



Salem City Corporation

**Financial Statements
June 30, 2020**

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INTRODUCTORY SECTION

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Mayor
Kurt L. Christensen

Salem City Corporation

"Modern Living in a Rural Setting"

City Council
Howard Chuntz
Sterling M. Rees
Cristy Simons
Seth Sorensen
Craig B. Warren

PRIDE

UNITY

SERVICE



November 30, 2020

Salem City Council
Salem, Utah

It is with great pleasure that the financial statements for the City of Salem for the year ended June 30, 2020, 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, 2020, 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, 2020, 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, 2020, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

Recorder - Jeffrey Nielson

Treasurer - Tammy M. Beck

Chief of Police - Brad S. James

The financial reporting entity 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 Kurt Christensen
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 Salem City, Utah (the "City") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents. We also have audited the aggregate nonmajor governmental funds, the aggregate nonmajor enterprise funds, and the internal service fund type of the City as of and for the year ended June 30, 2020, as displayed in the City's basic financial statements.

Management's Responsibility for the Financial Statements

City 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, as well as of the aggregate nonmajor governmental funds, the aggregate nonmajor enterprise funds, and the internal service fund type of Salem City, Utah, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section and combining nonmajor fund financial statements, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards 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 nonmajor fund financial statements and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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

North Logan, UT
November 30, 2020

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SALEM CITY CORPORATION
Management's Discussion and Analysis

For the Year Ended June 30, 2020

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, 2020. 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 \$76,069,722. Of this amount, \$64,739,885 consisted of capital assets, net of any related debt and \$4,569,736 of restricted net position. As such, the City has \$805,017 of unrestricted governmental net position and \$5,955,084 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) and functions that are intended to recover all or a significant portion of costs through user fees and charges (business-type activities).

The government-wide financial statements can be found on pages 23-25 of this report.

SALEM CITY CORPORATION

Management's Discussion and Analysis

Continued

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

- Governmental Funds – These funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. These fund statements focus on the flow of resources and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed, short-term view of the City's general government operations and the basic services provided. Governmental fund information helps users determine whether there are more or fewer financial resources available to spend in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation included with the fund financial statements.

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

- Proprietary Funds – Salem City maintains two types of proprietary funds.
 - Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Salem City uses enterprise funds to account for its water, sewer, electric, pressurized irrigation, solid waste, and storm water 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 \$76,069,722.

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

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

The following table summarizes the City's net position as of June 30, 2020:

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Current and other assets	\$ 11,427,137	\$ 6,514,491	\$ 9,017,752	\$ 8,958,951
Capital assets	25,389,907	20,727,353	70,416,107	63,018,201
Deferred outflow of resources	339,117	750,960	113,039	250,319
Total assets and deferred outflow of resources	<u>37,156,161</u>	<u>27,992,804</u>	<u>79,546,898</u>	<u>72,227,471</u>
Long-term debt outstanding	4,069,667	2,102,566	26,988,111	24,747,608
Other liabilities	6,578,380	4,333,399	1,465,423	2,482,798
Deferred inflow of resources	1,395,586	985,251	136,170	18,485
Total liabilities and deferred inflow of resources	<u>12,043,633</u>	<u>7,421,216</u>	<u>28,589,704</u>	<u>27,248,891</u>
Net position:				
Net investment in capital assets	21,311,889	18,602,083	43,427,996	38,270,593
Restricted	2,995,622	1,309,840	1,574,114	962,302
Unrestricted	805,017	659,665	5,955,084	5,745,685
Total net position	<u>\$ 25,112,528</u>	<u>\$ 20,571,588</u>	<u>\$ 50,957,194</u>	<u>\$ 44,978,580</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Governmental activities increased Salem City's net position by \$4,540,940 and business-type activities increased net position by \$5,978,614. The elements of these increases for the fiscal year ended June 30, 2020 were as follows:

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Revenues:				
Program revenues:				
Charges for services	\$ 2,189,404	\$ 1,788,198	\$ 10,394,210	\$ 9,122,385
Operating grants & contributions	538,947	556,119	-	-
Capital grants & contributions	4,879,101	3,610,262	5,860,459	6,647,558
General revenues:				
Property taxes	950,122	900,458	-	-
Other taxes	1,782,965	1,594,601	-	-
Investment income	201,224	209,486	24,385	102,347
Other revenues	67	49	-	-
Total revenues	<u>\$ 10,541,830</u>	<u>\$ 8,659,173</u>	<u>\$ 16,279,054</u>	<u>\$ 15,872,290</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

	Governmental Activities		Business-type Activities	
	2020	2019	2020	2019
Expenses:				
General government	\$ 742,687	\$ 697,885	\$ -	\$ -
Public safety	1,922,154	1,835,127	-	-
Highways/public improvements	2,088,468	1,929,479	-	-
Parks & recreation	1,447,343	1,755,601	-	-
Interest on long term debt	45,270	88,713	-	-
Water	-	-	1,218,768	1,315,434
Sewer	-	-	1,450,520	1,410,435
Electric	-	-	5,442,432	4,767,947
Pressurized Irrigation	-	-	1,158,759	1,097,610
Waste	-	-	536,716	521,549
Storm Water	-	-	248,213	275,500
Total expenses	<u>6,245,922</u>	<u>6,306,805</u>	<u>10,055,408</u>	<u>9,388,475</u>
Change in net position	4,295,908	2,352,368	6,223,646	6,483,815
Transfers	<u>245,032</u>	<u>262,012</u>	<u>(245,032)</u>	<u>(262,012)</u>
Net change in net position	4,540,940	2,614,380	5,978,614	6,221,803
Net position, beginning	<u>20,571,588</u>	<u>17,957,208</u>	<u>44,978,580</u>	<u>38,756,777</u>
Net position, ending	<u>\$ 25,112,528</u>	<u>\$ 20,571,588</u>	<u>\$ 50,957,194</u>	<u>\$ 44,978,580</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of \$5,185,308. Of this total amount \$2,189,686 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 and assigned fund balance of the General Fund was \$1,310,292, while total fund balance reached \$4,240,214. The General Fund unreserved fund balance ended at 12 percent of total general fund revenue, which complies with the state requirement 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 \$5,900,367. 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 \$7,035,908 to a final budget of \$10,471,421, an increase of \$3,435,513. Major changes are summarized as follows:

• General government	\$233,174
• Parks and recreation	2,418,485
• Highways and public works	998,233
• Debt service	(165,099)

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, 2020 amounts to \$95,806,014 (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 \$12,060,460.

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

• Road, sidewalk and park improvements	\$3,491,430
• Sewer line improvements	4,299,798
• Water line improvements	1,203,989
• Storm drain improvements	906,536
• Electrical improvements	1,360,524
• Pressurized irrigation improvements	719,996
• Vehicles and equipment	363,004
• Buildings	45,630
• Land acquisition	2,273,600

Total capital assets as of June 30, 2020 were as follows:

	Governmental Activities	Business-type Activities	Total
Land	\$ 3,970,204	\$ 1,445,703	\$ 5,415,907
Buildings	4,597,642	1,609,007	6,206,649
Improvements	2,835,309	57,636,947	60,472,256
Equipment	3,482,489	1,058,437	4,540,926
Infrastructure	32,439,262	1,277,903	33,717,165
Water rights	-	1,076,181	1,076,181
Construction in progress	254,447	21,524,593	21,779,040
Accumulated depreciation	(22,189,446)	(15,212,664)	(37,402,110)
Total assets	<u>\$ 25,389,907</u>	<u>\$ 70,416,107</u>	<u>\$ 95,806,014</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Long Term Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$29,398,742. 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 increased by \$4,680,000 due to the new sewer project, and MBA lease revenue bond.

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds	\$ -	\$ -	\$ -
Revenue bonds	<u>3,884,000</u>	<u>25,514,742</u>	<u>29,398,742</u>
Total bonds	<u>\$ 3,884,000</u>	<u>\$ 25,514,742</u>	<u>\$ 29,398,742</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The General Fund budget for the fiscal year-ending June 30, 2021 reflects a decrease of nine percent in expenditures over the final fiscal year ending June 30, 2020 due to the large park land purchase in 2020.

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 requests 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, 2020

	Governmental Activities	Business-type Activities	Total 2020	Memorandum 2019
Assets				
Cash and investments	\$ 7,145,542	\$ 5,565,352	\$ 12,710,894	\$ 10,116,666
Cash - restricted	3,117,053	1,574,114	4,691,167	2,393,573
Receivables - net	1,164,542	718,203	1,882,745	1,761,001
Inventories	-	81,118	81,118	138,805
	<hr/>	<hr/>	<hr/>	<hr/>
Total current assets	11,427,137	7,938,787	19,365,924	14,410,045
Equity in joint venture	-	1,078,965	1,078,965	1,063,397
Capital assets				
Land	3,970,204	1,445,703	5,415,907	3,142,307
Buildings	4,597,642	1,609,007	6,206,649	6,161,019
Improvements	2,835,309	57,636,947	60,472,256	55,639,305
Equipment	3,482,489	1,058,437	4,540,926	4,188,372
Infrastructure	32,439,262	1,277,903	33,717,165	30,537,900
Water rights	-	1,076,181	1,076,181	1,076,181
Construction in progress	254,447	21,524,593	21,779,040	17,808,983
Accumulated depreciation	(22,189,446)	(15,212,664)	(37,402,110)	(34,808,513)
Pension asset	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	36,817,044	79,433,859	116,250,903	99,218,996
Deferred outflow of resources - pensions	339,117	113,039	452,156	1,001,279
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows	\$ 37,156,161	\$ 79,546,898	\$ 116,703,059	\$ 100,220,275

