

SALEM CITY CORPORATION

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2011**

SALEM CITY CORPORATION
TABLE OF CONTENTS

Introductory Section:	<u>Page</u>
Letter of transmittal	1
 Financial Section:	
Independent Auditors' Report	4
Management Discussion and Analysis	6
Basic Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Balance Sheet – Governmental Funds	16
Reconciliation of the Balance Sheet of Governmental Funds To the Statement of Net Assets	17
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	18
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Schedule of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – General Fund	20
Statement of Net Assets – Proprietary Funds	21
Statement of Revenue, Expenditures and Changes in Fund Net Assets – Proprietary Funds	22
Statement of Cash Flows – Proprietary Funds	23
Notes to Financial Statements	25

SALEM CITY CORPORATION
TABLE OF CONTENTS

Supplementary Information:	<u>Page</u>
Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	49
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Governmental Funds	50
Other Reports:	
Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed In Accordance with Governmental Auditing Standards	52
State Compliance Report:	
Report on Compliance with State Legal Compliance Requirements	54
Management letter with responses	56

INTRODUCTORY SECTION



Salem City Corporation

"Modern Living in a Rural Setting"

PRIDE

UNITY

SERVICE

City Council
Lynn Durrant
Terry A. Ficklin
Todd R. Gordon
Sidney M. Jorgensen
Sterling M. Rees

October 3, 2011

Salem City Council
Salem, Utah

Council:

It is with great pleasure that the financial statements for the City of Salem for the year ended June 30, 2011, 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, 2011, in accordance with these requirements.

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

The City of Salem's financial statements have been audited by Allred Jackson, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Salem for the fiscal year ended June 30, 2011, 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, 2011, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

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

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

Respectfully submitted,

Mayor Cope
City of Salem

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Utah (the City) as of and for the year ended June 30, 2011, which collectively comprises the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 2011 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results for our audit.

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

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

ALLRED JACKSON

October 3, 2011

SALEM CITY CORPORATION
Management's Discussion and Analysis

June 30, 2011

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, 2011. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

FINANCIAL HIGHLIGHTS

- The total net assets of Salem City were \$43,457,584. Of this amount, \$40,269,794 consists of capital assets, net of any related debt and \$838,638 of restricted net assets. As a result, the City has \$203,873 of unrestricted governmental net assets and \$2,145,279 of unrestricted business-type net assets.
- The City operated its governmental activities as planned.

REPORTING THE CITY AS A WHOLE

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

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

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

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

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

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

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

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

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

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

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Salem City, assets exceed liabilities by \$43,457,584.

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

The following table summarizes the City's net assets as of June 30, 2011:

STATEMENT OF NET ASSETS

	Governmental Activities		Business-type Activities	
	2011	2010	2011	2010
Current and other assets	\$ 1,780,357	\$ 1,441,156	\$ 3,318,298	\$ 4,497,613
Capital assets	15,147,830	15,781,539	39,328,953	39,225,236
Total assets	16,928,187	17,222,695	42,647,251	43,722,849
Long-term debt outstanding	3,386,704	3,623,930	10,878,120	12,364,632
Other liabilities	1,154,470	996,120	698,560	549,318
Total liabilities	4,541,174	4,620,050	11,576,680	12,913,950
Net assets:				
Invested in capital assets, net of debt	11,818,961	12,157,609	28,450,833	26,860,604
Restricted	364,179	320,121	474,459	1,937,209
Unrestricted	203,873	124,915	2,145,279	2,011,086
Total net assets	\$ 12,387,013	\$ 12,602,645	\$ 31,070,571	\$ 30,808,899

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Business-type activities increased Salem City's net assets by \$261,672 and governmental activities decreased net assets by \$215,632. The elements of this increase and decrease for the fiscal year ended June 30, 2011 are as follows:

CHANGES IN NET ASSETS

	Governmental Activities		Business-type Activities	
	2011	2010	2011	2010
Revenues:				
Program revenues:				
Charges for services	\$ 841,666	\$ 917,009	\$ 5,282,657	\$ 5,107,258
Operating grants & contributions	356,360	255,963	-	-
Capital grants & contributions	546,210	312,641	980,998	586,144
General revenues:				
Property taxes	475,847	458,022	-	-
Other taxes	1,016,197	966,920	-	-
Investment income	3,120	7,414	9,612	13,041
Other revenues	865	4,781	-	-
Total revenues	<u>3,240,265</u>	<u>2,922,750</u>	<u>6,273,267</u>	<u>5,706,443</u>
Expenses:				
General government	592,404	554,711	-	-
Public safety	1,226,535	1,248,034	-	-
Highways/public improvements	1,044,286	1,028,137	-	-
Parks & recreation	903,241	958,113	-	-
Interest on long term debt	131,671	134,501	-	-
Water	-	-	708,832	708,633
Sewer	-	-	621,415	574,889
Electric	-	-	3,106,312	2,940,856
Pressurized Irrigation	-	-	821,796	481,980
Waste	-	-	311,000	267,074
Total expenses	<u>3,898,137</u>	<u>3,923,496</u>	<u>5,569,355</u>	<u>4,973,432</u>
Increase in net assets	(657,872)	(1,000,746)	703,912	733,011
Transfers	<u>442,240</u>	<u>125,240</u>	<u>(442,240)</u>	<u>(125,240)</u>
Net increase in net asset	<u>(215,632)</u>	<u>(875,506)</u>	<u>261,672</u>	<u>607,771</u>
Net assets beginning of year	12,602,645	13,690,315	30,808,899	32,131,907
Prior period adjustment	-	(212,164)	-	(1,930,779)
Net assets beginning of year, as restated	<u>12,602,645</u>	<u>13,478,151</u>	<u>30,808,899</u>	<u>30,201,128</u>
Net assets end of year	<u>\$ 12,387,013</u>	<u>\$ 12,602,645</u>	<u>\$ 31,070,571</u>	<u>\$ 30,808,899</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 \$616,913. Of this total amount \$216,634 constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$217,093 while total fund balance reached \$518,068. As a measure of the general fund's liquidity, it may be useful to compare the total fund balance to total fund expenditures. The fund balance represents 16% of total general fund expenditures.

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

Unrestricted net assets of the water, sewer, electrical, pressurized irrigation and solid waste at the end of the year amounted to \$2,145,279. Revenues and expenditures for normal operation remained fairly stable with some increases in both areas.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the fiscal year, the General Fund's original budget was amended from an original budget expenses total of \$2,957,088 to a final budget of \$3,513,590, an increase of \$556,502. Major changes are summarized as follows:

• General Government	\$247,626
• Highways and public works	170,575
• Parks	<u>125,025</u>
Total	<u>\$ 543,226</u>

SALEM CITY CORPORATION
Management's Discussion and Analysis

Continued

Capital Asset and Debt Administration

Salem City's investment in capital assets for its governmental and proprietary fund activities as of June 30, 2011 amounts to \$54,476,783 (net of accumulated depreciation). The investments in capital assets include land, buildings, improvements, machinery and equipment, and infrastructure. There was a total decrease in the City's investment in fixed assets for the current year of \$529,992.

