



SALEM CITY CORPORATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2017**

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INTRODUCTORY SECTION

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November 14, 2017

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, 2017, 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, 2017, 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 the 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, 2017, 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, 2017, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The financial reporting entity 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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2017, 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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, 2017, 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 and pension schedules, as listed in the table of contents, 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 November 14, 2017, 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'.

North Logan, UT
November 14, 2017

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SALEM CITY CORPORATION
Management's Discussion and Analysis

June 30, 2017

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, 2017. 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 \$52,606,434. Of this amount, \$47,542,502 consisted of capital assets, net of any related debt and \$1,113,483 of restricted net position. As such, the City has \$439,545 of unrestricted governmental net position and \$3,510,904 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, users should also 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 costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 23 & 25 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 flow of resources 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 less 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 activities.
 - 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 holds one trust fund for 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 stated previously, net position may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceeded liabilities by \$52,606,434.

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.

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

The following table summarizes the City's net position as of June 30, 2017:

STATEMENT OF NET POSITION

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Current and other assets	\$ 4,191,160	\$ 4,873,460	\$ 6,117,531	\$ 4,708,208
Capital assets	18,022,148	15,520,358	40,646,441	39,713,951
Deferred outflow of resources	716,342	504,993	238,781	177,430
Total assets and deferred outflow of resources	<u>22,929,650</u>	<u>20,898,811</u>	<u>47,002,753</u>	<u>44,599,589</u>
Long-term debt outstanding	2,696,201	2,507,710	8,400,345	8,385,507
Other liabilities	3,197,781	2,715,884	1,970,997	1,067,954
Deferred inflow of resources	1,000,176	906,990	60,469	43,549
Total liabilities and deferred inflow of resources	<u>6,894,158</u>	<u>6,130,584</u>	<u>10,431,811</u>	<u>9,497,010</u>
Net position:				
Net investment in capital assets	15,296,406	12,979,846	32,246,096	31,328,444
Restricted	299,541	1,509,736	813,942	666,225
Unrestricted	439,545	278,645	3,510,904	3,107,910
Total net position	<u>\$ 16,035,492</u>	<u>\$ 14,768,227</u>	<u>\$ 36,570,942</u>	<u>\$ 35,102,579</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Business-type activities increased Salem City's net position by \$1,468,363 and governmental activities increased net position by \$1,267,265. The elements of these increases for the fiscal year ended June 30, 2017 were as follows:

CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Revenues:				
Program revenues:				
Charges for services	\$ 1,504,543	\$ 1,421,359	\$ 7,422,934	\$ 6,920,373
Operating grants & contributions	445,768	385,874	-	-
Capital grants & contributions	1,596,949	2,154,541	2,045,842	2,561,994
General revenues:				
Property taxes	800,713	766,502	-	-
Other taxes	1,433,240	1,273,161	-	-
Investment income	44,165	21,075	9,939	2,758
Other revenues	6,236	8,800	-	-
Total revenues	<u>5,831,614</u>	<u>6,031,312</u>	<u>9,478,715</u>	<u>9,485,125</u>
Expenses:				
General government	626,247	366,678	-	-
Public safety	1,215,840	1,376,043	-	-
Highways/public improvements	1,080,527	1,133,303	-	-
Parks & recreation	2,019,223	1,428,690	-	-
Interest on long term debt	84,548	92,042	-	-
Water	-	-	940,213	864,948
Sewer	-	-	788,577	873,606
Electric	-	-	4,214,241	4,009,411
Pressurized Irrigation	-	-	907,209	877,257

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

CHANGES IN NET POSITION – *continued*

	Governmental Activities		Business-type Activities	
	2017	2016	2017	2016
Waste	-	-	500,443	387,808
Storm Water	-	-	197,633	141,713
Total expenses	5,026,385	4,396,756	7,548,316	7,154,743
Change in net position	805,229	1,634,556	1,930,399	2,330,382
Transfers	462,036	443,036	(462,036)	(443,036)
Net change in net position	1,267,265	2,077,592	1,468,363	1,887,346
Net position beginning of year	14,768,227	12,690,635	35,102,579	33,215,233
Net position end of year	\$ 16,035,492	\$ 14,768,227	\$ 36,570,942	\$ 35,102,579

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

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 \$1,777,932. Of this total amount \$1,478,391 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 \$1,166,092, while total fund balance reached \$1,678,495. 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 26 percent of total General Fund expenditures. The General Fund unreserved fund balance ended at 26 percent, which did not comply with state limits of 25 percent or less.

The city maintains enterprise funds to account for the business-type activities of the city. Information regarding these activities can be found in the government-wide financial statements, but is also reported in greater detail in the separate fund financial statements included within this report.

Unrestricted net position of the Water, Sewer, Electrical, Pressurized Irrigation, Solid Waste, and Storm Water Funds at the end of the year amounted to \$3,510,904. Revenues and expenditures from normal operations 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 expense total of \$6,163,936 to a final budget of \$8,259,548, an increase of \$2,095,612. Major changes are summarized as follows:

- General government \$ 140,972
- Parks and recreation 1,446,127
- Public safety 442,489

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, 2017 amounts to \$58,668,589 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total increase in the City's investment in fixed assets for the current year of \$3,434,280.

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

• Road, sidewalk and park improvements	\$1,131,834
• Sewer line improvements	524,546
• Water line improvements	184,946
• Storm drain improvements	241,493
• Electrical improvements	141,641
• Pressurized irrigation improvements	162,414
• Vehicles and equipment	628,870
• Land acquisition	1,586,800
• Buildings	1,074,768

	Governmental Activities	Business-type Activities	Total
Land	\$ 1,696,604	\$ 1,445,703	\$ 3,142,307
Buildings	4,416,335	1,609,007	6,025,342
Improvements	2,651,900	44,844,656	47,496,556
Equipment	2,795,328	811,737	3,607,065
Infrastructure	24,542,427	1,277,903	25,820,330
Water rights	-	1,076,181	1,076,181
Construction in progress	518,502	1,421,670	1,940,172
Accumulated depreciation	(18,598,948)	(11,840,416)	(30,439,364)
Total assets	<u>\$ 18,022,148</u>	<u>\$ 40,646,441</u>	<u>\$ 58,668,589</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 \$8,291,742. All of this amount 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 \$271,000.

Salem City's Outstanding Debt General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ -	\$ -	\$ -
Revenue bonds	2,128,000	6,163,742	8,291,742
Total bonds	<u>\$ 2,128,000</u>	<u>\$ 6,163,742</u>	<u>\$ 8,291,742</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, 2018 reflects a decrease of 19 percent in expenditures over the final fiscal year ending June 30, 2017 due to acquisitions of land and improvements in fiscal year 2017 that are not expected to repeat in fiscal year 2018.

REQUESTS FOR INFORMATION

This 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, Attn: Finance Director, P.O. Box 901, Salem, Utah, 84653.

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BASIC FINANCIAL STATEMENTS

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SALEM CITY CORPORATION
Statement of Net Position

As of June 30, 2017

	Governmental Activities	Business-type Activities	Memorandum Totals	
			2017	2016
ASSETS				
Cash and investments	\$ 2,783,087	\$ 3,525,907	\$ 6,308,994	\$ 4,629,489
Cash - restricted	420,972	813,942	1,234,914	2,297,392
Receivables - net	986,987	607,275	1,594,262	1,577,779
Inventories	-	142,168	142,168	103,982
Total current assets	4,191,046	5,089,292	9,280,338	8,608,642
Equity in joint venture	-	1,028,239	1,028,239	972,171
Capital assets				
Land	1,696,604	1,445,703	3,142,307	1,555,507
Buildings	4,416,335	1,609,007	6,025,342	5,172,664
Improvements	2,651,900	44,844,656	47,496,556	46,472,269
Equipment	2,795,328	811,737	3,607,065	3,190,169
Infrastructure	24,542,427	1,277,903	25,820,330	24,866,686
Water rights	-	1,076,181	1,076,181	1,076,181
Construction in progress	518,502	1,421,670	1,940,172	1,531,229
Accumulated depreciation	(18,598,948)	(11,840,416)	(30,439,364)	(28,630,396)
Pension asset	114	-	114	855
Total assets	22,213,308	46,763,972	68,977,280	64,815,977
Deferred outflow of resources - pensions	716,342	238,781	955,123	682,423
Total assets and deferred outflows	22,929,650	47,002,753	69,932,403	65,498,400

See accompanying notes to the financial statements and independent auditor's report.

