,580)	\$ -	\$ (906,580)
Public safety	1,563,137	563,833	48,685	125,321	(825,298)	-	(825,298)
Public works	2,260,818	1,485,365	286,758	-	(488,695)	-	(488,695)
Health and human services	5,500	-	-	-	(5,500)	-	(5,500)
Culture and recreation	344,447	15,962	-	-	(328,485)	-	(328,485)
Conservation and development	72,024	25,156	-	-	(46,868)	-	(46,868)
Interest and fiscal charges	642,911	-	169,430	-	(473,481)	-	(473,481)
Total Governmental Activities	6,035,319	2,330,218	504,873	125,321	(3,074,907)	-	(3,074,907)
Business-type Activities							
Sewer utility	2,437,604	2,490,676	-	-	-	53,072	53,072
Total Primary Government	\$ 8,472,923	\$ 4,820,894	\$ 504,873	\$ 125,321	(3,074,907)	53,072	(3,021,835)
General Revenues							
Taxes, levied for general purposes					2,202,697	-	2,202,697
Taxes, levied for debt service					1,049,900	-	1,049,900
Taxes, levied for capital projects					173,100	-	173,100
Other taxes					47,774	-	47,774
Grants and contributions not restricted to specific programs					123,632	-	123,632
Interest					7,052	24,209	31,261
Miscellaneous					59,483	-	59,483
Total General Revenues					3,663,638	24,209	3,687,847
Change in Net Position					588,731	77,281	666,012
Cumulative Effect of Change in Accounting Principle					(167,974)	-	(167,974)
Net Position - January 1, as restated					10,089,187	32,496,022	42,585,209
Net Position - December 31					\$ 10,509,944	\$ 32,573,303	\$ 43,083,247

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

TOWN OF SALEM, WISCONSIN
Balance Sheet
Governmental Funds
December 31, 2013

	General	Debt Service	Capital Improvements	Storm water Utility	Other Governmental Funds	Totals
ASSETS						
Cash and investments	\$ 10,093,055	\$ -	\$ -	\$ 612,073	\$ 215,536	\$ 10,920,664
Receivables						
Taxes	17,172,096	-	-	-	-	17,172,096
Delinquent personal property taxes	28,775	-	-	-	-	28,775
Accounts, net	74,534	-	-	93,702	-	168,236
Due from other funds	-	-	-	88,685	-	88,685
Due from other governments	76,396	-	-	50,427	-	126,823
Prepaid items	104,518	-	-	46,624	-	151,142
Restricted cash and investments	48,257	-	2,234,239	-	369,944	2,652,440
TOTAL ASSETS	\$ 27,549,374	\$ 48,257	\$ 2,234,239	\$ 891,511	\$ 585,480	\$ 31,308,861
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE						
Liabilities						
Accounts payable	\$ 299,980	\$ -	\$ -	\$ 56,287	\$ -	\$ 356,267
Accrued liabilities	66,559	-	-	3,560	-	70,119
Due to other governments	20,073,284	-	-	-	-	20,073,284
Due to other funds	509,312	-	-	-	-	509,312
Unearned revenue	980,995	-	-	-	-	980,995
Deposits	791,320	-	-	-	-	791,320
Total Liabilities	22,721,450	-	-	59,847	-	22,781,297
Deferred Inflows of Resources						
Taxes	3,594,844	-	-	-	-	3,594,844
Fund Balance						
Nonspendable						
Prepaid items	104,518	-	-	46,624	-	151,142
Delinquent personal property taxes	28,775	-	-	-	-	28,775
Delinquent special charges due from County	76,396	-	-	50,427	-	126,823
Restricted						
Debt service	-	48,257	-	-	-	48,257
Fire and rescue	-	-	125,321	-	-	125,321
Capital improvements	-	-	2,108,918	-	-	2,108,918
Park land and facilities	-	-	-	-	329,944	329,944
Transportation system	-	-	-	-	40,000	40,000
Assigned						
Subsequent year budget	321,589	-	-	-	-	321,589
Storm water	-	-	-	734,613	-	734,613
Trails	-	-	-	-	215,536	215,536
Unassigned						
General fund	701,802	-	-	-	-	701,802
Total Fund Balance	1,233,080	48,257	2,234,239	831,664	585,480	4,932,720
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 27,549,374	\$ 48,257	\$ 2,234,239	\$ 891,511	\$ 585,480	\$ 31,308,861

(Continued)

TOWN OF SALEM, WISCONSIN
 Balance Sheet (Continued)
 Governmental Funds
 December 31, 2013

Reconciliation to the Statement of Net Position

Total Fund Balances as shown on previous page	\$ 4,932,720
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	21,206,030
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	
Bonds and notes payable	(15,276,555)
Capital leases payable	(91,345)
Premium on long-term debt	(46,241)
Accrued interest on long-term obligations	<u>(214,665)</u>
Net Position of Governmental Activities as Reported on the Statement of Net Position (see page 14)	<u>\$ 10,509,944</u>

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

TOWN OF SALEM, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

	General	Debt Service	Capital Improvements	Storm water Utility	Other Governmental Funds	Totals
Revenues						
Taxes	\$ 2,250,471	\$ 1,049,900	\$ 173,100	\$ -	\$ -	\$ 3,473,471
Intergovernmental	393,764	169,430	24,700	-	-	587,894
Licenses and permits	215,877	-	-	-	-	215,877
Fines and forfeits	34,457	-	-	-	-	34,457
Public charges for services	1,082,742	-	-	428,098	15,962	1,526,802
Intergovernmental charges for services	568,537	-	-	-	-	568,537
Miscellaneous	48,302	-	166,459	1,565	686	217,012
Total Revenues	4,594,150	1,219,330	364,259	429,663	16,648	6,624,050
Expenditures						
Current						
General government	1,118,548	-	-	-	-	1,118,548
Public safety	1,278,411	-	-	-	-	1,278,411
Public works	1,768,104	-	-	183,622	-	1,951,726
Health and human services	5,500	-	-	-	-	5,500
Culture and recreation	331,956	-	-	-	-	331,956
Conservation and development	72,024	-	-	-	-	72,024
Capital outlay	-	-	1,342,874	279,846	126,442	1,749,162
Debt service	-	636,084	-	-	-	636,084
Principal	-	588,150	40,557	-	-	628,707
Interest and fiscal charges	-	-	-	-	-	-
Total Expenditures	4,574,543	1,224,234	1,383,431	463,468	126,442	7,772,118
Excess of Revenues Over (Under) Expenditures	19,607	(4,904)	(1,019,172)	(33,805)	(109,794)	(1,148,068)
Other Financing Sources (Uses)						
Long-term debt issued	-	640,000	3,030,000	-	-	3,670,000
Premium on debt issued	-	11,168	37,153	-	-	48,321
Payment to current noteholder	-	(645,000)	-	-	-	(645,000)
Total Other Financing Sources (Uses)	-	6,168	3,067,153	-	-	3,073,321
Net Change in Fund Balances	19,607	1,264	2,047,981	(33,805)	(109,794)	1,925,253
Fund Balances - January 1	1,213,473	46,993	186,258	865,469	695,274	3,007,467
Fund Balances - December 31	\$ 1,233,080	\$ 48,257	\$ 2,234,239	\$ 831,664	\$ 585,480	\$ 4,932,720