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

• City office additions	\$ 77,888
• Infrastructure additions	237,822
• Culinary Water additions	180,607
• Pressurized Irrigation additions	203,858
• Sewer Line & Storm Drain additions	253,752
• Electrical additions	340,506
• Park improvements	95,945

Salem City's Capital Assets as of June 30, 2011

	Governmental Activities	Business-type Activities	Total
Land	\$ 369,909	\$ 1,038,703	\$ 1,408,612
Buildings	3,319,352	1,609,007	4,928,359
Improvements	2,001,569	39,523,090	41,524,659
Equipment	2,066,356	502,511	2,568,867
Infrastructure	20,875,261	1,311,204	22,186,465
Water Rights	-	1,025,308	1,025,308
Construction in Progress	-	645,573	645,573
Accumulated depreciation	(13,484,617)	(6,326,443)	(19,811,060)
Total net assets	<u>\$ 15,147,830</u>	<u>\$ 39,328,953</u>	<u>\$ 54,476,783</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 \$11,191,603. Of this amount \$1,420,000 comprises debt backed by the full faith and credit of the government and \$9,771,603 is debt that is secured by specific revenue sources (i.e., revenue bonds).

During the current fiscal year the City's total bonded debt decreased by \$1,629,258.

Salem City's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ -	\$ 1,420,000	\$ 1,420,000
Revenue Bonds	3,163,000	6,608,603	9,771,603
Total Bonds	<u>\$ 3,163,000</u>	<u>\$ 8,028,603</u>	<u>\$ 11,191,603</u>

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The General Fund budget for the fiscal year-ending June 30, 2012 reflects an increase of 15% in expenditures over the final fiscal year ending, June 30, 2011.

REQUESTS FOR INFORMATION

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

BASIC FINANCIAL STATEMENTS

SALEM CITY CORPORATION
Statement of Net Assets

June 30, 2011

	Governmental Activities	Business-type Activities	Memorandum Totals	
			2011	2010
ASSETS				
Cash and cash equivalents	\$ 634,782	\$ 1,538,552	\$ 2,173,334	\$ 1,388,804
Cash - restricted	376,975	474,459	851,434	2,333,330
Receivables - net	663,845	410,746	1,074,591	1,261,066
Inventories	-	153,123	153,123	166,268
Equity in joint venture	-	571,119	571,119	480,803
Deferred bond financing cost - net	104,755	170,299	275,054	308,498
Capital assets				
Land	369,909	1,038,703	1,408,612	1,408,612
Buildings	3,319,352	1,609,007	4,928,359	4,928,359
Improvements	2,001,569	39,523,090	41,524,659	40,611,661
Equipment	2,066,356	502,511	2,568,867	2,442,239
Infrastructure	20,875,261	1,311,204	22,186,465	21,948,643
Water rights	-	1,025,308	1,025,308	912,378
Construction in progress	-	645,573	645,573	645,573
Accumulated depreciation	(13,484,617)	(6,326,443)	(19,811,060)	(17,890,690)
Total assets	<u>16,928,187</u>	<u>42,647,251</u>	<u>59,575,438</u>	<u>60,945,544</u>
LIABILITIES				
Accounts payable and accrued liabilities	669,023	528,851	1,197,874	907,720
Bond interest payable	46,920	112,651	159,571	142,133
Loans payable	-	183,179	183,179	268,872
Bonds and capital leases payable - current	224,532	404,121	628,653	748,801
Internal balances	(57,058)	57,058	-	-
Deferred revenue	495,585	-	495,585	495,585
Loans payable - noncurrent	-	2,526,866	2,526,866	2,529,228
Bonds and capital leases payable - noncurrent	3,162,172	7,763,954	10,926,126	12,441,661
Total liabilities	<u>4,541,174</u>	<u>11,576,680</u>	<u>16,117,854</u>	<u>17,534,000</u>
NET ASSETS				
Invested in capital assets, net of related debt	11,818,961	28,450,833	40,269,794	39,018,213
Restricted for debt and capital improvements	364,179	474,459	838,638	2,318,620
Unrestricted	203,873	2,145,279	2,349,152	2,074,711
Total net assets	<u>\$ 12,387,013</u>	<u>\$ 31,070,571</u>	<u>\$ 43,457,584</u>	<u>\$ 43,411,544</u>

SALEM CITY CORPORATION
Statement of Activities

For the Year Ended June 30, 2011

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Memorandum Total 2011
							2010
Governmental activities:							
General government	\$ 592,404	\$ 410,679	\$ 65,215	\$ -	\$ (116,510)	\$ -	\$ (61,972)
Public safety	1,226,535	155,616	17,387	123,712	(929,820)	-	(870,553)
Highways and public works	1,044,286	-	266,361	269,719	(508,206)	-	(777,664)
Parks and recreation	903,241	275,371	7,397	152,779	(467,694)	-	(593,193)
Interest on long-term debt	131,671	-	-	-	(131,671)	-	(134,501)
Total governmental activities	3,898,137	841,666	356,360	546,210	(2,153,901)	-	(2,437,883)
Business-type activities:							
Water Utility	708,832	688,488	-	161,694	-	141,350	125,263
Sewer Utility	621,415	509,180	-	325,741	-	213,506	169,242
Electric Utility	3,106,312	3,255,400	-	352,738	-	501,826	298,732
Pressurized Irrigation	821,796	502,782	-	140,825	-	(178,189)	114,983
Waste Utility	311,000	326,807	-	-	-	15,807	11,750
Total business-type activities	\$ 5,569,355	\$ 5,282,657	\$ -	\$ 980,998	-	694,300	719,970
General Revenues:							
Property taxes					475,847	-	458,022
General sales and use tax					720,214	-	692,028
Franchise tax					295,983	-	274,892
Unrestricted investment earnings					3,120	9,612	20,455
Sale of Capital Assets					865	-	4,781
Transfers					442,240	(442,240)	-
Total general revenues and transfers					1,938,269	(432,628)	1,450,178
Change in net assets					(215,632)	261,672	(267,735)
Net assets - beginning					12,602,645	30,808,899	45,822,222
Prior period adjustment					-	-	(2,142,943)
Net assets - beginning, as restated					12,602,645	30,808,899	43,679,279
Net assets - ending					\$ 12,387,013	\$ 31,070,571	\$ 43,411,544

SALEM CITY CORPORATION
Balance Sheet
Governmental Funds

June 30, 2011

SALEM CITY
GOVERNMENTAL FUNDS TYPE
BALANCE SHEET
June 30, 2011

	General	Capital Projects Fund	Other Governmental Funds	Memorandum Totals	
				2011	2010
ASSETS					
Cash & cash equivalents	\$ 535,937	\$ 35,641	\$ 63,204	\$ 634,782	\$ 131,602
Restricted cash	376,975	-	-	376,975	396,121
Receivables (net):					
Property tax	513,584	-	-	513,584	513,584
Other, net	150,261	-	-	150,261	288,254
Due from other funds	-	459	-	459	509
Total assets	<u>\$ 1,576,757</u>	<u>\$ 36,100</u>	<u>\$ 63,204</u>	<u>\$ 1,676,061</u>	<u>\$ 1,330,070</u>
LIABILITIES AND FUND BALANCE					
Liabilities:					
Accounts payable and accrued liabilities	\$ 563,104	\$ -	\$ -	\$ 563,104	\$ 404,887
Due to other funds	-	-	459	459	509
Deferred liabilities	495,585	-	-	495,585	495,585
Total liabilities	<u>1,058,689</u>	<u>-</u>	<u>459</u>	<u>1,059,148</u>	<u>900,981</u>
Fund balance:					
Restricted for:					
Roads and recreational activities	300,975	-	-	300,975	320,121
Perpetual Care Fund	-	-	63,204	63,204	61,290
Assigned for:					
Capital Projects	-	36,100	-	36,100	34,528
Unassigned for:					
General Fund	217,093	-	-	217,093	13,659
Special Revenue Funds	-	-	(459)	(459)	(509)
Total fund balances	<u>518,068</u>	<u>36,100</u>	<u>62,745</u>	<u>616,913</u>	<u>429,089</u>
Total liabilities and fund balances	<u>\$ 1,576,757</u>	<u>\$ 36,100</u>	<u>\$ 63,204</u>	<u>\$ 1,676,061</u>	<u>\$ 1,330,070</u>

