



SALEM CITY CORPORATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2014**

SALEM CITY CORPORATION
TABLE OF CONTENTS

	<u>Page</u>
Introductory Section:	
Letter of transmittal	3
Financial Section:	
Independent Auditors' Report	7
Management Discussion and Analysis	11
Basic Financial Statements:	
Statement of Net Position	21
Statement of Activities	22
Balance Sheet – Governmental Funds	23
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	24
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	26
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund	27
Statement of Net Position – Proprietary Funds	28
Statement of Revenue, Expenditures and Changes in Fund Net Position – Proprietary Funds	29
Statement of Cash Flows – Proprietary Funds	30
Notes to Financial Statements	33

SALEM CITY CORPORATION
TABLE OF CONTENTS

Supplementary Information:	<u>Page</u>
Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	59
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	60
Enterprise Funds:	
Combining Statement of Net Position – Nonmajor Enterprise Funds	61
Combining Statement of Revenues, Expenditures and Changes in Fund Net Position – Nonmajor Enterprise Funds	62
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	63
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 Governmental Auditing Standards	67
State Compliance Report:	
Report on Compliance with State Legal Compliance Requirements	69
Schedule of Findings and Recommendations	75

INTRODUCTORY SECTION

This page intentionally left blank.

Mayor
Randy A. Brailsford



Salem City Corporation

"Modern Living in a Rural Setting"

PRIDE

UNITY

SERVICE

City Council
Janie Christensen
Aaron D. Cloward
Soren K. Christensen
Sterling M. Rees
Craig B. Warren

October 8, 2014

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, 2014, 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, 2014, 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, 2014, 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, 2014, 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.

30 West 100 South • P.O. Box 901 • Salem, UT 84653
Phone: 801-423-2770 • Fax: 801-423-2818 • SalemCity.org

Recorder - Jeffrey Nielson

Treasurer - Tammy M. Beck

Chief of Police - Brad S. James

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

This page intentionally left blank.



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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Salem, Utah, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining

fund information of the City of Salem, Utah, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 11-17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Salem, Utah's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic 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 do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2014, on our consideration of the City of Salem, Utah's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing*

Standards in considering City of Salem, Utah's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Alfred Jackson". The signature is written in a cursive style with a large initial 'A' and a long, sweeping tail on the 'n'.

North Logan, UT
October 8, 2014

This page intentionally left blank.

June 30, 2014

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, 2014. 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 position of Salem City was \$44,631,138. Of this amount, \$39,386,538 consists of capital assets, net of any related debt and \$1,478,057 of restricted net position. As a result, the City has \$792,558 of unrestricted governmental net position and \$2,973,985 of unrestricted business-type net position.

- 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 position presents information on all of Salem City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the fiscal year reported. All changes in net position 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 21 & 22 of this report.

SALEM CITY CORPORATION

Management's Discussion and Analysis

Continued

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 position 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, Solid Waste, and Storm Water.
 - 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 position may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceed liabilities by \$44,631,138.

The largest portion of Salem City's net position 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 position as of June 30, 2014:

STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Current and other assets	\$ 3,816,759	\$ 2,710,180	\$ 3,950,050	\$ 3,425,548
Capital assets	14,075,290	13,847,003	38,105,795	38,420,685
Total assets	<u>17,892,049</u>	<u>16,557,183</u>	<u>42,055,845</u>	<u>41,846,233</u>
Long-term debt outstanding	3,065,000	2,927,102	9,689,319	10,231,280
Other liabilities	1,354,392	654,083	508,620	618,377
Deferred inflow of resources	699,425	687,811	-	-
Total liabilities and deferred inflow of resources	<u>5,118,817</u>	<u>4,268,996</u>	<u>10,197,939</u>	<u>10,849,657</u>
Net position:				
Net investment in capital assets	10,970,062	10,881,709	28,416,476	28,189,405
Restricted	1,010,612	588,168	467,445	388,421
Unrestricted	792,558	818,310	2,973,985	2,418,750
Total net position	<u>\$ 12,773,232</u>	<u>\$ 12,288,187</u>	<u>\$ 31,857,906</u>	<u>\$ 30,996,576</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Business-type activities increased Salem City's net position by \$861,330 and governmental activities increased net position by \$485,045. The elements of these increases for the fiscal year ended June 30, 2014 are as follows:

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities	
	2014	2013	2014	2013
Revenues:				
Program revenues:				
Charges for services	\$ 1,198,803	\$ 1,161,323	\$ 6,133,945	\$ 5,567,433
Operating grants & contributions	334,567	329,634	-	-
Capital grants & contributions	931,886	641,277	1,069,866	853,050
General revenues:				
Property taxes	681,832	660,575	-	-
Other taxes	1,162,019	1,118,066	-	-
Investment income	9,903	7,895	1,280	1,478
Other revenues	529	983	-	-
Total revenues	<u>4,319,539</u>	<u>3,919,753</u>	<u>7,205,091</u>	<u>6,421,961</u>
Expenses:				
General government	734,197	615,925	-	-
Public safety	1,240,159	1,336,385	-	-
Highways/public improvements	806,314	1,040,014	-	-
Parks & recreation	1,228,677	1,105,609	-	-
Interest on long term debt	115,967	111,148	-	-
Water	-	-	736,261	786,541
Sewer	-	-	722,166	650,674
Electric	-	-	3,401,442	3,187,514
Pressurized Irrigation	-	-	790,718	825,818
Waste	-	-	383,243	294,992
Storm Water	-	-	19,111	19,111
Total expenses	<u>4,125,314</u>	<u>4,209,081</u>	<u>6,052,941</u>	<u>5,764,650</u>
Change in net position	194,225	(289,328)	1,152,150	657,311
Transfers	290,820	427,020	(290,820)	(396,020)
Net change in net position	485,045	137,692	861,330	261,291
Net position beginning of year	12,288,187	12,150,495	30,996,576	30,735,285
Net position end of year	<u>\$ 12,773,232</u>	<u>\$ 12,288,187</u>	<u>\$ 31,857,906</u>	<u>\$ 30,996,576</u>

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 \$1,940,924. Of this total amount \$930,312 constitutes unreserved fund balance (committed, assigned and unassigned), 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 \$619,513 while total fund balance reached \$1,829,641. 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 49% of total general fund expenditures. For state compliance purposes, the general fund unreserved fund balance was 20% at the end of the year (State requirements limit to 25%).

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 position of the water, sewer, electrical, pressurized irrigation, solid waste, and storm water at the end of the year amounted to \$3,007,208. 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 \$4,336,986 to a final budget of \$5,280,418, an increase of \$943,432. Major changes are summarized as follows:

• General Government	\$ 201,044
• Public safety	381,895
• Highways and public works	24,193
• Parks	335,735
• Debt service	565
Total	<u>\$ 943,432</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, 2014 amounts to \$52,181,085 (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 \$86,603.