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

SALEM CITY CORPORATION
Statement of Net Position

Continued

	Governmental Activities	Business-type Activities	Total 2020	Memorandum 2019
Liabilities and deferred inflows of resources				
Accounts payable and accrued liabilities	\$ 5,424,834	\$ 1,418,261	\$ 6,843,095	\$ 4,648,967
Bond interest payable	8,351	79,875	88,226	105,271
Loans payable	-	529,403	529,403	308,746
Bonds and capital leases payable - current	402,583	807,284	1,209,867	507,926
Internal balances	310,834	(310,834)	-	-
Net pension liability	834,361	278,121	1,112,482	2,061,959
Loans payable - noncurrent	-	836,008	836,008	1,409,957
Bonds and capital leases payable - noncurrent	3,667,084	24,815,416	28,482,500	24,623,545
Total liabilities	10,648,047	28,453,534	39,101,581	33,666,371
Deferred inflows of resources - pensions	408,506	136,170	544,676	73,942
Deferred inflows of resources - property taxes	987,080	-	987,080	929,794
Total liabilities and deferred inflows of resources	12,043,633	28,589,704	40,633,337	34,670,107
Net position				
Net investment in capital assets	21,311,889	43,427,996	64,739,885	56,872,676
Restricted for debt and capital improvements	2,995,622	1,574,114	4,569,736	2,272,142
Unrestricted	805,017	5,955,084	6,760,101	6,405,350
Total net position	\$ 25,112,528	\$ 50,957,194	\$ 76,069,722	\$ 65,550,168

SALEM CITY CORPORATION
Statement of Activities

For the Year Ended June 30, 2020

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position			Memorandum 2019
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 742,687	\$ 1,409,116	\$ 24,345	\$ -	\$ 690,774	\$ -	\$ 400,929
Public safety	1,922,154	324,391	12,578	540,686	(1,044,499)	-	(1,308,893)
Highways and public works	2,088,468	-	414,029	3,699,580	2,025,141	-	1,472,758
Parks and recreation	1,447,343	455,897	87,995	638,835	(264,616)	-	(828,307)
Interest on long-term debt	45,270	-	-	-	(45,270)	-	(88,713)
Total governmental activities	<u>6,245,922</u>	<u>2,189,404</u>	<u>538,947</u>	<u>4,879,101</u>	<u>1,361,530</u>	<u>-</u>	<u>(352,226)</u>
Business-type activities:							
Water utility	1,218,768	1,264,839	-	1,135,657	-	1,181,728	1,348,258
Sewer utility	1,450,520	1,821,429	-	1,268,258	-	1,639,167	2,314,253
Electric utility	5,442,432	5,472,786	-	1,561,030	-	1,591,384	1,277,274
Pressurized irrigation	1,158,759	1,019,079	-	988,978	-	849,298	564,304
Waste utility	536,716	816,077	-	-	-	279,361	252,229
Storm water utility	248,213	-	-	906,536	-	658,323	625,150
Total business-type activities	<u>\$ 10,055,408</u>	<u>\$ 10,394,210</u>	<u>\$ -</u>	<u>\$ 5,860,459</u>	<u>-</u>	<u>6,199,261</u>	<u>6,381,468</u>
General Revenues:							
Property taxes					950,122	-	900,458
General sales and use tax					1,292,059	-	1,188,750
Franchise tax and other taxes					490,906	-	405,851
Unrestricted investment earnings					201,224	24,385	311,833
Sale of capital assets					67	-	49
Transfers					245,032	(245,032)	-
Total general revenues and transfers					<u>3,179,410</u>	<u>(220,647)</u>	<u>2,806,941</u>
Change in net position					4,540,940	5,978,614	8,836,183
Net position, beginning					20,571,588	44,978,580	56,713,985
Net position, ending					<u>\$ 25,112,528</u>	<u>\$ 50,957,194</u>	<u>\$ 65,550,168</u>

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

SALEM CITY CORPORATION
Balance Sheet
Governmental Funds

As of June 30, 2020

	General	Capital Projects Fund	Non-major Governmental Funds	Total 2020	Memorandum 2019
Assets					
Cash and investments	\$ 6,266,148	\$ 876,260	\$ 3,134	\$ 7,145,542	\$ 4,001,067
Restricted cash	3,051,353	-	65,700	3,117,053	1,431,271
Receivables (net):					
Property tax	1,006,923	-	-	1,006,923	944,039
Other	157,619	-	-	157,619	138,114
Due from other funds	-	-	-	-	-
Total assets	<u>\$ 10,482,043</u>	<u>\$ 876,260</u>	<u>\$ 68,834</u>	<u>\$ 11,427,137</u>	<u>\$ 6,514,491</u>

SALEM CITY CORPORATION
Balance Sheet
Governmental Funds

Continued

	General	Capital Projects Fund	Non-major Governmental Funds	Total 2020	Memorandum 2019
Liabilities, deferred inflows of resources and fund balance					
Liabilities:					
Accounts payable and accrued liabilities	\$ 5,254,749	\$ -	\$ -	\$ 5,254,749	\$ 2,564,528
Due to other funds	-	-	-	-	-
Total liabilities	<u>5,254,749</u>	<u>-</u>	<u>-</u>	<u>5,254,749</u>	<u>2,564,528</u>
Deferred inflows of resources	<u>987,080</u>	<u>-</u>	<u>-</u>	<u>987,080</u>	<u>929,794</u>
Total liabilities and deferred inflows of resources	<u>6,241,829</u>	<u>-</u>	<u>-</u>	<u>6,241,829</u>	<u>3,494,322</u>
Fund balance:					
Restricted for:					
Roads and recreational activities	2,929,922	-	-	2,929,922	1,247,236
Perpetual care fund	-	-	65,700	65,700	62,604
Assigned for:					
Library	-	-	-	-	-
Capital projects	70,000	876,260	-	946,260	1,182,361
Municipal building authority	-	-	3,134	3,134	3,133
Unassigned for:					
General fund	<u>1,240,292</u>	<u>-</u>	<u>-</u>	<u>1,240,292</u>	<u>524,835</u>
Total fund balances	<u>4,240,214</u>	<u>876,260</u>	<u>68,834</u>	<u>5,185,308</u>	<u>3,020,169</u>
Total liabilities, deferred inflow of resources and fund balances	<u>\$ 10,482,043</u>	<u>\$ 876,260</u>	<u>\$ 68,834</u>	<u>\$ 11,427,137</u>	<u>\$ 6,514,491</u>

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

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

As of June 30, 2020

Total fund balances for governmental funds	\$ 5,185,308
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Consolidation of internal service funds	(54,717)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	25,389,907
Pension related assets, liabilities, deferred inflows and deferred outflows are not payable in the current period, so are not reported in the funds.	(903,750)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(4,504,220)</u>
Net position of governmental activities	<u>\$ 25,112,528</u>

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

For the Year Ended June 30, 2020

	General	Capital Projects Fund	Non-Major Governmental Funds	Total 2020	Memorandum 2019
Revenues:					
Taxes	\$ 2,733,087	\$ -	\$ -	\$ 2,733,087	\$ 2,495,059
Licenses and permits	1,163,687	-	-	1,163,687	739,342
Intergovernmental	480,462	-	62,800	543,262	642,925
Charges for services	2,647,584	-	-	2,647,584	1,562,081
Investment earnings	199,856	-	1,368	201,224	209,486
Fines and forfeitures	35,195	-	-	35,195	30,362
Miscellaneous revenues	87,628	62,000	-	149,628	133,181
Total revenues	<u>7,347,499</u>	<u>62,000</u>	<u>64,168</u>	<u>7,473,667</u>	<u>5,812,436</u>
Expenditures:					
Current:					
General government	637,139	-	-	637,139	580,623
Public safety	1,863,476	-	-	1,863,476	1,885,371
Highways and public works	1,408,154	-	-	1,408,154	1,273,898
Parks and recreation	3,808,453	-	-	3,808,453	1,736,579
Debt service:					
Principal retirement	253,292	-	58,000	311,292	309,851
Interest and fiscal charges	56,552	-	3,071	59,623	92,182
Total expenditures	<u>8,027,066</u>	<u>-</u>	<u>61,071</u>	<u>8,088,137</u>	<u>5,878,504</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (679,567)</u>	<u>\$ 62,000</u>	<u>\$ 3,097</u>	<u>\$ (614,470)</u>	<u>\$ (66,068)</u>

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

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

Continued

	General	Capital Projects Fund	Non-Major Governmental Funds	Total 2020	Memorandum 2019
Other financing sources (uses):					
Transfers in	\$ 807,133	64,000	\$ -	\$ 871,133	\$ 845,263
Transfers out	(264,000)	(362,101)	-	(626,101)	(583,251)
Proceeds from loan	2,534,510	-	-	2,534,510	-
Sale of assets	67	-	-	67	49
Total other financing sources (uses)	<u>3,077,710</u>	<u>(298,101)</u>	<u>-</u>	<u>2,779,609</u>	<u>262,061</u>
Net change in fund balance	2,398,143	(236,101)	3,097	2,165,139	195,993
Fund balances, beginning	<u>1,842,071</u>	<u>1,112,361</u>	<u>65,737</u>	<u>3,020,169</u>	<u>2,824,176</u>
Fund balances, ending	<u><u>\$ 4,240,214</u></u>	<u><u>\$ 876,260</u></u>	<u><u>\$ 68,834</u></u>	<u><u>\$ 5,185,308</u></u>	<u><u>\$ 3,020,169</u></u>

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

For the Year Ended June 30, 2020

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

Net change in fund balances-total governmental funds	\$ 2,165,139
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current	1,594,458
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net position.	3,068,096
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. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,239,370)
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 funds.	(8,952)
Pension (expense) benefit	(52,784)
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.	14,353
Change in net position of governmental activities	<u>\$ 4,540,940</u>