SALEM CITY CORPORATION
Balance Sheet Reconciliation to
Statement of Net Assets

June 30, 2011

Total fund balances for governmental funds	\$ 616,913
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Consolidation of Internal Service Funds	57,058
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,147,830
Governmental funds report the effects of bond issuance costs, whereas these amounts are deferred and shown as net amortization in the statement of net assets	104,755
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	<u>(3,539,543)</u>
Net assets of governmental activities	<u><u>\$ 12,387,013</u></u>

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

For the Year Ended June 30, 2011

	General	Capital Projects Fund	Non-Major Governmental Funds	Memorandum Totals	
				2011	2010
Revenues:					
Taxes	\$ 1,492,044	\$ -	\$ -	\$1,492,044	\$ 1,424,942
Licenses and permits	186,629	-	-	186,629	264,863
Intergovernmental	475,231	-	67,319	542,550	350,082
Charges for services	793,738	-	-	793,738	657,775
Investment earnings	2,637	296	187	3,120	7,414
Fines and forfeitures	40,443	-	-	40,443	39,085
Miscellaneous revenues	41,576	-	-	41,576	54,871
Total revenues	<u>3,032,298</u>	<u>296</u>	<u>67,506</u>	<u>3,100,100</u>	<u>2,799,032</u>
Expenditures:					
Current:					
General government	587,392	-	-	587,392	609,761
Public safety	1,106,695	-	-	1,106,695	1,120,181
Highways and public works	346,118	-	-	346,118	266,785
Parks and recreation	935,206	-	-	935,206	960,066
Tax increment distributions	-	-	-	-	70,000
Capital outlay	-	80,443	-	80,443	42,433
Debt service:					
Principal Retirement	129,856	-	38,000	167,856	165,856
Interest and fiscal charges	104,129	-	27,542	131,671	134,501
Total expenditures	<u>3,209,396</u>	<u>80,443</u>	<u>65,542</u>	<u>3,355,381</u>	<u>3,369,583</u>
Excess (deficiency) of revenues over expenditures	<u>(177,098)</u>	<u>(80,147)</u>	<u>1,964</u>	<u>(255,281)</u>	<u>(570,551)</u>
Other financing sources (uses):					
Transfers in	442,240	-	-	442,240	228,166
Transfers out	-	-	-	-	(102,926)
Sale of assets	865	-	-	865	12,107
Total other financing sources (uses)	<u>443,105</u>	<u>-</u>	<u>-</u>	<u>443,105</u>	<u>137,347</u>
Net change in fund balance	266,007	(80,147)	1,964	187,824	(433,204)
Fund balances - beginning of year	252,061	116,247	60,781	429,089	895,091
Prior period adjustment	-	-	-	-	(32,798)
Fund balances - beginning of year, restated	<u>252,061</u>	<u>116,247</u>	<u>60,781</u>	<u>429,089</u>	<u>862,293</u>
Fund balances - end of year	<u>\$ 518,068</u>	<u>\$ 36,100</u>	<u>\$ 62,745</u>	<u>\$ 616,913</u>	<u>\$ 429,089</u>

SALEM CITY CORPORATION
Statement of Changes
Reconciliation to Statement of Activities

For the Year Ended June 30, 2011

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

Net change in fund balances-total governmental funds	\$ 187,824
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(633,709)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets	-
The issuance of long-term debt (e.g., bonds, leases) provide current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items	196,257
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.	40,836
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	<u>(6,840)</u>
Change in net assets of governmental activities	<u><u>\$ (215,632)</u></u>

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

For the Year Ended June 30, 2011

	Budget Amounts		General Fund	Variance with Final Budget
	Original Budget	Final Budget		Positive (Negative)
Revenues:				
Taxes	\$ 1,495,446	\$ 1,495,900	\$ 1,492,044	\$ (3,856)
Licenses and permits	157,050	143,365	186,629	43,264
Intergovernmental	327,138	526,409	475,231	(51,178)
Charges for services	553,966	574,858	793,738	218,880
Fines and forfeitures	36,000	38,500	40,443	1,943
Miscellaneous revenues	229,769	232,539	44,213	(188,326)
Total revenues	2,799,369	3,011,571	3,032,298	20,727
Expenditures:				
Current:				
General government	324,025	571,651	587,392	(15,741)
Public safety	1,211,750	1,225,550	1,106,695	118,855
Highways and public works	271,448	442,023	346,118	95,905
Parks and recreation	915,355	1,040,380	935,206	105,174
Debt Service	234,510	233,986	233,985	1
Total expenditures	2,957,088	3,513,590	3,209,396	304,194
Excess of expenditures over revenues	(157,719)	(502,019)	(177,098)	324,921
Other financing sources (uses):				
Sale of Assets	2,000	800	865	65
Transfers in	158,700	442,200	442,240	40
Transfers out	(60,000)	(60,000)	-	60,000
Net Change in fund balance	(57,019)	(119,019)	266,007	385,026
Fund balance - beginning of year	252,061	252,061	252,061	-
Prior period adjustment	-	-	-	-
Fund balances - beginning of year, restated	252,061	252,061	252,061	-
Fund balance - end of year	\$ 195,042	\$ 133,042	\$ 518,068	\$ 385,026

SALEM CITY CORPORATION
Statement of Net Assets
Proprietary Funds

June 30, 2011

	Business-Type Activities - Enterprise			Non-Major Enterprise Fund		Total	Governmental Activities Internal Services Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Waste Utility		
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 722,911	\$ 353,456	\$ 254,870	\$ 60,909	\$ 146,406	\$ 1,538,552	\$ -
Accounts receivable, net	59,184	46,288	229,789	46,388	29,097	410,746	-
Inventories	22,095	-	131,028	-	-	153,123	-
Due from other funds	17,068	-	-	-	-	17,068	-
Total current assets	821,258	399,744	615,687	107,297	175,503	2,119,489	-
Noncurrent assets							
Restricted cash and cash equivalents	52,500	212,930	-	209,029	-	474,459	-
Land, equipment, buildings, and improvements	10,327,625	10,991,350	9,638,100	13,650,013	23,000	44,630,088	1,302,397
Less accumulated depreciation	(2,250,488)	(2,513,462)	(1,272,160)	(278,546)	(11,787)	(6,326,443)	(1,035,869)
Water rights and stock	696,466	-	-	328,842	-	1,025,308	-
Equity in joint venture	-	384,478	-	-	186,641	571,119	-
Deferred bond financing costs-net	100,321	-	-	69,978	-	170,299	-
Total noncurrent assets	8,926,424	9,075,296	8,365,940	13,979,316	197,854	40,544,830	266,528
Total assets	9,747,682	9,475,040	8,981,627	14,086,613	373,357	42,664,319	266,528
LIABILITIES							
Current liabilities:							
Accounts payable	51,414	11,966	459,301	97,179	21,642	641,502	22,045
Due to other funds	-	-	-	-	-	-	17,068
Loans payable	13,537	69,130	60,512	40,000	-	183,179	-
Bonds and capital leases	310,000	18,000	50,121	26,000	-	404,121	-
Total current liabilities	374,951	99,096	569,934	163,179	21,642	1,228,802	39,113
Noncurrent liabilities:							
Loans payable	558,567	1,025,993	942,306	-	-	2,526,866	-
Bonds and capital leases	1,188,875	32,986	89,351	6,452,742	-	7,763,954	223,704
Deferred revenues	-	-	-	-	-	-	-
Total long-term liabilities	1,747,442	1,058,979	1,031,657	6,452,742	-	10,290,820	223,704
Total liabilities	2,122,393	1,158,075	1,601,591	6,615,921	21,642	11,519,622	262,817
NET ASSETS							
Invested in capital assets, net of related debt	6,702,624	7,331,779	7,223,650	7,181,567	11,213	28,450,833	42,824
Restricted for debt and other activities	52,500	212,930	-	209,029	-	474,459	-
Unrestricted	870,165	772,256	156,386	80,096	340,502	2,219,405	(39,113)
Total net assets	\$ 7,625,289	\$ 8,316,965	\$ 7,380,036	\$ 7,470,692	\$ 351,715	\$ 31,144,697	\$ 3,711
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund							(74,126)
Net assets from business-type activities							\$ 31,070,571