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

• Building	\$ 78,972
• Road, sidewalk and park improvements	427,672
• Sewer line improvements	119,700
• Water line improvements	67,303
• Storm drain improvements	107,005
• Electrical improvements	127,322
• Pressurized irrigation improvements	68,656
• Vehicles and equipment	467,812
• Land	146,895

Salem City's Capital Assets as of June 30, 2014

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 516,804	\$ 1,038,703	\$ 1,555,507
Buildings	3,531,499	1,609,007	5,140,506
Improvements	2,351,190	40,805,720	43,156,910
Equipment	2,543,436	565,708	3,109,144
Infrastructure	21,300,141	1,311,204	22,611,345
Water Rights	-	1,075,739	1,075,739
Construction in Progress	-	731,678	731,678
Accumulated depreciation	(16,167,780)	(9,031,964)	(25,199,744)
Total assets	<u>\$ 14,075,290</u>	<u>\$ 38,105,795</u>	<u>\$ 52,181,085</u>

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 \$9,648,617. Of this amount \$595,000 comprises debt backed by the full faith and credit of the government and \$9,053,617 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 \$526,986.

Salem City's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ -	\$ 595,000	\$ 595,000
Revenue Bonds	2,679,000	6,374,617	9,053,617
Total Bonds	<u>\$ 2,679,000</u>	<u>\$ 6,969,617</u>	<u>\$ 9,648,617</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, 2015 reflects an increase of 34% in expenditures over the final fiscal year ending June 30, 2014.

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.

This page intentionally left blank.

BASIC FINANCIAL STATEMENTS

This page intentionally left blank.

SALEM CITY CORPORATION
Statement of Net Position

As of June 30, 2014

	Governmental Activities	Business-type Activities	Memorandum Totals 2014	Memorandum Totals 2013
ASSETS				
Cash and cash equivalents	\$ 1,959,640	\$ 2,048,540	\$ 4,008,180	\$ 2,933,654
Cash - restricted	1,063,886	467,445	1,531,331	1,031,221
Receivables - net	793,233	476,995	1,270,228	1,263,639
Inventories	-	153,812	153,812	174,805
Equity in joint venture	-	803,258	803,258	732,409
Capital assets				
Land	516,804	1,038,703	1,555,507	1,408,612
Buildings	3,531,499	1,609,007	5,140,506	5,061,534
Improvements	2,351,190	40,805,720	43,156,910	42,602,180
Equipment	2,543,436	565,708	3,109,144	2,666,404
Infrastructure	21,300,141	1,311,204	22,611,345	22,248,419
Water rights	-	1,075,739	1,075,739	1,064,920
Construction in progress	-	731,678	731,678	645,573
Accumulated depreciation	<u>(16,167,780)</u>	<u>(9,031,964)</u>	<u>(25,199,744)</u>	<u>(23,429,954)</u>
Total assets	<u>17,892,049</u>	<u>42,055,845</u>	<u>59,947,894</u>	<u>58,403,416</u>
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	1,269,309	458,882	1,728,191	1,133,517
Bond interest payable	40,228	94,593	134,821	138,943
Loans payable	15,750	151,568	167,318	182,583
Bonds and capital leases payable - current	211,763	350,875	562,638	588,413
Internal balances	44,855	(44,855)	-	-
Loans payable - noncurrent	110,250	2,568,134	2,678,384	2,650,813
Bonds and capital leases payable - noncurrent	<u>2,727,237</u>	<u>6,618,742</u>	<u>9,345,979</u>	<u>9,736,573</u>
Total liabilities	<u>4,419,392</u>	<u>10,197,939</u>	<u>14,617,331</u>	<u>14,430,842</u>
Deferred inflows of resources	<u>699,425</u>	<u>-</u>	<u>699,425</u>	<u>687,811</u>
Total liabilities and deferred inflows of resources	<u>5,118,817</u>	<u>10,197,939</u>	<u>15,316,756</u>	<u>15,118,653</u>
NET POSITION				
Net investment in capital assets	10,970,062	28,416,476	39,386,538	39,071,114
Restricted for debt and capital improvements	1,010,612	467,445	1,478,057	976,589
Unrestricted	<u>792,558</u>	<u>2,973,985</u>	<u>3,766,543</u>	<u>3,237,060</u>
Total net position	<u>\$ 12,773,232</u>	<u>\$ 31,857,906</u>	<u>\$ 44,631,138</u>	<u>\$ 43,284,763</u>

See Accompanying Notes to Financial Statements

SALEM CITY CORPORATION
Statement of Activities

For the Year Ended June 30, 2014

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Memorandum Totals 2014	2013
Governmental activities:								
General government	\$ 734,197	\$ 686,362	\$ 16,374	\$ 8,175	\$ (23,286)	\$ -	\$ (23,286)	\$ 84,478
Public safety	1,240,159	174,978	26,095	248,957	(790,129)	-	(790,129)	(915,881)
Highways and public works	806,314	2,500	261,451	362,926	(179,437)	-	(179,437)	(535,701)
Parks and recreation	1,228,677	334,963	30,647	311,828	(551,239)	-	(551,239)	(598,595)
Interest on long-term debt	115,967	-	-	-	(115,967)	-	(115,967)	(111,148)
Total governmental activities	<u>4,125,314</u>	<u>1,198,803</u>	<u>334,567</u>	<u>931,886</u>	<u>(1,660,058)</u>	<u>-</u>	<u>(1,660,058)</u>	<u>(2,076,847)</u>
Business-type activities:								
Water Utility	736,261	948,388	-	235,327	-	447,454	447,454	143,056
Sewer Utility	722,166	566,374	-	305,828	-	150,036	150,036	65,218
Electric Utility	3,401,442	3,693,005	-	204,396	-	495,959	495,959	513,925
Pressurized Irrigation	790,718	562,374	-	217,310	-	(11,034)	(11,034)	(87,033)
Waste Utility	383,243	363,804	-	-	-	(19,439)	(19,439)	39,778
Storm Water Utility	19,111	-	-	107,005	-	87,894	87,894	(19,111)
Total business-type activities	<u>\$ 6,052,941</u>	<u>\$ 6,133,945</u>	<u>\$ -</u>	<u>\$ 1,069,866</u>	<u>\$ -</u>	<u>\$ 1,150,870</u>	<u>\$ 1,150,870</u>	<u>\$ 655,833</u>
General Revenues:								
Property taxes					681,832	-	681,832	660,575
General sales and use tax					839,384	-	839,384	814,493
Franchise tax					322,635	-	322,635	303,573
Unrestricted investment earnings					9,903	1,280	11,183	9,373
Sale of Capital Assets					529	-	529	983
Transfers					290,820	(290,820)	-	31,000
Total general revenues and transfers					<u>2,145,103</u>	<u>(289,540)</u>	<u>1,855,563</u>	<u>1,819,997</u>
Change in net position					485,045	861,330	1,346,375	398,983
Net position - beginning					12,288,187	30,996,576	43,284,763	42,885,780
Net position - ending					<u>\$ 12,773,232</u>	<u>\$ 31,857,906</u>	<u>\$ 44,631,138</u>	<u>\$ 43,284,763</u>

