



**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2012**

**SALEM CITY CORPORATION**  
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## **INTRODUCTORY SECTION**

October 4, 2012

Salem City Council  
Salem, Utah

Council:

It is with great pleasure that the financial statements for the City of Salem for the year ended June 30, 2012, are presented.

State law requires that all local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. These financial statements are hereby issued and submitted to you for the fiscal year ended June 30, 2012, in accordance with these requirements.

This report consists of management's representations concerning the finances of the City of Salem. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management has established an internal control framework that is designed to both protect the assets of the City from loss, theft, or misuse and to allow for the compiling of sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's internal control procedures have been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. To the best of management's knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Salem's financial statements have been audited by Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Salem for the fiscal year ended June 30, 2012, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Salem's financial statements for the fiscal year ended June 30, 2012, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The financial reporting entity (the City) includes all funds of the primary government (i.e., the City of Salem as legally defined).

I wish to express my appreciation to all members of the City who assisted and contributed to the preparation of this report.

Respectfully submitted,

Mayor Randy A. Brailsford  
City of Salem

## **FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Mayor and City Council  
Salem City Corporation  
Salem, Utah

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 City of Salem, Utah (the City) as of and for the year ended June 30, 2012, which collectively comprises the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

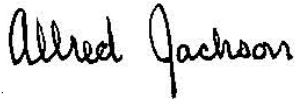
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2012 on our consideration of the City's internal control over financial reporting and 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 and should be considered in assessing the results for our audit.



Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole. The introductory section and combining nonmajor fund statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

A handwritten signature in black ink that reads "Alfred Jackson". The signature is written in a cursive style with a large initial "A".

October 4, 2012

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

**June 30, 2012**

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As management of Salem City, we offer readers of Salem City's financial statements this narrative overview and analysis of the financial activities of Salem City for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

**FINANCIAL HIGHLIGHTS**

- The total net assets of Salem City were \$42,885,780. Of this amount, \$39,430,141 consists of capital assets, net of any related debt and \$741,412 of restricted net assets. As a result, the City has \$545,362 of unrestricted governmental net assets and \$2,168,865 of unrestricted business-type net assets.
- The City operated its governmental activities as planned.

**REPORTING THE CITY AS A WHOLE**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, consisting of the following components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes other supplementary information in addition to the basic financial statements.

*The government-wide financial statements* are designed to provide a broad overview of the City's finances, in a manner similar to a private-sector business.

- The statement of net assets presents information on all of Salem City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Salem City is improving or deteriorating. However, you will also need to consider other nonfinancial factors.
- The statement of activities presents information showing how the City's net assets changed during the fiscal year reported. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

Both of the government-wide financial statements distinguish functions of Salem City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 14 & 15 of this report.

## **REPORTING THE CITY'S MOST SIGNIFICANT FUNDS**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Salem City also uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

- **Governmental Funds** – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on the way money flows into and out of these funds and the 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 other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services provided. Governmental fund information helps users determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

The only major governmental funds (as determined by generally accepted accounting principles) are the General Fund and the Capital Projects Fund. The rest of the governmental funds are determined to be nonmajor and are included in the combining statements within this report.

- **Proprietary Funds** – Salem City maintains two types of proprietary funds.
  - **Enterprise Funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. Salem City uses enterprise funds to account for its Water, Sewer, Electric, Pressurized Irrigation and Solid Waste.
  - **Internal Service Funds** are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City on a cost-reimbursement basis. The internal service funds consist of a Motor Pool Fund and a Data Processing Fund.
- **Fiduciary Funds**- Salem City maintains one type of fiduciary fund. Trust funds are used to account for assets held by the City as trustee for individuals. The City has one trust fund for the Cemetery Perpetual Care. This a trust fund used to account for monies received for the perpetual care of cemetery lots.

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

*Continued*

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceed liabilities by \$42,885,780.

The largest portion of Salem City's net assets reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City'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 following table summarizes the City's net assets as of June 30, 2012:

**STATEMENT OF NET ASSETS**

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Current and other assets	\$ 2,410,369	\$ 1,780,357	\$ 3,051,535	\$ 3,318,298
Capital assets	14,294,574	15,147,830	38,570,626	39,328,953
Total assets	<u>16,704,943</u>	<u>16,928,187</u>	<u>41,622,161</u>	<u>42,647,251</u>
Long-term debt outstanding	3,161,939	3,386,704	10,328,390	10,878,120
Other liabilities	1,392,509	1,154,470	558,486	698,560
Total liabilities	<u>4,554,448</u>	<u>4,541,174</u>	<u>10,886,876</u>	<u>11,576,680</u>
Net assets:				
Invested in capital assets, net of debt	11,187,905	11,818,961	28,242,236	28,450,833
Restricted	417,228	364,179	324,184	474,459
Unrestricted	545,362	203,873	2,168,865	2,145,279
Total net assets	<u>\$ 12,150,495</u>	<u>\$ 12,387,013</u>	<u>\$ 30,735,285</u>	<u>\$ 31,070,571</u>

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

*Continued*

Business-type activities decreased Salem City's net assets by \$335,286 and governmental activities decreased net assets by \$236,518. The elements of these decreases for the fiscal year ended June 30, 2012 are as follows:

**CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities	
	2012	2011	2012	2011
Revenues:				
Program revenues:				
Charges for services	\$ 865,318	\$ 841,666	\$ 5,184,802	\$ 5,282,657
Operating grants & contributions	305,013	356,360	-	-
Capital grants & contributions	396,328	546,210	368,613	980,998
General revenues:				
Property taxes	657,965	475,847	-	-
Other taxes	1,027,028	1,016,197	-	-
Investment income	6,161	3,120	2,751	9,612
Other revenues	5,650	865	-	-
Total revenues	<u>3,263,463</u>	<u>3,240,265</u>	<u>5,556,166</u>	<u>6,273,267</u>
Expenses:				
General government	431,202	592,404	-	-
Public safety	1,191,451	1,226,535	-	-
Highways/public improvements	1,047,225	1,044,286	-	-
Parks & recreation	1,107,859	903,241	-	-
Interest on long term debt	122,366	131,671	-	-
Water	-	-	708,383	708,832
Sewer	-	-	651,852	621,415
Electric	-	-	3,029,977	3,106,312
Pressurized Irrigation	-	-	786,562	821,796
Waste	-	-	314,556	311,000
Total expenses	<u>3,900,103</u>	<u>3,898,137</u>	<u>5,491,330</u>	<u>5,569,355</u>
Increase in net assets	(636,640)	(657,872)	64,836	703,912
Transfers	400,122	442,240	(400,122)	(442,240)
Net increase in net asset	(236,518)	(215,632)	(335,286)	261,672
Net assets beginning of year	12,387,013	12,602,645	31,070,571	30,808,899
Net assets end of year	<u>\$ 12,150,495</u>	<u>\$ 12,387,013</u>	<u>\$ 30,735,285</u>	<u>\$ 31,070,571</u>

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

*Continued*

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements.

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$1,019,613. Of this total amount \$373,599 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$373,599 while total fund balance reached \$817,130. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The fund balance represents 27% of total general fund expenditures. For state compliance purposes, the general fund unreserved fund balance was 9% at the end of the year.

The city maintains enterprise funds to account for the business-type activities of the city. The information is found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the water, sewer, electrical, pressurized irrigation and solid waste at the end of the year amounted to \$2,220,995. Revenues and expenditures for normal operation remained fairly stable with some increases in both areas.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the fiscal year, the General Fund's original budget was amended from an original budget expenses total of \$3,182,240 to a final budget of \$3,425,130, an increase of \$242,890. Major changes are summarized as follows:

• General Government	\$ 36,669
• Public safety	37,136
• Highways and public works	27,567
• Parks	<u>141,518</u>
Total	<u>\$ 242,890</u>

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

*Continued*

**Capital Asset and Debt Administration**

Salem City's investment in capital assets for its governmental and proprietary fund activities as of June 30, 2012 amounts to \$52,865,200 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total decrease in the City's investment in fixed assets for the current year of \$1,611,583.

Major capital asset events during the current fiscal year including improvements to new subdivisions are as follows:

- Multiple vehicles \$ 96,132
- Infrastructure additions 61,954
- Sewer Line additions 54,040

**Salem City's Capital Assets as of June 30, 2012**

	Governmental Activities	Business-type Activities	Total
Land	\$ 369,909	\$ 1,038,703	\$ 1,408,612
Buildings	3,232,615	1,609,007	4,841,622
Improvements	2,023,900	39,626,390	41,650,290
Equipment	2,184,982	484,939	2,669,921
Infrastructure	20,937,215	1,311,204	22,248,419
Water Rights	-	1,050,479	1,050,479
Construction in Progress	-	645,573	645,573
Accumulated depreciation	(14,454,047)	(7,195,669)	(21,649,716)
Total net assets	\$ 14,294,574	\$ 38,570,626	\$ 52,865,200

**SALEM CITY CORPORATION**  
**Management's Discussion and Analysis**

*Continued*

**Long Term Debt**

At the end of the current fiscal year, the city had total bonded debt outstanding of \$10,682,603. Of this amount \$1,155,000 comprises debt backed by the full faith and credit of the government and \$9,527,603 is debt that is secured by specific revenue sources (i.e., revenue bonds).