SALEM CITY CORPORATION
Statement of Net Position

Continued

	Governmental Activities	Business-type Activities	Memorandum Totals	
			2017	2016
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES				
Accounts payable and accrued liabilities	1,713,919	1,685,391	3,399,310	2,329,238
Bond interest payable	29,541	86,321	115,862	120,409
Loans payable	169,422	163,975	333,397	211,265
Bonds and capital leases payable - current	235,108	143,320	378,428	307,309
Internal balances	214,116	(214,116)	-	-
Net pension liability	1,240,205	413,401	1,653,606	1,334,191
Loans payable - noncurrent	245,378	1,812,815	2,058,193	1,929,500
Bonds and capital leases payable - noncurrent	2,046,293	6,280,235	8,326,528	8,445,143
Total liabilities	5,893,982	10,371,342	16,265,324	14,677,055
Deferred inflows of resources - pensions	181,409	60,469	241,878	167,493
Deferred inflows of resources - property taxes	818,767	-	818,767	783,046
Total liabilities and deferred inflows of resources	6,894,158	10,431,811	17,325,969	15,627,594
NET POSITION				
Net investment in capital assets	15,296,406	32,246,096	47,542,502	44,308,290
Restricted for debt and capital improvements	299,541	813,942	1,113,483	2,175,961
Unrestricted	439,545	3,510,904	3,950,449	3,386,555
Total net position	\$ 16,035,492	\$ 36,570,942	\$ 52,606,434	\$ 49,870,806

SALEM CITY CORPORATION
Statement of Activities

For the Year Ended June 30, 2017

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Memorandum Totals	
							2017	2016
Governmental activities:								
General government	\$ 626,247	\$ 840,064	\$ 16,007	\$ -	\$ 229,824	\$ -	\$ 229,824	\$ 482,080
Public safety	1,215,840	239,005	14,683	340,232	(621,920)	-	(621,920)	(846,622)
Highways and public works	1,080,527	-	395,117	730,294	44,884	-	44,884	428,585
Parks and recreation	2,019,223	425,474	19,961	526,423	(1,047,365)	-	(1,047,365)	(406,983)
Interest on long-term debt	84,548	-	-	-	(84,548)	-	(84,548)	(92,042)
Total governmental activities	5,026,385	1,504,543	445,768	1,596,949	(1,479,125)	-	(1,479,125)	(434,982)
Business-type activities:								
Water Utility	940,213	923,416	-	376,126	-	359,329	359,329	821,172
Sewer Utility	788,577	580,507	-	901,618	-	693,548	693,548	597,574
Electric Utility	4,214,241	4,384,098	-	212,830	-	382,687	382,687	233,411
Pressurized Irrigation	907,209	889,808	-	338,209	-	320,808	320,808	267,583
Waste Utility	500,443	645,105	-	-	-	144,662	144,662	203,002
Storm Water Utility	197,633	-	-	217,059	-	19,426	19,426	204,882
Total business-type activities	\$ 7,548,316	\$ 7,422,934	\$ -	\$ 2,045,842	\$ -	\$ 1,920,460	\$ 1,920,460	\$ 2,327,624
General Revenues:								
Property taxes					800,713	-	800,713	766,502
General sales and use tax					1,082,421	-	1,082,421	941,756
Franchise tax					350,819	-	350,819	331,405
Unrestricted investment earnings					44,165	9,939	54,104	23,833
Sale of capital assets					6,236	-	6,236	8,800
Transfers					462,036	(462,036)	-	-
Total general revenues and transfers					2,746,390	(452,097)	2,294,293	2,072,296
Change in net position					1,267,265	1,468,363	2,735,628	3,964,938
Net position - beginning					14,768,227	35,102,579	49,870,806	45,905,868
Net position - ending					\$ 16,035,492	\$ 36,570,942	\$ 52,606,434	\$ 49,870,806

See accompanying notes to the financial statements and independent auditor's report.

SALEM CITY CORPORATION
Balance Sheet
Governmental Funds

As of June 30, 2017

	General	Capital Projects Fund	Non-major Governmental Funds	Memorandum Totals	
				2017	2016
ASSETS					
Cash and investments	\$ 2,738,959	\$ 40,992	\$ 3,136	\$ 2,783,087	\$ 2,333,973
Restricted cash	365,663	-	55,309	420,972	1,631,167
Receivables (net):					
Property tax	829,406	-	-	829,406	793,359
Other, net	157,581	-	-	157,581	114,106
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 4,091,609</u>	<u>\$ 40,992</u>	<u>\$ 58,445</u>	<u>\$ 4,191,046</u>	<u>\$ 4,872,605</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,594,347	\$ -	\$ -	\$ 1,594,347	\$ 1,407,740
Due to other funds	-	-	-	-	-
Total liabilities	<u>1,594,347</u>	<u>-</u>	<u>-</u>	<u>1,594,347</u>	<u>1,407,740</u>
Deferred inflows of resources	<u>818,767</u>	<u>-</u>	<u>-</u>	<u>818,767</u>	<u>783,046</u>
Total liabilities and deferred inflows of resources	<u>2,413,114</u>	<u>-</u>	<u>-</u>	<u>2,413,114</u>	<u>2,190,786</u>

SALEM CITY CORPORATION
Balance Sheet
Governmental Funds

Continued

	<u>General</u>	<u>Capital Projects Fund</u>	<u>Non-major Governmental Funds</u>	<u>Memorandum Totals</u>	
				2017	2016
Fund balance:					
Restricted for:					
Roads and recreational activities	244,232	-	-	244,232	1,456,914
Perpetual Care Fund	-	-	55,309	55,309	52,822
Committed for:					
Road Projects	-	-	-	-	-
Assigned for:					
Library	1,000	-	-	1,000	1,000
Capital Projects	267,171	40,992	-	308,163	508,177
Municipal building authority	-	-	3,136	3,136	3,136
Unassigned for:					
General Fund	1,166,092	-	-	1,166,092	659,770
Special Revenue Funds	-	-	-	-	-
Total fund balances	<u>1,678,495</u>	<u>40,992</u>	<u>58,445</u>	<u>1,777,932</u>	<u>2,681,819</u>
Total liabilities, deferred inflow of Resources and fund balances	<u>\$ 4,091,609</u>	<u>\$ 40,992</u>	<u>\$ 58,445</u>	<u>\$ 4,191,046</u>	<u>\$ 4,872,605</u>

See accompanying notes to the financial statements and independent auditor's report.

SALEM CITY CORPORATION
Reconciliation of the Balance Sheet to the Statement of Net Position
Governmental Funds

As of June 30, 2017

Total fund balances for governmental funds	\$ 1,777,932
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Consolidation of Internal Service Funds	(214,116)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,022,148
Pension related assets, liabilities, deferred inflows and deferred outflows are not payable in the current period, so are not reported in the funds.	(705,158)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,845,314)</u>
Net position of governmental activities	<u>\$ 16,035,492</u>

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

For the Year Ended June 30, 2017

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals	
				2017	2016
Revenues:					
Taxes	\$ 2,233,953	\$ -	\$ -	\$ 2,233,953	\$ 2,039,663
Licenses and permits	610,672	-	-	610,672	600,424
Intergovernmental	504,186	-	66,067	570,253	429,279
Charges for services	1,544,422	-	-	1,544,422	1,546,531
Investment earnings	43,541	-	624	44,165	21,075
Fines and forfeitures	30,954	-	-	30,954	39,944
Miscellaneous revenues	60,665	-	-	60,665	93,546
Total revenues	<u>5,028,393</u>	<u>-</u>	<u>66,691</u>	<u>5,095,084</u>	<u>4,770,462</u>
Expenditures:					
Current:					
General government	509,707	-	-	509,707	456,282
Public safety	1,906,712	-	-	1,906,712	1,466,551
Highways and public works	773,999	-	-	773,999	986,966
Parks and recreation	2,999,016	-	-	2,999,016	1,324,534
Capital outlay	-	-	-	-	-
Debt service:					
Principal Retirement	139,000	-	51,000	190,000	184,000
Interest and fiscal charges	74,605	-	13,204	87,809	95,196
Total expenditures	<u>6,403,039</u>	<u>-</u>	<u>64,204</u>	<u>6,467,243</u>	<u>4,513,529</u>
Excess (deficiency) of revenues over expenditures	<u>(1,374,646)</u>	<u>-</u>	<u>2,487</u>	<u>(1,372,159)</u>	<u>256,933</u>

See accompanying notes to the financial statements and independent auditor's report.