(Continued)

TOWN OF SALEM, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended December 31, 2013

Reconciliation to the Statement of Activities

Net change in fund balances - total governmental funds \$ 1,925,253

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay is reported as an expenditure in the fund financial statements but is capitalized in the government-wide financial statements.	1,638,152
Depreciation is reported in the government-wide statements.	(569,692)

Debt issued provide current financial resources to governmental funds, but issuing these obligations increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditures in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Principal retired	1,281,084
Capital lease payments	46,459
Debt issued	(3,670,000)
Debt premium, less amortization	(46,241)

Interest payments on outstanding debt are reported in the governmental funds as an expenditure when paid, in the statement of activities interest is reported as it accrues.	(16,284)
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Change in Net Position of Governmental Activities as Reported on the Statement of Activities (see pages 10 - 11)	\$ 588,731
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The notes to the basic financial statements are an integral part of this statement.

TOWN OF SALEM, WISCONSIN
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual - General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts	Variance Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 2,245,572	\$ 2,245,572	\$ 2,250,471	\$ 4,899
Intergovernmental	399,143	399,143	393,764	(5,379)
Licenses and permits	194,768	194,768	215,877	21,109
Fines and forfeits	55,000	55,000	34,457	(20,543)
Public charges for services	1,038,800	1,038,800	1,082,742	43,942
Intergovernmental charges for services	558,538	558,538	568,537	9,999
Miscellaneous	17,000	17,000	48,302	31,302
Total Revenues	4,508,821	4,508,821	4,594,150	85,329
Expenditures				
Current				
General government	1,006,151	1,006,151	1,118,548	(112,397)
Public safety	1,468,665	1,468,665	1,278,411	190,254
Public works	1,918,533	1,918,533	1,768,104	150,429
Health and human services	7,500	7,500	5,500	2,000
Culture and recreation	355,437	355,437	331,956	23,481
Conservation and development	30,411	30,411	72,024	(41,613)
Total Expenditures	4,786,697	4,786,697	4,574,543	212,154
Net Change in Fund Balance	(277,876)	(277,876)	19,607	297,483
Fund Balance - January 1	1,213,473	1,213,473	1,213,473	-
Fund Balance - December 31	\$ 935,597	\$ 935,597	\$ 1,233,080	\$ 297,483

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

TOWN OF SALEM, WISCONSIN
Statement of Net Position
Proprietary Fund - Sewer Utility
December 31, 2013

ASSETS

Current assets

Cash and investments	\$ 807,284
Receivables	
Accounts	562,991
Special assessment	1,083,240
Due from other funds	420,627
Due from other governments	451,030
Prepaid items	39,033
Total Current Assets	3,364,205

Noncurrent assets

Restricted assets	
Cash and investments	2,451,440
Capital assets, not being depreciated	
Land	376,185
Construction in progress	146,700
Capital assets, being depreciated	
Buildings	20,512,342
Machinery and equipment	4,591,981
Infrastructure	32,510,231
Less: Accumulated depreciation	(20,955,962)
Total Capital Assets, Net of Accumulated Depreciation	36,658,592

Total Noncurrent Assets	39,632,917
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TOTAL ASSETS	42,997,122
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LIABILITIES

Current Liabilities

Accounts payable	152,341
Accrued payroll	18,764
Deposits	16,800
Current portion of general obligation debt	728,408
Accrued interest payable	39,007
Total Current Liabilities	955,320

Current Liabilities Payable from Restricted Assets:

Revenue bonds	175,660
Accrued interest payable	1,907
Total Current Liabilities Payable from Restricted Assets:	177,567

Noncurrent Liabilities

General obligation debt	9,103,366
Revenue bonds	181,291
Premium on long-term debt	6,275
Total Noncurrent Liabilities	9,290,932

TOTAL LIABILITIES	10,423,819
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NET POSITION

Net investment in capital assets	26,992,752
Restricted for	
Equipment replacement	2,443,634
Unrestricted	3,136,917

TOTAL NET POSITION	\$ 32,573,303
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The notes to the basic financial statements are an integral part of this statement.

TOWN OF SALEM, WISCONSIN
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Fund - Sewer Utility
For the Year Ended December 31, 2013

Operating Revenues	
Charges for services	\$ 2,352,602
Other	138,074
Total Operating Revenues	<u>2,490,676</u>
Operating Expenses	
Operation and maintenance	1,204,474
Depreciation	957,259
Total Operating Expenses	<u>2,161,733</u>
Operating Income	<u>328,943</u>
Nonoperating Revenues (Expenses)	
Interest income	24,209
Interest expense	<u>(275,871)</u>
Total Nonoperating Revenues (Expenses)	<u>(251,662)</u>
Change in Net Position	77,281
Net Position - January 1	<u>32,496,022</u>
Net Position - December 31	<u>\$ 32,573,303</u>

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

TOWN OF SALEM, WISCONSIN
Statement of Cash Flows
Proprietary Fund - Sewer Utility
For the Year Ended December 31, 2013

Cash Flows from Operating Activities	
Cash received from customers	\$ 2,589,975
Cash received from municipality	27,420
Cash payments to suppliers	(530,550)
Cash payments to employees	(556,888)
Net Cash Provided by Operating Activities	<u>1,529,957</u>
Cash Flows from Capital and Related Financing Activities	
Acquisition of capital assets	(420,320)
Long-term debt issued	390,000
Long-term debt paid	(1,257,704)
Interest paid on long-term debt	(291,246)
Special assessments received	33,388
Net Cash Used by Capital and Related Financing Activities	<u>(1,545,882)</u>
Cash Flows from Investing Activities	
Interest income received	<u>24,209</u>
Change in Cash and Cash Equivalents	8,284
Cash and Cash Equivalents - Beginning of Year	<u>3,250,440</u>
Cash and Cash Equivalents - End of Year	<u><u>\$ 3,258,724</u></u>
Reconciliation to Statement of Net Position	
Cash and cash equivalents in current assets	\$ 807,284
Cash and cash equivalents in restricted assets	<u>2,451,440</u>
Total Cash and Cash Equivalents	<u><u>\$ 3,258,724</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating income	\$ 328,943
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	957,259
Changes in assets and liabilities	
Accounts receivable	(89,790)
Due from other governments	27,420
Prepaid items	3,288
Accounts payable	112,266
Accrued and other current liabilities	1,482
Due from other funds	189,089
Net Cash Provided by Operating Activities	<u><u>\$ 1,529,957</u></u>
Noncash Investing, Capital and Financing Activities	
None	

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

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Town of Salem, Wisconsin ("the Town"), have been prepared in conformity with accounting principles generally accepted in the United States of America (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:

1. Reporting Entity

The Town of Salem is a municipality governed by a town chairman and a four-member town board. In accordance with GAAP, the basic financial statements are required to include the Town (the primary government) and any separate component units that have a significant operational or financial relationship with the Town.