See Accompanying Notes to Financial Statements

SALEM CITY CORPORATION
Balance Sheet

As of June 30, 2014

	General	Capital Projects Fund	Non-major Governmental Funds	Memorandum Totals 2014	Memorandum Totals 2013
ASSETS					
Cash & cash equivalents	\$ 1,848,357	\$ 40,991	\$ 70,292	\$ 1,959,640	\$ 1,257,589
Restricted cash	1,063,886	-	-	1,063,886	642,800
Receivables (net):					
Property tax	709,738	-	-	709,738	698,124
Other, net	83,495	-	-	83,495	111,667
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 3,705,476</u>	<u>\$ 40,991</u>	<u>\$ 70,292</u>	<u>\$ 3,816,759</u>	<u>\$ 2,710,180</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,176,410	\$ -	\$ -	\$ 1,176,410	\$ 574,017
Due to other funds	-	-	-	-	-
Total liabilities	<u>1,176,410</u>	<u>-</u>	<u>-</u>	<u>1,176,410</u>	<u>574,017</u>
Deferred inflows of resources	699,425	-	-	699,425	687,811
Total liabilities and deferred inflows of resources	<u>1,875,835</u>	<u>-</u>	<u>-</u>	<u>1,875,835</u>	<u>1,261,828</u>
Fund balance:					
Restricted for:					
Roads and recreational activities	942,455	-	-	942,455	521,369
Perpetual Care Fund	-	-	68,157	68,157	66,799
Committed for:					
Road Projects	-	-	-	-	-
Assigned for:					
Library	1,000	-	-	1,000	1,000
Capital Projects	266,673	40,991	-	307,664	262,471
Municipal building authority	-	-	2,135	2,135	1,625
Unassigned for:					
General Fund	619,513	-	-	619,513	595,088
Special Revenue Funds	-	-	-	-	-
Total fund balances	<u>1,829,641</u>	<u>40,991</u>	<u>70,292</u>	<u>1,940,924</u>	<u>1,448,352</u>
Total liabilities, deferred inflow of Resources and fund balances	<u>\$ 3,705,476</u>	<u>\$ 40,991</u>	<u>\$ 70,292</u>	<u>\$ 3,816,759</u>	<u>\$ 2,710,180</u>

See Accompanying Notes to Financial Statements

SALEM CITY CORPORATION
Balance Sheet Reconciliation to
Statement of Net Position

As of June 30, 2014

Total fund balances for governmental funds	\$ 1,940,924
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Consolidation of Internal Service Funds	(44,855)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	14,075,290
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,198,127)</u>
Net position of governmental activities	<u><u>\$ 12,773,232</u></u>

See Accompanying Notes To Financial Statements

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

For the Year Ended June 30, 2014

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals	
				2014	2013
Revenues:					
Taxes	\$ 1,843,851	\$ -	\$ -	\$ 1,843,851	\$ 1,778,641
Licenses and permits	445,233	-	-	445,233	338,236
Intergovernmental	332,962	-	64,328	397,290	395,250
Charges for services	1,164,164	-	-	1,164,164	973,536
Investment earnings	9,573	-	330	9,903	7,895
Fines and forfeitures	31,410	-	-	31,410	31,791
Miscellaneous revenues	64,233	-	-	64,233	161,393
Total revenues	<u>3,891,426</u>	<u>-</u>	<u>64,658</u>	<u>3,956,084</u>	<u>3,686,742</u>
Expenditures:					
Current:					
General government	573,565	-	-	573,565	532,210
Public safety	1,339,527	-	-	1,339,527	1,218,942
Highways and public works	237,943	-	-	237,943	459,521
Parks and recreation	1,322,895	-	-	1,322,895	1,057,380
Capital outlay	-	-	-	-	140,352
Debt service:					
Principal Retirement	121,000	-	42,000	163,000	162,000
Interest and fiscal charges	97,141	-	20,790	117,931	115,601
Total expenditures	<u>3,692,071</u>	<u>-</u>	<u>62,790</u>	<u>3,754,861</u>	<u>3,686,006</u>
Excess (deficiency) of revenues over expenditures	<u>199,355</u>	<u>-</u>	<u>1,868</u>	<u>201,223</u>	<u>736</u>
Other financing sources (uses):					
Transfers in	458,500	25,020	-	483,520	442,020
Transfers out	(92,700)	(100,000)	-	(192,700)	(15,000)
Sale of assets	529	-	-	529	983
Total other financing sources (uses)	<u>366,329</u>	<u>(74,980)</u>	<u>-</u>	<u>291,349</u>	<u>428,003</u>
Net change in fund balance	565,684	(74,980)	1,868	492,572	428,739
Fund balances - beginning of year	1,263,957	115,971	68,424	1,448,352	1,019,613
Fund balances - end of year	<u>\$ 1,829,641</u>	<u>\$ 40,991</u>	<u>\$ 70,292</u>	<u>\$ 1,940,924</u>	<u>\$ 1,448,352</u>

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2014

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

Net change in fund balances-total governmental funds \$ 492,572

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 outlay in the current period. (134,639)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position 362,926

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items (143,123)

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. (90,655)

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. (2,036)

Change in net position of governmental activities \$ 485,045

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

For the Year Ended June 30, 2014

	Budget Amounts		General Fund	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
Revenues:				
Taxes	\$ 1,816,439	\$ 1,808,452	\$ 1,843,851	\$ 35,399
Licenses and permits	188,620	283,370	445,233	161,863
Intergovernmental	444,490	792,919	332,962	(459,957)
Charges for services	1,271,511	1,310,861	1,164,164	(146,697)
Fines and forfeitures	28,158	28,158	31,410	3,252
Miscellaneous revenues	213,768	319,809	73,806	(246,003)
Total revenues	<u>3,962,986</u>	<u>4,543,569</u>	<u>3,891,426</u>	<u>(652,143)</u>
Expenditures:				
Current:				
General government	1,292,820	1,493,864	573,565	920,299
Public safety	1,382,433	1,764,328	1,339,527	424,801
Highways and public works	384,625	408,818	237,943	170,875
Parks and recreation	1,064,209	1,399,944	1,322,895	77,049
Debt Service	212,899	213,464	218,141	(4,677)
Total expenditures	<u>4,336,986</u>	<u>5,280,418</u>	<u>3,692,071</u>	<u>1,588,347</u>
Excess of expenditures over revenues	<u>(374,000)</u>	<u>(736,849)</u>	<u>199,355</u>	<u>936,204</u>
Other financing sources (uses):				
Sale of Assets	3,000	500	529	29
Transfers in	371,000	736,349	458,500	(277,849)
Transfers out	-	-	(92,700)	(92,700)
Net change in fund balance	-	-	565,684	565,684
Fund balance - beginning of year	<u>1,263,957</u>	<u>1,263,957</u>	<u>1,263,957</u>	<u>-</u>
Fund balance - end of year	<u>\$ 1,263,957</u>	<u>\$ 1,263,957</u>	<u>\$ 1,829,641</u>	<u>\$ 565,684</u>

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Statement of Net Position
Proprietary Funds