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

Continued

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals	
				2017	2016
Other financing sources (uses):					
Transfers in	462,036	-	-	462,036	443,036
Transfers out	-	-	-	-	-
Sale of assets	6,236	-	-	6,236	8,800
Total other financing sources (uses)	468,272	-	-	468,272	451,836
Net change in fund balance	(906,374)	-	2,487	(903,887)	708,769
Fund balances - beginning of year	2,584,869	40,992	55,958	2,681,819	1,973,050
Fund balances - end of year	<u>\$ 1,678,495</u>	<u>\$ 40,992</u>	<u>\$ 58,445</u>	<u>\$ 1,777,932</u>	<u>\$ 2,681,819</u>

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, 2017

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

Net change in fund balances-total governmental funds	\$ (903,887)
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 capital outlay exceeded depreciation in the current period.	1,521,674
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position	565,316
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	224,831
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.	(44,169)
Pension (expense) benefit	(99,761)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>3,261</u>
Change in net position of governmental activities	<u><u>\$ 1,267,265</u></u>

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

For the Year Ended June 30, 2017

	Budget Amounts		General Fund	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
Revenues:				
Taxes	\$2,085,477	\$2,148,000	\$2,233,953	\$ 85,953
Licenses and permits	335,052	425,052	610,672	185,620
Intergovernmental	606,453	688,291	504,186	(184,105)
Charges for services	2,275,118	2,619,593	1,544,422	(1,075,171)
Fines and forfeitures	44,280	38,000	30,954	(7,046)
Miscellaneous revenues	42,800	116,166	104,206	(11,960)
Total revenues	<u>5,389,180</u>	<u>6,035,102</u>	<u>5,028,393</u>	<u>(1,006,709)</u>
Expenditures:				
Current:				
General government	1,735,866	1,876,838	509,707	1,367,131
Public safety	1,734,836	2,177,325	1,906,712	270,613
Highways and public works	814,978	881,002	773,999	107,003
Parks and recreation	1,662,650	3,108,777	2,999,016	109,761
Debt Service	215,606	215,606	213,605	2,001
Total expenditures	<u>6,163,936</u>	<u>8,259,548</u>	<u>6,403,039</u>	<u>1,856,509</u>
Excess of expenditures over revenues	<u>(774,756)</u>	<u>(2,224,446)</u>	<u>(1,374,646)</u>	<u>849,800</u>
Other financing sources (uses):				
Sale of Assets	2,000	3,000	6,236	3,236
Transfers in	455,500	455,500	462,036	6,536
Transfers out	-	-	-	-
Net change in fund balance	(317,256)	(1,765,946)	(906,374)	859,572
Fund balance - beginning	<u>2,584,869</u>	<u>2,584,869</u>	<u>2,584,869</u>	-
Fund balance - ending	<u>\$2,267,613</u>	<u>\$ 818,923</u>	<u>\$1,678,495</u>	<u>\$ 859,572</u>

SALEM CITY CORPORATION
Statement of Net Position
Proprietary Funds

As of June 30, 2017

	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 investments	\$ 734,220	\$ 1,258,629	\$ 676,436	\$ 687,391	\$ 169,231	\$ 3,525,907	\$ -
Accounts receivable, net	78,101	57,421	340,967	69,861	60,925	607,275	-
Inventories	2,332	-	139,836	-	-	142,168	-
Due from other funds	262,267	-	-	-	-	262,267	-
Total current assets	<u>1,076,920</u>	<u>1,316,050</u>	<u>1,157,239</u>	<u>757,252</u>	<u>230,156</u>	<u>4,537,617</u>	<u>-</u>
Noncurrent assets							
Restricted cash and cash equivalents	-	292,044	-	521,898	-	813,942	-
Land, equipment, buildings, and improvements	12,007,287	12,429,407	10,849,625	14,265,506	1,858,851	51,410,676	1,663,376
Less accumulated depreciation	(3,575,780)	(3,751,039)	(2,468,103)	(1,822,864)	(222,630)	(11,840,416)	(1,188,123)
Water rights and stock	747,339	-	-	328,842	-	1,076,181	-
Equity in joint venture	-	847,393	-	-	180,846	1,028,239	-
Total noncurrent assets	<u>9,178,846</u>	<u>9,817,805</u>	<u>8,381,522</u>	<u>13,293,382</u>	<u>1,817,067</u>	<u>42,488,622</u>	<u>475,253</u>
Total assets	<u>10,255,766</u>	<u>11,133,855</u>	<u>9,538,761</u>	<u>14,050,634</u>	<u>2,047,223</u>	<u>47,026,239</u>	<u>475,253</u>
Deferred outflow of resources - pensions	28,654	38,205	143,268	28,654	-	238,781	-
Total assets and deferred outflows	<u>10,284,420</u>	<u>11,172,060</u>	<u>9,682,029</u>	<u>14,079,288</u>	<u>2,047,223</u>	<u>47,265,020</u>	<u>475,253</u>

See accompanying notes to the financial statements and independent auditor's report.

SALEM CITY CORPORATION
Statement of Net Position
Proprietary Funds

Continued

LIABILITIES

Current liabilities:

Accounts payable	18,403	1,052,516	568,258	99,453	33,082	1,771,712	13,805
Due to other funds	-	-	-	-	-	-	262,267
Loans payable	26,765	87,435	49,775	-	-	163,975	-
Bonds and capital leases	-	-	49,320	94,000	-	143,320	37,108
Total current liabilities	45,168	1,139,951	667,353	193,453	33,082	2,079,007	313,180

Noncurrent liabilities:

Net pension liability	49,608	66,144	248,041	49,608	-	413,401	-
Loans payable	356,385	859,353	597,077	-	-	1,812,815	-
Bonds and capital leases	-	-	210,493	6,069,742	-	6,280,235	116,293
Total long-term liabilities	405,993	925,497	1,055,611	6,119,350	-	8,506,451	116,293

Total liabilities

451,161	2,065,448	1,722,964	6,312,803	33,082	10,585,458	429,473
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Deferred inflows of resources - pensions

7,256	9,675	36,282	7,256	-	60,469	-
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Total liabilities and deferred inflows of resources

458,417	2,075,123	1,759,246	6,320,059	33,082	10,645,927	429,473
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NET POSITION

Net investment in capital assets	8,795,696	7,731,580	7,474,857	6,607,742	1,636,221	32,246,096	321,852
Restricted for debt and other activities	-	292,044	-	521,898	-	813,942	-
Unrestricted	1,030,307	1,073,313	447,926	629,589	377,920	3,559,055	(276,072)
Total net position	\$ 9,826,003	\$ 9,096,937	\$ 7,922,783	\$ 7,759,229	\$ 2,014,141	\$ 36,619,093	\$ 45,780

Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund

(48,151)

Net position from business-type activities

\$ 36,570,942

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

For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Operating revenues:							
Charges for services	\$ 906,021	\$ 580,257	\$ 4,352,433	\$ 849,633	\$ 629,464	\$ 7,317,808	\$ 370,092
Fees and miscellaneous	17,395	250	31,665	40,175	15,641	105,126	650
Total operating revenues	<u>923,416</u>	<u>580,507</u>	<u>4,384,098</u>	<u>889,808</u>	<u>645,105</u>	<u>7,422,934</u>	<u>370,742</u>
Operating expenses:							
Purchased power	-	-	2,513,644	-	-	2,513,644	-
Salaries and wages	103,092	111,557	393,176	90,821	51,928	750,574	-
Employee benefits	47,504	45,350	227,837	44,146	11,584	376,421	16,277
Contractual services	66,852	64,925	65,893	95,208	431,882	724,760	195,020
Supplies and materials	102,164	70,569	400,577	60,748	46,177	680,235	62,895
Administrative services	289,968	216,384	316,056	227,040	129,828	1,179,276	-
Utilities and telephone	86,244	42,828	-	20,367	-	149,439	-
Depreciation	239,778	232,773	268,078	262,918	37,107	1,040,654	130,699
Total operating expenses	<u>935,602</u>	<u>784,386</u>	<u>4,185,261</u>	<u>801,248</u>	<u>708,506</u>	<u>7,415,003</u>	<u>404,891</u>
Operating income (loss)	<u>(12,186)</u>	<u>(203,879)</u>	<u>198,837</u>	<u>88,560</u>	<u>(63,401)</u>	<u>7,931</u>	<u>(34,149)</u>

See accompanying notes to the financial statements and independent auditor's report.

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

Continued

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Non-operating revenue (expense):							
Interest revenue	-	7,666	-	2,273	-	9,939	-
Impact fees	191,180	218,183	91,095	175,795	-	676,253	-
Increase (decrease) equity in joint venture	-	-	-	-	14,988	14,988	-
Loss on sale of asset	-	-	-	-	-	-	(1,881)
Interest expense and fiscal charges	-	-	(24,175)	(104,875)	-	(129,050)	(4,173)
Total non-operating revenue (expense)	<u>191,180</u>	<u>225,849</u>	<u>66,920</u>	<u>73,193</u>	<u>14,988</u>	<u>572,130</u>	<u>(6,054)</u>
Net income before contributions & transfers	178,994	21,970	265,757	161,753	(48,413)	580,061	(40,203)
Transfers in (out)	(42,504)	(21,504)	(306,504)	(54,504)	(37,020)	(462,036)	-
Developers contributions	<u>184,946</u>	<u>683,435</u>	<u>121,735</u>	<u>162,414</u>	<u>217,059</u>	<u>1,369,589</u>	<u>-</u>
Change in net position	321,436	683,901	80,988	269,663	131,626	1,487,614	(40,203)
Net position - beginning	<u>9,504,567</u>	<u>8,413,036</u>	<u>7,841,795</u>	<u>7,489,566</u>	<u>1,882,515</u>	<u>35,131,479</u>	<u>85,983</u>
Net position - ending	<u>\$ 9,826,003</u>	<u>\$ 9,096,937</u>	<u>\$ 7,922,783</u>	<u>\$ 7,759,229</u>	<u>\$ 2,014,141</u>	<u>\$ 36,619,093</u>	<u>\$ 45,780</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						(19,251)	
Change in net position of business-type activities						<u>\$ 1,468,363</u>	

