



**SALEM CITY CORPORATION**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2016**



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

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October 10, 2016

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, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016, 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, 2016, 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 on pages 11-17 and 66-68, respectively be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2016, 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  
October 10, 2016

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

**June 30, 2016**

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As management of Salem City, we offer readers of Salem City's financial statements this narrative overview and analysis of the financial activities of Salem City for the fiscal year ended June 30, 2016. 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 \$49,870,806. Of this amount, \$44,308,290 consisted of capital assets, net of any related debt and \$2,175,961 of restricted net position. As such, the City has \$278,645 of unrestricted governmental net position and \$3,107,910 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 21 & 22 of this report.

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

*Continued*

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**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 \$49,870,806.

The largest portion of Salem City's net position reflects its investment in capital assets (e.g., land, buildings, infrastructure, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The following table summarizes the City's net position as of June 30, 2016:

**STATEMENT OF NET POSITION**

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Current and other assets	\$ 4,873,460	\$ 4,535,487	\$ 4,708,208	\$ 4,230,798
Capital assets	15,520,358	14,580,136	39,713,951	38,678,976
Deferred outflow of resources	504,993	209,840	177,430	-
Total assets and deferred outflow of resources	<u>20,898,811</u>	<u>19,325,463</u>	<u>44,599,589</u>	<u>42,909,774</u>
Long-term debt outstanding	2,507,710	2,727,237	8,385,507	9,058,792
Other liabilities	2,715,884	2,996,320	1,067,954	635,749
Deferred inflow of resources	906,990	911,271	43,549	-
Total liabilities and deferred inflow of resources	<u>6,130,584</u>	<u>6,634,828</u>	<u>9,497,010</u>	<u>9,694,541</u>
Net position:				
Net investment in capital assets	12,979,846	11,816,943	31,328,444	29,620,184
Restricted	1,509,736	1,032,225	666,225	539,095
Unrestricted	278,645	(158,533)	3,107,910	3,055,954
Total net position	<u>\$ 14,768,227</u>	<u>\$ 12,690,635</u>	<u>\$ 35,102,579</u>	<u>\$ 33,215,233</u>

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

*Continued*

Business-type activities increased Salem City's net position by \$1,887,346 and governmental activities increased net position by \$2,077,592. The elements of these increases for the fiscal year ended June 30, 2016 were as follows:

**CHANGES IN NET POSITION**

	Governmental Activities		Business-type Activities	
	2016	2015	2016	2015
Revenues:				
Program revenues:				
Charges for services	\$ 1,421,359	\$ 1,266,998	\$ 6,920,373	\$ 6,484,001
Operating grants & contributions	385,874	337,654	-	-
Capital grants & contributions	2,154,541	1,251,184	2,561,994	1,888,192
General revenues:				
Property taxes	766,502	719,282	-	-
Other taxes	1,273,161	1,210,804	-	-
Investment income	21,075	15,192	2,758	1,401
Other revenues	8,800	1,879	-	-
Total revenues	<u>6,031,312</u>	<u>4,802,993</u>	<u>9,485,125</u>	<u>8,373,594</u>
Expenses:				
General government	366,678	567,088	-	-
Public safety	1,376,043	1,429,536	-	-
Highways/public improvements	1,133,303	1,052,793	-	-
Parks & recreation	1,428,690	1,152,801	-	-
Interest on long term debt	92,042	100,783	-	-
Water	-	-	864,948	796,363
Sewer	-	-	873,606	814,124
Electric	-	-	4,009,411	3,714,680
Pressurized Irrigation	-	-	877,257	758,076
Waste	-	-	387,808	355,992
Storm Water	-	-	141,713	115,508
Total expenses	<u>4,396,756</u>	<u>4,303,001</u>	<u>7,154,743</u>	<u>6,554,743</u>
Change in net position	1,634,556	499,992	2,330,382	1,818,851
Transfers	443,036	461,524	(443,036)	(461,524)
Net change in net position	2,077,592	961,516	1,887,346	1,357,327
Net position beginning of year	12,690,635	11,729,119	33,215,233	31,857,906
Net position end of year	<u>\$ 14,768,227</u>	<u>\$ 12,690,635</u>	<u>\$ 35,102,579</u>	<u>\$ 33,215,233</u>

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

*Continued*

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**FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS**

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

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$2,681,819. Of this total amount \$1,172,083 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 \$659,770, while total fund balance reached \$2,584,869. 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 58 percent of total general fund expenditures. The general fund unreserved fund balance ended at 24 percent, which complies 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 \$3,136,810. 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 \$5,961,360 to a final budget of \$6,267,452, an increase of \$306,092. Major changes are summarized as follows:

- |                             |           |
|-----------------------------|-----------|
| • General Government        | \$ 61,094 |
| • Transfers                 | 206,000   |
| • Highways and public works | 261,495   |

**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, 2016 amounts to \$55,234,309 (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 \$1,975,197.

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

• Road, sidewalk and park improvements	\$1,721,018
• Sewer line improvements	417,366
• Water line improvements	591,557
• Storm drain improvements	346,595
• Electrical improvements	251,929
• Pressurized irrigation improvements	236,954
• Vehicles and equipment	149,629

**Salem City's Capital Assets as of June 30, 2016**

	Governmental Activities	Business-type Activities	Total
Land	\$ 516,804	\$ 1,038,703	\$ 1,555,507
Buildings	3,563,657	1,609,007	5,172,664
Improvements	2,634,542	43,837,727	46,472,269
Equipment	2,586,636	603,533	3,190,169
Infrastructure	23,588,783	1,277,903	24,866,686
Water Rights	-	1,076,181	1,076,181
Construction in Progress	357,670	1,173,559	1,531,229
Accumulated depreciation	(17,727,734)	(10,902,662)	(28,630,396)
Total assets	\$ 15,520,358	\$ 39,713,951	\$ 55,234,309

**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 \$8,562,742. 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 \$558,000.

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

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ -	\$ -	\$ -
Revenue Bonds	2,318,000	6,244,742	8,562,742
Total Bonds	\$ 2,318,000	\$ 6,244,742	\$ 8,562,742

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, 2017 reflects an increase of 9 percent in expenditures over the final fiscal year ending June 30, 2016.

**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, 2016**

	Governmental Activities	Business-type Activities	Memorandum Totals	
			2016	2015
<b>ASSETS</b>				
Cash and investments	\$ 2,333,973	\$ 2,295,516	\$ 4,629,489	\$ 4,698,894
Cash - restricted	1,631,167	666,225	2,297,392	1,642,305
Receivables - net	907,465	670,314	1,577,779	1,326,900
Inventories	-	103,982	103,982	224,441
Total current assets	4,872,605	3,736,037	8,608,642	7,892,540
Equity in joint venture	-	972,171	972,171	871,805
<b>Capital assets</b>				
Land	516,804	1,038,703	1,555,507	1,555,507
Buildings	3,563,657	1,609,007	5,172,664	5,172,664
Improvements	2,634,542	43,837,727	46,472,269	44,589,156
Equipment	2,586,636	603,533	3,190,169	3,261,798
Infrastructure	23,588,783	1,277,903	24,866,686	23,536,639
Water rights	-	1,076,181	1,076,181	1,076,181
Construction in progress	357,670	1,173,559	1,531,229	1,064,765
Accumulated depreciatio	(17,727,734)	(10,902,662)	(28,630,396)	(26,997,598)
Pension asset	855	-	855	1,940
Total assets	20,393,818	44,422,159	64,815,977	62,025,397
Deferred outflow of resources - pensions	504,993	177,430	682,423	209,840
Total assets and deferred outflows	20,898,811	44,599,589	65,498,400	62,235,237
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>				
Accounts payable and accrued liabilities	1,525,834	803,404	2,329,238	2,538,514
Bond interest payable	32,802	87,607	120,409	130,549
Loans payable	-	211,265	211,265	262,277
Bonds and capital leases payable - current	226,309	81,000	307,309	593,527
Internal balances	169,947	(169,947)	-	-
Net pension liability	987,301	346,890	1,334,191	963,006
Loans payable - noncurrent	-	1,929,500	1,929,500	2,177,773
Bonds and capital leases payable - noncurrent	2,281,401	6,163,742	8,445,143	8,752,452
Total liabilities	5,223,594	9,453,461	14,677,055	15,418,098
Deferred inflows of resources - pensions	123,944	43,549	167,493	157,385
Deferred inflows of resources - property taxes	783,046	-	783,046	753,886
Total liabilities and deferred inflows of resources	6,130,584	9,497,010	15,627,594	16,329,369
<b>NET POSITION</b>				
Net investment in capital assets	12,979,846	31,328,444	44,308,290	41,437,127
Restricted for debt and capital improvements	1,509,736	666,225	2,175,961	1,571,320
Unrestricted	278,645	3,107,910	3,386,555	2,897,421
Total net position	\$ 14,768,227	\$35,102,579	\$49,870,806	\$ 45,905,868