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

For the Year Ended June 30, 2020

	Budget Amounts		General Fund	Variance with
	Original Budget	Final Budget		Final Budget Positive (Negative)
Revenues:				
Taxes	\$2,577,157	\$2,693,000	\$2,733,087	\$ 40,087
Licenses and permits	400,895	619,655	1,163,687	544,032
Intergovernmental	778,126	986,300	480,462	(505,838)
Charges for services	2,377,389	2,373,939	2,647,584	273,645
Fines and forfeitures	40,644	40,644	35,195	(5,449)
Miscellaneous revenues	485,697	476,475	287,484	(188,991)
Total revenues	<u>6,659,908</u>	<u>7,190,013</u>	<u>7,347,499</u>	<u>157,486</u>
Expenditures:				
Current:				
General government	2,040,917	2,274,091	637,139	1,636,952
Public safety	1,967,263	1,917,983	1,863,476	54,507
Highways and public works	973,429	1,971,662	1,408,154	563,508
Parks and recreation	1,546,158	3,964,643	3,808,453	156,190
Debt Service	508,141	343,042	309,844	33,198
Total expenditures	<u>7,035,908</u>	<u>10,471,421</u>	<u>8,027,066</u>	<u>2,444,355</u>
Excess of expenditures over revenues	<u>(376,000)</u>	<u>(3,281,408)</u>	<u>(679,567)</u>	<u>2,601,841</u>
Other financing sources (uses):				
Sale of assets	-	-	67	67
Proceeds from loan	-	2,534,510	2,534,510	-
Transfers in	445,000	1,035,898	807,133	(228,765)
Transfers out	<u>(69,000)</u>	<u>(289,000)</u>	<u>(264,000)</u>	<u>25,000</u>
Net change in fund balance	-	-	2,398,143	2,398,143
Fund balance, beginning	<u>1,842,071</u>	<u>1,842,071</u>	<u>1,842,071</u>	<u>-</u>
Fund balance, ending	<u>\$1,842,071</u>	<u>\$1,842,071</u>	<u>\$4,240,214</u>	<u>\$ 2,398,143</u>

SALEM CITY CORPORATION
Statement of Net Position
Proprietary Funds

As of June 30, 2020

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Activities Internal Services Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Assets							
Current assets:							
Cash and investments	\$ 1,865,145	\$ 1,209,135	\$ 1,528,192	\$ 713,490	\$ 249,390	\$ 5,565,352	\$ 66,529
Accounts receivable, net	81,220	157,875	338,443	76,002	64,663	718,203	-
Inventories	2,223	-	78,895	-	-	81,118	-
Due from other funds	-	256,117	-	-	-	256,117	-
Total current assets	<u>1,948,588</u>	<u>1,623,127</u>	<u>1,945,530</u>	<u>789,492</u>	<u>314,053</u>	<u>6,620,790</u>	<u>66,529</u>
Noncurrent assets							
Restricted cash and cash equivalents	-	868,140	-	705,974	-	1,574,114	-
Land, equipment, buildings, and improv.	15,113,386	35,647,905	13,713,767	15,977,758	4,099,774	84,552,590	1,811,128
Less accumulated depreciation	(4,383,315)	(4,509,724)	(3,284,448)	(2,651,481)	(383,696)	(15,212,664)	(1,508,769)
Water rights and stock	747,339	-	-	328,842	-	1,076,181	-
Equity in joint venture	-	847,393	-	-	231,572	1,078,965	-
Total noncurrent assets	<u>11,477,410</u>	<u>32,853,714</u>	<u>10,429,319</u>	<u>14,361,093</u>	<u>3,947,650</u>	<u>73,069,186</u>	<u>302,359</u>
Total assets	<u>13,425,998</u>	<u>34,476,841</u>	<u>12,374,849</u>	<u>15,150,585</u>	<u>4,261,703</u>	<u>79,689,976</u>	<u>368,888</u>
Deferred outflow of resources - pensions	9,043	31,651	63,302	9,043	-	113,039	-
Total assets and deferred outflows	<u>\$ 13,435,041</u>	<u>\$ 34,508,492</u>	<u>\$ 12,438,151</u>	<u>\$ 15,159,628</u>	<u>\$ 4,261,703</u>	<u>\$ 79,803,015</u>	<u>\$ 368,888</u>

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

SALEM CITY CORPORATION
Statement of Net Position
Proprietary Funds

Continued

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Activities Internal Services Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Liabilities							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 20,088	\$ 330,043	\$ 1,014,505	\$ 87,667	\$ 45,833	\$ 1,498,136	\$ 29,958
Due to other funds	-	-	-	-	-	-	-
Loans payable	96,532	192,860	240,011	-	-	529,403	-
Bonds and capital leases	-	560,000	53,284	194,000	-	807,284	39,611
Total current liabilities	<u>116,620</u>	<u>1,082,903</u>	<u>1,307,800</u>	<u>281,667</u>	<u>45,833</u>	<u>2,834,823</u>	<u>69,569</u>
Noncurrent liabilities:							
Net pension liability	22,250	77,874	155,747	22,250	-	278,121	-
Loans payable	443,445	323,789	68,774	-	-	836,008	-
Bonds and capital leases	-	19,171,000	54,674	5,589,742	-	24,815,416	-
Total long-term liabilities	<u>465,695</u>	<u>19,572,663</u>	<u>279,195</u>	<u>5,611,992</u>	<u>-</u>	<u>25,929,545</u>	<u>-</u>
Total liabilities	<u>582,315</u>	<u>20,655,566</u>	<u>1,586,995</u>	<u>5,893,659</u>	<u>45,833</u>	<u>28,764,368</u>	<u>69,569</u>
Deferred inflows of resources - pensions	10,894	38,127	76,255	10,894	-	136,170	-
Total liabilities and deferred inflows of resources	<u>\$ 593,209</u>	<u>\$ 20,693,693</u>	<u>\$ 1,663,250</u>	<u>\$ 5,904,553</u>	<u>\$ 45,833</u>	<u>\$ 28,900,538</u>	<u>\$ 69,569</u>
Net Position							
Net investment in capital assets	\$ 10,937,433	\$ 10,890,532	\$ 10,012,576	\$ 7,871,377	\$ 3,716,078	\$ 43,427,996	\$ 262,748
Restricted for debt and impact fees	-	868,140	-	705,974	-	1,574,114	-
Unrestricted	1,904,399	2,056,127	762,325	677,724	499,792	5,900,367	36,571
Total net position	<u>\$ 12,841,832</u>	<u>\$ 13,814,799</u>	<u>\$ 10,774,901</u>	<u>\$ 9,255,075</u>	<u>\$ 4,215,870</u>	<u>50,902,477</u>	<u>\$ 299,319</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						54,717	
Net position from business-type activities						<u>\$ 50,957,194</u>	

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

For the Year Ended June 30, 2020

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Operating revenues:							
Charges for services	\$ 1,222,888	\$ 1,821,304	\$ 5,402,916	\$ 958,949	\$ 785,876	\$10,191,933	\$ 444,048
Fees and miscellaneous	41,951	125	69,870	60,130	30,201	202,277	-
Total operating revenues	1,264,839	1,821,429	5,472,786	1,019,079	816,077	10,394,210	444,048
Operating expenses:							
Purchased power	-	-	2,886,553	-	-	2,886,553	-
Salaries and wages	123,948	214,129	452,847	81,878	35,794	908,596	-
Employee benefits	30,292	140,253	232,633	15,948	21,317	440,443	3,639
Contractual services	123,323	96,079	363,320	210,818	492,024	1,285,564	204,030
Supplies and materials	162,822	176,384	808,230	98,718	25,163	1,271,317	81,463
Administrative services	422,148	277,164	404,352	338,639	159,529	1,601,832	-
Utilities and telephone	58,802	71,690	-	24,190	-	154,682	-
Depreciation	299,718	285,115	292,671	290,344	69,111	1,236,959	137,492
Total operating expenses	1,221,053	1,260,814	5,440,606	1,060,535	802,938	9,785,946	426,624
Operating income (loss)	\$ 43,786	\$ 560,615	\$ 32,180	\$ (41,456)	\$ 13,139	\$ 608,264	\$ 17,424

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

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

Continued

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation			
Non-operating revenue (expense):							
Interest revenue	\$ -	\$ 12,585	\$ -	\$ 11,800	\$ -	\$ 24,385	\$ -
Impact fees	231,502	472,678	471,782	268,982	-	1,444,944	-
Increase (decrease) equity in joint venture	-	-	-	-	15,568	15,568	-
Gain (loss) on sale of asset	-	-	-	-	-	-	3,600
Interest expense and fiscal charges	-	(192,240)	(4,173)	(98,658)	-	(295,071)	(1,725)
Total non-operating revenue (expense)	231,502	293,023	467,609	182,124	15,568	1,189,826	1,875
Net income before contributions & transfers	275,288	853,638	499,789	140,668	28,707	1,798,090	19,299
Transfers in (out)	(40,008)	(21,504)	(106,504)	(40,008)	(37,008)	(245,032)	-
Developers contributions	904,155	795,580	1,089,248	719,996	906,536	4,415,515	-
Change in net position	1,139,435	1,627,714	1,482,533	820,656	898,235	5,968,573	19,299
Net position, beginning	11,702,397	12,187,085	9,292,368	8,434,419	3,317,635	44,933,904	280,020
Net position, ending	<u>\$12,841,832</u>	<u>\$13,814,799</u>	<u>\$10,774,901</u>	<u>\$ 9,255,075</u>	<u>\$ 4,215,870</u>	<u>50,902,477</u>	<u>\$ 299,319</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						10,041	
Change in net position of business-type activities						<u>\$ 5,978,614</u>	