As of June 30, 2014

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Activities Internal Services Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 752,042	\$ 530,228	\$ 393,230	\$ 248,990	\$ 124,050	\$ 2,048,540	\$ -
Accounts receivable, net	71,224	40,708	282,884	50,346	31,833	476,995	-
Inventories	19,266	-	134,546	-	-	153,812	-
Due from other funds	78,078	-	-	-	-	78,078	-
Total current assets	<u>920,610</u>	<u>570,936</u>	<u>810,660</u>	<u>299,336</u>	<u>155,883</u>	<u>2,757,425</u>	<u>-</u>
Noncurrent assets							
Restricted cash and cash equivalents	3,875	115,735	-	347,835	-	467,445	-
Land, equipment, buildings, and improvements	10,549,275	10,754,150	9,932,621	13,740,413	1,085,561	46,062,020	1,657,190
Less accumulated depreciation	(2,898,624)	(3,075,477)	(1,853,648)	(1,066,048)	(138,167)	(9,031,964)	(1,220,943)
Water rights and stock	746,897	-	-	328,842	-	1,075,739	-
Equity in joint venture	-	641,600	-	-	161,658	803,258	-
Total noncurrent assets	<u>8,401,423</u>	<u>8,436,008</u>	<u>8,078,973</u>	<u>13,351,042</u>	<u>1,109,052</u>	<u>39,376,498</u>	<u>436,247</u>
Total assets	<u>9,322,033</u>	<u>9,006,944</u>	<u>8,889,633</u>	<u>13,650,378</u>	<u>1,264,935</u>	<u>42,133,923</u>	<u>436,247</u>
LIABILITIES							
Current liabilities:							
Accounts payable	22,201	7,189	411,829	100,159	12,097	553,475	21,635
Due to other funds	-	-	-	-	-	-	78,078
Loans payable	40,210	82,455	28,903	-	-	151,568	-
Bonds and capital leases	293,875	-	-	57,000	-	350,875	34,763
Total current liabilities	<u>356,286</u>	<u>89,644</u>	<u>440,732</u>	<u>157,159</u>	<u>12,097</u>	<u>1,055,918</u>	<u>134,476</u>
Noncurrent liabilities:							
Loans payable	454,655	1,283,943	829,536	-	-	2,568,134	-
Bonds and capital leases	305,000	-	-	6,313,742	-	6,618,742	225,237
Total long-term liabilities	<u>759,655</u>	<u>1,283,943</u>	<u>829,536</u>	<u>6,313,742</u>	<u>-</u>	<u>9,186,876</u>	<u>225,237</u>
Total liabilities	<u>1,115,941</u>	<u>1,373,587</u>	<u>1,270,268</u>	<u>6,470,901</u>	<u>12,097</u>	<u>10,242,794</u>	<u>359,713</u>
NET POSITION							
Net investment in capital assets	7,303,808	6,312,275	7,220,534	6,632,465	947,394	28,416,476	176,247
Restricted for debt and other activities	3,875	115,735	-	347,835	-	467,445	-
Unrestricted	898,409	1,205,347	398,831	199,177	305,444	3,007,208	(99,713)
Total net position	<u>\$ 8,206,092</u>	<u>\$ 7,633,357</u>	<u>\$ 7,619,365</u>	<u>\$ 7,179,477</u>	<u>\$ 1,252,838</u>	<u>\$ 31,891,129</u>	<u>\$ 76,534</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						(33,223)	
Net position from business-type activities						<u>\$ 31,857,906</u>	

See Accompanying Notes To Financial Statements

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

For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise					Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Non-Major Enterprise Funds		
Operating revenues:							
Charges for services	\$ 930,488	\$ 563,850	\$ 3,678,278	\$ 558,090	\$ 357,354	\$ 6,088,060	\$ 397,024
Fees and miscellaneous	17,900	2,524	14,727	4,284	6,450	45,885	7,713
Total operating revenues	<u>948,388</u>	<u>566,374</u>	<u>3,693,005</u>	<u>562,374</u>	<u>363,804</u>	<u>6,133,945</u>	<u>404,737</u>
Operating expenses:							
Purchased power	-	-	2,200,602	-	-	2,200,602	-
Salaries and wages	75,914	77,491	329,137	69,020	17,565	569,127	-
Employee benefits	42,913	43,093	141,906	40,911	2,859	271,682	11,871
Contractual services	58,439	133,902	47,957	123,680	266,849	630,827	204,095
Supplies and materials	73,242	67,584	282,312	12,815	16,500	452,453	50,441
Administrative services	174,768	158,676	197,616	161,328	64,584	756,972	-
Utilities and telephone	66,799	37,926	-	17,018	-	121,743	-
Depreciation and amortization	215,708	215,786	206,697	259,664	19,686	917,541	94,208
Total operating expenses	<u>707,783</u>	<u>734,458</u>	<u>3,406,227</u>	<u>684,436</u>	<u>388,043</u>	<u>5,920,947</u>	<u>360,615</u>
Operating income (loss)	<u>240,605</u>	<u>(168,084)</u>	<u>286,778</u>	<u>(122,062)</u>	<u>(24,239)</u>	<u>212,998</u>	<u>44,122</u>
Non-operating revenue (expense):							
Interest revenue	115	169	-	996	-	1,280	-
Impact fees	168,024	186,128	83,801	148,654	-	586,607	-
Increase (decrease) equity in joint venture	-	-	-	-	(14,847)	(14,847)	-
Loss on sale of asset	-	-	-	-	-	-	-
Interest expense and fiscal charges	(31,576)	(71)	-	(108,317)	-	(139,964)	(1,605)
Total non-operating revenue (expense)	<u>136,563</u>	<u>186,226</u>	<u>83,801</u>	<u>41,333</u>	<u>(14,847)</u>	<u>433,076</u>	<u>(1,605)</u>
Net income before contributions & transfers	377,168	18,142	370,579	(80,729)	(39,086)	646,074	42,517
Transfers in (out)	(41,004)	20,996	(255,804)	(10,004)	(5,004)	(290,820)	-
Developers contributions	67,303	119,700	120,595	68,656	107,005	483,259	-
Change in net position	<u>403,467</u>	<u>158,838</u>	<u>235,370</u>	<u>(22,077)</u>	<u>62,915</u>	<u>838,513</u>	<u>42,517</u>
Net position - beginning	<u>7,802,625</u>	<u>7,474,519</u>	<u>7,383,995</u>	<u>7,201,554</u>	<u>1,189,923</u>	<u>31,052,616</u>	<u>34,017</u>
Net position - ending	<u>\$ 8,206,092</u>	<u>\$ 7,633,357</u>	<u>\$ 7,619,365</u>	<u>\$ 7,179,477</u>	<u>\$ 1,252,838</u>	<u>\$ 31,891,129</u>	<u>\$ 76,534</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						22,817	
Change in net position of business-type activities						<u>\$ 861,330</u>	