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

For the Year Ended June 30, 2011

	Business-Type Activities - Enterprise			Non-Major		Governmental Internal Service Fund
	Water Utility Fund	Sewer Fund	Electric Utility Fund	Pressurized Irrigation	Enterprise Fund Waste Utility Fund	
					Total	
Operating revenues:						
Charges for services	\$ 678,235	\$ 506,941	\$ 3,046,933	\$ 502,670	\$ 318,332	\$ 325,351
Fees and miscellaneous	10,253	2,239	208,467	112	8,475	1,730
Total operating revenues	<u>688,488</u>	<u>509,180</u>	<u>3,255,400</u>	<u>502,782</u>	<u>326,807</u>	<u>327,081</u>
Operating expenses:						
Purchased power	-	-	1,913,751	-	-	-
Salaries and wages	79,242	75,163	313,377	64,602	12,320	-
Employee benefits	44,914	43,849	137,637	41,176	1,139	12,394
Contractual services	77,987	73,297	104,029	120,432	233,602	609,347
Supplies and materials	40,272	45,384	281,735	68,113	12,689	48,193
Administrative services	134,482	133,778	153,060	132,359	51,684	-
Utilities and telephone	31,471	29,136	-	14,294	-	74,901
Depreciation	212,885	214,791	186,404	260,351	575	875,006
Amortization of bond financing costs	22,419	-	1,476	2,709	-	26,604
Total operating expenses	<u>643,672</u>	<u>615,398</u>	<u>3,091,469</u>	<u>704,036</u>	<u>312,009</u>	<u>338,520</u>
Operating income (loss)	<u>44,816</u>	<u>(106,218)</u>	<u>163,931</u>	<u>(201,254)</u>	<u>14,798</u>	<u>(11,439)</u>
Non-operating revenue (expense):						
Interest revenue	1,121	212	1,689	6,568	22	347
Impact fees	80,157	71,989	121,860	66,897	-	-
Increase equity in joint venture	-	-	-	-	4,669	-
Loss on sale of asset	-	-	-	-	-	-
Interest expense and fiscal charges	(60,476)	(1,110)	(7,226)	(116,438)	-	(13,182)
Total non-operating revenue (expense)	<u>20,802</u>	<u>71,091</u>	<u>116,323</u>	<u>(42,973)</u>	<u>4,691</u>	<u>(12,835)</u>
Net income before contributions & transfers	<u>65,618</u>	<u>(35,127)</u>	<u>280,254</u>	<u>(244,227)</u>	<u>19,489</u>	<u>(24,274)</u>
Transfers in (out)	(39,104)	(9,248)	(401,248)	11,608	(4,248)	-
Developers contributions	81,537	253,752	230,878	73,928	-	-
Change in net assets	<u>108,051</u>	<u>209,377</u>	<u>109,884</u>	<u>(158,691)</u>	<u>15,241</u>	<u>(24,274)</u>
Net assets - beginning	7,517,238	8,107,588	7,270,152	7,629,383	336,474	27,985
Prior period adjustment	-	-	-	-	-	-
Net assets - beginning, as restated	<u>7,517,238</u>	<u>8,107,588</u>	<u>7,270,152</u>	<u>7,629,383</u>	<u>336,474</u>	<u>27,985</u>
Net assets - ending	<u>\$ 7,625,289</u>	<u>\$ 8,316,965</u>	<u>\$ 7,380,036</u>	<u>\$ 7,470,692</u>	<u>\$ 351,715</u>	<u>\$ 3,711</u>
Adjustment to reflect the consolidation of internal services funds activities related to enterprise fund						
Change in net assets of business-type activities						
					(22,190)	
					<u>\$ 261,672</u>	

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

For the Year Ended June 30, 2011

SALEM CITY

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2011

	Business-Type Activities - Enterprise				Non-Major		Total	Governmental Internal-Service Fund
	Water Utility Fund	Sewer Utility Fund	Electric Utility Fund	Pressurized Irrigation	Enterprise Fund	Waste Utility Fund		
Cash Flows From Operating Activities								
Receipts from customers and users	\$ 685,118	\$ 506,473	\$ 3,207,981	\$ 505,312	\$ 329,291	\$ 329,291	\$ 5,234,175	\$ 327,081
Payments to suppliers	(170,428)	(180,735)	(2,226,027)	(261,461)	(239,095)	(239,095)	(3,077,746)	(247,333)
Payments to general fund for services	(134,482)	(133,778)	(153,060)	(132,359)	(51,684)	(51,684)	(605,363)	-
Payments to employees	(79,242)	(75,163)	(313,377)	(64,602)	(12,320)	(12,320)	(544,704)	-
Net cash provided by operating activities	300,966	116,797	515,517	46,890	26,192	26,192	1,006,362	79,748
Cash Flows From Noncapital Financing Activities								
Interfund Activity	(39,104)	(9,248)	(401,248)	11,608	(4,248)	(4,248)	(442,240)	-
Net cash provided (used) by noncapital financing activ.	(39,104)	(9,248)	(401,248)	11,608	(4,248)	(4,248)	(442,240)	-
Cash Flows From Capital and Related Financing Activities								
Impact Fees	80,157	71,989	121,860	66,897	-	-	340,903	-
Purchase of equity in joint venture	-	(85,647)	-	-	-	-	(85,647)	-
Purchases of capital assets	-	-	-	(129,930)	-	-	(129,930)	-
Principle paid on debt	(354,904)	(87,130)	(199,918)	(1,053,258)	(199,918)	-	(1,695,210)	(66,913)
Interest paid on capital debt	(60,476)	(1,110)	(7,226)	(116,438)	(7,226)	-	(185,250)	(13,182)
Net cash used in capital and related financing activities	(335,223)	(101,898)	(85,284)	(1,232,729)	(85,284)	-	(1,755,134)	(80,095)
Cash Flows From Investing Activities								
Interest and dividends received	1,121	212	1,689	6,568	22	22	9,612	347
Net cash provided by investing activities	1,121	212	1,689	6,568	22	22	9,612	347
Net increase (decrease) in cash and cash equivalents	(72,240)	5,863	30,674	(1,167,663)	21,966	21,966	(1,181,400)	-
Cash and equivalents at beginning of year	847,651	560,523	224,196	1,437,601	124,440	124,440	3,194,411	-
Cash and equivalents at end of year	\$ 775,411	\$ 566,386	\$ 254,870	\$ 269,938	\$ 146,406	\$ 146,406	\$ 2,013,011	\$ -
Shown in the Statement of Net Assets as:								
Cash and cash equivalents	\$ 722,911	\$ 353,456	\$ 254,870	\$ 60,909	\$ 146,406	\$ 146,406	1,538,552	\$ -
Restricted cash equivalents at end of year	52,500	212,930	-	209,029	-	-	474,459	-
	\$ 775,411	\$ 566,386	\$ 254,870	\$ 269,938	\$ 146,406	\$ 146,406	\$ 2,013,011	\$ -