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2020

	Business-Type Activities - Enterprise				Non-Major Enterprise Funds	Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation			
Cash Flows From Operating Activities							
Receipts from customers and users	\$ 1,273,524	\$ 1,821,833	\$ 5,495,376	\$ 1,024,062	\$ 818,770	\$ 10,433,565	\$ 444,048
Payments to suppliers	(418,534)	(1,564,007)	(3,857,451)	(370,760)	(601,199)	(6,811,951)	-
Payments to general fund for services	(422,148)	(277,164)	(404,352)	(338,639)	(159,529)	(1,601,832)	(273,673)
Payments to employees	(123,948)	(214,129)	(452,847)	(81,878)	(35,794)	(908,596)	-
Net cash provided by (used in) operating activities	<u>308,894</u>	<u>(233,467)</u>	<u>780,726</u>	<u>232,785</u>	<u>22,248</u>	<u>1,111,186</u>	<u>170,375</u>
Cash Flows From Noncapital Financing Activities							
Interfund activity	(40,008)	(21,504)	(106,504)	(40,008)	(37,008)	(245,032)	-
Net cash provided (used) by noncapital financing activities	<u>(40,008)</u>	<u>(21,504)</u>	<u>(106,504)</u>	<u>(40,008)</u>	<u>(37,008)</u>	<u>(245,032)</u>	<u>-</u>
Cash Flows From Capital and Related Financing Activities							
Impact fees	231,502	472,678	471,782	268,982	-	1,444,944	-
Proceeds from sale of assets	-	-	-	-	-	-	3,600
Purchases of capital assets	-	(843,245)	(271,276)	(99,995)	(5,000)	(1,219,516)	(66,963)
Principal paid on debt	(96,532)	(192,860)	(291,939)	(178,000)	-	(759,331)	(38,758)
Interest paid on capital debt	-	(192,240)	(4,173)	(98,658)	-	(295,071)	(1,725)
Net cash provided (used) in capital and financing activities	<u>134,970</u>	<u>(755,667)</u>	<u>(95,606)</u>	<u>(107,671)</u>	<u>(5,000)</u>	<u>(828,974)</u>	<u>(103,846)</u>
Cash Flows From Investing Activities							
Interest and dividends received	-	12,585	-	11,800	-	24,385	-
Net cash provided by investing activities	<u>-</u>	<u>12,585</u>	<u>-</u>	<u>11,800</u>	<u>-</u>	<u>24,385</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	403,856	(998,053)	578,616	96,906	(19,760)	61,565	66,529
Cash and equivalents, beginning of year	1,461,289	3,075,328	949,576	1,322,558	269,150	7,077,901	-
Cash and equivalents, end of year	<u>\$ 1,865,145</u>	<u>\$ 2,077,275</u>	<u>\$ 1,528,192</u>	<u>\$ 1,419,464</u>	<u>\$ 249,390</u>	<u>\$ 7,139,466</u>	<u>\$ 66,529</u>
Shown in the Statement of Net Position as:							
Cash and cash equivalents	\$ 1,865,145	\$ 1,209,135	\$ 1,528,192	\$ 713,490	\$ 249,390	\$ 5,565,352	\$ 66,529
Restricted cash equivalents, end of year	-	868,140	-	705,974	-	1,574,114	-
	<u>\$ 1,865,145</u>	<u>\$ 2,077,275</u>	<u>\$ 1,528,192</u>	<u>\$ 1,419,464</u>	<u>\$ 249,390</u>	<u>\$ 7,139,466</u>	<u>\$ 66,529</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			
Reconciliation of operating income to net cash provided by operating activities:							
Operating income (loss)	\$ 43,786	\$ 560,615	\$ 32,180	\$ (41,456)	\$ 13,139	\$ 608,264	\$ 17,424
Adjustments to reconcile operating income to net cash provided by operating activities:							
Depreciation expense	299,718	285,115	292,671	290,344	69,111	1,236,959	137,492
(Increase) decrease in accounts receivable	(8,685)	(404)	(22,590)	(4,983)	(2,693)	(39,355)	-
(Increase) decrease in inventory	1,510	-	56,177	-	-	57,687	-
(Increase) decrease in due from other funds	1,089	(256,117)	-	-	-	(255,028)	-
(Increase) decrease in deferred outflow	20,995	18,413	76,877	20,995	-	137,280	-
Increase (decrease) in accounts payable	(18,586)	(850,295)	412,435	(1,182)	(57,309)	(514,937)	16,548
Increase (decrease) in pension liability	(39,609)	(25,224)	(132,927)	(39,609)	-	(237,369)	-
Increase (decrease) in deferred inflow	8,676	34,430	65,903	8,676	-	117,685	-
Increase (decrease) in due to other funds	-	-	-	-	-	-	(1,089)
Total adjustments	265,108	(794,082)	748,546	274,241	9,109	502,922	152,951
Net cash provided by (used in) operating activities	\$ 308,894	\$ (233,467)	\$ 780,726	\$ 232,785	\$ 22,248	\$ 1,111,186	\$ 170,375
Supplementary information							
Non-cash items from capital and related financing activities include contributions by developers	\$ 904,155	\$ 795,580	\$ 1,089,248	\$ 719,996	\$ 906,536	\$ 4,415,515	\$ -
Non-cash purchase of assets through debt	\$ 299,834	\$ 2,700,000	\$ -	\$ -	\$ -	\$ 2,999,834	\$ -

NOTES TO THE FINANCIAL STATEMENTS

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SALEM CITY CORPORATION
Notes to the Financial Statements

For the Year Ended June 30, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Salem City Corporation's (the "City") financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

Reporting Entity

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

The City provides the following services as mandated by law: public safety, judicial services, highways and streets, sanitation, parks, cemetery, water, sewer, electric, waste removal, storm drain, public improvements, planning and zoning, and general administrative services

Blended Component Units

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

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

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

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

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Government-wide and fund financial statements

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

Measurement Focus, Basis of Accounting, and Presentation

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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

The government reports the following major governmental funds:

- *General Fund* – The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- *Capital Projects Fund* – The Capital Projects Fund is used to account for the construction of community projects.

The government reports the following major proprietary funds:

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Additionally, the government reports the following fund types:

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

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

Cash & Cash Equivalents and Investments

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

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

Receivables and Payables

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

Inventories and Prepaid Items

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

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Restricted Assets

Restricted assets are comprised of cash restricted for future payments of principal and interest on debt services, unused impact fees, escrow account, and state restricted funds.

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

Capital Assets

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

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:

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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*

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, 2019.

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period or periods and therefore will not be recognized as an inflow of resources (revenue) until then.

Pensions

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position

The governmental fund Balance Sheet includes reconciliation between total fund balance of governmental funds and total net position of governmental activities as reported in the government-wide Statement of Net Position. This difference primarily results from the long-term economic focus of the Statement of Net Position versus the current financial resources focus of the governmental fund Balance Sheet.

Capital-related Items

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

Cost of capital assets	\$ 47,579,353
Accumulated depreciation	<u>(22,189,446)</u>
Net adjustment to increase fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ 25,389,907</u>

Long-term Debt Transactions

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

Bonds, notes, and capital leases payable	\$ 4,325,784
Bond interest payable	8,351
Other long-term payables	<u>170,085</u>
Net adjustment to reduce fund balance-total governmental funds to arrive at net position-governmental activities	<u>\$ 4,504,220</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position – *Continued*

Pension transactions

Pension accounts applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities in the fund statements.

Pension asset	\$ -
Deferred outflow of resources	339,117
Pension liability	(834,361)
Deferred inflow of resources	<u>(408,506)</u>
Net adjustment to reduce fund balances	<u><u>\$ (903,750)</u></u>

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities

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

Capital outlay	\$ 2,961,546
Depreciation expense	<u>(1,367,088)</u>
Net capital outlay	1,594,458
Capital contribution by developers	3,068,096
Loss on disposal of assets	<u>-</u>
Net adjustment to increase net changes in fund balance-total governmental fund to arrive at changes in net position of governmental activities	<u><u>\$ 4,662,554</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities – *Continued*

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	\$ 1,916,899
Loan proceeds	(4,140,117)
Compensated absence change	<u>(16,152)</u>
	(2,239,370)
Accrued interest change	<u>14,353</u>
Total change in long-term debt	<u>\$ (2,225,017)</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.

SALEM CITY CORPORATION

Notes to the Financial Statements

Continued

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

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 the City. 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 these actions 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, 2020, \$1,250,599 of the local government’s bank balances of \$1,500,599 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 mutual fund as defined in the Money Management Act; and the Utah State Public Treasurers’ Investment Fund.

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

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

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

Fair Value of Investments

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

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

At June 30, 2020 the City had the following recurring fair value measurements.

Investments by fair value level	6/30/2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt Securities				
Utah Public Treasurers' Investment Fund	\$ 17,218,196	\$ -	\$ 17,218,196	\$ -
Total investments measured at fair value	\$ 17,218,196	\$ -	\$ 17,218,196	\$ -

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, 2020 fair value factor, as calculated by the Utah State Treasurer, to the City'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 five years. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding three years.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

As of June 30, 2020, the City’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	\$ 17,218,196	\$ 17,218,196	\$ -	\$ -
Total investments measured at fair value	<u>\$ 17,218,196</u>	<u>\$ 17,218,196</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, 2020, the City had investments of \$17,218,196 with the PTIF. The entire balance had a maturity less than one year. The PTIF pool has not been rated.

Concentration of Credit Risk

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

Custodial Credit Risk

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

5. RECEIVABLES

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

	<u>General</u>	
Accounts receivable	\$ 84,507	
Property Tax	1,006,923	
Intergovernmental	75,558	
Allowance for uncollectible accounts	<u>(2,446)</u>	
Total		\$ 1,164,542
	<u>Water</u>	
Accounts receivable	86,157	
Allowance for uncollectible accounts	<u>(4,937)</u>	
Total		81,220
	<u>Sewer</u>	
Accounts receivable	167,137	
Allowance for uncollectible accounts	<u>(9,262)</u>	
Total		157,875
	<u>Electric</u>	
Accounts receivable	359,470	
Allowance for uncollectible accounts	<u>(21,027)</u>	
Total		338,443
	<u>Pressurized Irrigation</u>	
Accounts receivable	80,724	
Allowance for uncollectible accounts	<u>(4,722)</u>	
Total		76,002
	<u>Solid Waste</u>	
Accounts receivable	52,031	
Allowance for uncollectible accounts	<u>(3,043)</u>	
Total		48,988
	<u>Storm Water</u>	
Accounts receivable	16,649	
Allowance for uncollectible accounts	<u>(974)</u>	
Total		<u>15,675</u>
Grand total		<u><u>\$ 1,882,745</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2020 was as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Description</u>
Sewer Fund	General Fund	\$ 256,117	Woodland Hills Trail @ 1.43%

Interfund Transfers:

	<u>Transfer Out</u>			
	<u>General</u>	<u>Capital</u>	<u>Business Type</u>	<u>Total</u>
Transfer in:				
General	\$ -	\$ 362,101	\$ 445,032	\$ 807,133
Capital	64,000	-	-	64,000
Business type	200,000	-	-	200,000
Motor Pool	-	-	-	-
Total transfer in	<u>\$ 264,000</u>	<u>\$ 362,101</u>	<u>\$ 445,032</u>	<u>\$ 1,071,133</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS

	Governmental activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,696,604	\$ 2,273,600	\$ -	\$ 3,970,204
Construction in progress	-	254,447	-	254,447
Total capital assets not being depreciated	<u>1,696,604</u>	<u>2,528,047</u>	<u>-</u>	<u>4,224,651</u>
Capital assets being depreciated:				
Buildings	4,552,012	45,630	-	4,597,642
Improvements	2,777,591	57,718	-	2,835,309
Machinery and equipment	3,273,957	218,982	10,450	3,482,489
Infrastructure	29,259,997	3,179,265	-	32,439,262
Total capital assets being depreciated	39,863,557	3,501,595	10,450	43,354,702
Less accumulated depreciation	<u>(20,832,808)</u>	<u>(1,367,088)</u>	<u>(10,450)</u>	<u>(22,189,446)</u>
Total capital assets, being depreciated, net	<u>19,030,749</u>	<u>2,134,507</u>	<u>-</u>	<u>21,165,256</u>
Governmental activities capital assets, net	<u>\$ 20,727,353</u>	<u>\$ 4,662,554</u>	<u>\$ -</u>	<u>\$ 25,389,907</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS – *Continued*

	Business-type activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,445,703	\$ -	\$ -	\$ 1,445,703
Construction in progress	17,808,983	3,715,610	-	21,524,593
Water rights and stock	1,076,181	-	-	1,076,181
Total capital assets not being depreciated	<u>20,330,867</u>	<u>3,715,610</u>	<u>-</u>	<u>24,046,477</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	52,861,714	4,775,233	-	57,636,947
Machinery and equipment	914,415	144,022	-	1,058,437
Infrastructure	1,277,903	-	-	1,277,903
Total capital assets being depreciated	56,663,039	4,919,255	-	61,582,294
Less accumulated depreciation	<u>(13,975,705)</u>	<u>(1,236,959)</u>	<u>-</u>	<u>(15,212,664)</u>
Total capital assets, depreciated, net	<u>42,687,334</u>	<u>3,682,296</u>	<u>-</u>	<u>46,369,630</u>
Business-type capital assets, net	<u>\$ 63,018,201</u>	<u>\$ 7,397,906</u>	<u>\$ -</u>	<u>\$ 70,416,107</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	\$ 59,560
Public safety	139,855
Highway and public works	999,938
Parks and recreation	<u>167,735</u>
Total depreciation	<u><u>\$ 1,367,088</u></u>

8. LEASE COMMITMENTS

During fiscal year 2014, the City executed a new lease for a fire truck and an ambulance in the amount of \$260,000 payable in annual installments until July 2020 with an interest rate of 2.2 percent. Balance due at June 30, 2020 was \$39,611.

During fiscal year 2017, the City executed a new lease for a power pole truck in the amount of \$259,813 payable in annual installments until March 2022 with an interest rate of 2.61 percent. Balance due at June 30, 2020 was \$107,958.

During fiscal year 2018, the City executed a new lease for a dump truck in the amount of \$208,326 payable in annual installments until November 2024 with an interest rate of 2.59 percent. Balance due at June 30, 2020 was \$146,056.

The assets acquired through capital leases were as follows:

<u>Asset</u>	<u>Governmental Activities</u>	<u>Business - Type Funds</u>
Machinery & equipment	\$ 557,251	\$ 259,813
Accumulated amortization	<u>(337,764)</u>	<u>(199,190)</u>
Total	<u><u>\$ 219,487</u></u>	<u><u>\$ 60,623</u></u>

Amortization of capital assets purchased under capital leases is included in depreciation. Current year depreciation was \$130,745.

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, 2020:

<u>Fiscal Year</u>	<u>Governmental Amount</u>	<u>Business-type Amount</u>	<u>Total Amount</u>
2021	\$ 73,405	\$ 56,101	\$ 129,506
2022	32,923	56,101	89,024
2023	32,923	-	32,923
2024	32,923	-	32,923
2025	26,420	-	26,420
2026	-	-	-
Total minimum lease payments	198,594	112,202	310,796
Less amounts representing interest	<u>(12,927)</u>	<u>(4,244)</u>	<u>(17,171)</u>
Present value of minimum lease payments	<u>\$ 185,667</u>	<u>\$ 107,958</u>	<u>\$ 293,625</u>

At June 30, 2020 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	\$ 185,667	\$ 107,958	\$ 293,625
Current portion capital leases payable	<u>(68,583)</u>	<u>(53,284)</u>	<u>(121,867)</u>
Long term capital leases payable	<u>\$ 117,084</u>	<u>\$ 54,674</u>	<u>\$ 171,758</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT

Bonds and notes payable at June 30, 2020, were comprised of the following:

Revenue Bonds

Description	Amount
<i>Secondary Water Revenue Bond</i> – Series 2007: \$7,500,000 secondary water revenue bond due in annual principal and interest payments through September 2037 with an interest rate of 1.70 percent	\$ 5,783,742
<i>Sewer Revenue Bond</i> – Series 2018: \$20,000,000 sewer revenue bonds due in annual principal and interest payments through February 2050 with an interest rate of 1.15 percent	19,731,000
<i>Lease Revenue and Refunding Bond</i> – Series 2020: \$3,884,000 lease revenue and refunding bond due in annual principal and semi-annual interest payments through September 1, 2039 with an interest rate of 2.53 percent	<u>3,884,000</u>
Total	<u><u>\$ 29,398,742</u></u>

The future annual requirements for all outstanding bonds as of June 30, 2020 were as follows:

Fiscal Year	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2021	\$ 334,000	\$ 22,657	\$ 754,000	\$ 325,850
2022	280,000	39,050	778,000	315,895
2023	284,000	39,240	802,000	305,559
2024	287,000	38,818	828,000	294,834
2025	292,000	37,786	856,000	283,693
2026-2030	1,121,000	163,611	4,726,000	1,235,233
2030-2035	595,000	135,258	5,592,000	881,568
2035-2040	691,000	68,475	3,995,742	550,542
2040-2045	-	-	3,618,000	346,252
2045-2050	-	-	<u>3,565,000</u>	<u>133,286</u>
Total	<u><u>\$ 3,884,000</u></u>	<u><u>\$ 544,895</u></u>	<u><u>\$ 25,514,742</u></u>	<u><u>\$ 4,672,712</u></u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

Notes Payable

Description	Amount
During 2006, the City acquired a note for \$1,800,000 from a developer to be used for an electric substation. This interest free note is paid back to the developer based on a percentage of electric impact fees collected by the City.	\$ 308,785
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.	304,265
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.	366,948
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.	149,701
During 2018, the City acquired a note for \$299,834 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.	235,712
Total	\$ 1,365,411

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

The future annual requirements for all outstanding notes payable as of June 30, 2020 were as follows:

Fiscal Year	Governmental		Business-Type	
	Principal	Interest	Principal	Interest
2021	\$ -	\$ -	\$ 529,403	\$ -
2022	-	-	358,166	-
2023	-	-	218,877	-
2024	-	-	84,340	-
2025	-	-	32,410	-
2026-2030	-	-	142,215	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,365,411</u>	<u>\$ -</u>

The future annual requirements for all outstanding bond and note obligations as of June 30, 2020 were as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2021	\$ 1,617,403	\$ 348,507	\$ 1,965,910
2022	1,416,166	354,945	1,771,111
2023	1,304,877	344,799	1,649,676
2024	1,199,340	333,652	1,532,992
2025	1,180,410	321,479	1,501,889
2026-2030	5,989,215	1,398,844	7,388,059
2030-2035	6,187,000	1,016,826	7,203,826
2035-2040	4,686,742	619,017	5,305,759
2040-2045	3,618,000	346,252	3,964,252
2045-2050	3,565,000	133,286	3,698,286
Total	<u>\$ 30,764,153</u>	<u>\$ 5,217,607</u>	<u>\$ 35,981,760</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT – *Continued*

Long-term debt activity during the year consisted of the following:

Governmental Activities					
	July 1, 2019	Additions	Reductions	June 30, 2020	Due in One Year
Bonds payable:					
Excise tax bonds	\$ 1,726,000	\$ 3,884,000	\$ 1,726,000	\$ 3,884,000	\$ 334,000
Capital leases	252,843	-	67,176	185,667	68,583
Notes payable	123,723	-	123,723	-	-
Compensated absences	153,933	16,152	-	170,085	-
Total	<u>\$ 2,256,499</u>	<u>\$ 3,900,152</u>	<u>\$ 1,916,899</u>	<u>\$ 4,239,752</u>	<u>\$ 402,583</u>
Business Type Activities					
	July 1, 2019	Additions	Reductions	June 30, 2020	Due in One Year
Bonds payable:					
Revenue bonds	\$ 22,992,742	\$ 2,700,000	\$ 178,000	\$ 25,514,742	\$ 754,000
Capital leases	159,886	-	51,928	107,958	53,284
Notes payable	1,594,980	299,834	529,403	1,365,411	529,403
Total	<u>\$ 24,747,608</u>	<u>\$ 2,999,834</u>	<u>\$ 759,331</u>	<u>\$ 26,988,111</u>	<u>\$ 1,336,687</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS

General Information about the Pension Plan

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

Defined Benefit Plans

- Public Employees Noncontributory Retirement System (Noncontributory System) is a multiple employer, cost sharing, public employee retirement system.
- The Public Safety Retirement System (Public Safety System) is a cost-sharing, multiple-employer public employee 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 Title 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 Utah State Retirement 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.