A legal separate organization should be reported as a component unit if the elected officials of the primary government are financially accountable to the organization. The primary government is financial accountable if it appoints a majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to or burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government. A legally separate, tax exempt organization should be reported as a component unit of a primary government if all of the following criteria are met:

- a. the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units or its constituents;
- b. the primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization;
- c. the economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

The Town has not identified any component units that are required to be included in the basic financial statements in accordance with standards established by GASB Statement No. 61.

2. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the Town. For the most part, the effect of interfund activity has been removed from these statements. *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 are offset by program revenues. *Direct expenses* are those that are 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental and proprietary funds. Governmental funds include general, special revenue, debt service and capital projects funds. Proprietary funds include enterprise funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The Town reports the following major governmental funds:

GENERAL FUND

This is the Town's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

DEBT SERVICE FUND

This fund accounts for the resources accumulated and payments made for principal and interest on long-term debt other than enterprise funds.

CAPITAL IMPROVEMENTS FUND

This fund accounts for capital projects and equipment replacement with financing generally provided by grants and long-term debt proceeds.

STORM WATER UTILITY FUND

This fund accounts for fees collected to address drainage problems, runoff, water quality, and water quantity issues throughout the Town.

The Town reports the following major enterprise fund:

SEWER UTILITY FUND

This fund accounts for the operation of the Town's sewer utility to Town residents and businesses.

3. Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary 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. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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 Town 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.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Town's sewer utility and storm water utility and various other functions of the Town. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund is charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources, as they are needed.

4. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

a. Cash and Investments

Cash and investments are combined in the financial statements. Cash deposits consist of demand and time deposits with financial institutions and are carried at cost. Investments are stated at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. For purposes of the statement of cash flows, all cash deposits and highly liquid investments (including restricted assets) with a maturity of three months or less from date of acquisition are considered to be cash equivalents.

b. Property Taxes Receivables

Property taxes are levied prior to the end of the calendar year and are due and collectible in the following year. Property taxes are levied on the assessed value as of the January 1. In addition to property taxes for the Town, taxes are collected for and remitted to the state and county governments as well as local school districts and technical college district. Taxes for all state and local governmental units billed in the current year for the succeeding year are reflected as receivables and due to other governments in the basic financial statements.

Property tax calendar - 2013 tax roll	
Levy date	December, 2013
Real estate tax collection due dates:	
Payment in full or first installment due	January 31, 2014
Second installment due to Kenosha County	July 31, 2014
Personal property taxes, special assessments, and special charges due in full	January 31, 2014

Kenosha County remits payment to the Town for its share of delinquent real estate taxes while delinquent personal property taxes remain the collection responsibility of the Town and are reported as receivables in the financial statements. Delinquent special assessments and user charges placed on the tax roll are held in trust by Kenosha County and remitted with interest to the Town when paid. The amount due on delinquent special assessments and user charges are reported in due from other governments in the basic financial statements.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Accounts Receivables

Accounts receivable have been shown net of an allowance for doubtful accounts in the basic financial statements. An allowance of \$66,091 was recorded against EMS receivables. No provision for uncollectible accounts receivable has been made in the accompanying enterprise fund financial statements because the utilities have the right by law to place delinquent bills on the tax roll.

d. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" in the fund financial statements. Any residual balances outstanding between governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

e. Inventories

Inventories are recorded at lower of cost or market, using the first-in, first-out method. Inventories consist of expendable supplies held for consumption. The cost is recorded as an expenditure at the time individual inventory items are consumed rather than when purchased.

Inventories of governmental fund types in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

f. Prepaid Items

Payments made to vendors that will benefit periods beyond the end of the current fiscal year are recorded as prepaid items.

Prepaid items of governmental fund types in the fund financial statements are offset by nonspendable fund balance to indicate that they do not represent spendable available financial resources.

g. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, 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 at least \$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.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets of the Town are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	Governmental	Business-type
	Activities	Activities
	Years	
Buildings and improvements	20 - 50	20 - 50
Machinery and equipment	10 - 20	5 - 40
Infrastructure	40	40 - 100

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. Deferred Outflows/Inflows of Resources

The Town implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* for the year ended December 31, 2013. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town currently does not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category, property taxes. This amount will be recognized as an inflow of resources in the subsequent year for which it was levied.

i. Compensated Absences

Under terms of employment, employees are granted sick leave and vacation in varying amounts. Only benefits considered to be vested are disclosed in these statements. All vacation and sick leave is expensed when incurred in the government-wide and proprietary fund financial statements. The Town does not accrue for compensated absences such as sick leave and vacation because they expire at the end of the year and do not carry over to the subsequent year. The only exception to this rule is if an employee is terminated during the year. They are entitled to receive the benefits earned prior to the end of the year.

j. 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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial 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. Premiums received on debt issuances are 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.

k. Fund Equity

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - Amounts that are not in spendable form (such as inventory, prepaid items, or long-term receivables) or are legally or contractually required to remain intact.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Restricted fund balance - Amounts that are constrained for specific purposes by external parties (such as grantor or bondholders), through constitutional provisions, or by enabling legislation.
- Committed fund balance - Amounts that are constrained for specific purposes by action of the Town Board. These constraints can only be removed or changed by the Town Board using the same action that was used to create them.
- Assigned fund balance - Amounts that are constrained for specific purposes by action of Town management. The Town Board has not authorized management to assign fund balance. Residual amounts in any governmental fund, other than the General Fund, are also reported as assigned.
- Unassigned fund balance - Amounts that are available for any purpose. Positive unassigned amounts are only reported in the General Fund.

The Town has not adopted a fund balance spend-down policy regarding the order in which fund balance will be utilized. When a policy does not specify the spend down policy, GASB Statement No. 54 indicates that restricted funds to be spent first, followed by committed funds, and then assigned funds. Unassigned funds would be spent last.