(continued)

See Accompanying Notes To Financial Statements

SALEM CITY CORPORATION
Statement of Cash Flows
Proprietary Funds

Continued

SALEM CITY
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2011

	Water Utility Fund	Business-Type Activities - Sewer Utility Fund	Enterprise - Electric Utility Fund	Pressurized Irrigation	Non-Major Enterprise Fund Waste Utility Fund	Total	Governmental Internal-Service Fund
\$	44,816	\$ (106,218)	\$ 163,931	\$ (201,254)	14,798	\$ (83,927)	\$ (11,439)
	212,885	214,791	186,404	260,351	575	875,006	98,236
	22,419	-	1,476	2,709	-	26,604	-
	3,370	2,707	47,419	(2,530)	(2,484)	48,482	-
	(4,611)	-	17,756	-	-	13,145	-
	18,646	-	-	-	-	18,646	-
	3,441	5,517	98,531	(12,386)	13,303	108,406	11,597
	-	-	-	-	-	-	(18,646)
	256,150	223,015	351,586	248,144	11,394	1,090,289	91,187
\$	300,966	\$ 116,797	\$ 515,517	\$ 46,890	\$ 26,192	\$ 1,006,362	\$ 79,748

Reconciliation of operating income to net cash provided by operating activities:

Operating income
Adjustments to reconcile operating income to net cash provided by operating activities:
Depreciation Expense
Amortization Expense
(Increase) decrease in accounts receivable
(Increase) decrease in inventory
(Increase) decrease in due from other funds
Increase (decrease) in accounts payable
Increase (decrease) in due to other funds
Total adjustments
Net cash provided by operating activities:

Supplementary information

Non-cash items from capital and related financing activities include contributions by developers
Non-cash purchase of assets through debt

\$	81,537	\$ 253,752	\$ 230,878	\$ 73,928	\$ -	\$ 640,095	\$ -
\$	99,070	\$ -	\$ 109,628	\$ -	\$ -	\$ 208,698	\$ -

June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

Blended Component Units

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

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

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

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

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

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

B. Government-wide and fund financial statements

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

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

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

C. Measurement Focus, Basis of Accounting and Presentation

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

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

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

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

The government reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

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

Additionally, the government reports the following fund types:

Special Revenue Funds:

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

Redevelopment Agency accounts for the activities of the Redevelopment Agency.

Permanent Fund:

Perpetual Care accounts for the perpetual care of the cemetery.

Internal Service Funds:

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

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

Proprietary Funds:

Waste Utility accounts for the activities of the waste removal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

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

2. Receivables and payables

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

3. Inventories and prepaid items

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

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

4. Restricted assets

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

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

5. Capital assets

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

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

5. Capital assets – *Continued*

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

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

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

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

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

6. Compensated Absences

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

7. Taxes

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

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

Continued

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

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

8. Long-term obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the accrual debt proceeds received, are reported as debt service expenditures.

9. Net Assets/Fund Balances

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

10. Use of Estimates

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

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

Continued

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

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

Capital related items:

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

Cost of capital assets	\$28,632,447
Accumulated depreciation	<u>(13,484,617)</u>
Net adjustment to increase <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>)	<u>\$15,147,830</u>

Long-term debt transactions:

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

Bonds, notes, and capital leases payable	\$3,386,704
Bond interest payable	46,920
Other long-term payables	<u>105,919</u>
Net adjustment to reduce <i>fund balance - total governmental funds to arrive at net assets - governmental activities</i>	<u>\$3,539,543</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

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

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

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

Capital outlay	\$ 272,355
Depreciation expense	(1,045,364)
Capital contribution by developers	<u>139,300</u>
Net adjustment to increase <i>net changes in fund balances-</i> <i>total governmental funds</i> to arrive at <i>changes in net assets</i> <i>of governmental activities</i>	\$ <u>(633,709)</u>

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

Change in long-term debt	
Principal paid on bonds, notes, and capital leases	\$237,226
Accrued interest change	29,427
Compensated absence change	<u>11,542</u>
Total debt retired	<u>\$196,257</u>

3. BUDGETS AND BUDGETARY ACCOUNTING

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

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

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

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Deposits

Deposits - Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City follows the requirements of the Utah Money Management Act (Section 51, chapter 7 of the Utah Code) in handling its depository and investing transactions. The City considers the actions of the Council to be necessary and sufficient for adequate protection of its uninsured bank deposits. City funds are deposited in qualified depositories as defined by the Act. The City does not have a deposit policy for custodial credit risk. As of June 30, 2011, the City's custodial credit risk for deposits were as follows:

<u>Depository Account</u>	<u>Custodial Credit Risk</u>	<u>Balance June 30, 2011</u>
Regular Checking Now Account	Insured	\$1,041,151
Public Checking Analyze	Insured	\$791,151

B. Investments

The City's investments are managed through participation in the State Public Treasurer's Investment Fund. As of June 30, 2011, the City had the following investments:

<u>Investment</u>	<u>Maturities</u>	<u>Fair Value</u>
Utah Public Treasurer's Investment Fund	62 days average	\$2,033,638
Money Market Accounts	Less than 1 yr	11
		<u>\$2,033,649</u>

Investments - Interest Rate Risk - The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, interest rate risk is managed by compliance to the Utah Money Management Act which provides guidance for handling depository and investing transactions in order to minimize interest rate risk

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

Continued

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

B. Investments - *Continued*

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

Investments - Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's entire \$11 of underlying securities are held by the investment's counterparty, not in the name of the City, not insured, and are not rated. The City does not have an investment policy for custodial credit risk.