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2017

	Business-Type Activities - Enterprise					Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation	Non-Major Enterprise Funds		
Cash Flows From Operating Activities							
Receipts from customers and users	\$ 916,989	\$ 487,880	\$ 4,407,156	\$ 893,118	\$ 654,752	\$ 7,359,895	\$ 370,742
Payments to suppliers	(338,177)	(67,383)	(3,336,352)	(231,898)	(505,736)	(4,479,546)	(212,982)
Payments to general fund for services	(289,968)	(216,384)	(316,056)	(227,040)	(129,828)	(1,179,276)	-
Payments to employees	(103,092)	(111,557)	(393,176)	(90,821)	(51,928)	(750,574)	-
Net cash provided by (used in) operating activities	<u>185,752</u>	<u>92,556</u>	<u>361,572</u>	<u>343,359</u>	<u>(32,740)</u>	<u>950,499</u>	<u>157,760</u>
Cash Flows From Noncapital Financing Activities							
Interfund Activity	(42,504)	(21,504)	(306,504)	(54,504)	(37,020)	(462,036)	-
Net cash provided (used) by noncapital financing activ.	<u>(42,504)</u>	<u>(21,504)</u>	<u>(306,504)</u>	<u>(54,504)</u>	<u>(37,020)</u>	<u>(462,036)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities							
Impact Fees	191,180	218,183	91,095	175,795	-	676,253	-
Purchase of equity in joint venture	-	(41,080)	-	-	-	(41,080)	-
Purchases of capital assets	(38,180)	(261,222)	(19,906)	-	(24,434)	(343,742)	(117,278)
Advance of loan proceeds	-	962,300	-	-	-	962,300	-
Principle paid on debt	(26,765)	(87,435)	(49,775)	(81,000)	-	(244,975)	(36,309)
Interest paid on capital debt	-	-	(24,175)	(104,875)	-	(129,050)	(4,173)
Net cash provided (used) in capital and financing act.	<u>126,235</u>	<u>790,746</u>	<u>(2,761)</u>	<u>(10,080)</u>	<u>(24,434)</u>	<u>879,706</u>	<u>(157,760)</u>
Cash Flows From Investing Activities							
Interest and dividends received	-	7,666	-	2,273	-	9,939	-
Net cash provided by investing activities	<u>-</u>	<u>7,666</u>	<u>-</u>	<u>2,273</u>	<u>-</u>	<u>9,939</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	269,483	869,464	52,307	281,048	(94,194)	1,378,108	-
Cash and equivalents at beginning of year	464,737	681,209	624,129	928,241	263,425	2,961,741	-
Cash and equivalents at end of year	<u>\$ 734,220</u>	<u>\$ 1,550,673</u>	<u>\$ 676,436</u>	<u>\$ 1,209,289</u>	<u>\$ 169,231</u>	<u>\$ 4,339,849</u>	<u>\$ -</u>
Shown in the Statement of Net Position as:							
Cash and cash equivalents	\$ 734,220	\$ 1,258,629	\$ 676,436	\$ 687,391	\$ 169,231	\$ 3,525,907	\$ -
Restricted cash equivalents at end of year	-	292,044	-	521,898	-	813,942	-
	<u>\$ 734,220</u>	<u>\$ 1,550,673</u>	<u>\$ 676,436</u>	<u>\$ 1,209,289</u>	<u>\$ 169,231</u>	<u>\$ 4,339,849</u>	<u>\$ -</u>

See accompanying notes to the financial statements and independent auditor's report.

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

Continued

	Business-Type Activities - Enterprise					Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation	Non-Major Enterprise Funds		
Reconciliation of operating income to net cash provided by operating activities:							
Operating income (loss)	\$ (12,186)	\$ (203,879)	\$ 198,837	\$ 88,560	\$ (63,401)	\$ 7,931	\$ (34,149)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	239,778	232,773	268,078	262,918	37,107	1,040,654	130,699
(Increase) decrease in accounts receivable	6,427	92,627	(23,058)	(3,310)	(9,647)	63,039	-
(Increase) decrease in inventory	7,055	-	(45,241)	-	-	(38,186)	-
(Increase) decrease in due from other funds	(63,420)	-	-	-	-	(63,420)	-
(Increase) decrease in deferred outflow	(8,181)	2,740	(47,729)	(8,181)	-	(61,351)	-
Increase (decrease) in accounts payable	4,466	(17,423)	(63,402)	(8,441)	3,201	(81,599)	(2,210)
Increase (decrease) in pension liability	9,582	(13,907)	61,254	9,582	-	66,511	-
Increase (decrease) in deferred inflow	2,231	(375)	12,833	2,231	-	16,920	-
Increase (decrease) in due to other funds	-	-	-	-	-	-	63,420
Total adjustments	197,938	296,435	162,735	254,799	30,661	942,568	191,909
Net cash provided by (used in) operating activities:	\$ 185,752	\$ 92,556	\$ 361,572	\$ 343,359	\$ (32,740)	\$ 950,499	\$ 157,760
Supplementary information							
Non-cash items from capital and related financing activities include contributions by developers	\$ 184,946	\$ 683,435	\$ 121,735	\$ 162,414	\$ 217,059	\$ 1,369,589	\$ -
Non-cash purchase of assets through debt	\$ -	\$ -	\$ 259,813	\$ -	\$ -	\$ 259,813	\$ -

NOTES TO THE FINANCIAL STATEMENTS

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SALEM CITY CORPORATION
Notes to the Financial Statements

For the Year Ended June 30, 2017

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.

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 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*

Government-wide and fund financial statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. Most of 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.

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 yearend. Expenditures are recorded when the related fund liability is incurred, except for non-matured 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Measurement Focus, Basis of Accounting, and Presentation – *Continued*

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.

The government reports the following major governmental funds:

- *General Fund* – 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.
- *Capital Projects Fund* – The Capital Projects Fund is used to account for the construction of community projects.

The government reports the following major proprietary funds:

- *Water Fund* – The Water Fund accounts for the activities of the City's water operations.
- *Sewer Fund* – The Sewer Fund accounts for the activities of the City's sewer operations.
- *Electric Fund* – The Electric Fund accounts for the activities in the City's electric operations.
- *Pressurized Irrigation Fund* – 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 statements.

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* – This fund accounts for the activities of the Municipal Building Authority.
 - *Redevelopment Agency* accounts for the activities of the Redevelopment Agency.
- *Permanent Funds:*
 - *Perpetual Care* – This fund accounts for the perpetual care of the cemetery.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Measurement Focus, Basis of Accounting, and Presentation – *Continued*

- *Internal Service Funds:*
 - *Motor Pool Fund* – This fund accounts for the activities of the City motor pool.
 - *Data Processing Fund* – This fund accounts for the activities of the data processing services.
- *Proprietary Funds:*
 - *Waste Utility* – This fund accounts for the activities of waste removal.
 - *Storm Water Utility* – This fund accounts for the activities of storm water collection.

Assets, Liabilities, and Net Position or Equity

Cash & Cash Equivalents 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 are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

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".

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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Assets, Liabilities, and Net Position or Equity – *Continued*

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

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.

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Assets, Liabilities, and Net Position or Equity – *Continued*

Compensated Absences

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

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 1. Taxes are levied on all business personal property on January 1 and real estate and improvement taxes are levied on January 1 and are payable by November 30. 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 22 each year. The County Treasurer, acting as tax collector, must settle and disburse all tax collections to all taxing entities on a routine basis.

Long-term Obligations

In the government-wide financial statements and proprietary 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Assets, Liabilities, and Net Position or Equity – *Continued*

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.

Deferred Outflows/Inflows of Resources

In addition to assets, financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period or periods and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The deferred outflows of resources related to pensions includes 1) net difference between projected and actual earnings on pension plan investments, 2) changes in proportion and differences between contributions and proportionate share of contributions, and 3) City contributions subsequent to the measurement date of December 31, 2015.

In addition to liabilities, the financial statements will sometimes 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 or periods and therefore will not be recognized as an inflow of resources (revenue) until then.

Pensions

For purposes of measuring the net pension liability/(asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Utah Retirement Systems Pension Plan (URS) and additions to/deductions from URS's fiduciary net position have been determined on the same basis as they are reported by URS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension plan investments are reported at fair value.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 total fund balance of governmental funds and total net position of 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 Sheet.

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	\$36,621,096
Accumulated depreciation	(18,598,948)
	<hr/>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities)	<u>\$18,022,148</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	\$2,696,201
Bond interest payable	29,541
Other long-term payables	119,572
	<hr/>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$2,845,314</u>

Pension transactions

Pension accounts 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.