The General Fund will be balanced with property tax, only after all other revenue sources and expenditure reductions have been exhausted. A minimum of 17% of operating expenses shall be maintained as undesignated reserve. Any amounts over 25% shall be re-appropriated to other funds that have not yet met their reserve requirements. If the balance falls below the minimum fund balance in any given year funds shall be reserved in the following budget year to replenish the fund balance to meet the minimum requirement. A minimum of 17% of operating expenses shall be maintained as a reserve in the sewer utility and storm water utility fund, in addition a sufficient reserve shall be maintained to satisfy bond requirements and Department of Natural Resources loan, depreciation and capital improvement requirements.

GOVERNMENT-WIDE AND PROPRIETARY FUND STATEMENTS

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

- Net investment in capital assets - Amount of capital assets, net of accumulated depreciation, less outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position - Amount of net position that is subject to restrictions that are imposed by 1) external groups, such as creditors, grantors, contributors or laws or regulations of other governments or 2) law through constitutional provisions or enabling legislation.
- Unrestricted net position - Net position that is neither classified as restricted nor as net investment in capital assets.

5. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

6. Restatement of Storm Water Utility

The Town has reclassified the storm water utility from an enterprise fund to a special revenue fund, resulting in an increase in net position of governmental activities of \$865,469 and a decrease of business-type activities of \$865,469.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE B - STEWARDSHIP AND COMPLIANCE

1. Budgets and Budgetary Accounting

The Town follows these procedures in establishing the budgetary data reflected in the basic financial statements:

- a. No later than October 1, Town management submits to the Town Board a proposed operating budget for the calendar year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them. After submission to the governing body, public hearings are held to obtain taxpayer comments. Following the public hearings, the proposed budget, including authorized additions and deletions, is legally enacted by Town Board action.
- b. Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all funds. Budget is defined as the originally approved budget plus or minus approved amendments. Individual amendments throughout the year were not material in relation to the original budget. Budget appropriations not expended during the year are closed to fund balance unless authorized by the governing body to be forwarded into the succeeding year's budget.
- c. During the year, formal budgetary integration is employed as a management control device for the Town's funds.
- d. Expenditures may not exceed appropriations provided in detailed budget accounts maintained for each activity or department of the Town. Amendments to the budget during the year require initial approval by management and are subsequently authorized by the Town Board by two-thirds vote. No budget amendments were approved during the year 2013.
- e. Encumbrance accounting is not used by the Town to record commitments related to unperformed contracts for goods or services.

The Town did not have any material violation of legal or contractual provisions for the fiscal year ended December 31, 2013.

2. Excess of Expenditures Over Budget Appropriations

The following expenditure accounts of the Town's governmental funds had actual expenditures in excess of budget appropriations for the year ended December 31, 2013 as follows:

Funds	Function	Excess Expenditures
General fund	General government	\$ 112,397
General fund	Conservation and development	41,613
Debt service fund	Principal and interest	8,082
Debt service fund	Payment to current noteholder	645,000
Capital improvements fund	Capital outlay	1,106,674
Park fund	Capital outlay	93,942

Excess expenditures of the general fund were financed by budgetary savings of other functions and additional revenues. The debt service fund and capital improvements fund issued long-term debt which resulted in additional debt retirements and capital improvements above the 2013 budget. Capital outlay expenditures of the park fund were financed by fund balance restricted for park improvements.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS

1. Cash and Investments

The Town maintains various cash and investment accounts, including pooled funds that are available for use by all funds. Each fund's portion of these accounts is displayed in the financial statements as "Cash and investments."

Invested cash consists of deposits and investments that are restricted by Wisconsin Statutes to the following:

Time deposits; repurchase agreements; securities issued by federal, state and local governmental entities; statutorily authorized commercial paper and corporate securities; and the Wisconsin local government investment pool.

The carrying amount of the Town's cash and investments totaled \$16,831,828 on December 31, 2013 as summarized below:

Petty cash	\$ 700
Deposits with financial institutions	9,238,357
Investments	7,592,771
	\$ 16,831,828

Reconciliation to the basic financial statements:

Government-wide Statement of Net Position	
Cash and investments	\$ 11,727,948
Restricted cash and investments	5,103,880
	\$ 16,831,828

Deposits and investments of the Town are subject to various risks. Presented below is a discussion of the specific risks and the Town's policy related to the risk.

Deposits With Financial Institutions

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Town does not have an additional custodial credit risk policy.

Deposits with financial institutions within the State of Wisconsin are insured by the Federal Deposit Insurance Corporation (FDIC) in the amount of \$250,000 for the combined amount of all time and savings deposits and \$250,000 for interest-bearing and noninterest-bearing demand deposits per official custodian per insured depository institution. Deposits with financial institutions located outside the State of Wisconsin are insured by the FDIC in the amount of \$250,000 for the combined amount of all deposit accounts per official custodian per depository institution. Also, the State of Wisconsin has a State Guarantee Fund which provides a maximum of \$400,000 per public depository above the amount provided by an agency of the U.S. Government. However, due to the relatively small size of the State Guarantee Fund in relation to the Fund's total coverage, total recovery of insured losses may not be available.

On December 31, 2013, none of the Town's deposits with financial institutions were in excess of federal and state depository insurance limits and uncollateralized. Bank deposits of \$8,612,722 in excess of federal and state depository insurance limits were collateralized by securities held by the financial institutions but not in the Town's name.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Investments

The Town has investments in the Wisconsin local government investment pool of \$7,592,771 at year-end. The Wisconsin local government investment pool (LGIP) is part of the State Investment Fund (SIF), and is managed by the State of Wisconsin Investment Board. The SIF is not registered with the Securities and Exchange Commission, but operates under the statutory authority of Wisconsin Chapter 25. The SIF reports the fair value of its underlying assets annually. Participants in the LGIP have the right to withdraw their funds in total on one day's notice. At December 31, 2013, the fair value of the Town's share of the LGIP's assets was substantially equal to the carrying value.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Wisconsin statutes limit investments in securities to the top two ratings assigned by nationally recognized statistical rating organizations. The Town does not have an additional credit risk policy. The Town's investment in the Wisconsin local government investment pool is not rated. Investments in the Wisconsin Local Government Investment Pool are covered under a surety bond issued by Financial Security Assurance, Inc., which is in effect through February 15, 2014. The bond insures against losses arising from principal defaults on substantially all types of securities acquired by the pool. The bond provides unlimited coverage on principal losses, reduced by any FDIC, State of Wisconsin Guarantee Fund insurance, and income on the investment during the calendar quarter a loss occurs.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town 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. The investments held by the Wisconsin local government investment pool mature in 12 months or less.