5. RECEIVABLES

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

	General	Water	Sewer	Electric	Pressurized Irrigation	Nonmajor Utility Solid Waste	Total
Receivables:							
Accounts	\$ 59,196	\$ 63,924	\$ 50,001	\$ 250,795	\$ 49,711	\$ 31,114	\$ 504,741
Property Tax	513,584	-	-	-	-	-	513,584
Intergovernmental	95,223	-	-	-	-	-	95,223
Allowance	(4,158)	(4,740)	(3,713)	(21,006)	(3,323)	(2,017)	(38,957)
	<u>\$ 663,845</u>	<u>\$ 59,184</u>	<u>\$ 46,288</u>	<u>\$ 229,789</u>	<u>\$ 46,388</u>	<u>\$ 29,097</u>	<u>\$ 1,074,591</u>

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

	<u>Unavailable</u>
Property taxes (General Fund)	\$495,585

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

6. INTERFUND RECEIVABLES, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2011 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water Fund	Internal Service Fund	\$17,068
Capital Projects	Redevelopment Agency	20
Capital Projects	Municipal Building Authority	439

Inter fund Transfers:

	<u>Transfer Out</u>			
	<u>General</u>	<u>Capital</u>	<u>Nonmajor Governmental</u>	<u>Business Type</u>
Transfer in:				
General	\$ -	\$ -	\$ -	\$ 442,240
Construction	-	-	-	-
Nonmajor Govtl.	-	-	-	-
Business Type	-	-	-	-
Total Transfer Out	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 442,240</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

7. CAPITAL ASSETS

Primary Governmental Governmental Activity	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 369,909	\$ -	\$ -	\$ 369,909
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>369,909</u>	<u>-</u>	<u>-</u>	<u>369,909</u>
Capital assets being depreciated:				
Buildings	3,319,352	-	-	3,319,352
Improvements	1,827,736	173,833	-	2,001,569
Machinery and equipment	2,066,356	-	-	2,066,356
Infrastructure	<u>20,637,439</u>	<u>237,822</u>	<u>-</u>	<u>20,875,261</u>
Total capital assets being depreciated	27,850,883	411,655	-	28,262,538
Less accumulated depreciation	<u>(12,439,253)</u>	<u>(1,045,364)</u>	<u>-</u>	<u>(13,484,617)</u>
Total capital assets, being depreciated, net	<u>15,411,630</u>	<u>(633,709)</u>	<u>-</u>	<u>14,777,921</u>
Governmental activities capital assets, net	<u>\$ 15,781,539</u>	<u>\$ (633,709)</u>	<u>\$ -</u>	<u>\$ 15,147,830</u>
Business-type activities:	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,038,703	\$ -	\$ -	\$ 1,038,703
Construction in progress	645,573	-	-	645,573
Water rights and stock	<u>912,378</u>	<u>112,930</u>	<u>-</u>	<u>1,025,308</u>
Total capital assets not being depreciated	<u>2,596,654</u>	<u>112,930</u>	<u>-</u>	<u>2,709,584</u>
Capital assets being depreciated:				
Buildings	1,609,007	-	-	1,609,007
Improvements	38,783,925	739,165	-	39,523,090
Machinery and equipment	375,883	126,628	-	502,511
Infrastructure	<u>1,311,204</u>	<u>-</u>	<u>-</u>	<u>1,311,204</u>
Total capital assets being depreciated	<u>42,080,019</u>	<u>865,793</u>	<u>-</u>	<u>42,945,812</u>
Less accumulated depreciation	<u>(5,451,437)</u>	<u>(875,006)</u>	<u>-</u>	<u>(6,326,443)</u>
Total capital assets, being depreciated, net	<u>36,628,582</u>	<u>(9,213)</u>	<u>-</u>	<u>36,619,369</u>
Business-type activities capital assets, net	<u>\$ 39,225,236</u>	<u>\$ 103,717</u>	<u>\$ -</u>	<u>\$ 39,328,953</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	\$ 67,409
Public safety	119,840
Highway and public works	770,571
Parks and recreation	<u>87,544</u>
Total depreciation	<u>\$1,045,364</u>

8. LEASE COMMITMENTS

The City during the fiscal year 2011 executed a new lease for a mini boom truck in the amount of \$109,628 payable in annual installments for 5 years.	\$109,628
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The City during the fiscal year 2007 executed a new lease for a bucket truck in the amount of \$136,980 payable in annual installments for 6 years.	29,844
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The City during the fiscal year 2007 executed a new lease for a jet truck in the amount of \$286,510 payable in annual installments for 8 years.	155,487
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The City during the fiscal year 2008 executed a new lease for a dump truck in the amount of \$160,299 payable in annual installments for 5 years.	68,217
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The assets acquired through capital leases are as follows:

	Governmental <u>Activities</u>
Asset:	
Machinery & Equipment	\$693,417
Accumulated Amortization	<u>(306,889)</u>
Total	<u>\$386,528</u>

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

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

8. LEASE COMMITMENTS - Continued

The following is the present value of future minimum capital lease payments under these leases as of June 30, 2011:

Fiscal Year	Governmental Amount	Business-type Amount	Total Amount
2012	\$ 79,705	\$ 55,533	\$ 135,238
2013	79,704	24,564	104,268
2014	43,277	24,563	67,840
2015	43,910	24,563	68,473
2016	-	24,563	24,563
Total Minimum lease payments	246,596	153,786	400,382
Less amounts representing interest	(22,892)	(14,314)	(37,206)
Present value of minimum lease payments	<u>\$ 223,704</u>	<u>\$ 139,472</u>	<u>\$ 363,176</u>

At June 30, 2011 the City's capital leases payable balance consisted of the following:

	Capital Leases Payable Governmental	Capital Leases Payable Business-type	Capital Leases Payable All Fund Types
Capital Leases Payable	\$ 223,704	\$ 139,472	\$ 363,176
Current Portion Capital Lease Payable	(69,532)	(50,121)	(119,653)
Long Term Capital Leases Payable	<u>\$ 154,172</u>	<u>\$ 89,351</u>	<u>\$ 243,523</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT

Bonds and notes payable at June 30, 2011, are comprised of the following:

Revenue Bonds

Water Revenue Bond-Series 1991:

\$420,000 Water revenue bonds due in annual principal and interest payments through January 2012 - with an interest rate of 4% \$ 30,000

Sewer Revenue Bond-Series 1994:

\$322,500 Sewer revenue bond due in annual principal and interest payments through October 2013 - with an interest rate of 2% 50,986

Water Revenue Bond-Series 1996:

\$300,000 Water revenue bond due in annual principal payments through January 2017 - There is no interest on this bond 48,875

Secondary Water Revenue Bond-Series 2007:

\$7,500,000 Secondary water revenue bond due in annual principal and interest payments through September 2037 - with an interest rate of 1.70% 6,478,742

Excise Tax Revenue Bond-Series 2008:

\$3,500,000 Excise tax revenue bond due in annual principal and semi-annual interest payments through September 1, 2027 - with an interest rate of 3.95% 3,163,000

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT - Continue

Revenue Bonds

<u>Fiscal Year</u>	<u>Governmental</u>		<u>Business-Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 155,000	\$ 121,877	\$ 89,000	\$ 112,067
2013	162,000	115,616	70,000	109,938
2014	167,000	109,118	74,986	108,818
2015	177,000	102,324	60,875	107,576
2016	184,000	95,195	69,000	106,454
2017-2021	1,022,000	359,688	655,000	505,452
2022-2026	888,000	171,073	1,245,000	420,239
2027-2031	408,000	16,274	1,811,000	289,008
2032-2036	-	-	2,484,000	102,913
2037-2038	-	-	49,742	211
Total	<u>\$ 3,163,000</u>	<u>\$ 1,091,165</u>	<u>\$ 6,608,603</u>	<u>\$ 1,862,676</u>

General Obligation Bond

General Obligation Refunding Water Bonds-Series 2004:

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

\$1,420,000

General Obligation Bonds

<u>Fiscal Year</u>	<u>Water Fund</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 265,000	\$ 44,719
2013	275,000	38,019
2014	285,000	28,678
2015	290,000	19,784
2016	305,000	12,200
Total	<u>\$ 1,420,000</u>	<u>\$ 143,400</u>

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT - Continue

Notes Payable

During 2006 the City acquired a note for \$250,000 with Elk Ridge City to buy out a portion of a sewer treatment plant. The note requires annual principal payments through 2012 - there is no interest with this note.