Pension asset	\$114
Deferred outflow of resources	716,342
Pension liability	(1,240,205)
Deferred inflow of resources	(181,409)
	<hr/>
Net adjustment to reduce fund balances	<u>\$(705,158)</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

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	\$2,559,075
Depreciation expense	<u>(1,037,401)</u>
Net capital outlay	1,521,674
Capital contribution by developers	730,294
Loss on disposal of assets	<u>(164,978)</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>\$2,086,990</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	\$226,309
Compensated absence change	<u>(1,478)</u>
	224,831
Accrued interest change	<u>3,261</u>
Total change in long-term debt	<u>\$ 228,092</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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 22, a final balanced budget must be adopted through passage of a resolution for the subsequent fiscal year beginning July 1.
- 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 re-appropriation. 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.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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, the “Act”) 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, 2017, \$132,703 of the local government’s bank balances of \$408,882 was uninsured and uncollateralized.

Investments

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state, and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The City follows the requirements of the Utah Money Management Act (*Utah Code*, Title 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of City funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act defines the types of securities authorized as appropriate investments for the City’s funds and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

SALEM CITY CORPORATION

Notes to the Financial Statements

Continued

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

Statutes authorize the City to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as “first tier” by two nationally recognized statistical rating organizations; bankers’ acceptances; obligations of the United States Treasury including bills, notes, and bonds; obligations, other than mortgage derivative products, issued by U.S. government sponsored enterprises (U.S. Agencies) such as the Federal Home Loan Bank System, Federal Home Loan Mortgage Corporation (Freddie Mac), and Federal National Mortgage Association (Fannie Mae); bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated “A” or higher, or the equivalent of “A” or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers’ Investment Fund.

The Utah State Treasurer’s Office operates the Public Treasurers’ Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer and is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act (*Utah Code*, Title 51, Chapter 7). The Act established the Money Management Council which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses of the PTIF, net of administration fees, are allocated based upon the participant’s average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

Fair Value of Investments

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

At June 30, 2017 the City had the following recurring fair value measurements.

<u>Investments by fair value level</u>	<u>6/30/2017</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Debt Securities				
Utah Public Treasurers' Investment Fund	\$7,296,919	\$ -	\$7,296,919	\$ -
Total investments measured at fair value	<u>\$7,296,919</u>	<u>\$ -</u>	<u>\$7,296,919</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities. Debt and equity securities classified in Level 2 are valued using the following approaches:

- Utah Public Treasurers' Investment Fund: application of the June 30, 2017 fair value factor, as calculated by the Utah State Treasurer, to the District's average daily balance in the Fund;

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Money Management Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270 days - 15 months or less. The Act further limits the remaining term to maturity on all investments in obligations of the United States Treasury; obligations issued by U.S. government sponsored enterprises; and bonds, notes, and other evidence of indebtedness of political subdivisions of the State to 5 years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 3 years.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

As of June 30, 2017, the District’s investments had the following maturities:

Investment Type	Fair Value	Investment Maturities (in years)		
		Less than 1	1-5	6-10
Debt Securities				
Utah Public Treasurers'				
Investment Fund	\$7,296,919	\$7,296,919	\$ -	\$ -
Total investments				
measured at fair value	\$7,296,919	\$7,296,919	\$ -	\$ -

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City’s policy for reducing its exposure to credit risk is to comply with the State’s Money Management Act, as previously discussed.

For the year ended June 30, 2017, the City had investments of \$7,296,919 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government’s investment in a single issuer. The City policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10 percent depending upon the total dollar amount held in the portfolio.

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 a formal policy for custodial credit risk.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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, were as follows:

Receivables by fund		General	
Accounts		\$ 66,067	
Property Tax		829,406	
Intergovernmental		95,672	
Allowance		(4,158)	
			\$ 986,987
		Water	
Accounts		\$ 82,841	
Allowance		(4,740)	
			78,101
		Sewer	
Accounts		\$ 61,134	
Allowance		(3,713)	
			57,421
		Electric	
Accounts		\$ 361,973	
Allowance		(21,006)	
			340,967
		Pressurized Irrigation	
Accounts		\$ 73,184	
Allowance		(3,323)	
			69,861
		Nonmajor Utility Solid Waste	
Accounts		\$ 47,767	
Allowance		(2,017)	
			45,750
		Nonmajor Utility Storm Water	
Accounts		\$ 15,175	
Allowance		-	
			15,175
			\$ 1,594,262

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

6. INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2017 was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Internal Service Fund	\$262,267

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

Interfund Transfers:

	<u>General</u>	<u>Total</u>
Transfer in:		
General	\$ -	\$ -
Capital	-	-
Nonmajor Govtl.	-	-
Business Type	462,036	462,036
Motor Pool	-	-
	<u> </u>	<u> </u>
Total Transfer In	<u>\$ 462,036</u>	<u>\$ 462,036</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	\$ 516,804	\$1,179,800	\$ -	\$ 1,696,604
Construction in progress	357,670	160,832	-	518,502
Total capital assets not being depreciated	874,474	1,340,632	-	2,215,106
Capital assets being depreciated:				
Buildings	3,563,657	1,074,768	222,090	4,416,335
Improvements	2,634,542	17,358	-	2,651,900
Machinery and equipment	2,586,636	317,767	109,075	2,795,328
Infrastructure	23,588,783	953,644	-	24,542,427
Total capital assets being depreciated	32,373,618	2,363,537	331,165	34,405,990
Less accumulated depreciation	(17,727,734)	(1,037,401)	(166,187)	(18,598,948)
Total capital assets, being depreciated, net	14,645,884	1,326,136	164,978	15,807,042
Governmental activities capital assets, net	\$15,520,358	\$2,666,768	\$ 164,978	\$18,022,148

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS – *Continued*

Business-type activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,038,703	\$ 407,000	\$ -	\$ 1,445,703
Construction in progress	1,173,559	248,111	-	1,421,670
Water rights and stock	1,076,181	-	-	1,076,181
Total capital assets not being depreciated	<u>3,288,443</u>	<u>655,111</u>	<u>-</u>	<u>3,943,554</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	43,837,727	1,006,929	-	44,844,656
Machinery and equipment	603,533	311,104	102,900	811,737
Infrastructure	1,277,903	-	-	1,277,903
Total capital assets being depreciated	<u>47,328,170</u>	<u>1,318,033</u>	<u>102,900</u>	<u>48,543,303</u>
Less accumulated depreciation	<u>(10,902,662)</u>	<u>(1,040,654)</u>	<u>(102,900)</u>	<u>(11,840,416)</u>
Total capital assets, being depreciated, net	<u>36,425,508</u>	<u>277,379</u>	<u>-</u>	<u>36,702,887</u>
Business-type activities capital assets, net	<u><u>\$39,713,951</u></u>	<u><u>\$ 932,490</u></u>	<u><u>\$ -</u></u>	<u><u>\$40,646,441</u></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	\$65,024
Public safety	121,746
Highway and public works	751,707
Parks and recreation	98,924
Total depreciation	<u><u>\$1,037,401</u></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 percent. Balance due at June 30, 2017 was \$153,401.

The City during the fiscal year 2017 executed a new lease for a power pole truck in the amount of \$259,813 payable in annual installments until March 2022 with an interest rate of 2.61 percent. Balance due at June 30, 2017 was \$259,813.

The assets acquired through capital leases are as follows:

Asset:	Governmental Activities
Machinery & Equipment	\$608,413
Accumulated Amortization	<u>\$ (178,677)</u>
Total	<u><u>\$429,736</u></u>

Amortization of capital assets purchased under capital leases is included in depreciation. Current year depreciation was \$78,162.

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, 2017:

<u>Fiscal Year</u>	<u>Governmental Amount</u>	<u>Business-type Amount</u>	<u>Total Amount</u>
2018	\$ 40,482	\$ 56,101	\$ 96,583
2019	40,482	56,101	96,583
2020	40,482	56,101	96,583
2021	40,482	56,101	96,583
2022	-	56,101	56,101
Total Minimum lease payments	161,928	280,505	442,433
Less amounts representing interest	(8,527)	(20,692)	(29,219)
Present value of minimum lease payments	<u>\$ 153,401</u>	<u>\$ 259,813</u>	<u>\$ 413,214</u>

At June 30, 2017 the City's capital leases payable balance consisted of the following:

	<u>Capital Leases Payable Governmental</u>	<u>Capital Leases Payable Business-type</u>	<u>Capital Leases Payable All Fund Types</u>
Capital Leases Payable	\$ 153,401	\$ 259,813	\$ 413,214
Current Portion Capital Lease Payable	(37,108)	(49,320)	(86,428)
Long Term Capital Leases Payable	<u>\$ 116,293</u>	<u>\$ 210,493</u>	<u>\$ 326,786</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT

Bonds and notes payable at June 30, 2017, were comprised of the following:

Revenue Bonds

Description	Amount
<i>Secondary Water Revenue Bond</i> – 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 percent	\$ 6,163,742
<i>Excise Tax Revenue Bond</i> – 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 percent	2,128,000
Total	<u><u>\$ 8,291,742</u></u>