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2014

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation			
Cash Flows From Operating Activities							
Receipts from customers and users	\$ 948,371	\$ 558,793	\$ 3,721,256	\$ 563,405	\$ 365,267	\$ 6,157,092	\$ 404,737
Payments to suppliers	(301,111)	(268,369)	(2,727,811)	(204,240)	(288,017)	(3,789,548)	(196,355)
Payments to general fund for services	(174,768)	(158,676)	(197,616)	(161,328)	(64,584)	(756,972)	-
Payments to employees	(75,914)	(77,491)	(329,137)	(69,020)	(17,565)	(569,127)	-
Net cash provided by (used in) operating activities	<u>396,578</u>	<u>54,257</u>	<u>466,692</u>	<u>128,817</u>	<u>(4,899)</u>	<u>1,041,445</u>	<u>208,382</u>
Cash Flows From Noncapital Financing Activities							
Interfund Activity	(41,004)	20,996	(255,804)	(10,004)	(5,004)	(290,820)	-
Net cash provided (used) by noncapital financing activ.	<u>(41,004)</u>	<u>20,996</u>	<u>(255,804)</u>	<u>(10,004)</u>	<u>(5,004)</u>	<u>(290,820)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities							
Impact Fees	168,024	186,128	83,801	148,654	-	586,607	-
Purchase of equity in joint venture	-	(85,696)	-	-	-	(85,696)	-
Purchases of capital assets	(10,819)	(15,741)	(92,832)	-	-	(119,392)	(125,675)
Principle paid on debt	(327,363)	(71,880)	(96,718)	(46,000)	-	(541,961)	(81,102)
Interest paid on capital debt	(31,576)	(71)	-	(108,317)	-	(139,964)	(1,605)
Net cash provided (used) in capital and financing act.	<u>(201,734)</u>	<u>12,740</u>	<u>(105,749)</u>	<u>(5,663)</u>	<u>-</u>	<u>(300,406)</u>	<u>(208,382)</u>
Cash Flows From Investing Activities							
Interest and dividends received	115	169	-	996	-	1,280	-
Net cash provided by investing activities	<u>115</u>	<u>169</u>	<u>-</u>	<u>996</u>	<u>-</u>	<u>1,280</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	153,955	88,162	105,139	114,146	(9,903)	451,499	-
Cash and equivalents at beginning of year	601,962	557,801	288,091	482,679	133,953	2,064,486	-
Cash and equivalents at end of year	<u>\$ 755,917</u>	<u>\$ 645,963</u>	<u>\$ 393,230</u>	<u>\$ 596,825</u>	<u>\$ 124,050</u>	<u>\$ 2,515,985</u>	<u>\$ -</u>
Shown in the Statement of Net Position as:							
Cash and cash equivalents	\$ 752,042	\$ 530,228	\$ 393,230	\$ 248,990	\$ 124,050	\$ 2,048,540	\$ -
Restricted cash equivalents at end of year	3,875	115,735	-	347,835	-	467,445	-
	<u>\$ 755,917</u>	<u>\$ 645,963</u>	<u>\$ 393,230</u>	<u>\$ 596,825</u>	<u>\$ 124,050</u>	<u>\$ 2,515,985</u>	<u>\$ -</u>

(continued)

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

Continued

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income (loss)	\$ 240,605	\$ (168,084)	\$ 286,778	\$ (122,062)	\$ (24,239)	\$ 212,998	\$ 44,122
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation and Amortization Expense	215,708	215,786	206,697	259,664	19,686	917,541	94,208
(Increase) decrease in accounts receivable	17	7,581	(28,251)	(1,031)	(1,463)	(23,147)	-
(Increase) decrease in inventory	3,150	-	17,843	-	-	20,993	-
(Increase) decrease in due from other funds	(67,838)	-	-	-	-	(67,838)	-
Increase (decrease) in accounts payable	4,936	(1,026)	(16,375)	(7,754)	1,117	(19,102)	2,214
Increase (decrease) in due to other funds	-	-	-	-	-	-	67,838
Total adjustments	155,973	222,341	179,914	250,879	19,340	828,447	164,260
Net cash provided by (used in) operating activities:	\$ 396,578	\$ 54,257	\$ 466,692	\$ 128,817	\$ (4,899)	\$ 1,041,445	\$ 208,382
 Supplementary information							
Non-cash items from capital and related financing activities include contributions by developers	\$ 67,303	\$ 119,700	\$ 120,595	\$ 68,656	\$ 107,005	\$ 483,259	\$ -
Non-cash purchase of assets through debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 260,000

See Accompanying Notes To Financial Statements

This page intentionally left blank.

June 30, 2014

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). 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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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 position and the statements of changes in net position) 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.

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.
Storm Water Utility accounts for the activities of storm water.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

D. Assets, Liabilities, and Net Position 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

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "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, unused impact fees, escrow account, and state restricted funds.

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.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

5. Capital assets – *Continued*

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 are 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 unearned 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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

D. Assets, Liabilities, and Net Position 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 position. Issuance costs are expensed in the year incurred. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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 are reported as debt service expenditures.

9. Net Position/Fund Balances

In the governmental fund financial statements, fund balances are classified as non-spendable, 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.

11. Deferred Inflows of Resources

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Property taxes are reported as deferred inflows of resources since they are recognized as receivables before the period for which the taxes are levied. These amounts also are reported on the government-wide of net position.

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 position

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

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

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 position includes those capital assets among the assets of the city as a whole.

Cost of capital assets	\$30,243,070
Accumulated depreciation	<u>(16,167,780)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net position - governmental activities</i>)	<u>\$14,075,290</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 position.

Bonds, notes, and capital leases payable	\$3,065,000
Bond interest payable	40,228
Other long-term payables	<u>92,899</u>
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net position - governmental activities</i>	<u>\$3,198,127</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

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 position 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	\$ 742,682
Depreciation expense	<u>(877,321)</u>
Net capital outlay	(134,639)
Capital contribution by developers	<u>362,926</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>228,287</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 position. Also, governmental funds report the effect of 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	\$262,102
Proceeds on debt issuance	(400,000)
Compensated absence change	<u>(5,225)</u>
	(143,123)
Accrued interest change	<u>(2,036)</u>
Total change in long-term debt	<u>\$(145,159)</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.

SALEM CITY CORPORATION
Notes to the Financial Statements

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, 2014, \$823,746 of the local government's bank balances of \$1,343,075 was uninsured and uncollateralized.

B. Investments

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2014, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurer's Investment Fund	Less than 1 year	\$4,334,855

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.