2. Restricted Assets

Restricted assets on December 31, 2013 totaled \$5,103,880 and consisted of cash and investments held for the following purposes:

Restricted Cash and Investments	
Governmental funds/governmental activities	
Capital improvements (debt proceeds)	\$ 2,108,918
Fire/rescue donation	125,321
Park land and facilities	329,944
Transportation system	40,000
Debt service	48,257
Subtotal	2,652,440
Proprietary fund/business-type activities	
Plant and equipment replacement fund	2,451,440
Total	\$ 5,103,880

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

3. Capital Assets

Capital asset activity for the year ended December 31, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 4,345,521	\$ 125,442	\$ -	\$ 4,470,963
Construction in progress	-	34,128	-	34,128
Total capital assets, not being depreciated	<u>4,345,521</u>	<u>159,570</u>	<u>-</u>	<u>4,505,091</u>
Capital assets, being depreciated:				
Buildings and improvements	13,562,658	-	-	13,562,658
Machinery and equipment	3,890,568	135,708	12,000	4,014,276
Infrastructure	1,478,206	1,342,874	-	2,821,080
Subtotals	<u>18,931,432</u>	<u>1,478,582</u>	<u>12,000</u>	<u>20,398,014</u>
Less accumulated depreciation				
Buildings and improvements	1,343,126	271,486	-	1,614,612
Machinery and equipment	1,570,321	227,679	12,000	1,786,000
Infrastructure	225,936	70,527	-	296,463
Subtotals	<u>3,139,383</u>	<u>569,692</u>	<u>12,000</u>	<u>3,697,075</u>
Total capital assets, being depreciated, net	<u>15,792,049</u>	<u>908,890</u>	<u>-</u>	<u>16,700,939</u>
Governmental activities capital assets, net	<u>\$ 20,137,570</u>	<u>\$ 1,068,460</u>	<u>\$ -</u>	<u>21,206,030</u>
Less related long-term debt outstanding, net of debt proceeds of \$2,108,918				<u>13,258,982</u>
Net investment in capital assets				<u>\$ 7,947,048</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental activities	
General government	\$ 27,934
Public safety	357,695
Public works, including infrastructure	172,572
Culture and recreation	11,491
Total depreciation expense - governmental activities	<u>\$ 569,692</u>

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 376,185	\$ -	\$ -	\$ 376,185
Construction in progress	-	146,700	-	146,700
Total capital assets, not being depreciated	<u>376,185</u>	<u>146,700</u>	<u>-</u>	<u>522,885</u>
Capital assets, being depreciated:				
Buildings and improvements	20,512,342			20,512,342
Machinery and equipment	4,542,653	-	-	4,542,653
Infrastructure	32,285,940	273,619	-	32,559,559
Subtotals	<u>57,340,935</u>	<u>273,619</u>	<u>-</u>	<u>57,614,554</u>
Less accumulated depreciation				
Buildings and improvements	7,748,659	531,892	-	8,280,551
Machinery and equipment	4,048,362	346,671	-	4,395,033
Infrastructure	8,201,682	78,696	-	8,280,378
Subtotals	<u>19,998,703</u>	<u>957,259</u>	<u>-</u>	<u>20,955,962</u>
Total capital assets, being depreciated, net	<u>37,342,232</u>	<u>(683,640)</u>	<u>-</u>	<u>36,658,592</u>
Business-type activities capital assets, net	<u>\$ 37,718,417</u>	<u>\$ (683,640)</u>	<u>\$ -</u>	<u>37,181,477</u>
Less related long-term debt outstanding				<u>10,188,725</u>
Net investment in capital assets				<u>\$ 26,992,752</u>

4. Interfund Receivable/Payables, Advance and Transfers

Interfund receivables and payables between individual funds of the Town, as reported in the fund financial statements, as of December 31, 2013 are detailed below:

	Interfund Receivables	Interfund Payables
Governmental Funds		
General fund	\$ -	\$ 509,312
Stormwater fund	88,685	-
Enterprise Fund		
Sewer Utility	420,627	-
Totals	<u>\$ 509,312</u>	<u>\$ 509,312</u>

Interfund receivables and payables relate to delinquent user charges placed on the 2013 tax roll and collected from customers with property tax collections.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

5. Long-term Obligations

The following is a summary of changes in long-term obligations of the Town for the year ended December 31, 2013:

	Outstanding 1/1/13	Issued	Retired	Outstanding 12/31/13	Due Within One Year
Governmental activities:					
General Obligation Debt					
Bonds	\$ 10,640,000	\$ -	\$ 215,000	\$ 10,425,000	\$ 215,000
Notes	2,247,639	3,670,000	1,066,084	4,851,555	712,527
Total General Obligation Debt	12,887,639	3,670,000	1,281,084	15,276,555	927,527
Debt premium	-	48,321	2,080	46,241	-
Capital lease	137,804	-	46,459	91,345	45,358
Governmental activities Long-term obligations	<u>\$ 13,025,443</u>	<u>\$ 3,718,321</u>	<u>\$ 1,329,623</u>	<u>\$ 15,414,141</u>	<u>\$ 972,885</u>
Business-type activities:					
General Obligation Debt					
Notes	\$ 490,181	\$ 390,000	\$ 463,545	\$ 416,636	\$ 88,056
Wisconsin Environmental Improvement Fund	10,039,092	-	623,954	9,415,138	640,352
Total General Obligation Debt	10,529,273	390,000	1,087,499	9,831,774	728,408
Debt premium	-	7,501	1,226	6,275	-
Revenue Bonds					
Wisconsin Environmental Improvement Fund	527,154	-	170,203	356,951	175,660
Business-type activities Long-term obligations	<u>\$ 11,056,427</u>	<u>\$ 397,501</u>	<u>\$ 1,258,928</u>	<u>\$ 10,195,000</u>	<u>\$ 904,068</u>

Total interest paid during the year on long-term debt totaled \$868,031.