Fiscal Year	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2018	\$ 198,000	\$ 80,146	\$ 94,000	\$ 103,585
2019	204,000	72,206	108,000	101,809
2020	211,000	64,010	178,000	99,080
2021	219,000	55,517	194,000	95,850
2022	164,000	47,953	211,000	92,335
2023-2027	924,000	135,286	1,346,000	397,787
2028-2032	208,000	4,108	1,944,000	256,525
2033-2037	-	-	2,088,742	65,725
Total	<u><u>\$ 2,128,000</u></u>	<u><u>\$ 459,226</u></u>	<u><u>\$ 6,163,742</u></u>	<u><u>\$ 1,212,696</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

Notes Payable – Business Type Activities

Description	Amount
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.	\$ 646,852
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.	383,150
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.	692,182
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.	254,606
During 2017, the City purchased land for \$449,800 and carried a note for \$49,800 to be paid by July 15, 2017.	498,000
During 2017, the City purchased land from Nebo School District for \$365,000 with 1.7 percent interest to be paid in three annual installments.	365,000
Total	<u><u>\$2,839,790</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

Fiscal Year	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2018	\$ 169,422	\$ 6,205	\$ 163,975	\$ -
2019	121,655	4,171	163,975	-
2020	123,723	2,103	163,975	-
2021	-	-	163,975	-
2022	-	-	163,975	-
2023-2027	-	-	819,875	-
2028-2032	-	-	337,040	-
Total	<u>\$ 414,800</u>	<u>\$ 12,479</u>	<u>\$ 1,976,790</u>	<u>\$ -</u>

The future annual requirements for all outstanding bond and note obligations as of June 30, 2017 were as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2018	\$ 625,397	\$ 189,936	\$ 815,333
2019	597,630	178,186	775,816
2020	676,698	165,193	841,891
2021	576,975	151,367	728,342
2022	538,975	140,288	679,263
2023-2028	3,089,875	533,073	3,622,948
2028-2032	2,489,040	260,633	2,749,673
2033-2037	2,088,742	65,725	2,154,467
Total	<u>\$ 10,683,332</u>	<u>\$ 1,684,401</u>	<u>\$ 12,367,733</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

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

	July 1, 2016	Additions	Reductions	June 30, 2017	Due in One Year
Governmental Activities					
Bonds Payable:					
Excise tax bonds	\$2,318,000	\$ -	\$ 190,000	\$2,128,000	\$ 198,000
Capital Leases	189,710	-	36,309	153,401	37,108
Notes Payable	-	414,800	-	414,800	169,422
Compensated absences	118,094	1,478	-	119,572	-
Governmental Activities Long-Term Debt	<u>\$2,625,804</u>	<u>\$ 416,278</u>	<u>\$ 226,309</u>	<u>\$2,815,773</u>	<u>\$ 404,530</u>
Business Type Activities					
Bonds Payable:					
Revenue Bonds	\$6,244,742	\$ -	\$ 81,000	\$6,163,742	\$ 94,000
Capital Leases	-	259,813	-	259,813	49,320
Notes Payable	2,140,765	-	163,975	1,976,790	163,975
Business-type Activities Long-Term Debt	<u>\$8,385,507</u>	<u>\$ 259,813</u>	<u>\$ 244,975</u>	<u>\$8,400,345</u>	<u>\$ 307,295</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS

Plan description – eligible plan participants are provided with pensions through the Utah Retirement Systems. The Utah Retirement Systems are comprised of the following pension trust funds:

Defined Benefit Plans

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employees, retirement system.
- The Public Safety Retirement System (Public Safety System) is a mixed agent and cost-sharing, multiple-employer public retirement system;
- Tier 2 Public Employees Contributory Retirement System (Tier 2 Public Employees System) and the Tier 2 Public Safety and Firefighter Contributory Retirement System (Tier 2 Public Safety and Firefighters System); are multiple employer, cost sharing, public employee retirement systems.

The Tier 2 Public Employees System became effective July 1, 2011. All eligible employees beginning on or after July 1, 2011, who have no previous service credit with any of the Utah Retirement Systems, are members of the Tier 2 Retirement System.

The Utah Retirement Systems (URS or Systems) are established and governed by the respective sections of Chapter 49 of the *Utah Code Annotated* 1953, as amended. The Systems' defined benefit plans are amended statutorily by the State Legislature. The Utah State Retirement Office Act in Title 49 provides for the administration of the Systems under the direction of the Board, whose members are appointed by the Governor. The Systems are fiduciary funds defined as pension (and other employee benefit) trust funds. URS is a component unit of the State of Utah. Title 49 of the Utah Code grants the authority to establish and amend the benefit terms.

The Systems issue a publicly available financial report that can be obtained by writing to the Utah Retirement Systems, 560 East 200 South, Salt Lake City, UT 84102 or by visiting the website: www.urs.org.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – Continued

Benefits provided – URS provides retirement, disability, and death benefits. Retirement benefits are as follows:

System	Final Average Salary	Years of service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Public Safety System	Highest 3 years	20 years any age 10 years age 60 4 years age 65	2.5% per year up to 20 years; 2.00% per year over 20 years	Up to 2.5% to 4% depending on employer
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%
Tier 2 Public Safety and Firefighter	Highest 5 years	25 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%

*with actuarial reductions

**all post-retirement cost-of-living adjustments are non-compounding and are based on the original benefit except for Judges, which is a compounding benefit. The cost-of-living adjustments are also limited to the actual Consumer Price Index (CPI) increase for the year, although unused CPI increases not met may be carried forward to subsequent years.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Contributions – As a condition of participation in the Systems, employers and/or employees are required to contribute certain percentages of salary and wages as authorized by statute and specified by the URS Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of June 30, 2017 are as follows:

Utah Retirement Systems	Employee	Employer	Employer 401(k)
Contributory System			
111- Local Governmental Division Tier 2	N/A	14.91%	1.78%
Noncontributory System			
15- Local Governmental Division Tier 1	N/A	18.47%	N/A
Public Safety Retirement System			
Contributory			
122 - Other Division A Contributory Tier 2	N/A	23.66%	1.33%
Noncontributory			
75 - Other Division A Noncontributory Tier 1	N/A	35.71%	N/A
Public Safety Retirement System			
211- Local Government	N/A	6.69%	10.00%
222- Public Safety	N/A	12.99%	12.00%

Tier 2 rates include a statutory required contribution to finance the unfunded actuarial accrued liability of the Tier 1 plans.

For fiscal year ended June 30, 2017, the employer and employee contributions to the Systems were as follows:

System	Contributions	Contributions
Noncontributory System	\$ 272,455	N/A
Public Safety System	152,244	-
Tier 2 Public Employees System	26,679	-
Tier 2 Public Safety and Firefighter System	12,344	-
Total Contributions	\$ 463,722	\$ -

Contributions reported are the URS Board approved required contributions by System. Contributions in the Tier 2 Systems are used to finance the unfunded liabilities in the Tier 1 Systems

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Pension Assets, Liabilities, Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, we reported a net pension asset of \$114 and a net pension liability of \$1,653,606.

	(Measurement Date): December 31, 2016				
	Net Pension Asset	Net Pension Liability	Proportionate Share	Proportionate Share 12/31/2015	Change (Decrease)
Noncontributory System	\$ -	\$ 1,028,933	0.1602394%	0.1518143%	0.0084251%
Public Safety System	-	622,679	0.3068477%	0.2652626%	0.0415851%
Tier 2 Public Employees System	-	1,994	0.0178777%	0.0162981%	0.0015796%
Tier 2 Public Safety and Firefighter System	114	-	0.0131367%	0.0560458%	-0.0429091%
Total Net Pension Asset/Liability	\$ 114	\$ 1,653,606			

The net pension asset and liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2016 and rolled forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

For the year ended June 30, 2017, we recognized pension expense of \$586,555. At June 30, 2017, we reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual experience	\$ 22,434	\$ 80,192
Changes in assumptions	248,389	55,392
Net difference between projected and actual earnings on pension plan investments	360,542	106,294
Changes in proportion and differences between contributions and proportionate share of contributions	91,278	-
Contributions subsequent to the measurement date	<u>232,480</u>	<u>-</u>
Total	<u><u>\$ 955,123</u></u>	<u><u>\$ 241,878</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

\$232,480 was reported as deferred outflows of resources related to pensions results from contributions made by us prior to our fiscal year end, but subsequent to the measurement date of December 31, 2016.

These contributions will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31,	Net Deferred Outflows (Inflows) of Resources
2017	\$ 145,812
2018	161,392
2019	178,774
2020	(7,250)
2021	161
Thereafter	1,877

Actuarial assumptions – The total pension liability in the December 31, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation		2.60%
Salary increases		3.35-10.35%
Investment rate of return	7.20% net of pension plan investment expense, including inflation	

Mortality rates were developed from actual experience and mortality tables, based on gender, occupation and age, as appropriate, with adjustments for future improvement in mortality based on Scale AA, a model developed by the Society of Actuaries.

The actuarial assumptions used in the January 1, 2016, valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class and is applied consistently to each defined benefit pension plan. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Asset class	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40%	7.06%	2.82%
Debt securities	20%	0.80%	0.16%
Real assets	13%	5.10%	0.66%
Private equity	9%	11.30%	1.02%
Absolute return	18%	3.15%	0.57%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		5.23%
	Inflation		2.60%
	Expected arithmetic nominal return		7.83%

The 7.20 percent assumed investment rate of return is comprised of an inflation rate of 2.60 percent, a real return of 4.60 percent that is net of investment expense.