During the current fiscal year the City's total bonded debt decreased by \$509,000.

**Salem City's Outstanding Debt**  
**General Obligation and Revenue Bonds**

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ -	\$ 1,155,000	\$ 1,155,000
Revenue Bonds	3,008,000	6,519,603	9,527,603
Total Bonds	<u>\$ 3,008,000</u>	<u>\$ 7,674,603</u>	<u>\$ 10,682,603</u>

Additional information on the City's long-term debt can be found in the footnotes to this financial report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

- The General Fund budget for the fiscal year-ending June 30, 2013 reflects an increase of 31% in expenditures over the final fiscal year ending, June 30, 2012.

**REQUESTS FOR INFORMATION**

This final report is designed to provide a general overview of Salem City's finances for all those with an interest in the City's financials. Questions concerning any information provided in this report or request for additional information should be addressed to: Salem City, Finance Director, and P.O. Box 901, Salem, Utah, 84653.



## **BASIC FINANCIAL STATEMENTS**

**SALEM CITY CORPORATION**  
**Statement of Net Assets**

**June 30, 2012**

	Governmental Activities	Business-type Activities	Memorandum Totals	
			2012	2011
<b>ASSETS</b>				
Cash and cash equivalents	\$ 1,030,294	\$ 1,316,139	\$ 2,346,433	\$ 2,173,334
Cash - restricted	474,130	324,184	798,314	851,434
Receivables - net	808,030	461,907	1,269,937	1,074,591
Inventories	-	156,971	156,971	153,123
Equity in joint venture	-	646,241	646,241	571,119
Deferred bond financing cost - net	97,915	146,093	244,008	275,054
Capital assets				
Land	369,909	1,038,703	1,408,612	1,408,612
Buildings	3,232,615	1,609,007	4,841,622	4,928,359
Improvements	2,023,900	39,626,390	41,650,290	41,524,659
Equipment	2,184,982	484,939	2,669,921	2,568,867
Infrastructure	20,937,215	1,311,204	22,248,419	22,186,465
Water rights	-	1,050,479	1,050,479	1,025,308
Construction in progress	-	645,573	645,573	645,573
Accumulated depreciation	(14,454,047)	(7,195,669)	(21,649,716)	(19,811,060)
Total assets	<u>16,704,943</u>	<u>41,622,161</u>	<u>58,327,104</u>	<u>59,575,438</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	702,122	416,882	1,119,004	1,197,874
Bond interest payable	42,645	106,536	149,181	159,571
Loans payable	-	55,579	55,579	183,179
Bonds and capital leases payable - current	234,675	366,070	600,745	628,653
Internal balances	(35,068)	35,068	-	-
Deferred revenue	682,810	-	682,810	495,585
Loans payable - noncurrent	-	2,508,857	2,508,857	2,526,866
Bonds and capital leases payable - noncurrent	2,927,264	7,397,884	10,325,148	10,926,126
Total liabilities	<u>4,554,448</u>	<u>10,886,876</u>	<u>15,441,324</u>	<u>16,117,854</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	11,187,905	28,242,236	39,430,141	40,269,794
Restricted for debt and capital improvements	417,228	324,184	741,412	838,638
Unrestricted	545,362	2,168,865	2,714,227	2,349,152
Total net assets	<u>\$ 12,150,495</u>	<u>\$ 30,735,285</u>	<u>\$ 42,885,780</u>	<u>\$ 43,457,584</u>

See Accompanying Notes to Financial Statements

**SALEM CITY CORPORATION**  
**Statement of Activities**

**For the Year Ended June 30, 2012**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			2011	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities		Memorandum Total 2012
Governmental activities:								
General government	\$ 431,202	\$ 400,859	\$ 19,009	\$ 142,373	\$ 131,039	\$ -	\$ 131,039	\$ (116,510)
Public safety	1,191,451	186,836	21,652	163,145	(819,818)	-	(819,818)	(929,820)
Highways and public works	1,047,225	2,145	259,717	-	(785,363)	-	(785,363)	(508,206)
Parks and recreation	1,107,859	275,478	4,635	90,810	(736,936)	-	(736,936)	(467,694)
Interest on long-term debt	122,366	-	-	-	(122,366)	-	(122,366)	(131,671)
Total governmental activities	<u>3,900,103</u>	<u>865,318</u>	<u>305,013</u>	<u>396,328</u>	<u>(2,333,444)</u>	<u>-</u>	<u>(2,333,444)</u>	<u>(2,153,901)</u>
Business-type activities:								
Water Utility	708,383	744,467	-	82,851	-	118,935	118,935	141,350
Sewer Utility	651,852	516,300	-	112,406	-	(23,146)	(23,146)	213,506
Electric Utility	3,029,977	3,042,068	-	103,748	-	115,839	115,839	501,826
Pressurized Irrigation	786,562	553,936	-	69,608	-	(163,018)	(163,018)	(178,189)
Waste Utility	314,556	328,031	-	-	-	13,475	13,475	15,807
Total business-type activities	<u>\$ 5,491,330</u>	<u>\$ 5,184,802</u>	<u>\$ -</u>	<u>\$ 368,613</u>	<u>-</u>	<u>62,085</u>	<u>62,085</u>	<u>694,300</u>
General Revenues:								
Property taxes					657,965	-	657,965	475,847
General sales and use tax					744,124	-	744,124	720,214
Franchise tax					282,904	-	282,904	295,983
Unrestricted investment earnings					6,161	2,751	8,912	12,732
Sale of Capital Assets					5,650	-	5,650	865
Transfers					400,122	(400,122)	-	-
Total general revenues and transfers					<u>2,096,926</u>	<u>(397,371)</u>	<u>1,699,555</u>	<u>1,505,641</u>
Change in net assets					(236,518)	(335,286)	(571,804)	46,040
Net assets - beginning					12,387,013	31,070,571	43,457,584	43,411,544
Net assets - ending					<u>\$ 12,150,495</u>	<u>\$ 30,735,285</u>	<u>\$ 42,885,780</u>	<u>\$ 43,457,584</u>

See Accompanying Notes to Financial Statements

**SALEM CITY CORPORATION**  
**Balance Sheet**  
**Governmental Funds**

**June 30, 2012**

	General	Capital Projects Fund	Governmental Funds	Memorandum Totals 2012	2011
<b>ASSETS</b>					
Cash & cash equivalents	\$ 812,901	\$ 152,843	\$ 64,550	\$ 1,030,294	\$ 634,782
Restricted cash	474,130	-	-	474,130	376,975
Receivables (net):					
Property tax	700,809	-	-	700,809	513,584
Other, net	107,221	-	-	107,221	150,261
Due from other funds	-	-	-	-	459
Total assets	<u>\$ 2,095,061</u>	<u>\$ 152,843</u>	<u>\$ 64,550</u>	<u>\$ 2,312,454</u>	<u>\$ 1,676,061</u>
<b>LIABILITIES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 595,121	\$ 14,910	\$ -	\$ 610,031	\$ 563,104
Due to other funds	-	-	-	-	459
Deferred liabilities	682,810	-	-	682,810	495,585
Total liabilities	<u>1,277,931</u>	<u>14,910</u>	<u>-</u>	<u>1,292,841</u>	<u>1,059,148</u>
Fund balance:					
Restricted for:					
Roads and recreational activities	352,699	-	-	352,699	300,975
Perpetual Care Fund	-	-	64,529	64,529	63,204
Committed for:					
Road Projects	89,832	-	-	89,832	-
Assigned for:					
Library	1,000	-	-	1,000	-
Capital Projects	-	137,933	-	137,933	36,100
Municipal building authority	-	-	21	21	-
Unassigned for:					
General Fund	373,599	-	-	373,599	217,093
Special Revenue Funds	-	-	-	-	(459)
Total fund balances	<u>817,130</u>	<u>137,933</u>	<u>64,550</u>	<u>1,019,613</u>	<u>616,913</u>
Total liabilities and fund balances	<u>\$ 2,095,061</u>	<u>\$ 152,843</u>	<u>\$ 64,550</u>	<u>\$ 2,312,454</u>	<u>\$ 1,676,061</u>

**SALEM CITY CORPORATION**  
**Balance Sheet Reconciliation to**  
**Statement of Net Assets**

**June 30, 2012**

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Total fund balances for governmental funds	\$ 1,019,613
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Consolidation of Internal Service Funds	35,068
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,294,574
Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets	97,915
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,296,675)</u>
Net assets of governmental activities	<u><u>\$ 12,150,495</u></u>