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

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

**For the Year Ended June 30, 2016**

	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Memorandum Totals	
							2016	2015
Governmental activities:								
General government	\$ 366,678	\$ 832,191	\$ 13,167	\$ 3,400	\$ 482,080	\$ -	\$ 482,080	\$ 228,907
Public safety	1,376,043	191,979	18,902	318,540	(846,622)	-	(846,622)	(1,052,066)
Highways and public works	1,133,303	10,586	299,252	1,252,050	428,585	-	428,585	(71,083)
Parks and recreation	1,428,690	386,603	54,553	580,551	(406,983)	-	(406,983)	(452,140)
Interest on long-term debt	92,042	-	-	-	(92,042)	-	(92,042)	(100,783)
Total governmental activities	<u>4,396,756</u>	<u>1,421,359</u>	<u>385,874</u>	<u>2,154,541</u>	<u>(434,982)</u>	<u>-</u>	<u>(434,982)</u>	<u>(1,447,165)</u>
Business-type activities:								
Water Utility	864,948	869,777	-	816,343	-	821,172	821,172	561,661
Sewer Utility	873,606	775,447	-	695,733	-	597,574	597,574	243,407
Electric Utility	4,009,411	3,981,007	-	261,815	-	233,411	233,411	601,746
Pressurized Irrigation	877,257	703,332	-	441,508	-	267,583	267,583	148,128
Waste Utility	387,808	590,810	-	-	-	203,002	203,002	192,814
Storm Water Utility	141,713	-	-	346,595	-	204,882	204,882	69,694
Total business-type activities	<u>\$ 7,154,743</u>	<u>\$ 6,920,373</u>	<u>\$ -</u>	<u>\$ 2,561,994</u>	<u>\$ -</u>	<u>\$ 2,327,624</u>	<u>\$ 2,327,624</u>	<u>\$ 1,817,450</u>
General Revenues:								
Property taxes					766,502	-	766,502	719,282
General sales and use tax					941,756	-	941,756	896,616
Franchise tax					331,405	-	331,405	314,188
Unrestricted investment earnings					21,075	2,758	23,833	16,593
Sale of capital assets					8,800	-	8,800	1,879
Transfers					443,036	(443,036)	-	-
Total general revenues and transfers					<u>2,512,574</u>	<u>(440,278)</u>	<u>2,072,296</u>	<u>1,948,558</u>
Change in net position					2,077,592	1,887,346	3,964,938	2,318,843
Net position - beginning					12,690,635	33,215,233	45,905,868	43,587,025
Net position - ending					<u>\$ 14,768,227</u>	<u>\$ 35,102,579</u>	<u>\$ 49,870,806</u>	<u>\$ 45,905,868</u>

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

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

**As of June 30, 2016**

	General	Capital Projects Fund	Non-major Governmental Funds	Memorandum Totals 2016	Memorandum Totals 2015
<b>ASSETS</b>					
Cash and investments	\$ 2,289,845	\$ 40,992	\$ 3,136	\$ 2,333,973	\$ 2,564,174
Restricted cash	1,578,345	-	52,822	1,631,167	1,103,210
Receivables (net):					
Property tax	793,359	-	-	793,359	764,199
Other, net	114,106	-	-	114,106	101,964
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 4,775,655</u>	<u>\$ 40,992</u>	<u>\$ 55,958</u>	<u>\$ 4,872,605</u>	<u>\$ 4,533,547</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>					
Liabilities:					
Accounts payable and accrued liabilities	\$ 1,407,740	\$ -	\$ -	\$ 1,407,740	\$ 1,806,611
Due to other funds	-	-	-	-	-
Total liabilities	<u>1,407,740</u>	<u>-</u>	<u>-</u>	<u>1,407,740</u>	<u>1,806,611</u>
Deferred inflows of resources	<u>783,046</u>	<u>-</u>	<u>-</u>	<u>783,046</u>	<u>753,886</u>
Total liabilities and deferred inflows of resources	<u>2,190,786</u>	<u>-</u>	<u>-</u>	<u>2,190,786</u>	<u>2,560,497</u>
Fund balance:					
Restricted for:					
Roads and recreational activities	1,456,914	-	-	1,456,914	981,779
Perpetual Care Fund	-	-	52,822	52,822	50,446
Committed for:					
Road Projects	-	-	-	-	-
Assigned for:					
Library	1,000	-	-	1,000	1,000
Capital Projects	467,185	40,992	-	508,177	451,851
Municipal building authority	-	-	3,136	3,136	2,632
Unassigned for:					
General Fund	659,770	-	-	659,770	485,342
Special Revenue Funds	-	-	-	-	-
Total fund balances	<u>2,584,869</u>	<u>40,992</u>	<u>55,958</u>	<u>2,681,819</u>	<u>1,973,050</u>
Total liabilities, deferred inflow of Resources and fund balances	<u>\$ 4,775,655</u>	<u>\$ 40,992</u>	<u>\$ 55,958</u>	<u>\$ 4,872,605</u>	<u>\$ 4,533,547</u>

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

**As of June 30, 2016**

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Total fund balances for governmental funds	\$ 2,681,819
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Consolidation of Internal Service Funds	(169,947)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,520,358
Pension related assets, liabilities, deferred inflows and deferred outflows are not payable in the current period, so are not reported in the funds.	(605,397)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(2,658,606)</u>
Net position of governmental activities	<u><u>\$ 14,768,227</u></u>