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 yearend 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	\$ 36,684	\$ 75,964	\$ 44,421	\$ 303,890	\$ 53,669	\$ 33,850	\$ 548,478
Property Tax	709,738	-	-	-	-	-	709,738
Intergovernmental	50,969	-	-	-	-	-	50,969
Allowance	(4,158)	(4,740)	(3,713)	(21,006)	(3,323)	(2,017)	(38,957)
	<u>\$ 793,233</u>	<u>\$ 71,224</u>	<u>\$ 40,708</u>	<u>\$ 282,884</u>	<u>\$ 50,346</u>	<u>\$ 31,833</u>	<u>\$ 1,270,228</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

6. INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2014 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Internal Service Fund	\$78,078

Interfund Transfers:

	<u>Transfer In</u>					<u>Total</u>
	<u>General</u>	<u>Capital</u>	<u>Nonmajor Governmental</u>	<u>Business Type</u>	<u>Motor Pool</u>	
Transfer out:						
General	\$ -	\$ -	\$ -	\$ 92,700	\$ -	\$ 92,700
Capital	100,000	-	-	-	-	100,000
Nonmajor Govtl.	-	-	-	-	-	-
Business Type	<u>358,500</u>	<u>25,020</u>	-	-	-	<u>383,520</u>
Total Transfer In	<u>\$ 458,500</u>	<u>\$ 25,020</u>	<u>\$ -</u>	<u>\$ 92,700</u>	<u>\$ -</u>	<u>\$ 576,220</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS

Primary Governmental Governmental Activity	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 369,909	\$ 146,895	\$ -	\$ 516,804
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>369,909</u>	<u>146,895</u>	<u>-</u>	<u>516,804</u>
Capital assets being depreciated:				
Buildings	3,452,527	78,972	-	3,531,499
Improvements	2,286,444	64,746	-	2,351,190
Machinery and equipment	2,116,439	452,069	25,072	2,543,436
Infrastructure	20,937,215	362,926	-	21,300,141
Total capital assets being depreciated	<u>28,792,625</u>	<u>958,713</u>	<u>25,072</u>	<u>29,726,266</u>
Less accumulated depreciation	<u>(15,315,531)</u>	<u>(877,321)</u>	<u>(25,072)</u>	<u>(16,167,780)</u>
Total capital assets, being depreciated, net	<u>13,477,094</u>	<u>81,392</u>	<u>-</u>	<u>13,558,486</u>
Governmental activities capital assets, net	<u>\$ 13,847,003</u>	<u>\$ 228,287</u>	<u>\$ -</u>	<u>\$ 14,075,290</u>
Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,038,703	\$ -	\$ -	\$ 1,038,703
Construction in progress	645,573	86,105	-	731,678
Water rights and stock	1,064,920	10,819	-	1,075,739
Total capital assets not being depreciated	<u>2,749,196</u>	<u>96,924</u>	<u>-</u>	<u>2,846,120</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	40,315,736	489,984	-	40,805,720
Machinery and equipment	549,965	15,743	-	565,708
Infrastructure	1,311,204	-	-	1,311,204
Total capital assets being depreciated	<u>43,785,912</u>	<u>505,727</u>	<u>-</u>	<u>44,291,639</u>
Less accumulated depreciation	<u>(8,114,423)</u>	<u>(917,541)</u>	<u>-</u>	<u>(9,031,964)</u>
Total capital assets, being depreciated, net	<u>35,671,489</u>	<u>(411,814)</u>	<u>-</u>	<u>35,259,675</u>
Business-type activities capital assets, net	<u>\$ 38,420,685</u>	<u>\$ (314,890)</u>	<u>\$ -</u>	<u>\$ 38,105,795</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS- *continued*

Depreciation has been charged to the departments as follows:

General government	\$ 72,466
Public safety	139,576
Highway and public works	574,884
Parks and recreation	<u>90,395</u>
Total depreciation	<u>\$ 877,321</u>

8. LEASE COMMITMENTS

The City during the fiscal year 2014 executed a new lease for a fire truck and an ambulance in the amount of \$260,000 payable in annual installments until July 2020 with an interest rate of 2.2% 260,000

The assets acquired through capital leases are as follows:

	Governmental <u>Activities</u>
Asset:	
Machinery & Equipment	\$348,600
Accumulated Amortization	<u>(30,795)</u>
Total	<u>\$317,805</u>

Amortization of capital assets purchased under capital leases is included in depreciation. Current year depreciation was \$30,795.

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, 2014:

<u>Fiscal Year</u>	<u>Governmental Amount</u>	<u>Business-type Amount</u>	<u>Total Amount</u>
2015	\$ 40,483	\$ -	\$ 40,483
2016	40,482	-	40,482
2017	40,482	-	40,482
2018	40,483	-	40,483
2019	40,482	-	40,482
2020	40,482	-	40,482
2021	40,482	-	40,482
Total Minimum lease payments	283,376	-	283,376
Less amounts representing interest	(23,376)	-	(23,376)
Present value of minimum lease payments	<u>\$ 260,000</u>	<u>\$ -</u>	<u>\$ 260,000</u>

At June 30, 2014 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	\$ 260,000	\$ -	\$ 260,000
Current Portion Capital Lease Payable	(34,763)	-	(34,763)
Long Term Capital Leases Payable	<u>\$ 225,237</u>	<u>\$ -</u>	<u>\$ 225,237</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT

Bonds and notes payable at June 30, 2014, are comprised of the following:

Revenue Bonds

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 3,875

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% 6,370,742

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% 2,679,000

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT - *Continued*

<u>Fiscal Year</u>	Revenue Bonds			
	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
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	198,000	80,146	94,000	103,585
2019	204,000	72,206	108,000	101,809
2020-2024	941,000	243,339	1,060,000	460,168
2025-2029	785,000	63,535	1,566,000	347,399
2030-2034	-	-	2,234,000	184,335
2035-2038	-	-	1,101,742	15,401
Total	<u>\$ 2,679,000</u>	<u>\$ 744,554</u>	<u>\$ 6,374,617</u>	<u>\$ 1,531,855</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%.

\$ 595,000

<u>Fiscal Year</u>	General Obligation Bonds	
	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2015	\$ 290,000	\$ 19,784
2016	305,000	12,200
Total	<u>\$ 595,000</u>	<u>\$ 31,984</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. 858,439

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. 470,510

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. 937,991

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. 24,355

During 2013, the City acquired a note for \$358,128 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. 333,900

During 2013, the City acquired a note for \$102,987 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. 94,507

During 2014, the City acquired a house through a \$140,000 note payable. Annual installments of \$15,750 are payable with 1% interest. Loan matures in July 2021. 126,000

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

Notes Payable – *Continued*

Fiscal Year	Notes Payable		Business-Type	
	Governmental			
	Principal	Interest	Principal	Interest
2015	\$ 15,750	\$ 1,260	\$ 151,568	\$ -
2016	15,750	1,102	142,415	-
2017	15,750	945	134,814	-
2018	15,750	787	134,814	-
2019	15,750	630	134,814	-
2020-2024	47,250	944	674,070	-
2025-2029	-	-	671,302	-
2030-2034	-	-	394,136	-
2035-2039	-	-	281,769	-
Total	\$ 126,000	\$ 5,668	\$ 2,719,702	\$ -

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, 2014 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2015	\$ 695,193	\$ 230,944	\$ 926,137
2016	716,165	214,951	931,116
2017	421,564	193,882	615,446
2018	442,564	184,518	627,082
2019	462,564	174,645	637,209
2020-2024	2,722,320	704,451	3,426,771
2025-2029	3,022,302	410,934	3,433,236
2030-2034	2,628,136	184,335	2,812,471
2035-2039	1,383,511	15,401	1,398,912
Total	<u>\$ 12,494,319</u>	<u>\$ 2,314,061</u>	<u>\$ 14,808,380</u>