**SALEM CITY CORPORATION**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**

**For the Year Ended June 30, 2012**

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals 2012	2011
<b>Revenues:</b>					
Taxes	\$ 1,684,993	\$ -	\$ -	\$1,684,993	\$ 1,492,044
Licenses and permits	172,823	-	-	172,823	186,629
Intergovernmental	303,570	-	65,960	369,530	542,550
Charges for services	739,115	-	-	739,115	793,738
Investment earnings	5,767	-	394	6,161	3,120
Fines and forfeitures	30,595	-	-	30,595	40,443
Miscellaneous revenues	35,734	163,748	-	199,482	41,576
Total revenues	2,972,597	163,748	66,354	3,202,699	3,100,100
<b>Expenditures:</b>					
Current:					
General government	427,640	-	-	427,640	587,392
Public safety	1,123,972	-	-	1,123,972	1,106,695
Highways and public works	274,917	-	-	274,917	346,118
Parks and recreation	1,022,504	-	-	1,022,504	935,206
Tax increment distributions	-	-	-	-	-
Capital outlay	-	79,372	-	79,372	80,443
Debt service:					
Principal Retirement	116,000	-	39,000	155,000	167,856
Interest and fiscal charges	96,797	-	25,569	122,366	131,671
Total expenditures	3,061,830	79,372	64,569	3,205,771	3,355,381
Excess (deficiency) of revenues over expenditures	(89,233)	84,376	1,785	(3,072)	(255,281)
<b>Other financing sources (uses):</b>					
Transfers in	382,665	46,899	20	429,584	442,240
Transfers out	(20)	(29,442)	-	(29,462)	-
Sale of assets	5,650	-	-	5,650	865
Total other financing sources (uses)	388,295	17,457	20	405,772	443,105
Net change in fund balance	299,062	101,833	1,805	402,700	187,824
Fund balances - beginning of year	518,068	36,100	62,745	616,913	429,089
Fund balances - end of year	\$ 817,130	\$ 137,933	\$ 64,550	\$1,019,613	\$ 616,913

See Accompanying Notes To Financial Statements

**SALEM CITY CORPORATION**  
**Statement of Changes**  
**Reconciliation to Statement of Activities**

**For the Year Ended June 30, 2012**

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

Net change in fund balances-total governmental funds	\$ 402,700
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(853,256)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets	-
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	242,868
Internal service funds are used by management to charge the cost of the motor pool and data processing to individual funds. The net asset decrease of the internal service funds are reposted with governmental.	(21,990)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(6,840)</u>
Change in net assets of governmental activities	<u><u>\$ (236,518)</u></u>

**SALEM CITY CORPORATION**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual**  
**General Fund**

**For the Year Ended June 30, 2012**

	Budget Amounts		General Fund	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 1,627,193	\$ 1,687,500	\$ 1,684,993	\$ (2,507)
Licenses and permits	154,920	151,400	172,823	21,423
Intergovernmental	357,918	374,332	303,570	(70,762)
Charges for services	413,326	473,172	739,115	265,943
Fines and forfeitures	39,000	34,000	30,595	(3,405)
Miscellaneous revenues	216,883	250,612	41,501	(209,111)
Total revenues	<u>2,809,240</u>	<u>2,971,016</u>	<u>2,972,597</u>	<u>1,581</u>
<b>Expenditures:</b>				
Current:				
General government	524,141	560,810	427,640	133,170
Public safety	1,188,442	1,225,578	1,123,972	101,606
Highways and public works	308,268	335,835	274,917	60,918
Parks and recreation	947,741	1,089,259	1,022,504	66,755
Debt Service	213,648	213,648	212,797	851
Total expenditures	<u>3,182,240</u>	<u>3,425,130</u>	<u>3,061,830</u>	<u>363,300</u>
Excess of expenditures over revenues	<u>(373,000)</u>	<u>(454,114)</u>	<u>(89,233)</u>	<u>364,881</u>
<b>Other financing sources (uses):</b>				
Sale of Assets	2,000	5,650	5,650	-
Transfers in	371,000	448,464	382,665	(65,799)
Transfers out	-	-	(20)	(20)
Net Change in fund balance	-	-	299,062	299,062
Fund balance - beginning of year	<u>518,068</u>	<u>518,068</u>	<u>518,068</u>	<u>-</u>
Fund balance - end of year	<u>\$ 518,068</u>	<u>\$ 518,068</u>	<u>\$ 817,130</u>	<u>\$ 299,062</u>



**SALEM CITY CORPORATION**  
**Statement of Net Assets**  
**Proprietary Funds**

**June 30, 2012**

	Business-Type Activities - Enterprise				Non-Major	Total	Governmental
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Enterprise Fund Waste Utility		Activities Internal Services Fund
<b>ASSETS</b>							
Current assets:							
Cash and cash equivalents	\$ 682,293	\$ 393,400	\$ -	\$ 89,545	\$ 150,901	\$ 1,316,139	\$ -
Accounts receivable, net	74,121	47,718	263,307	47,262	29,499	461,907	-
Inventories	20,525	-	136,446	-	-	156,971	-
Due from other funds	20,226	-	-	-	-	20,226	-
Total current assets	<u>797,165</u>	<u>441,118</u>	<u>399,753</u>	<u>136,807</u>	<u>180,400</u>	<u>1,955,243</u>	<u>-</u>
Noncurrent assets							
Restricted cash and cash equivalents	22,500	106,825	-	194,859	-	324,184	-
Land, equipment, buildings, and improvements	10,339,154	11,055,180	9,637,856	13,660,626	23,000	44,715,816	1,296,587
Less accumulated depreciation	(2,465,829)	(2,733,818)	(1,441,301)	(542,359)	(12,362)	(7,195,669)	(1,064,355)
Water rights and stock	721,637	-	-	328,842	-	1,050,479	-
Equity in joint venture	-	470,233	-	-	176,008	646,241	-
Deferred bond financing costs-net	78,824	-	-	67,269	-	146,093	-
Total noncurrent assets	<u>8,696,286</u>	<u>8,898,420</u>	<u>8,196,555</u>	<u>13,709,237</u>	<u>186,646</u>	<u>39,687,144</u>	<u>232,232</u>
Total assets	<u>9,493,451</u>	<u>9,339,538</u>	<u>8,596,308</u>	<u>13,846,044</u>	<u>367,046</u>	<u>41,642,387</u>	<u>232,232</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable	49,072	8,507	350,439	96,052	19,348	523,418	18,273
Due to other funds	-	-	3,164	-	-	3,164	17,062
Loans payable	15,863	16,021	23,695	-	-	55,579	-
Bonds and capital leases	290,000	19,000	21,070	36,000	-	366,070	72,675
Total current liabilities	<u>354,935</u>	<u>43,528</u>	<u>398,368</u>	<u>132,052</u>	<u>19,348</u>	<u>948,231</u>	<u>108,010</u>
Noncurrent liabilities:							
Loans payable	540,348	1,013,081	955,428	-	-	2,508,857	-
Bonds and capital leases	898,875	13,986	68,281	6,416,742	-	7,397,884	81,264
Deferred revenues	-	-	-	-	-	-	-
Total long-term liabilities	<u>1,439,223</u>	<u>1,027,067</u>	<u>1,023,709</u>	<u>6,416,742</u>	<u>-</u>	<u>9,906,741</u>	<u>81,264</u>
Total liabilities	<u>1,794,158</u>	<u>1,070,595</u>	<u>1,422,077</u>	<u>6,548,794</u>	<u>19,348</u>	<u>10,854,972</u>	<u>189,274</u>
<b>NET ASSETS</b>							
Invested in capital assets, net of related debt	6,849,876	7,259,274	7,128,081	6,994,367	10,638	28,242,236	78,293
Restricted for debt and other activities	22,500	106,825	-	194,859	-	324,184	-
Unrestricted	826,917	902,844	46,150	108,024	337,060	2,220,995	(35,335)
Total net assets	<u>\$ 7,699,293</u>	<u>\$ 8,268,943</u>	<u>\$ 7,174,231</u>	<u>\$ 7,297,250</u>	<u>\$ 347,698</u>	<u>\$ 30,787,415</u>	<u>\$ 42,958</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						(52,130)	
Net assets from business-type activities						<u>\$ 30,735,285</u>	