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

**For the Year Ended June 30, 2016**

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals	
				2016	2015
<b>Revenues:</b>					
Taxes	\$ 2,039,663	\$ -	\$ -	\$ 2,039,663	\$ 1,930,086
Licenses and permits	600,424	-	-	600,424	544,466
Intergovernmental	361,037	-	68,242	429,279	447,204
Charges for services	1,546,531	-	-	1,546,531	1,136,656
Investment earnings	20,581	-	494	21,075	15,192
Fines and forfeitures	39,944	-	-	39,944	37,402
Miscellaneous revenues	93,546	-	-	93,546	29,239
Total revenues	<u>4,701,726</u>	<u>-</u>	<u>68,736</u>	<u>4,770,462</u>	<u>4,140,245</u>
<b>Expenditures:</b>					
Current:					
General government	456,282	-	-	456,282	690,924
Public safety	1,466,551	-	-	1,466,551	1,456,112
Highways and public works	986,966	-	-	986,966	617,313
Parks and recreation	1,324,534	-	-	1,324,534	1,525,717
Capital outlay	-	-	-	-	-
Debt service:					
Principal Retirement	134,000	-	50,000	184,000	177,000
Interest and fiscal charges	79,340	-	15,856	95,196	105,055
Total expenditures	<u>4,447,673</u>	<u>-</u>	<u>65,856</u>	<u>4,513,529</u>	<u>4,572,121</u>
Excess (deficiency) of revenues over expenditures	<u>254,053</u>	<u>-</u>	<u>2,880</u>	<u>256,933</u>	<u>(431,876)</u>
<b>Other financing sources (uses):</b>					
Transfers in	443,036	-	-	443,036	481,123
Transfers out	-	-	-	-	(19,000)
Sale of assets	8,800	-	-	8,800	1,879
Total other financing sources (uses)	<u>451,836</u>	<u>-</u>	<u>-</u>	<u>451,836</u>	<u>464,002</u>
Net change in fund balance	705,889	-	2,880	708,769	32,126
Fund balances - beginning of year	1,878,980	40,992	53,078	1,973,050	1,940,924
Fund balances - end of year	<u>\$ 2,584,869</u>	<u>\$ 40,992</u>	<u>\$ 55,958</u>	<u>\$ 2,681,819</u>	<u>\$ 1,973,050</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, 2016**

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

Net change in fund balances-total governmental funds	\$ 708,769
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	(311,828)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position	1,252,050
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	204,689
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.	(82,456)
Pension (expense) benefit	303,214
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>3,154</u>
Change in net position of governmental activities	<u>\$ 2,077,592</u>

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

**For the Year Ended June 30, 2016**

	Budget Amounts		General Fund	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
<b>Revenues:</b>				
Taxes	\$ 1,980,965	\$ 2,000,117	\$ 2,039,663	\$ 39,546
Licenses and permits	287,845	404,968	600,424	195,456
Intergovernmental	598,719	557,013	361,037	(195,976)
Charges for services	1,920,569	1,958,731	1,546,531	(412,200)
Fines and forfeitures	34,656	48,000	39,944	(8,056)
Miscellaneous revenues	380,726	304,263	114,127	(190,136)
Total revenues	<u>5,203,480</u>	<u>5,273,092</u>	<u>4,701,726</u>	<u>(571,366)</u>
<b>Expenditures:</b>				
Current:				
General government	1,592,390	1,653,484	456,282	1,197,202
Public safety	1,715,967	1,722,965	1,466,551	256,414
Highways and public works	766,324	1,027,819	986,966	40,853
Parks and recreation	1,649,047	1,625,552	1,324,534	301,018
Debt Service	237,632	237,632	213,340	24,292
Total expenditures	<u>5,961,360</u>	<u>6,267,452</u>	<u>4,447,673</u>	<u>1,819,779</u>
Excess of expenditures over revenues	<u>(757,880)</u>	<u>(994,360)</u>	<u>254,053</u>	<u>1,248,413</u>
<b>Other financing sources (uses):</b>				
Sale of Assets	1,500	8,800	8,800	-
Transfers in	455,500	661,500	443,036	(218,464)
Transfers out	-	-	-	-
Net change in fund balance	<u>(300,880)</u>	<u>(324,060)</u>	<u>705,889</u>	<u>1,029,949</u>
Fund balance - beginning of year	<u>1,878,980</u>	<u>1,878,980</u>	<u>1,878,980</u>	<u>-</u>
Fund balance - end of year	<u><u>\$ 1,578,100</u></u>	<u><u>\$ 1,554,920</u></u>	<u><u>\$ 2,584,869</u></u>	<u><u>\$ 1,029,949</u></u>

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

**As of June 30, 2016**

<b>SALEM CITY</b>							
Statement of Net Position							
Proprietary Funds							
June 30, 2016							
	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Activities Internal Services Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
<b>ASSETS</b>							
Current assets:							
Cash and investments	\$ 464,737	\$ 482,532	\$ 624,129	\$ 460,693	\$ 263,425	\$ 2,295,516	\$ -
Accounts receivable, net	84,528	150,048	317,909	66,551	51,278	670,314	-
Inventories	9,387	-	94,595	-	-	103,982	-
Due from other funds	198,847	-	-	-	-	198,847	-
Total current assets	<u>757,499</u>	<u>632,580</u>	<u>1,036,633</u>	<u>527,244</u>	<u>314,703</u>	<u>3,268,659</u>	<u>-</u>
Noncurrent assets							
Restricted cash and cash equivalents	-	198,677	-	467,548	-	666,225	-
Land, equipment, buildings, and improvements	11,784,161	11,484,750	10,526,071	14,128,092	1,617,358	49,540,432	1,655,173
Less accumulated depreciation	(3,336,002)	(3,518,266)	(2,277,925)	(1,584,946)	(185,523)	(10,902,662)	(1,164,618)
Water rights and stock	747,339	-	-	328,842	-	1,076,181	-
Equity in joint venture	-	806,313	-	-	165,858	972,171	-
Total noncurrent assets	<u>9,195,498</u>	<u>8,971,474</u>	<u>8,248,146</u>	<u>13,339,536</u>	<u>1,597,693</u>	<u>41,352,347</u>	<u>490,555</u>
Total assets	<u>9,952,997</u>	<u>9,604,054</u>	<u>9,284,779</u>	<u>13,866,780</u>	<u>1,912,396</u>	<u>44,621,006</u>	<u>490,555</u>
Deferred outflow of resources - pensions	20,473	40,945	95,539	20,473	-	177,430	-
Total assets and deferred outflows	<u>9,973,470</u>	<u>9,644,999</u>	<u>9,380,318</u>	<u>13,887,253</u>	<u>1,912,396</u>	<u>44,798,436</u>	<u>490,555</u>
<b>LIABILITIES</b>							
Current liabilities:							
Accounts payable	13,937	107,639	631,660	107,894	29,881	891,011	16,015
Due to other funds	-	-	-	-	-	-	198,847
Loans payable	31,385	120,812	59,068	-	-	211,265	-
Bonds and capital leases	-	-	-	81,000	-	81,000	35,527
Total current liabilities	<u>45,322</u>	<u>228,451</u>	<u>690,728</u>	<u>188,894</u>	<u>29,881</u>	<u>1,183,276</u>	<u>250,389</u>
Noncurrent liabilities:							
Net pension liability	40,026	80,051	186,787	40,026	-	346,890	-
Loans payable	378,530	913,411	637,559	-	-	1,929,500	-
Bonds and capital leases	-	-	-	6,163,742	-	6,163,742	154,183
Total long-term liabilities	<u>418,556</u>	<u>993,462</u>	<u>824,346</u>	<u>6,203,768</u>	<u>-</u>	<u>8,440,132</u>	<u>154,183</u>
Total liabilities	<u>463,878</u>	<u>1,221,913</u>	<u>1,515,074</u>	<u>6,392,662</u>	<u>29,881</u>	<u>9,623,408</u>	<u>404,572</u>
Deferred inflows of resources - pensions	5,025	10,050	23,449	5,025	-	43,549	-
Total liabilities and deferred inflows of resources	<u>468,903</u>	<u>1,231,963</u>	<u>1,538,523</u>	<u>6,397,687</u>	<u>29,881</u>	<u>9,666,957</u>	<u>404,572</u>
<b>NET POSITION</b>							
Net investment in capital assets	8,785,583	6,932,261	7,551,519	6,627,246	1,431,835	31,328,444	300,845
Restricted for debt and other activities	-	198,677	-	467,548	-	666,225	-
Unrestricted	718,984	1,282,098	290,276	394,772	450,680	3,136,810	(214,862)
Total net position	<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>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						(28,900)	
Net position from business-type activities						<u>\$ 35,102,579</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**