Discount rate – The discount rate used to measure the total pension liability was 7.20 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate was reduced to 7.20 percent from 7.50 percent from the prior measurement period.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Sensitivity of the proportionate share of the net pension asset and liability to changes in the discount rate – The following presents the proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6.20 percent) or one-percentage-point higher (8.20 percent) than the current rate:

System	1% Decrease (6.20%)	Discount Rate (7.20%)	1% Increase (8.20%)
Noncontributory System	\$ 2,131,269	\$ 1,028,933	\$ 109,094
Public Safety System	1,295,031	622,679	76,148
Tier 2 Public Employees System	13,574	1,994	(6,815)
Tier 2 Public Safety and Firefighter System	798	(114)	(815)
Total	<u>\$ 3,440,672</u>	<u>\$ 1,653,492</u>	<u>\$ 177,612</u>

Defined Contribution Savings Plans

The Defined Contribution Savings Plans are administered by the Utah Retirement Systems Board and are generally supplemental plans to the basic retirement benefits for the Retirement Systems, but may also be used as a primary retirement plan. These plans are voluntary tax-advantaged retirement savings programs authorized under sections 401(k), 457(b) and 408 of the Internal Revenue code. Detailed information regarding plan provisions is available in the separately issued URS financial report.

The City participates in the following Defined Contribution Savings Plans with Utah Retirement Systems:

- 401(k) Plan
- 457(b) Plan
- Roth IRA Plan

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Employee and employer contributions to the Utah Retirement Defined Contribution Savings Plans for fiscal year ended June 30, were as follows:

	2017	2016	2015
401(k) Plan			
Employer Contributions	\$ 69,536	\$ 61,846	\$ 58,919
Employee Contributions	\$ 65,533	\$ 62,653	\$ 71,708
457 Plan			
Employee Contributions	\$ -	\$ 575	\$ 650
Roth IRA Plan			
Employee Contributions	\$ 31,430	\$ 1,890	\$ -

Pension plan fiduciary net position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued URS financial report.

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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

12. JOINT VENTURES – *Continued*

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) | 0.00% |
| | <hr/> |
| | 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 \$14,988 of income in the current year leaving an investment balance of \$180,846 as of June 30, 2017.
- 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 7 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 \$847,393 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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

13. RESTRICTED FUND BALANCES

The City had the following restricted equity balances as of June 30, 2017:

	<u>General</u>	<u>Perpetual Care</u>	<u>Sewer</u>	<u>Pressurized Irrigation</u>
Impact fees, unexpended	\$ 167,706	\$ -	\$ 292,044	\$ 3,799
B&C roads	74,504	-	-	-
Liquor allotment	-	-	-	-
Community projects	2,022	-	-	-
Perpetual care	-	55,309	-	-
Debt sinking and reserves	-	-	-	518,099
Total	<u>244,232</u>	<u>55,309</u>	<u>292,044</u>	<u>521,898</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, 2017 is as follows:

	Motor Pool	Data Processing	Total
	<u> </u>	<u> </u>	<u> </u>
Operating Revenues	\$ 370,742	\$ -	\$ 370,742
Depreciation and Amortization	(130,699)	-	(130,699)
Other Operating Expenses	<u>(274,192)</u>	<u>-</u>	<u>(274,192)</u>
Operating Income (Loss)	(34,149)	-	(34,149)
Non-Operating Revenue (Expense)	(6,054)	-	(6,054)
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase (Decrease) in Retained Earnings	<u>\$ (40,203)</u>	<u>\$ -</u>	<u>\$ (40,203)</u>
Total Assets	\$ 475,253	\$ -	\$ 475,253
Total Liabilities	429,473	-	429,473
Total Fund Equity	45,780	-	45,780

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, 2017 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 November 14, 2017, the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

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SALEM CITY
Schedule of the Proportionate Share of the Net Pension Liability

For the Year Ended June 30, 2017

	As of fiscal year ended June 30,	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered- employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of its covered- employee payroll
Noncontributory System	2015	0.1479474%	\$ 642,422	\$ 1,273,706	50.44%	90.20%
	2016	0.1518143%	859,039	1,314,969	65.33%	87.80%
	2017	0.1602394%	1,028,933	1,428,572	72.03%	87.30%
Public Safety System	2015	0.2549217%	\$ 320,585	\$ 430,972	74.39%	90.50%
	2016	0.2652626%	475,152	460,549	103.17%	87.10%
	2017	0.3068477%	622,679	537,422	115.86%	86.50%
Tier 2 Public Employees System*	2015	0.0147889%	\$ (448)	\$ 72,725	-0.62%	103.50%
	2016	0.0162981%	(36)	105,304	-0.03%	100.20%
	2017	0.0178777%	1,994	146,611	1.36%	95.10%
Tier 2 Public Safety and Firefighter System*	2015	0.1008848%	\$ (1,492)	\$ 41,680	-3.58%	120.50%
	2016	0.0560458%	(819)	33,323	-2.46%	110.70%
	2017	0.0131367%	(114)	10,854	-1.05%	103.60%

*In accordance with paragraph 81.a of GASB 68, employers will need to disclose a 10-year history of their proportionate share of the net pension liability (asset) in their RSI. This schedule will be built prospectively.

SALEM CITY
Schedule of Contributions

For the Year Ended June 30, 2017

	As of fiscal year ended June 30,	Actuarial Determined Contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$ 215,213	\$ 215,213	\$ -	\$ 1,244,724	17.29%
	2015	236,973	236,973	-	1,284,175	18.45%
	2016	255,139	255,139	-	1,381,370	18.47%
	2017	272,455	272,455	-	1,475,123	18.47%
Public Safety System	2014	\$ 114,371	\$ 114,371	\$ -	\$ 418,023	27.36%
	2015	123,823	123,823	-	434,140	28.52%
	2016	149,366	149,366	-	512,161	29.16%
	2017	152,244	152,244	-	521,451	29.20%
Tier 2 Public Employees System*	2014	\$ 5,561	\$ 5,561	\$ -	\$ 39,751	13.99%
	2015	14,061	14,061	-	94,115	14.94%
	2016	18,553	18,553	-	124,436	14.91%
	2017	26,679	26,679	-	178,932	14.91%
Tier 2 Public Safety and Firefighter System*	2014	\$ 9,013	\$ 9,013	\$ -	\$ 40,290	22.37%
	2015	10,129	10,129	-	42,720	23.71%
	2016	2,872	2,872	-	12,138	23.66%
	2017	12,344	12,344	-	52,173	23.66%

*Contributions in Tier 2 include an amortization rate to help fund the unfunded liabilities in the Tier 1 systems. Tier 2 systems were created effective July 1, 2011.

**In accordance with paragraph 81.b of GASB 68, employers will need to disclose a 10-year history of contributions in their RSI. Contributions as a percentage of covered-payroll may be different than the board certified rate due to rounding and other administrative issues. This schedule will be built prospectively.

SALEM CITY CORPORATION
Notes to the Required Supplementary Information

For the year Ended June 30, 2017

1. Changes in Assumptions

The following actuarial assumption changes were adopted January 1, 2016. The assumed investment return assumption was decreased from 7.50 percent to 7.20 percent and the assumed inflation rate was decreased from 2.75 percent to 2.60 percent. With the decrease in the assumed rate of inflation, both the payroll growth and wage inflation assumptions were decreased by 0.15 percent from the prior year's assumption.

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SUPPLEMENTAL INFORMATION

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SALEM CITY CORPORATION
Combining Balance Sheet
Non-Major Governmental Funds

As of June 30, 2017

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2017	2016
ASSETS					
Cash & cash equivalents	\$ -	\$ 3,136	\$ -	\$ 3,136	\$ 3,136
Restricted cash	-	-	55,309	55,309	52,822
Due from other funds	-	-	-	-	-
Total assets	\$ -	\$ 3,136	\$ 55,309	\$ 58,445	\$ 55,958
LIABILITIES					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
Fund balance:					
Restricted for perpetual care	-	-	55,309	55,309	52,822
Assigned: MBA	-	3,136	-	3,136	3,136
Unassigned	-	-	-	-	-
Total fund balance	-	3,136	55,309	58,445	55,958
Total liabilities & fund balance	\$ -	\$ 3,136	\$ 55,309	\$ 58,445	\$ 55,958

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

For the Year Ended June 30, 2017

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2017	2016
Revenues:					
Intergovernmental	\$ -	\$ 64,204	\$ 1,863	\$ 66,067	\$ 68,242
Investment earnings	-	-	624	624	494
Total revenues	-	64,204	2,487	66,691	68,736
Expenditures:					
Current:					
Tax increment distributions	-	-	-	-	-
Debt Service:					
Principal retirement	-	51,000	-	51,000	50,000
Interest and fiscal charges	-	13,204	-	13,204	15,856
Total	-	64,204	-	64,204	65,856
Excess of revenues over expenditures	-	-	2,487	2,487	2,880
Other financing sources (uses):					
Transfers in (out)	-	-	-	-	-
Net change in fund balances	-	-	2,487	2,487	2,880
Fund balances - beginning of year	-	3,136	52,822	55,958	53,078
Fund balances - end of year	\$ -	\$ 3,136	\$ 55,309	\$ 58,445	\$ 55,958