\$ 50,000

During 2008 the City acquired a note for \$160,000 to acquire land for the pressurized irrigation system. The note requires annual principal payments through 2012. - with a 6.00% interest rate.

40,000

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.

1,002,818

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.

517,042

During 2010, the City acquired a note for \$1,065,326 from a developer to be used for sewer system improvements. This interest free note is paid back to the developer based on a percentage of sewer impact fees collected by the City.

1,045,123

During 2011, the City acquired a note for \$99,070 from a developer to be used for water system improvements. This interest free note is paid back to the developer based on a percentage of water impact fees collected by the City.

55,062

Fiscal Year	Notes Payable		Business-Type	
	Governmental			
	Principal	Interest	Principal	Interest
2012	\$ -	\$ -	\$ 183,179	\$ 1,200
2013	-	-	93,179	-
2014	-	-	93,179	-
2015	-	-	93,179	-
2016	-	-	93,179	-
2017-2021	-	-	464,547	-
2022-2026	-	-	437,690	-
2027-2031	-	-	230,268	-
2032-2036	-	-	135,130	-
2037-2038	-	-	886,515	-
Total	\$ -	\$ -	\$ 2,710,045	\$ 1,200

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

9. LONG-TERM DEBT - Continue

The future annual requirements for all outstanding bond and note obligations as of June 30, 2011 are as follows:

Fiscal Year	All Bonds and Notes		
	Principal	Interest	Total
2012	\$ 692,179	\$ 279,863	\$ 972,042
2013	600,179	263,572	863,751
2014	620,165	246,614	866,779
2015	621,054	229,684	850,738
2016	651,179	213,849	865,028
2017-2021	2,141,547	865,140	3,006,687
2022-2026	2,570,690	591,312	3,162,002
2027-2031	2,449,268	305,282	2,754,550
2032-2036	2,619,130	102,913	2,722,043
2037-2040	936,257	211	936,468
Total	<u>\$ 13,901,648</u>	<u>\$ 3,098,440</u>	<u>\$ 17,000,088</u>

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

	July 1, 2010	Additions	Reductions	June 30, 2011	Due in One Year
Governmental Activities					
Bonds Payable:					
Excise tax bonds	\$ 3,313,000	\$ -	\$ 150,000	\$ 3,163,000	\$ 155,000
Note Payable	-	-	-	-	-
Capital Leases	310,930	-	87,226	223,704	69,532
Compensated absences	94,377	11,542	-	105,919	-
Gov't Activities Long-Term Debt	<u>\$ 3,718,307</u>	<u>\$ 11,542</u>	<u>\$ 237,226</u>	<u>\$ 3,492,623</u>	<u>\$ 224,532</u>
Business Type Activities:					
Bonds Payable:					
Revenue Bonds	\$ 7,827,861	\$ -	\$ 1,219,258	\$ 6,608,603	\$ 89,000
General Obligation Bonds	1,680,000	-	260,000	1,420,000	265,000
Capital Leases	58,671	109,628	28,827	139,472	50,121
Notes Payable	2,798,100	60,703	148,758	2,710,045	183,179
Business-type Activities					
Long-Term Debt	<u>\$ 12,364,632</u>	<u>\$ 170,331</u>	<u>\$ 1,656,843</u>	<u>\$ 10,878,120</u>	<u>\$ 587,300</u>

Continued

10. RETIREMENT PLANS

Local Governmental - Cost Sharing

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

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

Funding Policy. Salem City Corporation is required to contribute to the Local Government Noncontributory Retirement System 13.37% of the Plan members' annual covered salary. In the Public Safety Retirement System for employers with Social Security coverage noncontributory division members are required to contribute 28.82 % of their salary (all or part may be paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Salem City Corporation contributions to the Local Governmental Noncontributory Retirement System for June 30, 2011, 2010 and 2009 were \$166,837, \$151,477, and \$147,611, respectively, and for the Public Safety Retirement System the contributions for June 30, 2011, 2010 and 2009 were \$101,394, \$90,642, and \$83,724, respectively, and for the 401K Plan System the contributions for June 30, 2011, 2010, and 2009 were \$48,037, \$52,897, and \$52,812, respectively. The contributions were equal to the required contributions for each year.

11. RISK MANAGEMENT

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

12. JOINT VENTURES

South Utah Valley Solid Waste City

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

Additional information is as follows:

a. Participants and their percentage shares:

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

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

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

d. Salem Contributes annually for its percentage share of ownership for debt service as well as membership revenues. Salem recognizes its percentage of net income (loss) of the joint venture on an annual basis which can be seen as equity in a joint venture. Salem recognized \$4,669 of gain in the current year leaving an investment balance of \$186,641 as of June 30, 2011.

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

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

12. JOINT VENTURES - Continued

South Utah Valley Municipal Water Association

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

Salem City has invested \$384,478 toward the purchases of the wastewater treatment property. This payment is shown as equity in a joint venture.

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

13. RESTRICTED FUND BALANCES

The City had the following restricted cash balances as of June 30, 2011:

	General	Perpetual Care	Water	Sewer	Electric	Pressurized Irrigation
Impact fees, unexpended	\$ 250,752	\$ -	\$ -	\$ 169,050	\$ -	\$ 77,597
B&C roads	50,223	-	-	-	-	-
Perpetual care	-	63,204	-	-	-	-
Debt sinking and reserves	-	-	52,500	43,880	-	131,432
Total	<u>\$ 300,975</u>	<u>\$ 63,204</u>	<u>\$ 52,500</u>	<u>\$ 212,930</u>	<u>\$ -</u>	<u>\$ 209,029</u>

14. OTHER DISCLOSURES

Excess of Expenditures Over Appropriations

Utah law requires that actual expenditures shall not exceed budgeted appropriations for any department of the general fund. The general government department was over-spent by \$15,741.

The Waste Utility and Motor Pool fund total expenditures of the fund exceed the budget amounts.

Deficit fund balance

Nonmajor funds Redevelopment Agency and the Municipal Building Authority had deficit fund balance as of June 30, 2011.

SALEM CITY CORPORATION
Notes to the Financial Statements

Continued

15. SEGMENT INFORMATION FOR INTERNAL SERVICE FUNDS

The City maintains Internal Service Funds which provide motor pool and data processing services. Selected unaudited information for these funds for the year ended June 30, 2011 is as follows:

	Motor Pool	Data Processing	Total
Operating Revenues	\$ 327,081	\$ -	\$ 327,081
Depreciation and Amortization	(98,236)	-	(98,236)
Other Operating Expenses	(240,284)	-	(240,284)
Operating Income (Loss)	(11,439)	-	(11,439)
Non-Operating Revenue (Expense)	(12,835)	-	(12,835)
Net Increase (Decrease) in Retained Earnings	<u>\$ (24,274)</u>	<u>\$ -</u>	<u>\$ (24,274)</u>
 Total Assets	 \$ 266,528	 \$ -	 \$ 266,528
Total Liabilities	268,420	(5,603)	262,817
Total Fund Equity	(1,892)	5,603	3,711

16. REDEVELOPEMENT AGENCY

The Redevelopment agency of Salem City is established to further public purposes in the redevelopment of certain City areas. For the year ended June 30, 2011 no activity occurred in the City's Redevelopment Agency.