**For the Year Ended June 30, 2016**

	Business-Type Activities - Enterprise					Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Non-Major Enterprise Funds		
<b>Operating revenues:</b>							
Charges for services	\$ 852,053	\$ 639,064	\$ 3,979,727	\$ 674,394	\$ 575,319	\$ 6,720,557	\$ 375,112
Fees and miscellaneous	17,724	136,383	1,280	28,938	15,491	199,816	1,884
Total operating revenues	<u>869,777</u>	<u>775,447</u>	<u>3,981,007</u>	<u>703,332</u>	<u>590,810</u>	<u>6,920,373</u>	<u>376,996</u>
<b>Operating expenses:</b>							
Purchased power	-	-	2,284,213	-	-	2,284,213	-
Salaries and wages	70,196	127,393	400,349	62,137	31,762	691,837	-
Employee benefits	60,422	125,935	298,042	56,839	8,212	549,450	14,517
Contractual services	62,936	60,689	52,600	142,233	327,086	645,544	196,962
Supplies and materials	115,039	83,895	450,380	25,610	31,848	706,772	55,242
Administrative services	255,624	198,152	280,824	203,988	119,604	1,058,192	-
Utilities and telephone	74,788	53,129	-	19,657	-	147,574	-
Depreciation and amortization	222,776	223,851	242,403	260,162	25,530	974,722	110,674
Total operating expenses	<u>861,781</u>	<u>873,044</u>	<u>4,008,811</u>	<u>770,626</u>	<u>544,042</u>	<u>7,058,304</u>	<u>377,395</u>
Operating income (loss)	<u>7,996</u>	<u>(97,597)</u>	<u>(27,804)</u>	<u>(67,294)</u>	<u>46,768</u>	<u>(137,931)</u>	<u>(399)</u>
<b>Non-operating revenue (expense):</b>							
Interest revenue	173	1,091	-	1,494	-	2,758	-
Impact fees	224,786	296,577	151,441	204,554	-	877,358	-
Increase (decrease) equity in joint venture	-	-	-	-	14,750	14,750	-
Loss on sale of asset	-	-	-	-	-	-	-
Interest expense and fiscal charges	(2,576)	-	-	(106,229)	-	(108,805)	(4,955)
Total non-operating revenue (expense)	<u>222,383</u>	<u>297,668</u>	<u>151,441</u>	<u>99,819</u>	<u>14,750</u>	<u>786,061</u>	<u>(4,955)</u>
Net income before contributions & transfers	230,379	200,071	123,637	32,525	61,518	648,130	(5,354)
Transfers in (out)	(42,504)	(21,504)	(306,504)	(54,504)	(18,020)	(443,036)	-
Developers contributions	591,557	399,156	110,374	236,954	346,595	1,684,636	-
Change in net position	<u>779,432</u>	<u>577,223</u>	<u>(72,493)</u>	<u>214,975</u>	<u>390,093</u>	<u>1,889,730</u>	<u>(5,354)</u>
Net position - beginning	8,725,135	7,835,313	7,914,288	7,274,591	1,492,422	33,241,749	91,337
Net position - ending	<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>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						(2,384)	
Change in net position of business-type activities						<u>\$ 1,887,346</u>	

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

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

**For the Year Ended June 30, 2016**

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation			
<b>Cash Flows From Operating Activities</b>							
Receipts from customers and users	\$ 884,686	\$ 882,817	\$ 4,048,993	\$ 718,681	\$ 594,773	\$ 7,129,950	\$ 376,996
Payments to suppliers	(441,885)	(490,618)	(2,792,052)	(249,768)	(361,985)	(4,336,308)	(186,885)
Payments to general fund for services	(255,624)	(198,152)	(280,824)	(203,988)	(119,604)	(1,058,192)	-
Payments to employees	(70,196)	(127,393)	(400,349)	(62,137)	(31,762)	(691,837)	-
Net cash provided by (used in) operating activities	<u>116,981</u>	<u>66,654</u>	<u>575,768</u>	<u>202,788</u>	<u>81,422</u>	<u>1,043,613</u>	<u>190,111</u>
<b>Cash Flows From Noncapital Financing Activities</b>							
Interfund Activity	(42,504)	(21,504)	(306,504)	(54,504)	(18,020)	(443,036)	-
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>(18,020)</u>	<u>(443,036)</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities</b>							
Impact Fees	224,786	296,577	151,441	204,554	-	877,358	-
Purchase of equity in joint venture	-	(85,616)	-	-	-	(85,616)	-
Purchases of capital assets	(14,681)	(126,991)	(183,389)	-	-	(325,061)	(149,629)
Principle paid on debt	(339,874)	(205,343)	(59,068)	(69,000)	-	(673,285)	(35,527)
Interest paid on capital debt	(2,576)	-	-	(106,229)	-	(108,805)	(4,955)
Net cash provided (used) in capital and financing act.	<u>(132,345)</u>	<u>(121,373)</u>	<u>(91,016)</u>	<u>29,325</u>	<u>-</u>	<u>(315,409)</u>	<u>(190,111)</u>
<b>Cash Flows From Investing Activities</b>							
Interest and dividends received	173	1,091	-	1,494	-	2,758	-
Net cash provided by investing activities	<u>173</u>	<u>1,091</u>	<u>-</u>	<u>1,494</u>	<u>-</u>	<u>2,758</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(57,695)	(75,132)	178,248	179,103	63,402	287,926	-
Cash and equivalents at beginning of year	522,432	756,341	445,881	749,138	200,023	2,673,815	-
Cash and equivalents at end of year	<u>\$ 464,737</u>	<u>\$ 681,209</u>	<u>\$ 624,129</u>	<u>\$ 928,241</u>	<u>\$ 263,425</u>	<u>\$ 2,961,741</u>	<u>\$ -</u>
Shown in the Statement of Net Position as:							
Cash and cash equivalents	\$ 464,737	\$ 482,532	\$ 624,129	\$ 460,693	\$ 263,425	\$ 2,295,516	\$ -
Restricted cash equivalents at end of year	-	198,677	-	467,548	-	666,225	-
	<u>\$ 464,737</u>	<u>\$ 681,209</u>	<u>\$ 624,129</u>	<u>\$ 928,241</u>	<u>\$ 263,425</u>	<u>\$ 2,961,741</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				Non-Major Enterprise Funds	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation			
<b>Reconciliation of operating income to net cash provided by operating activities:</b>							
Operating income (loss)	\$ 7,996	\$ (97,597)	\$ (27,804)	\$ (67,294)	\$ 46,768	\$ (137,931)	\$ (399)
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation and Amortization Expense	222,776	223,851	242,403	260,162	25,530	974,722	110,674
(Increase) decrease in accounts receivable	(14,909)	(107,370)	(67,986)	(15,349)	(3,963)	(209,577)	-
(Increase) decrease in inventory	7,414	-	113,045	-	-	120,459	-
(Increase) decrease in due from other funds	(84,840)	-	-	-	-	(84,840)	-
(Increase) decrease in deferred outflow	(20,473)	(40,945)	(95,539)	(20,473)	-	(177,430)	-
Increase (decrease) in accounts payable	(46,034)	(1,386)	201,413	691	13,087	167,771	(5,004)
Increase (decrease) in pension liability	40,026	80,051	186,787	40,026	-	346,890	-
Increase (decrease) in deferred inflow	5,025	10,050	23,449	5,025	-	43,549	-
Increase (decrease) in due to other funds	-	-	-	-	-	-	84,840
Total adjustments	<u>108,985</u>	<u>164,251</u>	<u>603,572</u>	<u>270,082</u>	<u>34,654</u>	<u>1,181,544</u>	<u>190,510</u>
Net cash provided by (used in) operating activities:	<u>\$ 116,981</u>	<u>\$ 66,654</u>	<u>\$ 575,768</u>	<u>\$ 202,788</u>	<u>\$ 81,422</u>	<u>\$ 1,043,613</u>	<u>\$ 190,111</u>
 Supplementary information							
Non-cash items from capital and related financing activities include contributions by developers	<u>\$ 591,557</u>	<u>\$ 399,156</u>	<u>\$ 110,374</u>	<u>\$ 236,954</u>	<u>\$ 346,595</u>	<u>\$ 1,684,636</u>	<u>\$ -</u>
Non-cash purchase of assets through debt	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

**June 30, 2016**

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**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.