See Accompanying Notes To Financial Statements

**SALEM CITY CORPORATION**  
**Statement of Revenues, Expenses, and Changes in Fund Net Assets**  
**Proprietary Funds**

**For the Year Ended June 30, 2012**

	Business-Type Activities - Enterprise				Non-Major	Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Enterprise Fund Waste Utility Fund		
<b>Operating revenues:</b>							
Charges for services	\$ 737,730	\$ 516,234	\$ 3,027,226	\$ 508,941	\$ 323,054	\$ 5,113,185	389,807
Fees and miscellaneous	6,737	66	14,842	44,995	4,977	71,617	0
Total operating revenues	<u>744,467</u>	<u>516,300</u>	<u>3,042,068</u>	<u>553,936</u>	<u>328,031</u>	<u>5,184,802</u>	<u>389,807</u>
<b>Operating expenses:</b>							
Purchased power	-	-	1,993,344	-	-	1,993,344	-
Salaries and wages	85,265	81,778	350,941	68,806	13,645	600,435	-
Employee benefits	32,040	30,606	114,582	26,984	1,278	205,490	12,395
Contractual services	76,608	91,297	46,712	96,003	222,554	533,174	178,225
Supplies and materials	44,855	57,084	157,461	40,479	8,023	307,902	65,428
Administrative services	153,035	143,949	179,462	147,108	57,848	681,402	-
Utilities and telephone	32,843	32,707	-	18,105	-	83,655	-
Depreciation	215,341	220,356	196,503	263,813	575	896,588	87,155
Amortization of bond financing costs	21,497	-	-	2,709	-	24,206	-
Total operating expenses	<u>661,484</u>	<u>657,777</u>	<u>3,039,005</u>	<u>664,007</u>	<u>303,923</u>	<u>5,326,196</u>	<u>343,203</u>
Operating income (loss)	<u>82,983</u>	<u>(141,477)</u>	<u>3,063</u>	<u>(110,071)</u>	<u>24,108</u>	<u>(141,394)</u>	<u>46,604</u>
<b>Non-operating revenue (expense):</b>							
Interest revenue	681	303	501	1,258	8	2,751	97
Impact fees	71,323	58,366	76,630	58,995	-	265,314	-
Increase (decrease) equity in joint venture	-	-	-	-	(10,633)	(10,633)	-
Loss on sale of asset	-	-	-	-	-	-	-
Interest expense and fiscal charges	(51,511)	(749)	-	(124,237)	-	(176,497)	(7,454)
Total non-operating revenue (expense)	<u>20,493</u>	<u>57,920</u>	<u>77,131</u>	<u>(63,984)</u>	<u>(10,625)</u>	<u>80,935</u>	<u>(7,357)</u>
Net income before contributions & transfers	103,476	(83,557)	80,194	(174,055)	13,483	(60,459)	39,247
Transfers in (out)	(41,000)	(18,505)	(313,117)	(10,000)	(17,500)	(400,122)	-
Developers contributions	11,528	54,040	27,118	10,613	-	103,299	-
Change in net assets	<u>74,004</u>	<u>(48,022)</u>	<u>(205,805)</u>	<u>(173,442)</u>	<u>(4,017)</u>	<u>(357,282)</u>	<u>39,247</u>
Net assets - beginning	<u>7,625,289</u>	<u>8,316,965</u>	<u>7,380,036</u>	<u>7,470,692</u>	<u>351,715</u>	<u>31,144,697</u>	<u>3,711</u>
Net assets - ending	<u>\$ 7,699,293</u>	<u>\$ 8,268,943</u>	<u>\$ 7,174,231</u>	<u>\$ 7,297,250</u>	<u>\$ 347,698</u>	<u>30,787,415</u>	<u>\$ 42,958</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						21,996	
Change in net assets of business-type activities						<u>\$ (335,286)</u>	

See Accompanying Notes To Financial Statements

**SALEM CITY CORPORATION**  
**Statement of Cash Flows**  
**Proprietary Funds**

**For the Year Ended June 30, 2012**

	Business-Type Activities - Enterprise				Non-Major	Total	Governmental
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation	Enterprise Fund Waste Utility Fund		Internal-Service Fund
<b>Cash Flows From Operating Activities</b>							
Receipts from customers and users	\$ 759,404	\$ 517,730	\$ 3,075,586	\$ 554,810	\$ 328,433	\$ 5,235,963	\$ 389,807
Payments to suppliers	(220,150)	(218,013)	(2,490,251)	(184,446)	(234,953)	(3,347,813)	(259,826)
Payments to general fund for services	(153,035)	(143,949)	(179,462)	(147,108)	(57,848)	(681,402)	-
Payments to employees	(85,265)	(81,778)	(350,941)	(68,806)	(13,645)	(600,435)	-
Net cash provided by operating activities	<u>300,954</u>	<u>73,990</u>	<u>54,932</u>	<u>154,450</u>	<u>21,987</u>	<u>606,313</u>	<u>129,981</u>
<b>Cash Flows From Noncapital Financing Activities</b>							
Interfund Activity	(41,000)	(18,505)	(313,117)	(10,000)	(17,500)	(400,122)	-
Net cash provided (used) by noncapital financing activ.	<u>(41,000)</u>	<u>(18,505)</u>	<u>(313,117)</u>	<u>(10,000)</u>	<u>(17,500)</u>	<u>(400,122)</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>							
Impact Fees	71,323	58,366	76,630	58,995	-	265,314	-
Purchase of equity in joint venture	-	(85,755)	-	-	-	(85,755)	-
Purchases of capital assets	(25,172)	(9,790)	-	-	-	(34,962)	(52,859)
Principle paid on debt	(325,893)	(84,021)	(73,816)	(66,000)	-	(549,730)	(69,765)
Interest paid on capital debt	(51,511)	(749)	-	(124,237)	-	(176,497)	(7,454)
Net cash provided (used) in capital and financing act.	<u>(331,253)</u>	<u>(121,949)</u>	<u>2,814</u>	<u>(131,242)</u>	<u>-</u>	<u>(581,630)</u>	<u>(130,078)</u>
<b>Cash Flows From Investing Activities</b>							
Interest and dividends received	681	303	501	1,258	8	2,751	97
Net cash provided by investing activities	<u>681</u>	<u>303</u>	<u>501</u>	<u>1,258</u>	<u>8</u>	<u>2,751</u>	<u>97</u>
Net increase (decrease) in cash and cash equivalents	(70,618)	(66,161)	(254,870)	14,466	4,495	(372,688)	-
Cash and equivalents at beginning of year	775,411	566,386	254,870	269,938	146,406	2,013,011	-
Cash and equivalents at end of year	<u>\$ 704,793</u>	<u>\$ 500,225</u>	<u>\$ -</u>	<u>\$ 284,404</u>	<u>\$ 150,901</u>	<u>\$ 1,640,323</u>	<u>\$ -</u>
Shown in the Statement of Net Assets as:							
Cash and cash equivalents	\$ 682,293	\$ 393,400	\$ -	\$ 89,545	\$ 150,901	1,316,139	\$ -
Restricted cash equivalents at end of year	22,500	106,825	-	194,859	-	324,184	-
	<u>\$ 704,793</u>	<u>\$ 500,225</u>	<u>\$ -</u>	<u>\$ 284,404</u>	<u>\$ 150,901</u>	<u>\$ 1,640,323</u>	<u>\$ -</u>

(continued)

**SALEM CITY CORPORATION**  
**Statement of Cash Flows**  
**Proprietary Funds**

*Continued*

	Business-Type Activities - Enterprise				Non-Major Enterprise Fund	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation	Waste Utility Fund		
<b>Reconciliation of operating income to net cash provided by operating activities:</b>							
Operating income (loss)	\$ 82,983	\$ (141,477)	\$ 3,063	\$ (110,071)	24,108	\$ (141,394)	\$ 46,604
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation Expense	215,341	220,356	196,503	263,813	575	896,588	87,155
Amortization Expense	21,497	-	-	2,709	-	24,206	-
(Increase) decrease in accounts receivable	(14,937)	(1,430)	(33,518)	(874)	(402)	(51,161)	-
(Increase) decrease in inventory	1,570	-	(5,418)	-	-	(3,848)	-
(Increase) decrease in due from other funds	(3,158)	-	-	-	-	(3,158)	-
Increase (decrease) in accounts payable	(2,342)	(3,459)	(108,862)	(1,127)	(2,294)	(118,084)	(3,772)
Increase (decrease) in due to other funds	-	-	3,164	-	-	3,164	(6)
Total adjustments	<u>217,971</u>	<u>215,467</u>	<u>51,869</u>	<u>264,521</u>	<u>(2,121)</u>	<u>747,707</u>	<u>83,377</u>
Net cash provided by operating activities:	<u>\$ 300,954</u>	<u>\$ 73,990</u>	<u>\$ 54,932</u>	<u>\$ 154,450</u>	<u>\$ 21,987</u>	<u>\$ 606,313</u>	<u>\$ 129,981</u>
 Supplementary information							
Non-cash items from capital and related financing activities include contributions by developers	<u>\$ 11,528</u>	<u>\$ 54,040</u>	<u>\$ 27,118</u>	<u>\$ 10,613</u>	<u>\$ -</u>	<u>\$ 103,299</u>	<u>\$ -</u>
Non-cash purchase of assets through debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Accompanying Notes To Financial Statements

June 30, 2012

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Salem City Corporation (the City) financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The City applies FASB pronouncements issued after that date to its business-type activities and enterprise funds. The more significant accounting policies established in GAAP and used by the City are discussed below.

### **A. Reporting Entity**

Salem City Corporation was incorporated under laws of the State of Utah. Under the present form of government, administrative and legislative powers are vested in a governing body, consisting of the Mayor and a City Council. They are assisted by a Finance Director who is currently responsible for the financial matters of the City, including money management, accounts payable, financial statements, and accounts receivable.

The City provides the following services as mandated by law: Public Safety, Judicial Services, Highways and Streets, Sanitation, Parks, Cemetery, Water, Sewer, Electric, Waste Removal, Storm Drain, Public Improvements, Planning and Zoning, and General Administrative Services

### **Blended Component Units**

The Municipal Building Authority was created by the City during fiscal year 2002 and is governed by the City's Mayor and Council. The authority uses the proceeds of its tax-exempt bonds to finance the construction or acquisition of general capital assets for the City. The bonds are secured by a lease agreement with the City and will be retired through lease payments from the City. The financial statements of the Municipal Building Authority are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority is considered a blended component unit since the governing board is the same governing board of the City.