URS issues 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/general/publications.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

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

System	Final Average Salary	Years of service required and/or age eligible for benefit	Benefit percent per year of service	COLA**
Noncontributory System	Highest 3 years	30 years any age 25 years any age* 20 years age 60* 10 years age 62* 4 years age 65	2.0% per year all years	Up to 4%
Public Safety System	Highest 3 years	20 years any age 10 years age 60 4 years age 65	2.5% per year up to 20 years; 2.00% per year over 20 years	Up to 2.5% to 4% depending on employer
Tier 2 Public Employees System	Highest 5 years	35 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year all years	Up to 2.5%
Tier 2 Public Safety and Firefighter	Highest 5 years	25 years any age 20 years age 60* 10 years age 62* 4 years age 65	1.5% per year to June 2020; 2% per year July 2020 to present	Up to 2.5%

*actuarial reductions are applied

**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*

Contribution Rate Summary – 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 Utah State Retirement Board. Contributions are actuarially determined as an amount that, when combined with employee contributions (where applicable) is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded actuarial accrued liability. Contribution rates as of June 30, 2020 were as follows:

<u>Utah Retirement Systems</u>	<u>Employee</u>	<u>Employer</u>	<u>Employer 401(k)</u>
Contributory System			
111- Local Governmental Division Tier 2	N/A	15.66%	1.03%
Noncontributory System			
15- Local Governmental Division Tier 1	N/A	18.47%	N/A
Public Safety Retirement System			
Contributory			
122 - Tier 2 DB Hybrid Public Safety	N/A	24.29%	0.70%
Noncontributory			
75 - Other Division A with 4% COLA	N/A	35.71%	N/A
Tier 2 DC Only			
211- Local Government	N/A	6.69%	10.00%
222- Public Safety	N/A	12.99%	12.00%

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

For fiscal year ended June 30, 2020, the employer and employee contributions to the Systems were as follows:

<u>System</u>	<u>Employer Contributions</u>	<u>Employee Contributions</u>
Noncontributory System	\$ 261,061	N/A
Public Safety System	145,767	-
Tier 2 Public Employees System	89,613	-
Tier 2 Public Safety and Firefighter	25,007	-
Tier 2 DC Public Safety and Firefighter System	6,115	N/A
Total contributions	<u>\$ 527,563</u>	<u>\$ -</u>

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*

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

At June 30, 2020, we reported a net pension asset of \$0 and a net pension liability of \$1,112,482.

	(Measurement Date): December 31, 2019				
	Net Pension Asset	Net Pension Liability	Proportionate Share 12/31/2019	Proportionate Share 12/31/2018	Change (Decrease)
Noncontributory System Public Safety	\$ -	\$ 624,407	0.1656748%	0.1692616%	-0.0035868%
System Tier 2 Public Employees System	-	476,492	0.2967654%	0.3115569%	-0.0147915%
Tier 2 Public Safety and Firefighter System	-	7,968	0.0354284%	0.0308109%	0.0046175%
	-	3,615	0.0384288%	0.0343344%	0.0040944%
 Total net pension asset/liability	 \$ -	 \$ 1,112,482			

The net pension asset and liability were measured as of December 31, 2019, and the total pension liability used to calculate the net pension asset and liability was determined by an actuarial valuation as of January 1, 2019 and rolled-forward using generally accepted actuarial procedures. The proportion of the net pension asset and liability is equal to the ratio of the employer's actual contributions to the Systems during the plan year over the total of all employer contributions to the System during the plan year.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Combined Pension Assets, Liabilities, Expense, and Deferred Outflows and Deferred Inflows of Resources Related to Pensions – *Continued*

For the year ended June 30, 2020, we recognized pension expense of \$598,211. At June 30, 2020, 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	\$ 68,394	\$ 21,879
Changes in assumptions	86,651	263
Net difference between projected and actual earnings on pension plan investments	-	485,489
Changes in proportion and differences between contributions and proportionate share of contributions	29,896	37,045
Contributions subsequent to the measurement date	267,215	-
Total	\$ 452,156	\$ 544,676

\$267,215 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, 2019.

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:

<u>Year Ended December 31,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2020	\$ (68,545)
2021	(124,532)
2022	8,238
2023	(183,582)
2024	1,091
Thereafter	7,596

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

Actuarial assumptions – The total pension liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increases	3.25-9.75% average, including inflation
Investment rate of return	6.95% 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, 2019, valuation were based on the results of an actuarial experience study for the five-year period ending December 31, 2016.

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

Asset class	Expected Return Arithmetic Basis		
	Target Asset Allocation	Real Return Arithmetic Basis	Long-Term expected portfolio real rate of return
Equity securities	40%	6.15%	2.46%
Debt securities	20%	0.40%	0.08%
Real assets	15%	5.75%	0.86%
Private equity	9%	9.95%	0.89%
Absolute return	16%	2.85%	0.46%
Cash and cash equivalents	0%	0.00%	0.00%
Totals	100%		4.75%
Inflation			2.50%
Expected arithmetic nominal return			7.25%

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

10. PENSION PLANS – *Continued*

The 6.95 percent assumed investment rate of return is comprised of an inflation rate of 2.50 percent and a real return of 4.45 percent that is net of investment expense.

Discount rate – The discount rate used to measure the total pension liability was 6.95 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from all participating employers will be made at contractually required rates that are actuarially determined and certified by the URS Board. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate does not use the Municipal Bond Index Rate. The discount rate remained unchanged at 6.95 percent.

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 6.95 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 (5.95 percent) or one-percentage-point higher (7.95 percent) than the current rate:

<u>System</u>	<u>1% Decrease (5.95%)</u>	<u>Discount Rate (6.95%)</u>	<u>1% Increase (7.95%)</u>
Noncontributory System	\$ 1,950,239	\$ 624,407	\$ (481,324)
Public Safety System	1,234,299	476,492	(139,372)
Tier 2 Public Employees System	68,713	7,968	(38,976)
Tier 2 Public Safety and Firefighter	12,770	3,615	(3,181)
Total	<u>\$ 3,266,021</u>	<u>\$ 1,112,482</u>	<u>\$ (662,853)</u>

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
- Roth IRA Plan

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

	2020	2019	2018
401(k) Plan			
Employer Contributions	\$ 83,870	\$ 80,313	\$ 75,592
Employee Contributions	75,155	72,205	76,903
Roth IRA Plan			
Employee Contributions	28,590	29,690	29,635

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

11. RISK MANAGEMENT

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

12. JOINT VENTURES

South Utah Valley Solid Waste District – Salem City joined in a joint venture with several other municipalities to create the South Utah Valley Solid Waste District (the “District”). The District 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 District'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)	0.00%
Woodland Hills City Corporation (Landfill participant only)	0.00%

b. The District is governed by a Board of Directors which is comprised of seven 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 District's Board of Directors governs the operations of the District through management employed by the Board. Since the District 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.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

12. JOINT VENTURES - *Continued*

- 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 \$15,568 of income in the current year leaving an investment balance of \$231,572 as of June 30, 2020.
- e. Audited financial statements for South Utah Valley Solid Waste District are available at the District's office.

South Utah Valley Municipal Water Association – Salem City is a 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 seven municipalities and was formed to plan, finance, acquire, construct, improve, operate, or maintain projects for the water and wastewater treatment facility.

Salem City has invested \$847,393 toward the purchases of the wastewater treatment property. This payment is shown as equity in a joint venture.

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

13. RESTRICTED FUND BALANCES

The City had the following restricted equity balances as of June 30, 2020:

	<u>General</u>	<u>Perpetual Care</u>	<u>Sewer</u>	<u>Pressurized Irrigation</u>
Impact fees, unexpended	\$ 2,834,545	\$ -	\$ 302,919	\$ -
B&C roads	92,663	-	-	-
Liquor law	2,714	-	-	-
Perpetual care	-	65,700	-	-
Debt sinking and reserves	-	-	565,221	705,974
Total	<u>\$ 2,929,922</u>	<u>\$ 65,700</u>	<u>\$ 868,140</u>	<u>\$ 705,974</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

14. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS

The City maintains Internal Service Funds which provide motor pool and data processing services.

Selected unaudited information for these funds for the year ended June 30, 2020 is as follows:

	Motor Pool	Data Processing	Total
Operating revenues	\$ 444,048	\$ -	\$ 444,048
Depreciation and amortization	(137,492)	-	(137,492)
Other operating expenses	(289,132)	-	(289,132)
Operating income (loss)	17,424	-	17,424
Non-operating revenue (expense)	1,875	-	1,875
Transfers in (out)	-	-	-
Net increase (decrease) in net position	<u>\$ 19,299</u>	<u>\$ -</u>	<u>\$ 19,299</u>
Total assets	368,888	\$ -	\$ 368,888
Total liabilities	69,569	-	69,569
Total net position	299,319	-	299,319

15. REDEVELOPMENT 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, 2020 no activity occurred in the City's Redevelopment Agency.

16. SUBSEQUENT EVENTS

The City signed a 15-year bond for a pressurized irrigation meter project on August 12, 2020 for \$1,530,000.

The City is in the process of bonding for a fiber network for an approximate amount of \$4,800,000 and is expecting to complete the bond process in November 2020.

The City received \$627,930 from Utah County for Cares Funding from the federal government to help with the costs associated to the COVID-19 pandemic.