**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.

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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.
- *Internal Service Funds:*
  - *Motor Pool Fund* – This fund accounts for the activities of the City motor pool.

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

- *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.

**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.



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

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

**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

**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*

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**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	\$33,248,092
Accumulated depreciation	(17,727,734)
	<hr/>
Net adjustment to increase fund balance – total governmental funds to arrive at net position – governmental activities)	\$15,520,358
	<hr/> <hr/>

**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	\$2,507,710
Bond interest payable	32,802
Other long-term payables	118,094
	<hr/>
Net adjustment to reduce fund balance - total governmental funds to arrive at net position - governmental activities	\$2,658,606
	<hr/> <hr/>

**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	\$635,292
Depreciation expense	<u>(947,120)</u>
Net capital outlay	(311,828)
Capital contribution by developers	<u>1,252,050</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><u>\$940,222</u></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	\$219,527
Compensated absence change	<u>(14,838)</u>
	204,689
Accrued interest change	<u>3,154</u>
Total change in long-term debt	<u><u>\$ 207,843</u></u>

**3. BUDGETS AND BUDGETARY ACCOUNTING**

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

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

- A. On or before the first regularly scheduled meeting of the City Council in May, the City Administrator, authorized under state statute to be appointed budget officer, submits a proposed operation budget. The operating budget includes proposed expenditures and the means of financing them.
- B. A public hearing is held at which time the taxpayers' comments are heard. Notice of the hearing is given in the local newspaper at least seven days prior to the hearing. Copies of the proposed budget are made available for public inspection ten days prior to the public hearing.
- C. On or before June 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, 2016, \$539,716 of the local government’s bank balances of \$812,571 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.

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

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

*Continued*

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

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.

At June 30, 2016 the City had the following recurring fair value measurements.

<u>Investments by fair value level</u>	<u>6/30/2016</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	\$ 6,405,197	\$ -	\$ 6,405,197	\$ -
Total investments measured at fair value	<u>\$ 6,405,197</u>	<u>\$ -</u>	<u>\$ 6,405,197</u>	<u>\$ -</u>



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

*Continued*

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

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, 2016 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.

**As of June 30, 2016, the District’s investments had the following maturities:**

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>		
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
Debt Securities				
Utah Public Treasurers' Investment Fund	\$ 6,405,197	\$ 6,405,197	\$ -	\$ -
Total investments measured at fair value	<u>\$ 6,405,197</u>	<u>\$ 6,405,197</u>	<u>\$ -</u>	<u>\$ -</u>

**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, 2016, the City had investments of \$6,405,197 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

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

*Continued*

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

**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% 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.

**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:

	<u>General</u>	<u>Water</u>	<u>Sewer</u>	<u>Electric</u>	<u>Pressurized Irrigation</u>	<u>Nonmajor Utility Solid Waste</u>	<u>Nonmajor Utility Storm Water</u>	<u>Total</u>
Receivables:								
Accounts	\$ 55,228	\$89,268	\$153,761	\$338,915	\$ 69,874	\$ 38,968	\$ 14,327	\$ 760,341
Property Tax	793,359	-	-	-	-	-	-	793,359
Intergovernmental	63,036	-	-	-	-	-	-	63,036
Allowance	(4,158)	(4,740)	(3,713)	(21,006)	(3,323)	(2,017)	-	(38,957)
	<u>\$907,465</u>	<u>\$84,528</u>	<u>\$150,048</u>	<u>\$317,909</u>	<u>\$ 66,551</u>	<u>\$ 36,951</u>	<u>\$ 14,327</u>	<u>\$1,577,779</u>

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

*Continued*

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

The composition of interfund balances as of June 30, 2016 was as follows:

**Due to/from other funds:**

Receivable Fund	Payable Fund	Amount
Water Fund	Internal Service Fund	\$198,847

**Interfund Transfers:**

	Transfer In					Total
	General	Capital	Nonmajor Governmental	Business Type	Motor Pool	
Transfer out:						
General	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Capital	-	-	-	-	-	-
Nonmajor Govtl.	-	-	-	-	-	-
Business Type	443,036	-	-	-	-	443,036
Motor Pool	-	-	-	-	-	-
Total Transfer In	\$ 443,036	\$ -	\$ -	\$ -	\$ -	\$ 443,036

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

*Continued*

**7. CAPITAL ASSETS**

<b>Primary Governmental Governmental Activity</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 516,804	\$ -	\$ -	\$ 516,804
Construction in progress	87,781	357,670	87,781	357,670
Total capital assets not being depreciated	<u>604,585</u>	<u>357,670</u>	<u>87,781</u>	<u>874,474</u>
Capital assets being depreciated:				
Buildings	3,563,657	-	-	3,563,657
Improvements	2,536,066	98,476	-	2,634,542
Machinery and equipment	2,692,090	155,629	261,083	2,586,636
Infrastructure	22,225,435	1,363,348	-	23,588,783
Total capital assets being depreciated	<u>31,017,248</u>	<u>1,617,453</u>	<u>261,083</u>	<u>32,373,618</u>
Less accumulated depreciation	<u>(17,041,697)</u>	<u>(947,120)</u>	<u>(261,083)</u>	<u>(17,727,734)</u>
Total capital assets, being depreciated, net	<u>13,975,551</u>	<u>670,333</u>	<u>-</u>	<u>14,645,884</u>
Governmental activities capital assets, net	<u>\$ 14,580,136</u>	<u>\$ 1,028,003</u>	<u>\$ 87,781</u>	<u>\$ 15,520,358</u>

<b>Business-type activities:</b>	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,038,703	\$ -	\$ -	\$ 1,038,703
Construction in progress	976,984	196,575	-	1,173,559
Water rights and stock	1,076,181	-	-	1,076,181
Total capital assets not being depreciated	<u>3,091,868</u>	<u>196,575</u>	<u>-</u>	<u>3,288,443</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	42,086,391	1,751,336	-	43,837,727
Machinery and equipment	569,708	61,786	27,961	603,533
Infrastructure	1,277,903	-	-	1,277,903
Total capital assets being depreciated	<u>45,543,009</u>	<u>1,813,122</u>	<u>27,961</u>	<u>47,328,170</u>
Less accumulated depreciation	<u>(9,955,901)</u>	<u>(974,722)</u>	<u>(27,961)</u>	<u>(10,902,662)</u>
Total capital assets, being depreciated, net	<u>35,587,108</u>	<u>838,400</u>	<u>-</u>	<u>36,425,508</u>
Business-type activities capital assets, net	<u>\$ 38,678,976</u>	<u>\$ 1,034,975</u>	<u>\$ -</u>	<u>\$ 39,713,951</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	\$50,672
Public safety	106,576
Highway and public works	675,021
Parks and recreation	114,851
Total depreciation	<u>\$947,120</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.

The assets acquired through capital leases are as follows:

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery & Equipment	\$348,600
Accumulated Amortization	(100,515)
Total	<u>\$248,085</u>

Amortization of capital assets purchased under capital leases is included in depreciation. Current year depreciation was \$34,860.