The Redevelopment Agency was created by the City during fiscal year 2009 and is governed by the City's Mayor and Council. The financial statements of the Redevelopment Agency are included in the accompanying financial statements as a blended component unit.

The Municipal Building Authority and Redevelopment Agency are presented as special revenue funds in the financial statements.

Complete financial statements for each of the individual component units may be obtained at the City's administrative offices.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statements of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effects of interfund activities have been removed from these statements. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment 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, 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 particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

**C. Measurement Focus, Basis of Accounting and Presentation**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified basis of accounting. Revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers all revenues available if they are collected within 60 days after the year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt as well as expenditures related to compensated absences, claims, and judgments, which are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, and earned but unreimbursed state and federal grants associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**C. Measurement Focus, Basis of Accounting and Presentation - *Continued***

The government reports the following major governmental funds:

The *general fund* is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

The *capital projects fund* is used to account for the construction of community projects.

The government reports the following major proprietary funds:

The *water fund* accounts for the activities of the City's water operations.

The *sewer fund* accounts for the activities of the City's sewer operations.

The *electric fund* accounts for the activities in the City's electric operations.

The *pressurized irrigation fund* accounts for the activities of the City's pressurized irrigation system.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statement. Exceptions to this general rule are payments to the general fund by the various enterprise funds for providing administrative services for such funds. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principle ongoing operations.

Additionally, the government reports the following fund types:

*Special Revenue Funds:*

*Municipal Building Authority* accounts for the activities of the municipal building authority.

*Redevelopment Agency* accounts for the activities of the Redevelopment Agency.

*Permanent Fund:*

*Perpetual Care* accounts for the perpetual care of the cemetery.

*Internal Service Funds:*

*Motor Pool Fund* accounts for the activities of the motor pool.

*Data Processing Fund* accounts for the activities of the data processing services.

*Proprietary Funds:*

*Waste Utility* accounts for the activities of the waste removal.

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**D. Assets, Liabilities, and Net Assets or Equity**

**1. Deposits and investments**

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

Investments consist of amounts deposited with Utah Public Treasurers' Investment Fund, treasury bills of the U.S. Government, and money market funds. Investments are stated at fair value, which approximates cost.

**2. Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to either "due to/due from other funds".

**3. Inventories and prepaid items**

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

**4. Restricted assets**

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services.

Restricted resources rather than unrestricted resources are used first to fund related appropriations.

**5. Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) 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.



*Continued*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**D. Assets, Liabilities, and Net Assets or Equity - *Continued***

**5. Capital assets – *Continued***

Donated capital assets are recorded at estimated fair market value at the date of donation. The infrastructure assets consist of the estimated value of the City's streets and roads at July 1, 2003, plus the costs of additions since that date.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and structures	25-50
Improvements other than buildings	20-50
Infrastructure	20
Machinery and equipment	5-10

**6. Compensated Absences**

Employees may accumulate vacation and sick leave. Those with accumulated leave hours may be compensated.

**7. Taxes**

In Utah, county governments assess, levy, collect and disburse two principal types of tax: (1) personal property tax which is assessed on business assets other than real estate, and (2) tax on real estate and improvements. Business personal property and real estate taxes attach as an enforceable lien on property as of January 1st. Taxes are levied on all business personal property on January 1st and real estate and improvement taxes are levied on January 1st and are payable by November 30th. The real property taxes that are due in November are reported as a receivable from property taxes on the financial statements. Because these taxes are not considered available to liquidate liabilities of the current period, they are offset by deferred revenue.

The City Council is authorized by state statute to levy a tax against all real and personal property located within its boundaries. The Council must set a tax rate by June 22nd each year. The County Treasurer, acting as a tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

*Continued*

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued***

**D. Assets, Liabilities, and Net Assets or Equity – *Continued***

**8. Long-term obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Issuance costs, 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 reported as deferred charges and amortized over the term of the related debt.

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 accrual debt proceeds received, are reported as debt service expenditures.

**9. Net Assets/Fund Balances**

In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned, or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally constrained due to state or federal laws, or externally imposed conditions by grantors or creditors. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City Council. Assigned fund balance is constrained by the City Council's intent to be used for specific purposes. Unassigned are residual balances in the General Fund.

**10. Use of Estimates**

Presenting financial statements in conformity with Generally Accepted Accounting Principles requires management to make certain estimates concerning assets, liabilities, revenues, and expenses. Actual results may vary from these estimates.

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets**

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

This difference primarily results from the long-term economic focus of the statement of net assets versus the current financial resources focus of the governmental fund balance sheets.

*Continued*

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – *continued***

**A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets - *Continued***

**Capital related items:**

When capital assets (property, plant, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of these assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$28,748,621
Accumulated depreciation	<u>(14,454,047)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i> )	<u>\$14,294,574</u>

**Long-term debt transactions:**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements. All liabilities (both current and long-term) are reported in the statement of net assets.

Bonds, notes, and capital leases payable	\$3,161,939
Bond interest payable	42,645
Other long-term payables	<u>92,091</u>
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$3,296,675</u>

*Continued*

**2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – *Continued***

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that "governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense."

Capital outlay	\$ 146,448
Depreciation expense	(1,061,658)
Capital contribution by developers	<u>61,954</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ (853,256)</u>

Another element of that reconciliation states, "The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

Change in long-term debt	
Principal paid on bonds, notes, and capital leases	\$224,765
Accrued interest change	4,275
Compensated absence change	<u>13,828</u>
Total debt retired	<u>\$242,868</u>

### **3. BUDGETS AND BUDGETARY ACCOUNTING**

Annual budgets are prepared and adopted in accordance with the Uniform Fiscal Procedures Act adopted by the State of Utah. Once a budget has been adopted, it remains in effect until it has been formally revised. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year. If any obligations are contracted for and are in excess of adopted budget, they are not a valid or enforceable claim against the City. Budgets are adopted on a basis consistent with generally accepted accounting principles. All funds of the City have legally adopted budgets.

The City adheres to the following procedures in establishing the budgetary data reflected in the financial statements:

- A. On or before the first regularly scheduled meeting of the City Council in May, the City administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 22nd, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1st.
- D. Control of budgeted expenditures is exercised, under state law, at the departmental level. The City Administrator, however, acting as budget officer, has the authority to transfer budget appropriations between line items within any department of any budgetary fund. The City Council, by resolution, has the authority to transfer budget appropriations between the individual departments of any budgetary fund.
- E. Budget appropriations for any department may be reduced by resolution.
- F. A public hearing as required in B) above, must be held to increase the total appropriations of any one governmental fund type; however, after the original public hearing, operating and capital budgets of proprietary fund types may be increased by resolution without an additional hearing.
- G. Encumbrances lapse at year end. Encumbered amounts carry over to the following year and are subject to reappropriation. Therefore, no encumbrances are presented in the financial statements.

During the budget year, the City modified the budget on several occasions using the above procedures.

*Continued*

**4. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**A. Deposits**

*Deposits - Custodial Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2012, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2012</u>
Regular Checking Now Account	Insured	\$ 269,076
Public Checking Analyze	Insured	\$ 819,369

**B. Investments**

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2012, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurer's Investment Fund	62 days average	\$2,108,926

*Investments - Interest Rate Risk* - The City 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. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk

*Investments - Credit Risk* - The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. City funds are deposited in qualified depositories as defined by the Act. The Act also authorizes the City to invest in the Utah Public Treasurers' Investment Fund (PTIF), certificates of deposit, U.S. Treasury obligations, U.S. agency issues, high trade commercial paper, bankers' acceptances, repurchase agreements, corporate bonds, restricted mutual funds, and obligations of governmental entities within the State of Utah.

*Continued*

**4. CASH, CASH EQUIVALENTS, AND INVESTMENTS – *Continued***

**B. Investments - *Continued***

The PTIF is invested in accordance with the Act. The State Money Management Council provides regulatory oversight for the PTIF. The degree of risk of the PTIF depends upon the underlying portfolio. The Act and Council rules govern the financial reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, public treasurers are notified immediately. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its investments. The City has no investment policy that would further limit its investment choices. The PTIF is unrated.

*Investments - Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk.