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through November 30, 2020, the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

For the Year Ended June 30, 2020

	As of fiscal year ended June 30,	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered- employee payroll	Proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	Plan fiduciary net position as a percentage of its covered- employee payroll
Noncontributory System	2015	0.1479474%	\$ 642,422	\$ 1,273,706	50.44%	90.20%
	2016	0.1518143%	859,039	1,314,969	65.33%	87.80%
	2017	0.1602394%	1,028,933	1,428,572	72.03%	87.30%
	2018	0.1697310%	743,642	1,492,528	49.82%	91.90%
	2019	0.1692616%	1,246,396	1,475,451	84.48%	87.00%
	2020	0.1656748%	624,407	1,440,578	43.34%	93.70%
Public Safety System	2015	0.2549217%	\$ 320,585	\$ 430,972	74.39%	90.50%
	2016	0.2652626%	475,152	460,549	103.17%	87.10%
	2017	0.3068477%	622,679	537,422	115.86%	86.50%
	2018	0.2990184%	469,058	507,081	92.50%	90.20%
	2019	0.3115569%	801,507	528,876	151.55%	84.70%
	2020	0.2967654%	476,492	516,102	92.33%	90.90%
Tier 2 Public Employees System*	2015	0.0147889%	\$ (448)	\$ 72,725	-0.62%	103.50%
	2016	0.0162981%	(36)	105,304	-0.03%	100.20%
	2017	0.0178777%	1,994	146,611	1.36%	95.10%
	2018	0.0236725%	2,087	231,453	0.90%	97.40%
	2019	0.0308109%	13,196	359,266	3.67%	90.80%
	2020	0.0354284%	7,968	490,487	1.62%	96.50%
Tier 2 Public Safety and Firefighter System*	2015	0.1008848%	\$ (1,492)	\$ 41,680	-3.58%	120.50%
	2016	0.0560458%	(819)	33,323	-2.46%	110.70%
	2017	0.0131367%	(114)	10,854	-1.05%	103.60%
	2018	0.0735608%	(851)	77,681	-1.10%	103.00%
	2019	0.0343344%	860	45,962	1.87%	95.60%
	2020	0.0384288%	3,615	63,317	5.71%	89.60%

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

SALEM CITY CORPORATION
Schedule of Contributions

For the Year Ended June 30, 2020

	As of fiscal year ended June 30,	Actuarial determined contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
Noncontributory System	2014	\$ 215,213	\$ 215,213	\$ -	\$ 1,244,724	17.29%
	2015	236,973	236,973	-	1,284,175	18.45%
	2016	255,139	255,139	-	1,381,370	18.47%
	2017	272,455	272,455	-	1,475,123	18.47%
	2018	274,347	274,347	-	1,490,505	18.41%
	2019	270,808	270,808	-	1,468,383	18.44%
	2020	261,061	261,061	-	1,413,434	18.47%
Public Safety System	2014	\$ 114,371	\$ 114,371	\$ -	\$ 418,023	27.36%
	2015	123,823	123,823	-	434,140	28.52%
	2016	149,366	149,366	-	512,161	29.16%
	2017	152,244	152,244	-	521,451	29.20%
	2018	150,957	150,957	-	516,365	29.23%
	2019	155,123	155,123	-	533,306	29.09%
	2020	145,767	145,767	-	511,535	28.50%
Tier 2 Public Employees System*	2014	\$ 5,561	\$ 5,561	\$ -	\$ 39,751	13.99%
	2015	14,061	14,061	-	94,115	14.94%
	2016	18,553	18,553	-	124,436	14.91%
	2017	26,679	26,679	-	178,932	14.91%
	2018	44,379	44,379	-	293,705	15.11%
	2019	65,146	65,146	-	419,214	15.54%
	2020	89,613	89,613	-	567,934	15.78%

SALEM CITY CORPORATION
Schedule of Contributions

Continued

	As of fiscal year ended June 30,	Actuarial determined contributions	Contributions in relation to the contractually required contribution	Contribution deficiency (excess)	Covered employee payroll	Contributions as a percentage of covered employee payroll
Tier 2 Public Safety and Firefighter System*	2014	\$ 9,013	\$ 9,013	\$ -	\$ 40,290	22.37%
	2015	10,129	10,129	-	42,720	23.71%
	2016	2,872	2,872	-	12,138	23.66%
	2017	12,344	12,344	-	52,173	23.66%
	2018	15,608	15,608	-	65,774	23.73%
	2019	11,416	11,416	-	47,075	24.25%
	2020	25,007	25,007	-	102,951	24.29%
Tier 2 Public Safety and Firefighter System DC Only System*	2016	\$ -	\$ -	\$ -	\$ -	0.00%
	2017	-	-	-	-	0.00%
	2018	2,887	2,887	-	22,225	12.99%
	2019	6,115	6,115	-	47,075	12.99%
	2020	6,423	6,423	-	49,447	12.99%

*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.

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

SALEM CITY CORPORATION
Notes to the Required Supplementary Information

For the year Ended June 30, 2020

1. CHANGES IN ASSUMPTIONS

As a result of the passage of SB 129, the retirement rates for members in the Tier 2 Public Safety and Firefighter Hybrid System have been modified to be the same as the assumption used to model the retirement pattern in the Tier I Public Safety and Firefighter Systems, except for a 10% load at first eligibility for unreduced retirement prior to age 65.

SUPPLEMENTARY INFORMATION

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SALEM CITY CORPORATION
Combining Balance Sheet
Nonmajor Governmental Funds

As of June 30, 2020

	Special Revenue Funds		Permanent Fund	Total 2020	Memorandum 2019
	Redevelopment Agency	Municipal Building Authority	Perpetual Care		
Assets					
Cash & investments	\$ -	\$ 3,134	\$ -	\$ 3,134	\$ 3,133
Restricted cash	-	-	65,700	65,700	62,604
Due from other funds	-	-	-	-	-
Total assets	\$ -	\$ 3,134	\$ 65,700	\$ 68,834	\$ 65,737
Liabilities					
Due to other funds	\$ -	\$ -	\$ -	\$ -	\$ -
Total liabilities	-	-	-	-	-
Fund balance:					
Restricted for perpetual care	-	-	65,700	65,700	62,604
Assigned: MBA	-	3,134	-	3,134	3,133
Unassigned	-	-	-	-	-
Total fund balance	-	3,134	65,700	68,834	65,737
Total liabilities & fund balance	\$ -	\$ 3,134	\$ 65,700	\$ 68,834	\$ 65,737

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

For the Year Ended June 30, 2020

	Special Revenue Funds		Permanent Fund	Total 2020	Memorandum 2019
	Redevelopment Agency	Municipal Building Authority	Perpetual Care		
Revenues:					
Intergovernmental	\$ -	\$ 61,072	\$ 1,728	\$ 62,800	\$ 65,056
Investment earnings	-	-	1,368	1,368	1,623
Total revenues	-	61,072	3,096	64,168	66,679
Expenditures:					
Debt Service:					
Principal retirement	-	58,000	-	58,000	55,000
Interest and fiscal charges	-	3,071	-	3,071	7,596
Total expenditures	-	61,071	-	61,071	62,596
Excess of revenues over expenditures	-	1	3,096	3,097	4,083
Other financing sources (uses):					
Transfers in (out)	-	-	-	-	-
Net change in fund balances	-	1	3,096	3,097	4,083
Fund balances, beginning	-	3,133	62,604	65,737	61,654
Fund balances, ending	\$ -	\$ 3,134	\$ 65,700	\$ 68,834	\$ 65,737

SALEM CITY CORPORATION
Combining Statement of Net Position
Nonmajor Enterprise Funds

As of June 30, 2020

	Waste Utility	Storm Water Utility	Total 2020	Memorandum 2019
Assets				
Cash and investments	\$ 231,671	\$ 17,719	\$ 249,390	\$ 269,150
Accounts receivable, net	48,988	15,675	64,663	61,970
Total current assets	<u>280,659</u>	<u>33,394</u>	<u>314,053</u>	<u>331,120</u>
Land, equipment, buildings, and improvements	23,000	4,076,774	4,099,774	3,188,238
Less accumulated depreciation	(16,962)	(366,734)	(383,696)	(314,585)
Equity in joint venture	<u>231,572</u>	<u>-</u>	<u>231,572</u>	<u>216,004</u>
Total noncurrent assets	<u>237,610</u>	<u>3,710,040</u>	<u>3,947,650</u>	<u>3,089,657</u>
Total assets	<u>518,269</u>	<u>3,743,434</u>	<u>4,261,703</u>	<u>3,420,777</u>
Liabilities				
Accounts payable	<u>44,344</u>	<u>1,489</u>	<u>45,833</u>	<u>103,142</u>
Total liabilities	<u>44,344</u>	<u>1,489</u>	<u>45,833</u>	<u>103,142</u>
Net position				
Net investment in capital assets	6,038	3,710,040	3,716,078	2,873,653
Unrestricted	<u>467,887</u>	<u>31,905</u>	<u>499,792</u>	<u>443,982</u>
Total net position	<u>\$ 473,925</u>	<u>\$ 3,741,945</u>	<u>\$ 4,215,870</u>	<u>\$ 3,317,635</u>

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

For the Year Ended June 30, 2020

	<u>Waste Utility</u>	<u>Storm Water Utility</u>	<u>Total 2020</u>	<u>Memorandum 2019</u>
Operating revenues:				
Charges for services	\$ 590,929	\$ 194,947	\$ 785,876	\$ 755,872
Fees and miscellaneous	16,101	14,100	30,201	17,906
Total operating revenues	<u>607,030</u>	<u>209,047</u>	<u>816,077</u>	<u>773,778</u>
Operating expenses:				
Salaries and wages	9,423	26,371	35,794	16,913
Employee benefits	5,818	15,499	21,317	8,551
Contractual services	419,815	72,209	492,024	513,161
Supplies and materials	15,948	9,215	25,163	37,978
Administrative services	102,312	57,217	159,529	190,140
Depreciation and amortization	575	68,536	69,111	50,265
Total operating expenses	<u>553,891</u>	<u>249,047</u>	<u>802,938</u>	<u>817,008</u>
Operating income (loss)	<u>\$ 53,139</u>	<u>\$ (40,000)</u>	<u>\$ 13,139</u>	<u>\$ (43,230)</u>

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

Continued

	<u>Waste Utility</u>	<u>Storm Water Utility</u>	<u>Total 2020</u>	<u>Memorandum 2019</u>
Non-operating revenue (expense):				
Interest revenue	\$ -	\$ -	\$ -	\$ -
Increase (decrease) equity in joint venture	15,568	-	15,568	13,877
Loss on sale of asset	-	-	-	-
	<u>15,568</u>	<u>-</u>	<u>15,568</u>	<u>13,877</u>
Total non-operating revenue (expense)	15,568	-	15,568	13,877
Net income before contributions & transfers	68,707	(40,000)	28,707	(29,353)
Transfers in (out)	(25,500)	(11,508)	(37,008)	(36,996)
Developers contributions	-	906,536	906,536	900,650
	<u>43,207</u>	<u>855,028</u>	<u>898,235</u>	<u>834,301</u>
Change in net position	43,207	855,028	898,235	834,301
Net position, beginning	430,718	2,886,917	3,317,635	2,483,334
	<u>430,718</u>	<u>2,886,917</u>	<u>3,317,635</u>	<u>2,483,334</u>
Net position, ending	<u>\$ 473,925</u>	<u>\$ 3,741,945</u>	<u>\$ 4,215,870</u>	<u>\$ 3,317,635</u>