General Obligation Debt and Note Anticipation Notes

General obligation debt currently outstanding is detailed as follows:

Bonds

\$10,740,000 issued 05/26/10 under the Build America Bond program; \$215,000 to
\$910,000 due annually through 2030; interest 2.50% to 5.50% \$ 10,425,000

Notes

\$2,025,000 issued 06/03/08; \$205,000 to \$240,000 due annually
through 2018; interest 3.15% to 3.60% 1,105,000

\$4,060,000 issued 07/25/13; \$310,000 to \$600,000 due annually
through 2023; interest 1.00% to 2.55% 4,060,000

\$400,000 State Trust Fund Loan issued 10/06/05; \$50,584 to \$52,607
due annually through 2015; interest 4.00% 103,191

Total Notes 5,268,191

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Wisconsin Environmental Improvement Fund

\$259,774 authorized 05/26/99, \$205,302 issued; \$11,446 to \$13,091 due annually through 2019; interest 2.722%	\$ 73,523
\$760,132 authorized 02/26/97, \$760,132 issued; \$48,665 to \$51,627 due annually through 2016; interest 2.998%	150,416
\$614,980 authorized 09/27/00, \$556,120 issued; \$30,371 to \$36,202 due annually through 2020; interest 2.97%	232,509
\$1,139,950 authorized 11/28/01, \$1,092,733 issued; \$60,077 to \$72,640 due annually through 2021; interest 2.75%	529,506
\$5,855,983 authorized 12/26/07, \$5,831,013 issued; \$275,964 to \$378,686 due annually through 2027; interest 2.464%	4,547,602
\$4,930,393 authorized 03/25/09, \$4,682,147 issued; \$213,828 to \$309,141 due annually through 2028; interest 2.668%	3,881,582
Total Wisconsin Environmental Improvement Fund	9,415,138
 Total Outstanding General Obligation Debt	 \$ 25,108,329

Annual principal and interest maturities of the outstanding general obligation debt of \$25,108,329 on December 31, 2013 are as detailed below:

Year Ended December 31	Governmental Activities			Business-Type Activities		
	Principal	Interest	Totals	Principal	Interest	Totals
2014	\$ 927,527	\$ 617,719	\$ 1,545,246	\$ 728,408	\$ 243,622	\$ 972,030
2015	959,028	588,856	1,547,884	745,760	227,124	972,884
2016	985,000	562,709	1,547,709	754,454	204,624	959,078
2017	1,020,000	533,531	1,553,531	719,009	185,857	904,866
2018	1,050,000	499,500	1,549,500	735,613	167,437	903,050
2019-2023	4,730,000	1,969,735	6,699,735	3,220,122	577,337	3,797,459
2024-2028	3,825,000	1,008,506	4,833,506	2,928,408	173,031	3,101,439
2029-2030	1,780,000	99,000	1,879,000	-	-	-
	\$ 15,276,555	\$ 5,879,556	\$ 21,156,111	\$ 9,831,774	\$ 1,779,032	\$ 11,610,806

Year Ended December 31	Total General Obligation Debt		
	Principal	Interest	Totals
2014	\$ 1,655,935	\$ 861,341	\$ 2,517,276
2015	1,704,788	815,980	2,520,768
2016	1,739,454	767,333	2,506,787
2017	1,739,009	719,388	2,458,397
2018	1,785,613	666,937	2,452,550
2019-2023	7,950,122	2,547,072	10,497,194
2024-2028	6,753,408	1,181,537	7,934,945
2029-2030	1,780,000	99,000	1,879,000
	\$ 25,108,329	\$ 7,658,588	\$ 32,766,917

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Build America Bonds

The general obligation debt issued on 5/26/10 qualifies as Build America Bonds, as described in Section 54AA of the Internal Revenue Code. The interest on the debt is taxable as set forth in the regulations. The Town is eligible to receive a 35% subsidy of the annual interest payment from the Federal government. In order to receive this subsidy it is necessary for the Town to file a claim form annually.

Legal Margin for New Debt

The Town's legal margin for creation of additional general obligation debt on December 31, 2013 was \$21,756,488 as follows:

Equalized valuation of the Town		\$ 936,331,200	
Statutory limitation percentage		(x) 5%	
General obligation debt limitation, per Section 67.03 of the Wisconsin Statutes		46,816,560	
Total outstanding general obligation debt applicable to debt limitation	\$ 25,108,329		
Less: Amounts available for financing general obligation debt			
Debt service fund	48,257		
Net outstanding general obligation debt applicable to debt limitation		25,060,072	
Legal Margin for New Debt		\$ 21,756,488	

Current Refunding

A portion of the \$4,060,000 General Obligation Promissory Notes, Series 2013A, were used to refund maturities due from 2014 through 2016 on the \$1,600,000 General Obligation Promissory Notes, Series 2006A and maturities from 2014 through 2018 on the \$625,000 State Trust Fund Loan dated September 16, 2008. The current refunding reduced debt service payments over the next four years by \$48,521 and resulted in a present value savings of \$47,493.

Revenue Bonds

Revenue bonds currently outstanding are detailed as follows:

State of Wisconsin Environmental Improvement Fund

\$2,624,495 authorized 12/13/95, \$2,618,585 issued; \$175,660 to \$181,291 due annually through 2015; interest 3.206%

\$ 356,951

Annual principal and interest maturities of the outstanding revenue bonds of \$356,951 on December 31, 2013 are as detailed below:

Year Ended December 31	Business-Type Activities		
	Principal	Interest	Totals
2014	\$ 175,660	\$ 8,628	\$ 184,288
2015	181,291	2,906	184,197
	\$ 356,951	\$ 11,534	\$ 368,485

Utility Revenues Pledged

The Town has pledged future utility district customer revenues, net of specified operating expenses, to repay the utility district revenue bonds. Proceeds from the bonds provided financing for the construction or acquisition of capital assets. The bonds are payable solely from utility district customer net revenues and are payable through 2015. The total principal and interest remaining to be paid on the bonds is \$368,485. Principal and interest paid for the current year and total customer net revenues were \$184,375 and \$1,310,411 respectively.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE C - DETAILED NOTES ON ALL FUNDS (Continued)

Capital Leases

The Town is obligated under various leases accounted for as capital leases that were used to finance the acquisition of five vehicles with a cost basis of \$137,804. Presented below is a schedule of future minimum lease payments required under the capital leases, and the present value of the net minimum lease payments at December 31, 2013:

<u>Year Ended</u>		
2014	\$	46,624
2015		<u>46,624</u>
Total minimum lease payments		93,248
Less: Amount representing interest		<u>1,903</u>
Present value of future minimum lease payments	\$	<u><u>91,345</u></u>

NOTE D - OTHER INFORMATION

1. Retirement Commitments

All eligible Town employees participate in the Wisconsin Retirement System (WRS), a cost-sharing, multiple-employer, defined benefit, public employee retirement system. All employees initially employed by a participating WRS employer prior to July 1, 2011, expected to work at least 600 hours a year (440 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire, are eligible to participate in the WRS. All employees initially employed by a participating WRS employer on or after July 1, 2011, and expected to work at least 1200 hours a year (880 hours for teachers and school district educational support employees) and expected to be employed for at least one year from employee's date of hire are eligible to participate in the WRS. Employees hired to work nine or ten months per year, (e.g. teachers contracts), but expected to return year after year are considered to have met the one-year requirement.