**5. RECEIVABLES**

Receivables as of year end for the government's individual major fund and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Pressurized Irrigation</u>	<u>Nonmajor Utility Solid Waste</u>	<u>Total</u>
Receivables:							
Accounts	\$ 57,862	\$ 78,861	\$ 51,431	\$ 284,313	\$ 50,585	\$ 31,516	\$ 554,568
Property Tax	700,809	-	-	-	-	-	700,809
Intergovernmental	53,517	-	-	-	-	-	53,517
Allowance	(4,158)	(4,740)	(3,713)	(21,006)	(3,323)	(2,017)	(38,957)
	<u>\$ 808,030</u>	<u>\$ 74,121</u>	<u>\$ 47,718</u>	<u>\$ 263,307</u>	<u>\$ 47,262</u>	<u>\$ 29,499</u>	<u>\$ 1,269,937</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

Property taxes (General Fund)	<u>Unavailable</u> \$682,810
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*Continued*

**6. INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS**

The composition of interfund balances as of June 30, 2012 is as follows:

**Due to/from other funds:**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Internal Service Fund	\$17,062
Water Fund	Electric Utility Fund	3,164

**Inter fund Transfers:**

	Transfer Out				Total
	General	Capital	Nonmajor Governmental	Business Type	
Transfer in:					
General	\$ -	\$ 29,442	\$ -	\$ 353,223	\$ 382,665
Construction	-	-	-	46,899	46,899
Nonmajor Govtl.	20	-	-	-	20
Business Type	-	-	-	-	-
<b>Total Transfer Out</b>	<b>\$ 20</b>	<b>\$ 29,442</b>	<b>\$ -</b>	<b>\$ 400,122</b>	<b>\$ 429,584</b>



**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**7. CAPITAL ASSETS**

<b>Primary Governmental Governmental Activity</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 369,909	\$ -	\$ -	\$ 369,909
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>369,909</u>	<u>-</u>	<u>-</u>	<u>369,909</u>
Capital assets being depreciated:				
Buildings	3,319,352	5,491	92,228	3,232,615
Improvements	2,001,569	22,331	-	2,023,900
Machinery and equipment	2,066,356	118,626	-	2,184,982
Infrastructure	<u>20,875,261</u>	<u>61,954</u>	<u>-</u>	<u>20,937,215</u>
Total capital assets being depreciated	28,262,538	208,402	92,228	28,378,712
Less accumulated depreciation	<u>(13,484,617)</u>	<u>(1,061,658)</u>	<u>(92,228)</u>	<u>(14,454,047)</u>
Total capital assets, being depreciated, net	<u>14,777,921</u>	<u>(853,256)</u>	<u>-</u>	<u>13,924,665</u>
Governmental activities capital assets, net	<u>\$ 15,147,830</u>	<u>\$ (853,256)</u>	<u>\$ -</u>	<u>\$ 14,294,574</u>
	Beginning			Ending
<b>Business-type activities:</b>	Balance	Increases	Decreases	Balance
Capital assets not being depreciated:				
Land	\$ 1,038,703	\$ -	\$ -	\$ 1,038,703
Construction in progress	645,573	-	-	645,573
Water rights and stock	<u>1,025,308</u>	<u>25,171</u>	<u>-</u>	<u>1,050,479</u>
Total capital assets not being depreciated	<u>2,709,584</u>	<u>25,171</u>	<u>-</u>	<u>2,734,755</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	39,523,090	103,300	-	39,626,390
Machinery and equipment	502,511	9,790	27,362	484,939
Infrastructure	<u>1,311,204</u>	<u>-</u>	<u>-</u>	<u>1,311,204</u>
Total capital assets being depreciated	42,945,812	113,090	27,362	43,031,540
Less accumulated depreciation	<u>(6,326,443)</u>	<u>(896,588)</u>	<u>(27,362)</u>	<u>(7,195,669)</u>
Total capital assets, being depreciated, net	<u>36,619,369</u>	<u>(783,498)</u>	<u>-</u>	<u>35,835,871</u>
Business-type activities capital assets, net	<u>\$ 39,328,953</u>	<u>\$ (758,327)</u>	<u>\$ -</u>	<u>\$ 38,570,626</u>

*Continued*

**7. CAPITAL ASSETS- *continued***

Depreciation has been charged to the departments as follows:

General government	\$ 69,440
Public safety	120,338
Highway and public works	777,799
Parks and recreation	<u>94,081</u>
 Total depreciation	 <u><u>\$1,061,658</u></u>

**8. LEASE COMMITMENTS**

The City during the fiscal year 2011 executed a new lease for a mini boom truck in the amount of \$109,628 payable in annual installments for 5 years. \$ 89,351

The City during the fiscal year 2007 executed a new lease for a jet truck in the amount of \$286,510 payable in annual installments for 8 years. 119,080

The City during the fiscal year 2008 executed a new lease for a dump truck in the amount of \$160,299 payable in annual installments for 5 years. 34,859

The assets acquired through capital leases are as follows:

	<u>Governmental</u>
	<u>Activities</u>
Asset:	
Machinery & Equipment	\$556,437
Accumulated Amortization	<u>(316,659)</u>
Total	<u><u>\$239,778</u></u>

Amortization of capital assets purchased under capital leases is included in depreciation.

The City has acquired fixed assets financed with capital leases. The related lease agreements contain fiscal funding clauses that allow cancellation of the leases if future funding of the leases are not budgeted by the City Council.

**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**8. LEASE COMMITMENTS - *Continued***

The following is the present value of future minimum capital lease payments under these leases as of June 30, 2012:

<u>Fiscal Year</u>	<u>Governmental Amount</u>	<u>Business-type Amount</u>	<u>Total Amount</u>
2013	\$ 79,704	\$ 24,564	\$ 104,268
2014	43,277	24,563	67,840
2015	43,677	24,563	68,240
2016	-	24,563	24,563
Total Minimum lease payments	166,658	98,253	264,911
Less amounts representing interest	(12,719)	(8,902)	(21,621)
Present value of minimum lease payments	<u>\$ 153,939</u>	<u>\$ 89,351</u>	<u>\$ 243,290</u>

At June 30, 2012 the City's capital leases payable balance consisted of the following:

	<u>Capital Leases Payable Governmental</u>	<u>Capital Leases Payable Business-type</u>	<u>Capital Leases Payable All Fund Types</u>
Capital Leases Payable	\$ 153,939	\$ 89,351	\$ 243,290
Current Portion Capital Lease Payable	(72,675)	(21,070)	(93,745)
Long Term Capital Leases Payable	<u>\$ 81,264</u>	<u>\$ 68,281</u>	<u>\$ 149,545</u>

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**9. LONG-TERM DEBT**

Bonds and notes payable at June 30, 2012, are comprised of the following:

**Revenue Bonds**

Sewer Revenue Bond-Series 1994:

\$322,500 Sewer revenue bond due in annual principal and interest payments through October 2013 - with an interest rate of 2% 32,986

Water Revenue Bond-Series 1996:

\$300,000 Water revenue bond due in annual principal payments through January 2017 - There is no interest on this bond 33,875

Secondary Water Revenue Bond-Series 2007:

\$7,500,000 Secondary water revenue bond due in annual principal and interest payments through September 2037 - with an interest rate of 1.70% 6,452,742

Excise Tax Revenue Bond-Series 2008:

\$3,500,000 Excise tax revenue bond due in annual principal and semi-annual interest payments through September 1, 2027 - with an interest rate of 3.95% 3,008,000

**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**9. LONG-TERM DEBT - Continued**

**Revenue Bonds**

<u>Fiscal Year</u>	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 162,000	\$ 115,616	\$ 70,000	\$ 109,938
2014	167,000	109,118	74,986	108,818
2015	177,000	102,324	60,875	107,576
2016	184,000	95,195	69,000	106,454
2017	190,000	87,809	81,000	105,128
2018-2022	996,000	319,832	785,000	492,659
2023-2027	924,000	135,286	1,346,000	397,787
2028-2032	208,000	4,108	1,944,000	256,525
2033-2037	-	-	2,088,742	65,725
Total	<u>\$ 3,008,000</u>	<u>\$ 969,288</u>	<u>\$ 6,519,603</u>	<u>\$ 1,750,610</u>

**General Obligation Bond**

General Obligation Refunding Water Bonds-Series 2004:

\$2,735,000 General Obligation refunding bond with annual principal and semi-annual interest payments through March 2016 - with a varying interest rate 2.00-4.00%.

\$1,155,000

**General Obligation Bonds**

<u>Fiscal Year</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 275,000	\$ 38,019
2014	285,000	28,678
2015	290,000	19,784
2016	305,000	12,200
Total	<u>\$ 1,155,000</u>	<u>\$ 98,681</u>

**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**9. LONG-TERM DEBT - Continued**

**Notes Payable**

During 2006, the City acquired a note for \$1,800,000 from a developer to be used for an electric substation. This interest free note is paid back to the developer based on a percentage of electric impact fees collected by the City.	979,123
During 2010, the City acquired a note for \$525,575 from a developer to be used for water system improvements. This interest free note is paid back to the developer based on a percentage of water impact fees collected by the City.	508,046
During 2010, the City acquired a note for \$1,065,326 from a developer to be used for sewer system improvements. This interest free note is paid back to the developer based on a percentage of sewer impact fees collected by the City.	1,029,102
During 2011, the City acquired a note for \$99,070 from a developer to be used for water system improvements. This interest free note is paid back to the developer based on a percentage of water impact fees collected by the City.	48,165

Fiscal Year	<b>Notes Payable</b>			
	<b>Governmental</b>		<b>Business-Type</b>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ -	\$ -	\$ 55,579	\$ -
2014	-	-	55,579	-
2015	-	-	55,579	-
2016	-	-	55,579	-
2017	-	-	55,579	-
2018-2022	-	-	257,390	-
2023-2027	-	-	243,560	-
2028-2032	-	-	243,560	-
2033-2037	-	-	243,560	-
2038	-	-	1,298,471	-
<b>Total</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,564,436</u>	<u>\$ -</u>