SALEM CITY CORPORATION
Combining Statement of Cash Flows
Nonmajor Enterprise Funds

For the Year Ended June 30, 2020

	Waste Utility Fund	Storm Water	Total
Cash Flows From Operating Activities			
Receipts from customers and users	\$ 609,239	\$ 209,531	\$818,770
Payments to suppliers	(435,741)	(165,458)	(601,199)
Payments to general fund for services	(102,312)	(57,217)	(159,529)
Payments to employees	(9,423)	(26,371)	(35,794)
Net cash provided by (used for) operating activities	<u>61,763</u>	<u>(39,515)</u>	<u>22,248</u>
Cash Flows From Noncapital Financing Activities			
Interfund Activity	<u>(25,500)</u>	<u>(11,508)</u>	<u>(37,008)</u>
Net cash used by noncapital financing activities	<u>(25,500)</u>	<u>(11,508)</u>	<u>(37,008)</u>
Cash Flows From Capital and Related Financing Activities			
Purchase of capital assets	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Net cash used for capital and financing activities	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Net increase (decrease) in cash and cash equivalents	36,263	(56,023)	(19,760)
Cash and equivalents, beginning	<u>195,408</u>	<u>73,742</u>	<u>269,150</u>
Cash and equivalents, ending	<u>\$ 231,671</u>	<u>\$ 17,719</u>	<u>\$ 249,390</u>
Shown in the Statement of Net Position as:			
Cash and cash equivalents	\$ 231,671	\$ 17,719	\$ 249,390
Restricted cash equivalents at end of year	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 231,671</u>	<u>\$ 17,719</u>	<u>\$ 249,390</u>

SALEM CITY CORPORATION
Combining Statement of Cash Flows
Nonmajor Enterprise Funds

Continued

	Waste Utility Fund	Storm Water	Total
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 53,139	\$ (40,000)	\$ 13,139
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation expense	575	68,536	69,111
(Increase) decrease in accounts receivable	(2,209)	(484)	(2,693)
Increase (decrease) in accounts payable	10,258	(67,567)	(57,309)
Total adjustments	8,624	485	9,109
Net cash provided by operating activities	\$ 61,763	\$ (39,515)	\$ 22,248
 Supplementary information			
Non-cash items from capital and related financing activities include contributions by developers	\$ -	\$ 906,536	\$ 906,536
Non-cash purchase of assets through debt	\$ -	\$ -	\$ -

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SINGLE AUDIT SECTION

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SALEM CITY CORPORATION
Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Cluster</u>	<u>Award Number</u>	<u>Program/ Award Amount</u>	<u>Expenditures</u>
Environmental Protection Agency passed through: Utah Division of Water Quality: Capitalization grants for clean water state revolving funds	66.458	CWSRF	CS49000116	\$ 20,000,000	\$ 2,700,000
Total Environmental Protection Agency				<u>20,000,000</u>	<u>2,700,000</u>
National Endowment for the Humanities passed through: State of Utah Department of Heritage and Arts: Encouraging education through digital empowerment	45.310			<u>6,600</u>	<u>500</u>
Total National Endowment for the Humanities				<u>6,600</u>	<u>500</u>
Total Federal Financial Assistance				<u>\$ 20,006,600</u>	<u>\$ 2,700,500</u>

SALEM CITY CORPORATION
Notes to the Schedule of Federal Awards

For the Year Ended June 30, 2020

1. PURPOSES OF THE SCHEDULE

The Schedule of Expenditures of Federal Awards (the “Schedule”) is a supplementary schedule to the financial statements. The Schedule is required by the U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The information in the Schedule is presented in accordance with the Uniform Guidance. The Schedule is prepared using the same accounting policies and basis of accounting as the financial statements.

CFDA Numbers

Uniform Guidance requires the Schedule to show the total expenditures for each of the entity’s federal financial assistance programs as identified in the Catalog of Federal Domestic Assistance (CFDA). The CFDA is a government-wide compendium of individual federal programs. Each program included in the CFDA is assigned a five-digit program identification number (CFDA number).

Subrecipients

The City provided no federal awards to subrecipients.

Non-cash assistance

The City did not receive any non-cash federal assistance for the year ended June 30, 2020.

Major Programs

Uniform Guidance establishes the levels of expenditures or expenses and other criteria to be used in defining major federal financial assistance. The federal awards tested as major programs were those with a CFDA number of 66.458.

Indirect Cost Rate

The City did not charge any indirect costs and has not elected to apply the de minimis indirect cost rate.



**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 Salem City (the "City"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Salem, Utah's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

North Logan, UT
November 30, 2020



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Honorable Mayor and City Council
Salem City
Salem, Utah

Report on Compliance for Each Major Federal Program

We have audited Salem City (the "City")'s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2020. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 type of compliance requirement of a federal program 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 over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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North Logan, UT
November 30, 2020

SALEM CITY CORPORATION
Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2020

A. SUMMARY OF AUDIT RESULTS

Type of report issued:	Unqualified
Internal control over financial reporting:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Noncompliance material to financial statements noted?	No
Federal awards	
Internal control over major programs:	
Material weakness identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance	No
Major programs:	
Federal programs tested as major programs:	66.458
Dollar threshold use to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee	No

B. FINDINGS- FINANCIAL STATEMENTS AUDIT

There were no current year findings.

C. FINDINGS AND QUESTIONED COSTS- MAJOR FEDERAL AWARD PROGRAM AUDIT

There were no current year findings.

SALEM CITY CORPORATION
Summary Schedule of Prior Year Audit Findings
(Client prepared schedule)

For the Year Ended June 30, 2020

2019-1: Audit Adjustments – Significant Deficiency in Internal Control over Financial Reporting

Criteria: City of Salem, Utah and its management are responsible to determine that internal controls ensure that accounting transactions are recorded accurately, and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Condition: As part of our audit we identified misstatements related to accrued liabilities, capital assets, debt payments, inventory, and investments.

Cause: The City staff did not record in their accounting records the adjustments at the time of the transaction.

Effect: The audit adjustments were proposed before the misstatement could be detected and corrected by the City's accounting staff.

Recommendation: The City should ensure that its internal control process over financial reporting results in the proper reconciliation of all accounts on a timely basis.

Views of Responsible Officials: The City's accounting staff will create procedures to ensure the year end processes are completed before the year end date.

Status – All year end adjustments were completed before the audit start date.

SUPPLEMENTAL SECTION

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

Honorable Mayor and City Council
City of Salem
Salem, Utah

Report on Compliance

We have audited Salem City (the "City")'s compliance with the applicable state compliance requirements described in the *State Compliance Audit Guide*, issued by the Office of the State Auditor, for the year ended June 30, 2020.

State compliance requirements were tested for the year ended June 30, 2020 in the following areas:

- Budgetary Compliance
- Fund Balance
- Restricted Taxes and Other Related Restricted Revenue
- Open and Public Meetings Act
- Fraud Risk Assessment
- Cash Management

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the City's compliance based on our audit of the state compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *State Compliance Audit Guide*. Those standards and the *State Compliance Audit Guide* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the state compliance requirements referred to above that could have a direct and material effect on a state compliance requirement occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Compliance

In our opinion, the City complied, in all material respects, with the state compliance requirements referred to above for the year ended June 30, 2020.

Report on Internal Control Over Compliance

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

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

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a state compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

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North Logan, UT
November 30, 2020

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS

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SALEM CITY
Schedule of Findings and Recommendations
Current Year

For the Year Ended June 30, 2020

No current year findings.

SALEM CITY
Schedule of Findings and Recommendations
Prior Year

For the Year Ended June 30, 2020

2019-1: Audit Adjustments – Significant Deficiency in Internal Control over Financial Reporting

Criteria: City of Salem, Utah and its management are responsible to determine that internal controls ensure that accounting transactions are recorded accurately, and the financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

Condition: As part of our audit we identified misstatements related to accrued liabilities, capital assets, debt payments, inventory, and investments.

Cause: The City staff did not record in their accounting records the adjustments at the time of the transaction.

Effect: The audit adjustments were proposed before the misstatement could be detected and corrected by the City's accounting staff.

Recommendation: The City should ensure that its internal control process over financial reporting results in the proper reconciliation of all accounts on a timely basis.

Views of Responsible Officials: The City's accounting staff will create procedures to ensure the year end processes are completed before the year end date.

Status – All year end adjustments were completed before the audit start date.

2019-2: State Compliance – Budgetary compliance

Criteria: The City and its management are responsible to determine that internal controls ensure that compliance requirements described in the State Compliance Audit Guide are met.

Condition: As part of our audit we identified that total expenditures for the Storm Water Utility fund exceeded the budgeted amounts for the year ending June 30, 2019.

Cause: The Storm Water Utility expenditures exceeded the budget due mainly to year end accrual adjustments.

Effect: The Storm Water Utility fund exceeded the budgeted amounts.

Recommendation: We recommend that all adjustments be made on a regular basis and that budgets and expenditures be reviewed after all adjustments have been made to determine whether budget amendments may be required.

SALEM CITY
Schedule of Findings and Recommendations
Prior Year

Continued

Views of Responsible Officials: Salem City's accounting staff will continue to work on the budget to make sure the funds do not exceed their budgeted amounts.

Status: Expenses did not exceed the budgeted amounts for the year ended June 30, 2020.

2019-3: State Compliance – Open and Public Meetings Act

Criteria: City management is responsible to determine that internal controls ensure that compliance requirements described in the State Compliance Audit Guide are met.

Condition: As part of our audit we identified that one meeting's minutes and one work session's minutes were not posted to the Utah Public Notice Website within three days of being approved by the City Council, as required by State law.

Cause: City personnel missed the deadline for posting the minutes.

Effect: The City was not in compliance with State regulations on Open and Public Meetings.

Recommendation: We recommend that the City create reminders to post all approved minutes within three days.

Views of Responsible Officials: Salem City's recorder's office will continue to strive to make sure all minutes are posted in the required time frame on the Utah Public Notice Website.

Status: All minutes tested were in compliance for the year ending June 30, 2020.

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