**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, 2016:

<u>Fiscal Year</u>	<u>Governmental Amount</u>	<u>Business-type Amount</u>	<u>Total Amount</u>
2017	\$ 40,482	\$ -	\$ 40,482
2018	40,483	-	40,483
2019	40,482	-	40,482
2020	40,482	-	40,482
2021	40,482	-	40,482
Total Minimum lease payments	202,411	-	202,411
Less amounts representing interest	(12,701)	-	(12,701)
Present value of minimum lease payments	<u>\$ 189,710</u>	<u>\$ -</u>	<u>\$ 189,710</u>

At June 30, 2015 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	\$ 189,710	\$ -	\$ 189,710
Current Portion Capital Lease Payable	(36,309)	-	(36,309)
Long Term Capital Leases Payable	<u>\$ 153,401</u>	<u>\$ -</u>	<u>\$ 153,401</u>

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

*Continued*

**9. LONG-TERM DEBT**

Bonds and notes payable at June 30, 2016, were comprised of the following:

**Revenue Bonds**

<i>Secondary Water Revenue Bond – Series 2007: \$7,500,000 secondary water revenue bond due in annual principal and interest payments through September 2037 with an interest rate of 1.70 percent</i>	6,244,742
<i>Excise Tax Revenue Bond – Series 2008: \$3,500,000 excise tax revenue bond due in annual principal and semi-annual interest payments through September 1, 2027 with an interest rate of 3.95 percent</i>	2,318,000

**Revenue Bonds**

Fiscal Year	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2017	\$ 190,000	\$ 87,809	\$ 81,000	\$ 105,128
2018	198,000	80,146	94,000	103,585
2019	204,000	72,206	108,000	101,809
2020	211,000	64,010	178,000	99,080
2021	219,000	55,517	194,000	95,850
2022-2026	888,000	171,073	1,245,000	420,239
2027-2031	408,000	16,274	1,811,000	289,008
2032-2036	-	-	2,484,000	102,913
2037-2038	-	-	49,742	211
Total	\$ 2,318,000	\$ 547,035	\$ 6,244,742	\$ 1,317,823

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

*Continued*

**9. LONG-TERM DEBT – *Continued***

**Notes Payable**

During 2006, the City acquired a note for \$1,800,000 from a developer to be used for an electric substation. This interest free note is paid back to the developer based on a percentage of electric impact fees collected by the City.	696,627
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.	409,915
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.	758,291
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.	275,932

Fiscal Year	<b>Notes Payable</b>			
	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2017	\$ -	\$ -	\$ 211,265	\$ -
2018	-	-	211,265	-
2019	-	-	211,265	-
2020	-	-	211,265	-
2021	-	-	211,265	-
2022-2026	-	-	882,428	-
2027-2031	-	-	202,012	-
2032-2036	-	-	-	-
2037-2039	-	-	-	-
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,140,765</b>	<b>\$ -</b>



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

*Continued*

**9. LONG-TERM DEBT – *Continued***

The future annual requirements for all outstanding bond and note obligations as of June 30, 2016 were as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2017	\$ 482,265	\$ 192,937	\$ 675,202
2018	503,265	183,731	686,996
2019	523,265	174,015	697,280
2020	600,265	163,090	763,355
2021	624,265	151,367	775,632
2022-2026	3,015,428	591,312	3,606,740
2027-2031	2,421,012	305,282	2,726,294
2032-2036	2,484,000	102,913	2,586,913
2037-2039	49,742	211	49,953
<b>Total</b>	<b>\$ 10,703,507</b>	<b>\$ 1,864,858</b>	<b>\$ 12,568,365</b>

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

	July 1, 2015	Additions	Reductions	June 30, 2016	Due in One Year
<b>Governmental Activities</b>					
Bonds Payable:					
Excise tax bonds	\$ 2,502,000	\$ -	\$ 184,000	\$ 2,318,000	\$ 190,000
Capital Leases	225,237	-	35,527	189,710	36,309
Compensated absences	103,256	14,838	-	118,094	-
Gov't Activities Long-Term Debt	<u>\$ 2,830,493</u>	<u>\$ 14,838</u>	<u>\$ 219,527</u>	<u>\$ 2,625,804</u>	<u>\$ 226,309</u>
<b>Business Type Activities:</b>					
Bonds Payable:					
Revenue Bonds	\$ 6,313,742	\$ -	\$ 69,000	\$ 6,244,742	\$ 81,000
General Obligation Bonds	305,000	-	305,000	-	-
Notes Payable	2,440,050	-	299,285	2,140,765	211,265
Business-type Activities Long-Term Debt	<u>\$ 9,058,792</u>	<u>\$ -</u>	<u>\$ 673,285</u>	<u>\$ 8,385,507</u>	<u>\$ 292,265</u>

## 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:

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employees, retirement systems.
- The Public Safety Retirement System (Public Safety System) is a mixed agent and cost sharing, multiple employer 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](http://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 present	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%

\*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 follows:

Utah Retirement Systems	Employee paid	Paid by Employer for Employee	Employer Contribution Rates	Employer rate for 401(k) Plan
Contributory System				
111- Local Governmental Division Tier 2	n/a	n/a	16.67%	1.78%
Noncontributory System				
15- Local Governmental Division Tier 1	n/a	n/a	18.47%	n/a
Public Safety Retirement System				
Noncontributory				
122 - Other Division A Contributory Tier 2	n/a	n/a	23.66%	1.33%
Contributory				
75 - Other Division A Noncontributory Tier 1	n/a	n/a	35.71%	n/a

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, 2016, the employer and employee contributions to the Systems were as follows:

System	Employer Contributions	Employee Contributions
Noncontributory System	\$ 255,139	n/a
Public Safety System	149,366	-
Tier 2 Public Employees System	18,553	-
Tier 2 Public Safety and Firefighter System	2,872	-
Total Contributions	\$ 425,930	\$ -

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, 2016, we reported a net pension asset of \$855 and a net pension liability of \$1,334,191.

	Proportionate Share	Net Pension Asset	Net Pension Liability
Noncontributory System	0.1518143%	\$ -	\$ 859,039
Public Safety System	0.2652626%	-	475,152
Tier 2 Public Employees System	0.0162981%	36	-
Tier 2 Public Safety and Firefighter System	0.0560458%	819	-
Total Net Pension Asset/Liability		<u>\$ 855</u>	<u>\$ 1,334,191</u>

The net pension asset and liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2015 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.

For the year ended June 30, 2016, we recognized pension expense of \$335,727. At June 30 2016, 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
Differences between expected and actual experience	\$ 142	\$ 87,530
Changes in assumptions	-	79,962
Net difference between projected and actual earnings on pension plan investments	443,077	-
Changes in proportion and differences between contributions and proportionate share of contributions	24,310	-
Contributions subsequent to the measurement date	214,894	-
Total	<u>\$ 682,423</u>	<u>\$ 167,492</u>

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

*Continued*

**10. PENSION PLANS – *Continued***

\$214,894 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, 2015. 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	
2016	\$	60,718
2017		60,718
2018		74,261
2019		104,246
2020		(52)
Thereafter		142

*Actuarial assumptions* – The total pension liability in the December 31, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	3.50-10.50%, average, including inflation
Investment rate of return	7.50%, 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, 2015, 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. 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%
<b>Totals</b>	<b>100%</b>		<b>5.23%</b>
	<u>Inflation</u>		<u>2.75%</u>
	<u>Expected arithmetic nominal return</u>		<u>7.98%</u>

The 7.5 percent assumed investment rate of return is comprised of an inflation rate of 2.75 percent, a real return of 4.75 percent that is net of investment expense.