**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**9. LONG-TERM DEBT - Continued**

The future annual requirements for all outstanding bond and note obligations as of June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>All Bonds and Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 562,579	\$ 263,572	\$ 826,151
2014	582,565	246,614	829,179
2015	583,454	229,684	813,138
2016	613,579	213,849	827,428
2017	326,579	192,937	519,516
2018-2022	2,038,390	812,491	2,850,881
2023-2027	2,513,560	533,073	3,046,633
2028-2032	2,395,560	260,633	2,656,193
2033-2037	2,332,302	65,725	2,398,027
2038	1,298,471	-	1,298,471
Total	<u>\$ 13,247,039</u>	<u>\$ 2,818,578</u>	<u>\$ 16,065,617</u>

**Summary of changes in long-term debt is as follows:**

	<u>July 1,</u> <u>2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30,</u> <u>2012</u>	<u>Due in</u> <u>One Year</u>
<b>Governmental Activities</b>					
Bonds Payable:					
Excise tax bonds	\$ 3,163,000	\$ -	\$ 155,000	\$ 3,008,000	\$ 162,000
Note Payable	-	-	-	-	-
Capital Leases	223,704	-	69,765	153,939	72,675
Compensated absences	105,919	-	13,828	92,091	-
Gov't Activities Long-Term Debt	<u>\$ 3,492,623</u>	<u>\$ -</u>	<u>\$ 238,593</u>	<u>\$ 3,254,030</u>	<u>\$ 234,675</u>
<b>Business Type Activities:</b>					
Bonds Payable:					
Revenue Bonds	\$ 6,608,603	\$ -	\$ 89,000	\$ 6,519,603	\$ 70,000
General Obligation Bonds	1,420,000	-	265,000	1,155,000	275,000
Capital Leases	139,472	-	50,121	89,351	21,070
Notes Payable	2,710,045	-	145,609	2,564,436	55,579
Business-type Activities Long-Term Debt	<u>\$ 10,878,120</u>	<u>\$ -</u>	<u>\$ 549,730</u>	<u>\$ 10,328,390</u>	<u>\$ 421,649</u>

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## 10. RETIREMENT PLANS

### **Local Governmental - Cost Sharing**

*Plan Description.* Salem City Corporation contributes to the Local Governmental Contributory Retirement System and Local Governmental Noncontributory Retirement System for employers with Social Security coverage, Firefighters Retirement System which are for employers without Social Security coverage cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Contributory Retirement System, Local Governmental Noncontributory Retirement System, Public Safety Retirement System for employers with Social Security coverage and Firefighters Retirement System which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** Salem City Corporation is required to contribute to the Local Government Noncontributory Retirement System 13.77% of the Plan members' annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage noncontributory division members are required to contribute 28.82 % of their salary (all or part may be paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salem City Corporation contributions to the Local Governmental Noncontributory Retirement System for June 30, 2012, 2011 and 2010 were \$188,154, \$166,837, and \$151,477, respectively, and for the Public Safety Retirement System the contributions for June 30, 2012, 2011 and 2010 were \$110,307, \$101,394, and \$90,642, respectively, and for the 401K Plan System the contributions for June 30, 2012, 2011, and 2010 were \$51,660, \$48,037, and \$52,897, respectively. The contributions were equal to the required contributions for each year.

## 11. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. It is the policy of the City to purchase commercial insurance for these risks. Various policies are purchased through an insurance agency to cover liability, theft, damages, and other losses. A minimal deductible applies to these policies which the City pays in the event of any loss. The City also has purchased a workers' compensation policy. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.



**12. JOINT VENTURES**

South Utah Valley Solid Waste City

Salem City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste City (the City). The City was created for the purpose of building a landfill and transfer station and operating the same for the benefit of member municipalities. The majority of the City's sanitation service revenue comes from these governmental entities.

Additional information is as follows:

a. Participants and their percentage shares:

Spanish Fork City Corporation	11.750%
Provo City Corporation	69.750%
Springville City Corporation	15.000%
Mapleton City Corporation	2.000%
Salem City Corporation	1.500%
Goshen Town (Landfill participant only)	<u>0.000%</u>
	100.000%

b. The City is governed by a Board of Directors which is comprised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.

c. The City's Board of Directors governs the operations of the City through management employed by the Board. Since the City is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.

d. Salem Contributes annually for its percentage share of ownership for debt service as well as membership revenues. Salem recognizes its percentage of net income (loss) of the joint venture on an annual basis which can be seen as equity in a joint venture. Salem recognized \$10,633 of loss in the current year leaving an investment balance of \$176,008 as of June 30, 2012.

e. Audited financial statement for South Utah Valley Solid Waste City are available at the City's office.

*Continued*

**12. JOINT VENTURES - *Continued***

*South Utah Valley Municipal Water Association*

Salem City is member of South Utah Valley Municipal Water Association, a separate legal entity and political subdivision of the State of Utah, which was formed pursuant to the provision of the inter-local cooperation act. The association consists of 10 municipalities and was formed to plan, finance, acquire, construct, improve, operate, or maintain projects for the water and waste water treatment facility.

Salem City has invested \$470,233 toward the purchases of the wastewater treatment property. This payment is shown as equity in a joint venture.

The complete financial statements for South Utah Valley Municipal Water Association may be obtained from the manager of finance at 40 South Main, Spanish Fork, and Utah 84660.

**13. RESTRICTED FUND BALANCES**

The City had the following restricted cash balances as of June 30, 2012:

	<u>General</u>	<u>Perpetual Care</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Pressurized Irrigation</u>
Impact fees, unexpended	\$ 220,782	\$ -	\$ -	\$ 73,839	\$ -	\$ -
B&C roads	131,917	-	-	-	-	-
Perpetual care	-	64,529	-	-	-	-
Debt sinking and reserves	-	-	22,500	32,986	-	194,859
Total	<u>\$ 352,699</u>	<u>\$ 64,529</u>	<u>\$ 22,500</u>	<u>\$ 106,825</u>	<u>\$ -</u>	<u>\$ 194,859</u>

**14. OTHER DISCLOSURES**

Excess of Expenditures Over Appropriations

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any department of the general fund.

The Sewer Utility, Electric Utility, Waste Utility and Pressurized Irrigation funds total expenditures of the fund exceeded the budget amounts.

**SALEM CITY CORPORATION**  
**Notes to the Financial Statements**

*Continued*

**15. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS**

The City maintains Internal Service Funds which provide motor pool and data processing services. Selected unaudited information for these funds for the year ended June 30, 2012 is as follows:

	<b>Motor Pool</b>	<b>Data Processing</b>	<b>Total</b>
Operating Revenues	\$ 389,807	\$ -	\$ 389,807
Depreciation and Amortization	(87,155)	-	(87,155)
Other Operating Expenses	(256,048)	-	(256,048)
Operating Income (Loss)	46,604	-	46,604
Non-Operating Revenue (Expense)	(7,357)	-	(7,357)
Net Increase (Decrease) in Retained Earnings	<u>\$ 39,247</u>	<u>\$ -</u>	<u>\$ 39,247</u>
Total Assets	\$ 232,232	\$ -	\$ 232,232
Total Liabilities	194,877	(5,603)	189,274
Total Fund Equity	37,355	5,603	42,958

**16. REDEVELOPEMENT AGENCY**

The Redevelopment agency of Salem City is established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2012 no activity occurred in the City's Redevelopment Agency.

**17. SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 4, 2012, the date the financial statements were available to be issued.

**SUPPLEMENTAL INFORMATION**

**SALEM CITY CORPORATION**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**

**June 30, 2012**

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2012	2011
<b>ASSETS</b>					
Cash & cash equivalents	\$ -	\$ 21	\$ 64,529	\$ 64,550	\$ 63,204
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 64,529</u>	<u>\$ 64,550</u>	<u>\$ 63,204</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ 459
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>459</u>
Fund balance:					
Restricted for perpetual care	-	-	64,529	64,529	63,204
Assigned: Municipal build. auth	-	21	-	21	-
Unassigned	-	-	-	-	(459)
Total fund balance	<u>-</u>	<u>21</u>	<u>64,529</u>	<u>64,550</u>	<u>62,745</u>
Total liabilities & fund balance	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 64,529</u>	<u>\$ 64,550</u>	<u>\$ 63,204</u>

**SALEM CITY CORPORATION**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Non-Major Governmental Funds**

**For the Year Ended June 30, 2012**

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2012	2011
<b>Revenues:</b>					
Intergovernmental	\$ -	\$ 65,029	\$ 931	\$ 65,960	\$ 67,319
Investment earnings	-	-	394	394	187
Total revenues	<u>-</u>	<u>65,029</u>	<u>1,325</u>	<u>66,354</u>	<u>67,506</u>
<b>Expenditures:</b>					
Current:					
Tax increment distributions	-	-	-	-	-
Debt Service:					
Principal retirement	-	39,000	-	39,000	38,000
Interest and fiscal charges	-	25,569	-	25,569	27,542
Total	<u>-</u>	<u>64,569</u>	<u>-</u>	<u>64,569</u>	<u>65,542</u>
Excess of revenues over expenditures	-	460	1,325	1,785	1,964
<b>Other financing sources (uses):</b>					
Transfers in (out)	<u>20</u>	<u>-</u>	<u>-</u>	<u>20</u>	<u>-</u>
Net change in fund balances	20	460	1,325	1,805	1,964
Fund balances - beginning of year	<u>(20)</u>	<u>(439)</u>	<u>63,204</u>	<u>62,745</u>	<u>60,781</u>
Fund balances - end of year	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 64,529</u>	<u>\$ 64,550</u>	<u>\$ 62,745</u>

## **OTHER REPORTS**

**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**

Honorable Mayor and City Council  
Salem City  
Salem, Utah

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Utah (the City) as of and for the year ended June 30, 2012, which collectively comprise the City’s basic financial statements and have issued our report thereon dated October 4, 2012. 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.