17. SUBSEQUENT EVENTS

In preparing these financial statements, the City has evaluated events and transactions for potential recognition or disclosure through October 3, 2011, the date the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

SALEM CITY CORPORATION
Combining Balance Sheet
Non-Major Governmental Funds

June 30, 2011

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2011	2010
ASSETS					
Cash & cash equivalents	\$ -	\$ -	\$ 63,204	\$ 63,204	\$ 61,290
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,204</u>	<u>\$ 63,204</u>	<u>\$ 61,290</u>
LIABILITIES					
Due to other funds	\$ 20	\$ 439	\$ -	\$ 459	\$ 509
Total Liabilities	<u>20</u>	<u>439</u>	<u>-</u>	<u>459</u>	<u>509</u>
Fund balance:					
Restricted for perpetual care	-	-	63,204	63,204	61,290
Unassigned	(20)	(439)	-	(459)	(509)
Total fund balance	<u>(20)</u>	<u>(439)</u>	<u>63,204</u>	<u>62,745</u>	<u>60,781</u>
Total liabilities & fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,204</u>	<u>\$ 63,204</u>	<u>\$ 61,290</u>

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

For the Year Ended June 30, 2011

	Special Revenue Funds		Permanent Fund	Memorandum Totals	
	Redevelopment Agency	Municipal Building Authority	Perpetual Care	2011	2010
Revenues:					
Intergovernmental	\$ -	\$ 65,592	\$ 1,727	\$ 67,319	\$ 67,018
Investment earnings	-	-	187	187	290
Total revenues	-	65,592	1,914	67,506	67,308
Expenditures:					
Current:					
Tax increment distributions	-	-	-	-	70,000
Debt Service:					
Principal retirement	-	38,000	-	38,000	36,000
Interest and fiscal charges	-	27,542	-	27,542	29,534
Total	-	65,542	-	65,542	135,534
Excess of revenues over expenditures	-	50	1,914	1,964	(68,226)
Other financing sources (uses):					
Transfers in (out)	-	-	-	-	55,000
Net change in fund balances	-	50	1,914	1,964	(13,226)
Fund balances - beginning of year	(20)	(489)	61,290	60,781	74,007
Fund balances - end of year	\$ (20)	\$ (439)	\$ 63,204	\$ 62,745	\$ 60,781

OTHER REPORTS



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

Honorable Mayor and City Council
Salem City
Salem, Utah

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Utah (the City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying management letter as finding 2011-1 that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated October 3, 2011.

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

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

ALLRED JACKSON

October 3, 2011



INDEPENDENT AUDITOR'S REPORT ON STATE LEGAL COMPLIANCE

Honorable Mayor and City Council
Salem City
Salem, Utah

We have audited the City of Salem (the City)'s compliance with general and major State program compliance requirements described in the State of Utah Legal Compliance Audit Guide for the year ended June 30, 2011. The general compliance requirements applicable to the City are identified as follows:

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

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

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

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

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

In our opinion, Salem City, Utah, complied, in all material respects, with the general compliance requirements identified above and the compliance requirements that are applicable to each of its major state programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with the State of Utah legal Compliance Audit Guide and which are described in our letter to management dated October 3, 2011 as findings 2011-2 and 2011-3.

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

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

ALLRED JACKSON

October 3, 2011



2100 North Main • North Logan, Utah 84341
P: 435-752-6441 • F: 752-6451

Honorable Mayor and City Council
Salem City
Salem, Utah

We have audited the financial statements of Salem City for the year ended June 30, 2011, and have issued our report thereon dated October 3, 2011. A copy of these audited financial statements is enclosed. Please feel free to contact us if you have any questions regarding the financial statements. Professional standards require that we advise you of the following matters relating to our audit.

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

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

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

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

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

Significant Accounting Policies

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

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

Accounting Estimates

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

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

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

Disclosures in the Financial Statements

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There were no significant sensitive disclosures in the financial statements for the year ended June 30, 2011.

Material Corrected and Uncorrected Misstatements

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

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 3, 2011. A copy of that correspondence is included for your information.

Disagreements with Management

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

Consultation with Other Accountant

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

Major Issues Discussed with Management Prior to Retention

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

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

No Difficulties Encountered in Performing the Audit

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

Findings

In planning and performing our audit of the financial statements of Salem City (the Company) as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, and Government Auditing Standards, issued by the comptroller General of the United States, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. For the 2011 audit we consider finding 2011-1 to be a significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Company's internal control. None of our findings in 2011 were determined to be material weaknesses.

CURRENT YEAR FINDINGS

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

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

Recommendation:

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

Management response:

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

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

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

Recommendation:

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

Management response:

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

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

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

Recommendation:

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

Management response:

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

PRIOR YEAR FINDINGS

Finding 2010-1: *Prior period adjustments (significant deficiency)*

The City did not originally book three developer notes payable for capital acquisitions and cash. The notes are to be paid from the collections of impact fees in the respective funds. This caused debt and capital assets to be understated. Management brought this issue to our attention prior to the start of the fiscal audit.

Recommendation:

Review all new agreements with developers or other entities and properly book and disclose all obligations as incurred.

Management response:

Management agrees with recommendations, and will properly book and disclose all obligations as incurred and agreements that have been made with developers.

Status:

No prior period adjustments were required for the year ending June 30, 2011.

Finding 2010-2: *Accrual basis journal entries (significant deficiency)*

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

Recommendation:

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

Management response:

Management agrees with recommendations, will work with auditors and will strive to post year end journal entries and to book to the accrual basis of accounting.

Status:

See current year finding.

Finding 2010-3: *General unreserved fund balance (state compliance)*

Utah State law requires that municipalities maintain an unrestricted fund balance of at least 5% and not to exceed 18% of estimated budgeted general fund revenues for the ensuing year. The City's general unreserved fund balance was \$13,659 as of June 30, 2011 which is \$170,453 short of the 5% minimum requirement.

Recommendation:

Review the City's current year budget and make adjustments as necessary to increase the amount of the general unreserved fund balance.

Management response:

Management agrees with recommendations, and will continue to monitor expenditures and revenues. A new and more accurate method of charging administrative fees was implemented during the audit, causing a loss of revenue in the General Fund. In future year's management will evaluate administrative charges for enterprise funds, making sure the general fund is compensated correctly for administrative charges.

Status:

General unrestricted fund balance of 6% was within the required amounts as of June 30, 2011.

Finding 2010-4: *Budgetary compliance (state compliance)*

Utah State law requires that municipalities not incur expenditures in excess of amounts budgeted. We noted that the Capital Projects fund expenses exceeded the amount budgeted by \$64,108.

Recommendation:

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

Management response:

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

Status:

See current year finding.

Finding 2010-5: *Deficit fund balance (state compliance)*

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

Recommendation:

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

Management response:

Management agrees with recommendations, and in the next budget year, will make adjustments to eliminate the negative fund balances.

Status:

See current year finding.

Finding 2010-6: Justice Court (state compliance)

The City is required to remit justice court reports by the 10th of the following month. City personnel were not aware of this requirement.

Recommendation:

Prepare and submit monthly reports by the 10th of the following month.

Management response:

Management Agrees with recommendations, and since management was made aware of this finding, reports have been submitted by the 10th of the following month.


Status:

Court reporting was in compliance for the year ending June 30, 2011.

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

Very truly yours,

ALLRED JACKSON

A handwritten signature in cursive script, appearing to read "Diana Cannell".

Diana Cannell, CPA