*Discount rate* – The discount rate used to measure the total pension liability was 7.5 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.

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 7.5 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 (6.5 percent) or one-percentage-point higher (8.5 percent) than the current rate:

System	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
Noncontributory System	\$ 1,815,064	\$ 859,039	\$ 60,950
Public Safety System	1,006,172	475,152	42,804
Tier 2 Public Employees System	6,525	(36)	(5,008)
Tier 2 Public Safety and Firefighter System	1,392	(819)	(2,517)
<b>Total</b>	<u>\$ 2,829,153</u>	<u>\$ 1,333,336</u>	<u>\$ 96,229</u>

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

*Continued*

**10. PENSION PLANS – *Continued***

*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

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

	2016		2015		2014
401(k) Plan					
Employer Contributions	\$ 61,846	\$	58,919	\$	55,242
Employee Contributions	\$ 62,653	\$	71,708	\$	67,851
457 Plan					
Employee Contributions	\$ 575	\$	650	\$	650
Roth IRA Plan					
Employee Contributions	\$ 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.

**10. 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.



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

*Continued*

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**11. JOINT VENTURES**

*South Utah Valley Solid Waste City*

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

Additional information is as follows:

- a. Participants and their percentage shares:
- |   |              |
|---|--------------|
| Spanish Fork City Corporation           | 11.75%       |
| Provo City Corporation                  | 69.75%       |
| Springville City Corporation            | 15.00%       |
| Mapleton City Corporation               | 2.00%        |
| Salem City Corporation                  | 1.50%        |
| Goshen City (Landfill participant only) | <u>0.00%</u> |
|   | 100.00%      |
- b. The City is governed by a Board of Directors which is comprised of six directors. The Mayor and City Council of each member City appoints one director. All decisions of the Board are by majority vote, except in the case of a tie. In a tie, the votes would be taken by tonnage. For Provo to prevail in a tie vote they would need one additional city to vote with them.
- c. The City's Board of Directors governs the operations of the City through management employed by the Board. Since the City is subject to the same laws as the creating entities, it must follow State law for cities in the areas of fiscal management, budgeting, and financing.
- d. Salem contributes annually for its percentage share of ownership for debt service as well as membership revenues. Salem recognizes its percentage of net income (loss) of the joint venture on an annual basis which can be seen as equity in a joint venture. Salem recognized \$14,750 of income in the current year leaving an investment balance of \$165,858 as of June 30, 2016.

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

*Continued*

**11. JOINT VENTURES – *Continued***

*South Utah Valley Solid Waste City – continued*

- e. A  
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 \$806,313 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.

**12. RESTRICTED FUND BALANCES**

The City had the following restricted cash/equity balances as of June 30, 2016:

	General	Perpetual Care	Water	Sewer	Electric	Pressurized Irrigation
Impact fees, unexpended	\$1,411,035	\$ -	\$ -	\$ 198,677	\$ -	\$ 15,165
B&C roads	45,443	-	-	-	-	-
Liquor allotment	436	-	-	-	-	-
Perpetual care	-	52,822	-	-	-	-
Debt sinking and reserves	-	-	-	-	-	452,383
Total	<u>\$1,456,914</u>	<u>\$ 52,822</u>	<u>\$ -</u>	<u>\$ 198,677</u>	<u>\$ -</u>	<u>\$ 467,548</u>

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

*Continued*

**13. 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, 2016 is as follows:

	<b>Motor Pool</b>	<b>Data Processing</b>	<b>Total</b>
Operating Revenues	\$ 376,996	\$ -	\$ 376,996
Depreciation and Amortization	(110,674)	-	(110,674)
Other Operating Expenses	(266,721)	-	(266,721)
Operating Income (Loss)	(399)	-	(399)
Non-Operating Revenue (Expense)	(4,955)	-	(4,955)
Transfers in (out)	-	-	-
Net Increase (Decrease) in Retained Earnings	\$ (5,354)	\$ -	\$ (5,354)
Total Assets	\$ 490,555	\$ -	\$ 490,555
Total Liabilities	404,572	-	404,572
Total Fund Equity	85,983	-	85,983

**14. 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, 2016 no activity occurred in the City's Redevelopment Agency.

**15. SUBSEQUENT EVENTS**

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 10, 2016, the date the financial statements were available to be issued.

**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, 2016**

	<b>As of fiscal year ended June 30,</b>	<b>Proportion of the net pension liability (asset)</b>	<b>Proportionate share of the net pension liability (asset)</b>	<b>Covered- employee payroll</b>	<b>Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll</b>	<b>Plan fiduciary net position as a percentage of its covered- employee payroll</b>
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%
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%
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%
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%

**SALEM CITY  
Schedule of Contributions**

**For the Year Ended June 30, 2016**

	<b>As of fiscal year ended June 30,</b>	<b>Actuarial Determined Contributions</b>	<b>Contributions in relation to the contractually required contribution</b>	<b>Contribution deficiency (excess)</b>	<b>Covered employee payroll</b>	<b>Contributions as a percentage of covered employee payroll</b>
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%
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%
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%
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%

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.

**SALEM CITY CORPORATION**  
**Notes to the Required Supplementary Information**

**For the year Ended June 30, 2016**

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*Changes in Assumptions:*

The following assumption changes were adopted from the most recent actuarial experience study. There was a decrease in the wage inflation assumption for all employee groups from 3.75% to 3.5%. Also there was a modification to the rate of salary increases for most groups. The payroll growth assumption was decreased from 3.5% to 3.25%. There was an improvement in the post retirement mortality assumption for female educators and minor adjustments to the pre-retirement mortality assumption.

There were additional changes to certain demographic assumptions that generally resulted in: (1) more members are anticipated to terminate employment prior to retirement, (2) slightly fewer members are expected to become disabled, and (3) members are expected to retire at a slightly later age.



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**SUPPLEMENTAL INFORMATION**

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

**As of June 30, 2016**

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2016	2015
<b>ASSETS</b>					
Cash & cash equivalents	\$ -	\$ 3,136	\$ 52,822	\$ 55,958	\$ 53,078
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 3,136</u>	<u>\$ 52,822</u>	<u>\$ 55,958</u>	<u>\$ 53,078</u>
<b>LIABILITIES</b>					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance:					
Restricted for perpetual care	-	-	52,822	52,822	50,446
Assigned: MBA	-	3,136	-	3,136	2,632
Unassigned	-	-	-	-	-
Total fund balance	<u>-</u>	<u>3,136</u>	<u>52,822</u>	<u>55,958</u>	<u>53,078</u>
Total liabilities & fund balance	<u>\$ -</u>	<u>\$ 3,136</u>	<u>\$ 52,822</u>	<u>\$ 55,958</u>	<u>\$ 53,078</u>

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

**For the Year Ended June 30, 2016**

	Special		Permanent Fund	Memorandum Totals	
	Revenue Funds				
	Redevelopment Agency	Municipal Building Authority			
<b>Revenues:</b>					
Intergovernmental	\$ -	\$ 66,360	\$ 1,882	\$ 68,242	\$ 67,875
Investment earnings	-	-	494	494	338
Total revenues	-	66,360	2,376	68,736	68,213
<b>Expenditures:</b>					
Current:					
Tax increment distributions	-	-	-	-	-
Debt Service:					
Principal retirement	-	50,000	-	50,000	48,000
Interest and fiscal charges	-	15,856	-	15,856	18,427
Total	-	65,856	-	65,856	66,427
Excess of revenues over expenditures	-	504	2,376	2,880	1,786
<b>Other financing sources (uses):</b>					
Transfers in (out)	-	-	-	-	(19,000)
Net change in fund balances	-	504	2,376	2,880	(17,214)
Fund balances - beginning of year	-	2,632	50,446	53,078	70,292
Fund balances - end of year	\$ -	\$ 3,136	\$ 52,822	\$ 55,958	\$ 53,078