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

	July 1, 2013	Additions	Reductions	June 30, 2014	Due in One Year
Governmental Activities					
Bonds Payable:					
Excise tax bonds	\$ 2,846,000	\$ -	\$ 167,000	\$ 2,679,000	\$ 177,000
Note Payable	-	140,000	14,000	126,000	15,750
Capital Leases	81,102	260,000	81,102	260,000	34,763
Compensated absences	87,674	5,225	-	92,899	-
Gov't Activities Long-Term Debt	<u>\$ 3,014,776</u>	<u>\$ 405,225</u>	<u>\$ 262,102</u>	<u>\$ 3,157,899</u>	<u>\$ 227,513</u>
Business Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 6,449,603	\$ -	\$ 74,986	\$ 6,374,617	\$ 60,875
General Obligation Bonds	880,000	-	285,000	595,000	290,000
Capital Leases	68,281	-	68,281	-	-
Notes Payable	2,833,396	-	113,694	2,719,702	151,568
Business-type Activities Long-Term Debt	<u>\$ 10,231,280</u>	<u>\$ -</u>	<u>\$ 541,961</u>	<u>\$ 9,689,319</u>	<u>\$ 502,443</u>

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 a percentage (below) 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 a percentage (below) 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 contribution rates and amounts are listed as follows:

	2013-2014 Rates	2013-2014 Employer Contribution	2012-2013 Employer Contribution	2011-2012 Employer Contribution
Contributory System - Local Governmental Division Tier 2	13.99%	\$ 3,378	\$ 1,324	\$ 258
Noncontributory System - Local Governmental Division Tier 1	17.29%	217,395	185,587	188,154
Public Safety System - Other Division A Contributory Tier 2	22.37%	4,440	3,407	1,583
Public Safety System - Other Division A Noncontributory Tier 1	34.17%	118,943	105,629	110,307
401k Plan		55,241	46,739	51,660

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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	11.75%
Provo City Corporation	69.75%
Springville City Corporation	15.00%
Mapleton City Corporation	2.00%
Salem City Corporation	1.50%
Goshen City (Landfill participant only)	<u>0.00%</u>
	100.00%

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 \$14,847 of loss in the current year leaving an investment balance of \$161,658 as of June 30, 2014.

12. JOINT VENTURES – *continued*

South Utah Valley Solid Waste City – continued

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

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 \$641,600 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, 2014:

	General	Perpetual Care	Water	Sewer	Electric	Pressurized Irrigation
Impact fees, unexpended	\$ 594,676	\$ -	\$ -	\$ 115,735	\$ -	\$ 25,358
B&C roads	346,643	-	-	-	-	-
Park donations	-	-	-	-	-	-
Liquor allotment	1,136	-	-	-	-	-
Perpetual care	-	68,157	-	-	-	-
Debt sinking and reserves	-	-	3,875	-	-	322,477
Total	<u>\$ 942,455</u>	<u>\$ 68,157</u>	<u>\$ 3,875</u>	<u>\$ 115,735</u>	<u>\$ -</u>	<u>\$ 347,835</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

14. 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, 2014 is as follows:

	<u>Motor Pool</u>	<u>Data Processing</u>	<u>Total</u>
Operating Revenues	\$ 404,737	\$ -	\$ 404,737
Depreciation and Amortization	(94,208)	-	(94,208)
Other Operating Expenses	<u>(266,407)</u>	<u>-</u>	<u>(266,407)</u>
Operating Income (Loss)	44,122	-	44,122
Non-Operating Revenue (Expense)	(1,605)	-	(1,605)
Transfers out	-	-	-
Net Increase (Decrease) in Retained Earnings	<u>\$ 42,517</u>	<u>\$ -</u>	<u>\$ 42,517</u>
Total Assets	\$ 436,247	\$ -	\$ 436,247
Total Liabilities	365,316	(5,603)	359,713
Total Fund Equity	70,931	5,603	76,534

15. 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, 2014 no activity occurred in the City's Redevelopment Agency.

16. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 8, 2014, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

This page intentionally left blank.

SALEM CITY CORPORATION
Combining Balance Sheet
Non-Major Governmental Funds

As of June 30, 2014

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2014	2013
ASSETS					
Cash & cash equivalents	\$ -	\$ 2,135	\$ 68,157	\$ 70,292	\$ 68,424
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 2,135</u>	<u>\$ 68,157</u>	<u>\$ 70,292</u>	<u>\$ 68,424</u>
LIABILITIES					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:					
Restricted for perpetual care	-	-	68,157	68,157	66,799
Assigned: MBA	-	2,135	-	2,135	1,625
Unassigned	-	-	-	-	-
Total fund balance	<u>-</u>	<u>2,135</u>	<u>68,157</u>	<u>70,292</u>	<u>68,424</u>
Total liabilities & fund balance	<u>\$ -</u>	<u>\$ 2,135</u>	<u>\$ 68,157</u>	<u>\$ 70,292</u>	<u>\$ 68,424</u>

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

For the Year Ended June 30, 2014

	Special		Permanent Fund	Memorandum Totals	
	Revenue Funds			2014	2013
	Redevelopment Agency	Municipal Building Authority			
Revenues:					
Intergovernmental	\$ -	\$ 63,300	\$ 1,028	\$ 64,328	\$ 66,313
Investment earnings	-	-	330	330	427
Total revenues	-	63,300	1,358	64,658	66,740
Expenditures:					
Current:					
Tax increment distributions	-	-	-	-	-
Debt Service:					
Principal retirement	-	42,000	-	42,000	41,000
Interest and fiscal charges	-	20,790	-	20,790	21,866
Total	-	62,790	-	62,790	62,866
Excess of revenues over expenditures	-	510	1,358	1,868	3,874
Other financing sources (uses):					
Transfers in (out)	-	-	-	-	-
Net change in fund balances	-	510	1,358	1,868	3,874
Fund balances - beginning of year	-	1,625	66,799	68,424	64,550
Fund balances - end of year	\$ -	\$ 2,135	\$ 68,157	\$ 70,292	\$ 68,424

SALEM CITY CORPORATION
Combining Statement of Net Position
Non-Major Enterprise Funds

For the Year Ended June 30, 2014

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2014	2013
ASSETS				
Cash & cash equivalents	\$ 135,000	\$ (10,950)	\$ 124,050	\$ 133,953
Accounts receivable, net	31,833	-	31,833	30,370
Total current assets	166,833	(10,950)	155,883	164,323
<u>Noncurrent assets</u>				
Land, equipment, buildings, and improvements	23,000	1,062,561	1,085,561	978,556
Less accumulated depreciation	(13,512)	(124,655)	(138,167)	(118,481)
Equity in joint venture	161,658	-	161,658	176,505
Total noncurrent assets	171,146	937,906	1,109,052	1,036,580
Total assets	337,979	926,956	1,264,935	1,200,903
Accounts payable				
	12,097	-	12,097	10,980
Total liabilities	12,097	-	12,097	10,980
Net position:				
Net investment in capital assets	9,488	937,906	947,394	860,075
Unrestricted	316,394	(10,950)	305,444	329,848
Total net position	\$ 325,882	\$ 926,956	\$ 1,252,838	\$ 1,189,923

SALEM CITY CORPORATION
Combining Statement of Revenues, Expenditures and Changes in Fund Net Position
Non-Major Enterprise Funds