Effective the first day of the first pay period on or after June 29, 2011 the employee required contribution was changed to one-half of the actuarially determined contribution rate for employees in the General category, including Teachers, and Executives and Elected Officials. Required contributions for protective employees are the same rate as general employees. Employers are required to contribute the remainder of the actuarially determined contribution rate. The employer may not pay the employee required contribution unless provided for by an existing collective bargaining agreement.

Contribution rates for 2013 were:

	<u>Employee</u>	<u>Employer</u>
General (including Teachers)	6.65%	6.65%
Executives & Elected Officials	7.0%	7.0%
Protective with Social Security	6.65%	9.75%
Protective without Social Security	6.65%	12.35%

The payroll for Town of Salem employees covered by the WRS for the year ended December 31, 2013 was \$1,309,023; the employer's total payroll was \$1,736,540. The total required contribution for the year ended December 31, 2013 was \$182,297, which consisted of \$95,247, or 7.3% of payroll from the employer and \$87,050, or 6.7% of payroll from employees. Total contributions for the years ended December 31, 2012 and 2011 were \$166,050 and \$0, respectively, equal to the required contributions for each year.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE D - OTHER INFORMATION (Continued)

Employees who retire at or after age 65 (62 for elected officials and 54 for protective occupation employees with less than 25 years of service, 53 for protective occupation employees with more than 25 years of service) are entitled to receive a retirement benefit. Employees may retire at age 55 (50 for protective occupation employees) and receive actuarially reduced benefits. The factors influencing the benefit are: (1) final average earnings, (2) years of creditable service, and (3) a formula factor. Final average earnings are the average of the employee's three highest year's earnings. Employees terminating covered employment and submitting application before becoming eligible for a retirement benefit may withdraw their contributions and, by doing so, forfeit all rights to any subsequent benefit. For employees beginning participation on or after January 1, 1990, and no longer actively employed on or after April 24, 1998, creditable service in each of five years is required for eligibility for a retirement annuity. Participants employed prior to 1990 and on or after April 24, 1998 and prior to July 1, 2011 are immediately vested. Participants who initially became WRS eligible on or after July 1, 2011 must have five years of creditable service to be vested.

The WRS also provides death and disability benefits for employees. Eligibility and the amount of all benefits are determined under Chapter 40 of Wisconsin Statutes.

The WRS issues an annual financial report that may be obtained by writing to the Department of Employee Trust Funds, P.O. Box 7931, Madison, WI 53707-7931.

2. Other Pension Plan

In 2011, the Town of Salem withdrew from a pension plan for union employees and was assessed a withdrawal liability in the amount of \$2,344,207. Monthly required installments of \$10,094 began on January 1, 2012 and are payable through December 31, 2031. As of December 31, 2013, the total future payments due under the withdrawal liability total \$2,101,961; however, this liability is not currently recorded as the Town is in negotiations on a lump sum settlement in 2014.

3. Contingencies

- a. The Town participates in a number of federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the Town's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.
- b. From time to time, the Town is party to other various pending claims and legal proceedings. Although the outcome of such matters cannot be forecast with certainty, it is the opinion of management and legal counsel that the likelihood is remote that any such claims or proceedings will have a material adverse effect on the Town's financial position or results of operations.

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The Town completes an annual review of its insurance coverage to ensure adequate coverage.

TOWN OF SALEM, WISCONSIN
Notes to Basic Financial Statements
December 31, 2013

NOTE D - OTHER INFORMATION (Continued)

5. Property Tax Levy Limit

Wisconsin state statutes provide for a limit on the property tax levies for all Wisconsin cities, villages, towns and counties. For the 2013 and 2014 budget years, the increase in the maximum allowable tax levy is limited to the percentage change in the Town's January 1 equalized value as a result of net new construction. The actual limit for the Town for the 2013 budget was 0.24%. The actual limit for the Town for the 2014 budget was 0.70%. Debt service for debt authorized after July 1, 2005 is exempt from the levy limit. In addition, Wisconsin statutes allow the limit to be adjusted for the increase in debt service authorized prior to July 1, 2005 and in certain other situations.

6. Prior Period Adjustment - Cumulative Effect of Change in Accounting Principle

The Town had \$167,974 in unamortized debt issuance costs remaining as of December 31, 2012. Due to the implementation of GASB Statement No. 65, the Town removed the asset from the Statement of Net Position. The Town incurred an adjustment of \$167,974 as shown on the Statement of Activities. Net position was reduced by this amount.

SUPPLEMENTARY INFORMATION

TOWN OF SALEM, WISCONSIN
Detailed Comparison of Budgeted and Actual Revenues - General Fund
For the Year Ended December 31, 2013

Revenues	Budgeted Amounts		Actual Amounts	Variance Final Budget - Positive (Negative)
	Original	Final		
Taxes				
Property taxes	\$ 2,196,470	\$ 2,196,470	\$ 2,196,470	\$ -
Mobile home	46,000	46,000	47,672	1,672
Other taxes	3,102	3,102	6,329	3,227
Total Taxes	2,245,572	2,245,572	2,250,471	4,899
Intergovernmental				
Shared revenue	120,443	120,443	120,820	377
Tax exempt computer aid	800	800	886	86
Water patrol	14,000	14,000	8,074	(5,926)
Highway aids	250,000	250,000	249,995	(5)
Recycling	12,000	12,000	12,063	63
Payment in lieu of taxes	1,900	1,900	1,926	26
Total Intergovernmental	399,143	399,143	393,764	(5,379)
Licenses and Permits				
Operators	4,200	4,200	7,304	3,104
Cable television	95,900	95,900	94,094	(1,806)
Liquor	15,000	15,000	15,737	737
Other licenses	10,368	10,368	10,081	(287)
Building	60,000	60,000	75,266	15,266
Other permits	9,300	9,300	13,395	4,095
Total Licenses and Permits	194,768	194,768	215,877	21,109
Fines and Forfeits				
Court costs and fines	55,000	55,000	34,457	(20,543)
Public Charges for Services				
General government	7,000	7,000	7,090	90
Planning and zoning fees	4,600	4,600	8,175	3,575
Building inspection fees	1,600	1,600	2,350	750
Highway	5,000	5,000	1,828	(3,172)
Garbage, recycling and yard waste	1,012,100	1,012,100	1,012,721	621
Razing	-	-	41,818	41,818
Dog pound fees	1,000	1,000	325	(675)
Rental	7,500	7,500	8,435	935
Total Public Charges for Services	1,038,800	1,038,800	1,082,742	43,942
Intergovernmental Charges for Services				
EMS	275,000	275,000	303,757	28,757
Fire	283,538	283,538	264,780	(18,758)
Total Intergovernmental Charges for Services	558,538	558,538	568,537	9,999
Miscellaneous				
Interest	5,000	5,000	3,489	(1,511)
Rent	-	-	1,500	1,500
Other	12,000	12,000	43,313	31,313
Total Miscellaneous	17,000	17,000	48,302	31,302
Total Revenues	\$ 4,508,821	\$ 4,508,821	\$ 4,594,150	\$ 85,329