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

**As of June 30, 2016**

	Waste Utility	Storm Water Utility	Memorandum Totals 2016	2015
<b>ASSETS</b>				
Cash and investments	\$ 190,943	\$ 72,482	\$ 263,425	\$ 200,023
Accounts receivable, net	36,951	14,327	51,278	47,315
Total current assets	227,894	86,809	314,703	247,338
<b><u>Noncurrent assets</u></b>				
Land, equipment, buildings, and improvements	23,000	1,594,358	1,617,358	1,270,763
Less accumulated depreciation	(14,662)	(170,861)	(185,523)	(159,993)
Equity in joint venture	165,858	-	165,858	151,108
Total noncurrent assets	174,196	1,423,497	1,597,693	1,261,878
Total assets	402,090	1,510,306	1,912,396	1,509,216
Accounts payable				
	27,819	2,062	29,881	16,794
Total liabilities	27,819	2,062	29,881	16,794
Net position:				
Net investment in capital assets	8,338	1,423,497	1,431,835	1,110,770
Unrestricted	365,933	84,747	450,680	381,652
Total net position	\$ 374,271	\$ 1,508,244	\$ 1,882,515	\$ 1,492,422

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

**For the Year Ended June 30, 2016**

	Waste Utility	Storm Water Utility	Memorandum Totals	
			2016	2015
<b>Operating revenues:</b>				
Charges for services	\$ 410,694	\$ 164,625	\$ 575,319	\$ 536,043
Fees and miscellaneous	15,491	-	15,491	12,763
Total operating revenues	<u>426,185</u>	<u>164,625</u>	<u>590,810</u>	<u>548,806</u>
<b>Operating expenses:</b>				
Salaries and wages	7,337	24,425	31,762	32,984
Employee benefits	2,094	6,118	8,212	7,995
Contractual services	309,426	17,660	327,086	257,352
Supplies and materials	17,340	14,508	31,848	36,677
Administrative services	65,700	53,904	119,604	104,532
Utilities and telephone	-	-	-	-
Depreciation and amortization	575	24,955	25,530	21,826
Total operating expenses	<u>402,472</u>	<u>141,570</u>	<u>544,042</u>	<u>461,366</u>
Operating income (loss)	<u>23,713</u>	<u>23,055</u>	<u>46,768</u>	<u>87,440</u>
<b>Non-operating revenue (expense):</b>				
Interest revenue	-	-	-	-
Increase (decrease) equity in joint venture	14,750	-	14,750	(10,550)
Loss on sale of asset	-	-	-	-
Total non-operating revenue (expense)	<u>14,750</u>	<u>-</u>	<u>14,750</u>	<u>(10,550)</u>
Net income before contributions & transfers	38,463	23,055	61,518	76,890
Transfers in (out)	(6,500)	(11,520)	(18,020)	(22,508)
Developers contributions	-	346,595	346,595	185,202
Change in net position	31,963	358,130	390,093	239,584
Net position - beginning	342,308	1,150,114	1,492,422	1,252,838
Net position - ending	<u>\$ 374,271</u>	<u>\$ 1,508,244</u>	<u>\$ 1,882,515</u>	<u>\$ 1,492,422</u>

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

**For the Year Ended June 30, 2016**

	Waste Utility Fund	Storm Water Utility	Total
<b>Cash Flows From Operating Activities</b>			
Receipts from customers and users	\$ 429,640	\$ 165,133	\$ 594,773
Payments to suppliers	(322,767)	(39,218)	(361,985)
Payments to general fund for services	(65,700)	(53,904)	(119,604)
Payments to employees	(7,337)	(24,425)	(31,762)
Net cash provided by operating activities	33,836	47,586	81,422
<b>Cash Flows From Noncapital Financing Activities</b>			
Interfund Activity	(6,500)	(11,520)	(18,020)
Net cash provided (used) by noncapital financing activ.	(6,500)	(11,520)	(18,020)
Net increase (decrease) in cash and cash equivalents	27,336	36,066	63,402
Cash and equivalents at beginning of year	163,607	36,416	200,023
Cash and equivalents at end of year	\$ 190,943	\$ 72,482	\$ 263,425
Shown in the Statement of Net Position as:			
Cash and cash equivalents	\$ 190,943	\$ 72,482	\$ 263,425
Restricted cash equivalents at end of year	-	-	-
	\$ 190,943	\$ 72,482	\$ 263,425
<b>Reconciliation of operating income to net cash provided by operating activities:</b>			
Operating income (loss)	\$ 23,713	\$ 23,055	\$ 46,768
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization Expense	575	24,955	25,530
(Increase) decrease in accounts receivable	(3,455)	(508)	(3,963)
Increase (decrease) in accounts payable	13,003	84	13,087
Total adjustments	10,123	24,531	34,654
Net cash provided by operating activities:	\$ 33,836	\$ 47,586	\$ 81,422
<b>Supplementary information</b>			
Non-cash items from capital and related financing activities include contributions by developers	\$ -	\$ 346,595	\$ 346,595
Non-cash purchase of assets through debt	\$ -	\$ -	\$ -



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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, 2016, and the related notes to the financial statements, which collectively comprise City of Salem, Utah's basic financial statements and have issued our report thereon dated October 10, 2016.

**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 2016-1 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 finding 2016-2.

### **City of Salem, Utah's Response to Findings**

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

### **Purpose of this Report**

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

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North Logan, UT  
October 10, 2016



**INDEPENDENT AUDITOR'S REPORT IN ACCORDANCE WITH THE *STATE COMPLIANCE  
AUDIT GUIDE* ON COMPLIANCE WITH GENERAL STATE COMPLIANCE REQUIREMENTS  
AND INTERNAL CONTROL OVER COMPLIANCE**

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

**Report On Compliance with General State Compliance Requirements**

We have audited the City of Salem, Utah the (City)'s compliance with the applicable general state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the Utah State Auditor, that could have a direct and material effect on the City for the year ended June 30, 2016.

General state compliance requirements were tested for the year ended June 30, 2016 in the following areas:

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

***Management's Responsibility***

Management is responsible for compliance with the general 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 compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those

standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the City. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance with general state compliance requirements. However, our audit does not provide a legal determination of the City's compliance.

### ***Opinion on General State Compliance Requirements***

In our opinion, the City of Salem, Utah complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the City for the year ended June 30, 2016.

### ***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 item 2016-2.

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

### **Report On Internal Control Over Compliance**

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

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

is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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North Logan, UT  
October 10, 2016



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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, 2016**

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**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.

**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.

**Finding 2015-1 – Accrual basis journal entries (significant deficiency)** – The City does not book accrual basis journal entries during the year. This caused many adjustments during the audit process that needed to be booked.

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

*Management response* – Management agrees with the auditors’ recommendations. 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 2016-1.

**SALEM CITY**  
**Schedule of Findings and Recommendations**

**For the Year Ended June 30, 2016**

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**Finding 2015-2** – *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 auditors’ recommendations. Management will make sure the approved public meeting minutes will be posted within three day requirement on the Utah Public Notice Website.

*Status* – See repeat finding at 2016-2.

**Finding 2015-3** – *Cash Management (State Compliance)* – A written cash report is required to be filed every six months with the State that includes all cash and investment accounts. This report was filed but some of the cash and investment accounts were not included on the report.

*Recommendation* – Review the monthly financial statements and verify that all accounts are included on the cash management report.

*Management response* – Management agrees with the auditors’ recommendations. Management will ensure all accounts are included on the cash management report.

*Status* – The report was correct in the current year in all material respects.