For the Year Ended June 30, 2014

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2014	2013
Operating revenues:				
Charges for services	\$ 357,354	\$ -	\$ 357,354	\$ 328,670
Fees and miscellaneous	6,450	-	6,450	6,100
Total operating revenues	<u>363,804</u>	<u>-</u>	<u>363,804</u>	<u>334,770</u>
Operating expenses:				
Salaries and wages	17,565	-	17,565	13,604
Employee benefits	2,859	-	2,859	1,259
Contractual services	266,849	-	266,849	222,805
Supplies and materials	16,500	-	16,500	16,405
Administrative services	64,584	-	64,584	59,952
Utilities and telephone	-	-	-	-
Depreciation and amortization	575	19,111	19,686	19,686
Total operating expenses	<u>368,932</u>	<u>19,111</u>	<u>388,043</u>	<u>333,711</u>
Operating income (loss)	<u>(5,128)</u>	<u>(19,111)</u>	<u>(24,239)</u>	<u>1,059</u>
Non-operating revenue (expense):				
Interest revenue	-	-	-	-
Increase (decrease) equity in joint venture	(14,847)	-	(14,847)	497
Loss on sale of asset	-	-	-	-
Total non-operating revenue (expense)	<u>(14,847)</u>	<u>-</u>	<u>(14,847)</u>	<u>497</u>
Net income before contributions & transfers	(19,975)	(19,111)	(39,086)	1,556
Transfers in (out)	(5,004)	-	(5,004)	(17,504)
Developers contributions	-	107,005	107,005	-
Change in net position	(24,979)	87,894	62,915	(15,948)
Net position - beginning	350,861	839,062	1,189,923	1,205,871
Net position - ending	<u>\$ 325,882</u>	<u>\$ 926,956</u>	<u>\$ 1,252,838</u>	<u>\$ 1,189,923</u>

SALEM CITY CORPORATION
Combining Statement of Cash Flows
Non-Major Enterprise Funds

For the Year Ended June 30, 2014

	Waste Utility Fund	Storm Water Utility	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 365,267	\$ -	\$ 365,267
Payments to suppliers	(288,017)	-	(288,017)
Payments to general fund for services	(64,584)	-	(64,584)
Payments to employees	(17,565)	-	(17,565)
Net cash used by operating activities	(4,899)	-	(4,899)
Cash Flows From Noncapital Financing Activities			
Interfund Activity	(5,004)	-	(5,004)
Net cash provided (used) by noncapital financing activ.	(5,004)	-	(5,004)
Net increase (decrease) in cash and cash equivalents	(9,903)	-	(9,903)
Cash and equivalents at beginning of year	144,903	(10,950)	133,953
Cash and equivalents at end of year	\$ 135,000	\$ (10,950)	\$ 124,050
Shown in the Statement of Net Position as:			
Cash and cash equivalents	\$ 135,000	\$ (10,950)	\$ 124,050
Restricted cash equivalents at end of year	-	-	-
	\$ 135,000	\$ (10,950)	\$ 124,050
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (5,128)	\$ (19,111)	\$ (24,239)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization Expense	575	19,111	19,686
(Increase) decrease in accounts receivable	(1,463)	-	(1,463)
Increase (decrease) in accounts payable	1,117	-	1,117
Total adjustments	229	19,111	19,340
Net cash used by operating activities:	\$ (4,899)	\$ -	\$ (4,899)
Supplementary information			
Non-cash items from capital and related financing activities include contributions by developers	\$ -	\$ 107,005	\$ 107,005
Non-cash purchase of assets through debt	\$ -	\$ -	\$ -

This page intentionally left blank.

OTHER REPORTS

This page intentionally left blank.



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

Honorable Mayor and City Council
Salem City
Salem, Utah

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Salem, Utah, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise City of Salem, Utah's basic financial statements and have issued our report thereon dated October 8, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as finding 2014-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Salem, Utah's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and recommendations as findings 2014-2 and 2014-3.

City of Salem, Utah's Response to Findings

City of Salem, Utah's response to the finding identified in our audit is described in the accompanying management letter. City of Salem, Utah's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

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

North Logan, UT
October 8, 2014



INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH THE *STATE COMPLIANCE AUDIT GUIDE* ON:

- **COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS**
- **INTERNAL CONTROL OVER COMPLIANCE**

To the Honorable Mayor and City Council
City of Salem
Salem, Utah

Report On Compliance with General State Compliance Requirements

We have audited the City of Salem, Utah the (City)'s compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2014.

General state compliance requirements were tested for the year ended June 30, 2014 in the following areas:

Budgetary Compliance
Fund Balance
Justice Court
Transfers from Utility Enterprise Funds
Impact Fees
Utah Retirement System
Utah Public Finance Website

The City did not have any state funding classified as a major program during the year ended June 30, 2014.

Management's Responsibility

Management is responsible for compliance with the general state requirements referred to above and the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City. 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 on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the City's compliance.

Opinion on General State Compliance Requirements

In our opinion, the City of Salem, Utah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the *State Compliance Audit Guide* and which are described in the accompanying schedule of findings and recommendations as items 2014-2 and 2014-3.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and recommendations. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report On Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the compliance requirements that could have a direct and material effect on the City to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with general state compliance requirements and to test and report on internal control over compliance in accordance with the *State Compliance Audit Guide*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a general state compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a general state compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a general state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control and compliance and the results of that testing based on the requirements of the *State Compliance Audit Guide*. Accordingly, this report is not suitable for any other purpose.

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

North Logan, UT
October 8, 2014

This page intentionally left blank.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

This page intentionally left blank.

CURRENT YEAR FINDINGS

Finding 2014-1: *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 2014-2: *Budget (State Compliance)*

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

Recommendation:

Review all budgets during the year to maintain compliance. As needed, amend the budgets prior to the expenditures exceeding the budgeted amounts.

Management response:

Management agrees with the auditors' recommendations, and will amend the budget prior to the expenditures exceeding the budgeted amounts, or will make sure expenditures do not exceed budgeted amounts.

Finding 2014-3: *Fund Balance (State Compliance)*

State law requires that all funds have positive fund balances. The Storm Water Utility had a deficit fund balance as of June 30, 2014.

Recommendation:

Monitor the Storm Water Utility to ensure that the revenue stream is sufficient to cover the expenses that run through that fund. If needed, review the options of a transfer from another fund.

Management response:

Management agrees with the auditors' recommendations, in ensuring the revenue stream is sufficient to cover the expenses in this newly created fund.

PRIOR YEAR FINDINGS

Finding 2013-1: *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.

Status:

See current year finding.

Finding 2013-2: *District Court (State Compliance)*

A few citations processed through Salem City were incorrectly dismissed by the prosecutor's office rather than being submitted to and dismissed through the court system by the presiding judge.

Recommendation:

The Court must follow all rules and regulations established by the State of Utah. The City has since improved their procedures regarding dismissal of citations.

Management response:

There were some citations that were declined to prosecute before they went to court by the prosecuting attorney. Since then we have been instructed by the court that a citation needs to have a motion to dismiss and signed by the judge in order to be dismissed. Since we found out about this procedure we have implemented this process.

Status:

No instances were found during the current year sample testing related to this issue.