Internal Control Over Financial Reporting

Management of Salem City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures 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 City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

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 reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying management letter as finding 2012-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



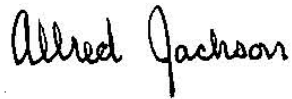
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated October 4, 2012.

The City's responses to the findings identified in our audit are described in the accompanying management letter. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended for the information of the City Council and management, and certain legislative bodies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Alfred Jackson". The signature is written in a cursive style with a large initial 'A'.

October 4, 2012

**INDEPENDENT AUDITOR'S REPORT ON  
 STATE LEGAL COMPLIANCE**

Honorable Mayor and City Council  
 Salem City  
 Salem, Utah

We have audited the City of Salem (the City)'s compliance with general and major State program compliance requirements described in the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2012. The general compliance requirements applicable to the City are identified as follows:

- |                          |                                 |
|--------------------------|---------------------------------|
| Public Debt              | Justice Courts                  |
| Cash Management          | B & C Road Funds                |
| Purchasing Requirements  | Liquor Law Enforcement          |
| Budgetary Compliance     | Other General Issues            |
| Truth in Taxation and    | Impact fees                     |
| Property Tax Limitations | Uniform Building Code Standards |
| Fund Balance             | Utah Retirement Systems         |

The City received the following major State assistance programs from the State of Utah:

- Class C Road Funds (Department of Transportation)
- Liquor Law Enforcement (State Tax Commission)

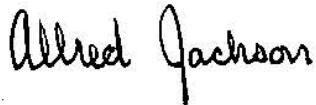
Compliance with the requirements referred to above is the responsibility of the City's management. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the State of Utah Legal Compliance Audit Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the major assistance programs or general compliance requirements identified above. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with these requirements.

In our opinion, Salem City, Utah, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the State of Utah legal Compliance Audit Guide and which are described in our letter to management dated October 4, 2012 as findings 2012-2 and 2012-3.

The City's written response to the finding identified in our audit is described in the accompanying management letter. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management of the city and is not intended to be and should not be used by anyone other than these specified parties. However, the report is a matter of public record and its distribution is not limited.

A handwritten signature in black ink that reads "Alfred Jackson". The signature is written in a cursive style with a large initial 'A'.

October 4, 2012

Honorable Mayor and City Council  
Salem City  
Salem, Utah

We have audited the financial statements of Salem City for the year ended June 30, 2012, and have issued our report thereon dated October 4, 2012. A copy of these audited financial statements is enclosed. Please feel free to contact us if you have any questions regarding the financial statements. Professional standards require that we advise you of the following matters relating to our audit.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement.

As part of the audit we will consider the internal control of Salem City. Such considerations are solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application.

The significant accounting policies used by Salem City are described in Note 1 to the financial statements. We noted no transactions entered into by the Company during the year for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on managements' knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were as follows:

Management's estimate of the capital assets' useful life is based on the historical life of similar assets. We evaluated the key factors and assumptions used to develop the capital assets' useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allowance for doubtful accounts is based on historical data concerning accounts deemed uncollectable. We evaluated clients method used to calculate the reserve in determining that it is reasonable in relation to the financial statements taken as a whole.

**Disclosures in the Financial Statements**

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant sensitive disclosures in the financial statements for the year ended June 30, 2012.

**Material Corrected and Uncorrected Misstatements**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management.

We have reviewed all proposed adjustments to the financial statements with you prior to the issuance of the audit report.

**Management Representations**

We have requested certain representations from management that are included in the management representation letter dated October 4, 2012. A copy of that correspondence is included for your information.

**Disagreements with Management**

For the purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the Company's financial statements or the auditor's report. No such disagreements arose during the course of the audit.

### **Consultation with Other Accountant**

To our knowledge and as management has informed us, there were no consultations with other accountants regarding auditing and accounting matters.

### **Major Issues Discussed with Management Prior to Retention**

We did not discuss any major issues with management regarding the application of accounting principles and auditing standards that resulted in a condition to our retention as the Company's auditors.

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **No Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management relating to the performance of the audit.

### **Findings**

In planning and performing our audit of the financial statements of Salem City (the Company) as of and for the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, and Government Auditing Standards, issued by the comptroller General of the United States, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. For the 2012 audit we consider finding 2012-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company's internal control. None of our findings in 2012 were determined to be material weaknesses.

## CURRENT YEAR FINDINGS

### **Finding 2012-1:** *Accrual basis journal entries (significant deficiency)*

The City does not book accrual basis journal entries during the year. This caused many adjustments during the audit process that needed to be booked.

### **Recommendation:**

Implement a process to review monthly and annual financial statements and adjust amounts to properly account for debt payments, fixed asset additions and deletions, accounts payable, inventory, and investments, as applicable.

### **Management response:**

Management agrees with the auditors recommendations, will work with the auditors in striving to post year end journal entries and work towards implementing a process to review on a monthly and year end basis the financial statements for those adjustments.

### **Finding 2012-2:** *Budgetary compliance (state compliance)*

Utah State law requires that municipalities not incur expenditures in excess of amounts budgeted. We noted that the Sewer Fund, Electric Utility Fund, Waste Utility Fund and Pressurized Irrigation Fund expenses exceeded the amount budgeted.

### **Recommendation:**

Monitor expenses throughout the year and compare them to the budgeted amounts. If adjustments are needed, revise the budget prior to incurring the additional expenses.

### **Management response:**

Management agrees with recommendations and will amend budget as needed to account for additional expenses and revenues.

### **Finding 2012-3:** *Property tax (state compliance)*

Budgeted revenue column in the TC-693 Tax Rate Summary should match the amounts of the City's adopted budget. The City's adopted budget was approximately \$22,000 higher than the Tax Rate Summary.

### **Recommendation:**

Review the adopted budget to ensure that the amount of the budgeted tax revenues match the TC-693 Tax Rate Summary.

### **Management response:**

Management agrees with the recommendations and will ensure that the amount of the budgeted tax revenues match the TC-693 Tax Rate Summary for the adopted budget.

## **PRIOR YEAR FINDINGS**

### **Finding 2011-1:** *Accrual basis journal entries (significant deficiency)*

The City does not book accrual basis journal entries during the year. This caused many adjustments during the audit process that needed to be booked.

### **Recommendation:**

Implement a process to review monthly and annual financial statements and adjust amounts to properly account for debt payments, fixed asset additions and deletions, accounts payable, inventory, investments, and receivables as applicable.

### **Management response:**

Management agrees with the auditors recommendations, will work with the auditors in striving to post year end journal entries and work towards implementing a process to review on a monthly and year end basis the financial statements for those adjustments.

### **Status:**

See current year finding.

### **Finding 2011-2:** *Budgetary compliance (state compliance)*

Utah State law requires that municipalities not incur expenditures in excess of amounts budgeted. We noted that the General Fund (general government department), Waste Utility Fund and Motor Pool Fund expenses exceeded the amount budgeted.

### **Recommendation:**

Monitor expenses throughout the year and compare them to the budgeted amounts. If adjustments are needed, revise the budget prior to incurring the additional expenses.

### **Management response:**

Management agrees with recommendations and will amend budget as needed to account for additional expenses and revenues.

### **Status:**

See current year finding.

### **Finding 2011-3:** *Deficit fund balance (state compliance)*

Utah State law requires that municipalities not incur deficit fund balances. The City has small negative fund balances in both the Municipal Building Authority and the RDA.

### **Recommendation:**

Generate additional revenues or transfer funds into the Municipal Building Authority and RDA to eliminate the negative fund balances.

### **Management response:**

Management agrees with recommendations, adjustments will be made to eliminate the negative fund balances.



**Status:**

Deficit balances were eliminated during the year.

We sincerely appreciate the opportunity to provide services to Salem City and hope you find the information included in this correspondence useful and informative. If you have any questions or wish to discuss any of the items further, please let us know.

Very truly yours,

ALLRED JACKSON

A handwritten signature in black ink that reads "Diana Cannell". The signature is written in a cursive style with a large, looped initial "D".

Diana Cannell, CPA