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

As of June 30, 2017

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2017	2016
ASSETS				
Cash and investments	\$ 119,251	\$ 49,980	\$ 169,231	\$ 263,425
Accounts receivable, net	45,750	15,175	60,925	51,278
Total current assets	<u>165,001</u>	<u>65,155</u>	<u>230,156</u>	<u>314,703</u>
Land, equipment, buildings, and improvements	23,000	1,835,851	1,858,851	1,617,358
Less accumulated depreciation	(15,237)	(207,393)	(222,630)	(185,523)
Equity in joint venture	<u>180,846</u>	<u>-</u>	<u>180,846</u>	<u>165,858</u>
Total noncurrent assets	<u>188,609</u>	<u>1,628,458</u>	<u>1,817,067</u>	<u>1,597,693</u>
Total assets	<u>353,610</u>	<u>1,693,613</u>	<u>2,047,223</u>	<u>1,912,396</u>
LIABILITIES				
Accounts payable	<u>30,347</u>	<u>2,735</u>	<u>33,082</u>	<u>29,881</u>
Total liabilities	<u>30,347</u>	<u>2,735</u>	<u>33,082</u>	<u>29,881</u>
Net position:				
Net investment in capital assets	7,763	1,628,458	1,636,221	1,431,835
Unrestricted	<u>315,500</u>	<u>62,420</u>	<u>377,920</u>	<u>450,680</u>
Total net position	<u>\$ 323,263</u>	<u>\$ 1,690,878</u>	<u>\$ 2,014,141</u>	<u>\$ 1,882,515</u>

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

For the Year Ended June 30, 2017

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2017	2016
Operating revenues:				
Charges for services	\$ 456,039	\$ 173,425	\$ 629,464	\$ 575,319
Fees and miscellaneous	15,641	-	15,641	15,491
Total operating revenues	<u>471,680</u>	<u>173,425</u>	<u>645,105</u>	<u>590,810</u>
Operating expenses:				
Salaries and wages	18,605	33,323	51,928	31,762
Employee benefits	3,507	8,077	11,584	8,212
Contractual services	382,568	49,314	431,882	327,086
Supplies and materials	35,653	10,524	46,177	31,848
Administrative services	71,268	58,560	129,828	119,604
Depreciation and amortization	575	36,532	37,107	25,530
Total operating expenses	<u>512,176</u>	<u>196,330</u>	<u>708,506</u>	<u>544,042</u>
Operating income (loss)	<u>(40,496)</u>	<u>(22,905)</u>	<u>(63,401)</u>	<u>46,768</u>

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

Continued

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2017	2016
Non-operating revenue (expense):				
Interest revenue	-	-	-	-
Increase (decrease) equity in joint venture	14,988	-	14,988	14,750
Loss on sale of asset	-	-	-	-
Total non-operating revenue (expense)	14,988	-	14,988	14,750
Net income before contributions & transfers	(25,508)	(22,905)	(48,413)	61,518
Transfers in (out)	(25,500)	(11,520)	(37,020)	(18,020)
Developers contributions	-	217,059	217,059	346,595
Change in net position	(51,008)	182,634	131,626	390,093
Net position - beginning	374,271	1,508,244	1,882,515	1,492,422
Net position - ending	\$ 323,263	\$ 1,690,878	\$ 2,014,141	\$ 1,882,515

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

For the Year Ended June 30, 2017

	<u>Waste Utility Fund</u>	<u>Storm Water Utility</u>	<u>Total</u>
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 480,479	\$ 174,273	\$ 654,752
Payments to suppliers	(436,798)	(68,938)	(505,736)
Payments to general fund for services	(71,268)	(58,560)	(129,828)
Payments to employees	(18,605)	(33,323)	(51,928)
Net cash provided by operating activities	<u>(46,192)</u>	<u>13,452</u>	<u>(32,740)</u>
Cash Flows From Noncapital Financing Activities			
Interfund Activity	(25,500)	(11,520)	(37,020)
Net cash provided (used) by noncapital financing activities	<u>(25,500)</u>	<u>(11,520)</u>	<u>(37,020)</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	-	(24,434)	(24,434)
Net cash used for capital and financing activities	<u>-</u>	<u>(24,434)</u>	<u>(24,434)</u>
Net increase (decrease) in cash and cash equivalents	(71,692)	(22,502)	(94,194)
Cash and equivalents at beginning of year	<u>190,943</u>	<u>72,482</u>	<u>263,425</u>
Cash and equivalents at end of year	<u>\$ 119,251</u>	<u>\$ 49,980</u>	<u>\$ 169,231</u>
Shown in the Statement of Net Position as:			
Cash and cash equivalents	\$ 119,251	\$ 49,980	\$ 169,231
Restricted cash equivalents at end of year	-	-	-
	<u>\$ 119,251</u>	<u>\$ 49,980</u>	<u>\$ 169,231</u>

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

Continued

	<u>Waste Utility Fund</u>	<u>Storm Water Utility</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ (40,496)	\$ (22,905)	\$ (63,401)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	575	36,532	37,107
(Increase) decrease in accounts receivable	(8,799)	(848)	(9,647)
Increase (decrease) in accounts payable	2,528	673	3,201
Total adjustments	(5,696)	36,357	30,661
Net cash provided by operating activities:	<u>\$ (46,192)</u>	<u>\$ 13,452</u>	<u>\$ (32,740)</u>
Supplementary information			
Non-cash items from capital and related financing activities include contributions by developers	<u>\$ -</u>	<u>\$ 217,059</u>	<u>\$ 217,059</u>
Non-cash purchase of assets through debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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OTHER REPORTS

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

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, 2017, 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 November 14, 2017.

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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and recommendations as finding 2017-1 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 2017-2 and 2017-3.

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 schedule of findings and recommendations. 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 initial 'A'.

North Logan, UT
November 14, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER
COMPLIANCE AS REQUIRED BY THE UTAH STATE COMPLIANCE AUDIT GUIDE**

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, 2017.

General state compliance requirements were tested for the year ended June 30, 2017 in the following areas:

- Budgetary Compliance
- Fund Balance
- Justice Court
- Utah Retirement System
- Restricted Taxes
- Open and Public Meetings
- Treasurer's Bond

Management's Responsibility

Management is responsible for compliance with the state requirements referred to above.

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the state 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 state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement occurred. 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 for each state compliance requirement referred to above. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on General State Compliance Requirements

In our opinion, the City of Salem, Utah complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2017.

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 2017-2 and 2017-3.

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 state compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the state compliance requirements referred to above to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance with 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 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 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 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 "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
November 14, 2017

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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SALEM CITY
Schedule of Findings and Recommendations

For the Year Ended June 30, 2017

Finding 2017-1 – 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 auditor’s recommendations. Management 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 2017-2 – Fund Balance (State Compliance) – Utah State law requires that general unreserved fund balances do not exceed 25 percent of general fund revenues. As of June 30, 2017, Salem’s general unreserved fund balance was at 26 percent (approx. \$60,000 too high).

Recommendation – Create a plan to reduce the general fund unreserved fund balance during fiscal year 2018 in order to be in compliance.

Management response – Management agrees with the auditor’s recommendations. Management will amend the budget in FY 2018 to reduce the General Fund unreserved fund balance.

Finding 2017-3 – Deficit Fund Balance (State Compliance) – The internal service fund ended the fiscal year with a deficit unreserved fund balance. State law requires that the City appropriates 5 percent of the subsequent budget’s revenues in excess of expenditures to retire the deficit. The City did not appropriate the required amount in the fiscal 2018 budget.

Recommendation – Amend the internal service fund budget to reflect a plan to retire the deficit fund balance by at least 5 percent during the year.

Management response – Management agrees with the auditor’s recommendations. Management will amend the budget in FY 2018 to begin to reduce the deficit by at least the 5 percent required by the state and to work with auditors to assist in a plan to reduce the deficit.

SALEM CITY
Schedule of Findings and Recommendations

For the Year Ended June 30, 2016

Finding 2016-1 – 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 auditor’s recommendations. Management 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 repeat finding at 2017-1.

Finding 2016-2 – Open and Public Meetings Act (State Compliance) – Utah State Open and Public Meetings Act requires that the City minutes be posted within three days after Council approval. We noted multiple meetings that were not posted within the three-day requirement.

Recommendation – Post all meeting minutes within the three-day requirement.

Management response – Management agrees with the auditor’s recommendations. Management will make sure the approved public meeting minutes will be posted within the three-day requirement on the Utah Public Notice Website.

Status – No instances of noncompliance was noted during the current year testing.