TOWN OF SALEM, WISCONSIN
Detailed Comparison of Budgeted and Actual Expenditures - General Fund
For the Year Ended December 31, 2013

	Budgeted Amounts		Actual Amounts	Variance Final Budget - Positive (Negative)
	Original	Final		
Expenditures				
General Government				
Elected officials	\$ 56,643	\$ 56,643	\$ 54,661	\$ 1,982
Judicial	36,804	36,804	16,953	19,851
Boards and commissions	8,200	8,200	5,106	3,094
Administrator	103,800	103,800	97,489	6,311
Legal expense	46,900	46,900	36,136	10,764
Town clerk	71,361	71,361	76,354	(4,993)
Elections	29,750	29,750	11,574	18,176
Town treasurer	61,713	61,713	55,256	6,457
Town hall and contractual services	345,480	345,480	527,688	(182,208)
Insurance	225,500	225,500	217,433	8,067
Contingency	20,000	20,000	19,898	102
Total General Government	1,006,151	1,006,151	1,118,548	(112,397)
Public Safety				
Public safety	96,587	96,587	107,030	(10,443)
Water patrol	38,298	38,298	43,520	(5,222)
Fire department	1,221,698	1,221,698	1,028,496	193,202
Building inspection	112,082	112,082	99,365	12,717
Total Public Safety	1,468,665	1,468,665	1,278,411	190,254
Public Works				
Highway department	879,633	879,633	940,080	(60,447)
Street lights	45,000	45,000	41,877	3,123
Garbage collection	655,900	655,900	563,936	91,964
Recycling charges	338,000	338,000	222,211	115,789
Total Public Works	1,918,533	1,918,533	1,768,104	150,429
Health and Human Services				
Animal control	7,500	7,500	5,500	2,000
Culture and Recreation				
Library	310,437	310,437	310,437	-
Parks	45,000	45,000	21,519	23,481
Total Culture and Recreation	355,437	355,437	331,956	23,481
Conservation and Development				
Conservation and development	30,411	30,411	52,399	(21,988)
Miscellaneous	-	-	19,625	(19,625)
Total Conservation and Development	30,411	30,411	72,024	(41,613)
Total Expenditures	\$ 4,786,697	\$ 4,786,697	\$ 4,574,543	\$ 212,154

TOWN OF SALEM, WISCONSIN
 Combining Balance Sheet
 Nonmajor Governmental Funds
 December 31, 2013

Special Revenue Funds				
	Trails Fund	Park Fund	Maintenance Fee Fund	Total
ASSETS				
Cash and investments	\$ 215,536	\$ -	\$ -	\$ 215,536
Restricted cash and investments	-	329,944	40,000	369,944
TOTAL ASSETS	<u>\$ 215,536</u>	<u>\$ 329,944</u>	<u>\$ 40,000</u>	<u>\$ 585,480</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Fund Balances				
Restricted				
Park land and facilities	-	329,944	-	329,944
Transportation system	-	-	40,000	40,000
Assigned				
Pedestrian and bicycle trails	215,536	-	-	215,536
Total Fund Balances	<u>215,536</u>	<u>329,944</u>	<u>40,000</u>	<u>585,480</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 215,536</u>	<u>\$ 329,944</u>	<u>\$ 40,000</u>	<u>\$ 585,480</u>

TOWN OF SALEM, WISCONSIN

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

Nonmajor Governmental Funds

For the Year Ended December 31, 2013

Special Revenue Funds				
	Trails Fund	Park Fund	Maintenance Fee Fund	Total
Revenues				
Public charges for services	\$ -	\$ 14,556	\$ 1,406	\$ 15,962
Miscellaneous	217	430	39	686
Total Revenues	217	14,986	1,445	16,648
Expenditures				
Capital outlay				
Culture and recreation	-	126,442	-	126,442
Net Change in Fund Balances	217	(111,456)	1,445	(109,794)
Fund Balances - January 1	215,319	441,400	38,555	695,274
Fund Balances - December 31	\$ 215,536	\$ 329,944	\$ 40,000	\$ 585,480

**ADDITIONAL INDEPENDENT AUDITORS' REPORT
FOR BASIC FINANCIAL STATEMENTS**



**INDEPENDENT AUDITORS' 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**

To the Town Board
Town of Salem, Wisconsin

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, each major fund, and the aggregate remaining fund information of the Town of Salem, Wisconsin, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Town of Salem, Wisconsin's basic financial statements, and have issued our report thereon which included an emphasis of matter paragraph as indicated on page 2 dated June 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Salem, Wisconsin's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Salem, Wisconsin's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Salem, Wisconsin's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as items 2013-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Salem, Wisconsin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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*.

Town of Salem, Wisconsin's Response to Findings

Town of Salem, Wisconsin's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. Town of Salem, Wisconsin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Salem, Wisconsin's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Salem, Wisconsin's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Certified Public Accountants
Green Bay, Wisconsin
June 24, 2014

TOWN OF SALEM, WISCONSIN
 Schedule of Findings and Responses
 For the Year Ended December 31, 2013

Section I - Internal Control Over Financial Reporting

Finding No.	Control Deficiencies
2013-001	Segregation of Duties
Condition:	A limited number of Town employees perform the majority of the accounting functions for the Town of Salem.
Criteria:	Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction.
Cause:	The lack of segregation of duties is due to the limited number of employees and the size of Town's operations.
Effect:	Segregation of duties is an internal control intended to prevent or decrease the occurrence of errors or intentional fraud. Segregation of duties ensures that no single employee has control over all phases of a transaction. Errors or intentional fraud could occur and not be detected timely by other employees in the normal course of their responsibilities as a result of the lack of segregation of duties.
Recommendation:	We recommend the Town Board and Administrator continue to monitor the transactions and the financial records of the Town.
Management Response:	The Town employs an accounting firm to provide oversight and technical assistance throughout the year; however, management believes that the cost of segregating cash receipts and cash disbursement duties from the related recording functions outweigh the benefits to be received.

Section II - Compliance and Other Matters

There are no findings related to compliance and other matters that are required to be reported under government auditing standards generally accepted in the United States of America for the year ended December 31, 2013.