



Dave Yost • Auditor of State

**CITY OF SALEM
COLUMBIANA COUNTY**

TABLE OF CONTENTS

| TITLE | PAGE |
|---|-------------|
| Independent Auditor's Report..... | 1 |
| Management's Discussion and Analysis | 3 |
| Statement of Net Position..... | 11 |
| Statement of Activities | 12 |
| Balance Sheet – Governmental Funds..... | 14 |
| Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities | 15 |
| Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds | 16 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – General Fund..... | 18 |
| Statement of Revenues, Expenditures and Changes in Fund Balance – Budget (Non-GAAP Basis) and Actual – Parks Fund | 19 |
| Statement of Fund Net Position – Proprietary Funds..... | 20 |
| Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Funds | 21 |
| Statement of Cash Flows – Proprietary Funds..... | 22 |
| Statement of Fiduciary Assets and Liabilities – Agency Funds..... | 23 |
| Notes to the Basic Financial Statements..... | 24 |
| Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i> | 51 |

THIS PAGE INTENTIONALLY LEFT BLANK.



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT

City of Salem
Columbiana County
231 S. Broadway Avenue
Salem, Ohio 44460

To the City Council:

Report on the Financial Statements

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, Columbiana County, Ohio (the City), as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for preparing and fairly presenting these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes designing, implementing, and maintaining internal control relevant to preparing and fairly presenting financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to opine on these financial statements based on our audit. We audited in accordance with auditing standards generally accepted in the United States of America and the financial audit standards in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require us to plan and perform the audit to reasonably assure the financial statements are free from material misstatement.

An audit requires obtaining evidence about financial statement amounts and disclosures. The procedures selected depend on our judgment, including assessing the risks of material financial statement misstatement, whether due to fraud or error. In assessing those risks, we consider internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not to the extent needed to opine on the effectiveness of the City's internal control. Accordingly, we express no opinion. An audit also includes evaluating the appropriateness of management's accounting policies and the reasonableness of their significant accounting estimates, as well as our evaluation of the overall financial statement presentation.

We believe the audit evidence we obtained is sufficient and appropriate to support our audit opinions.

Opinion

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 of Salem, Columbiana County, Ohio, as of December 31, 2013, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and the Parks funds thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require this presentation to include *Management's discussion and analysis* listed in the table of contents, to supplement the basic financial statements. Although this information is not part of the basic financial statements, the Governmental Accounting Standards Board considers it essential for placing the basic financial statements in an appropriate operational, economic, or historical context. We applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, consisting of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, to the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not opine or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to opine or provide any other assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 25, 2014 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. That report describes the scope of our internal control testing over financial reporting and compliance, and the results of that testing, and does not opine on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Dave Yost
Auditor of State
Columbus, Ohio

August 25, 2014

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

The discussion and analysis of the City of Salem's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2013. The intent of this discussion and analysis is to look at the City's financial performance as a whole; readers are encouraged to consider information presented here in conjunction with the additional information contained in the basic financial statements to enhance their understanding of the City's financial performance.

Financial Highlights

Financial highlights for 2013 are as follows:

- Within the City's governmental funds, income tax revenue has been on an upswing over the last five years. The 2009 revenue was \$3.7 million, climbed to 4.0 million in 2010, 4.2 million in 2011, 4.4 million in 2012 and 4.7 million in 2013.
- Total governmental capital assets decreased due to an additional year of depreciation which was offset by the purchase of new police vehicles and the completion of a drainage project. The business-type activities capital assets decreased due to an additional year of depreciation expense which was offset by the continuation of several wastewater construction projects.
- A review of the enterprise funds reflects an operating loss for the water fund and an operating income for the wastewater fund. The operating income for the wastewater fund can be attributed to City Council committing a portion of wastewater charges for services to finance a storm water study being mandated by the EPA in the prior year. The increased operating loss for the water fund was due to increases in material and supplies expenses over the prior year. Rates for all enterprise funds are monitored by the City to maintain the revenue needed to operate these activities.

Using this Annual Financial Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the readers can understand the City of Salem as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The Statement of Net Position and Statement of Activities provide information about the activities of the whole City, presenting both an aggregate view of the City's financial and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the City's most significant funds with all other nonmajor funds presented in total in one column.

Reporting on the City of Salem as a Whole

While this document contains the large number of funds used by the City to provide programs and activities, the view of the City as a whole looks at all financial transactions and asks the question, "How did we do financially during 2013?" The Statement of Net Position and the Statement of Activities answer this question.

These statements include all *assets* and *deferred outflows of resources* and *liabilities* and *deferred inflows of resources* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

These two statements report the City's *net position* and changes in net position. This change in net position is important because it tells the reader that, for the City as a whole, the *financial position* of the City has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the County's tax base, current property tax laws in Ohio restricting revenue growth and other factors.

In the Statement of Net Position and the Statement of Activities, the City is divided into two distinct kinds of activities:

Governmental Activities – Most of the City's programs and services are reported here including general government, security of persons and property, public health services, transportation, community development and leisure time activities. These services are funded primarily by taxes and intergovernmental revenues including Federal and State grants and other shared revenues.

Business-Type Activities – These services are provided on a charge for goods or services basis to recover all of the expenses of the goods or services provided.

Reporting on the Most Significant Funds of the City of Salem

Fund Financial Statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objective. The City, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Fund financial reports provide detailed information about the City's major funds. The City uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the City's most significant funds. The City's major governmental funds are the general fund, the parks special revenue fund, the tax increment financing and income tax capital projects funds.

Governmental Funds Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains a multitude of individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental statement of revenues, expenditures, and changes in fund balances for the major funds, which were identified earlier. Data from the other governmental funds are combined into a single, aggregated presentation.

Proprietary Funds The City maintains two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City's major enterprise funds are the water and wastewater funds.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

Fiduciary Funds Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The City's fiduciary funds are agency funds.

Notes to the Financial Statements The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The City of Salem as a Whole

The Statement of Net Position provides an overall view of the City. Table 1 shows a summary of the City's net position for 2013 as they compare to 2012.

(Table 1)
Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Assets | | | | | | |
| Current and Other Assets | \$7,441,117 | \$7,394,193 | \$19,420,232 | \$18,647,863 | \$26,861,349 | \$26,042,056 |
| Capital Assets, Net | 16,408,277 | 16,973,790 | 16,341,854 | 16,822,037 | 32,750,131 | 33,795,827 |
| <i>Total Assets</i> | <u>23,849,394</u> | <u>24,367,983</u> | <u>35,762,086</u> | <u>35,469,900</u> | <u>59,611,480</u> | <u>59,837,883</u> |
| Liabilities | | | | | | |
| Current Liabilities | 1,038,941 | 2,554,156 | 257,692 | 239,408 | 1,296,633 | 2,793,564 |
| Long-term Liabilities | | | | | | |
| Due within one Year | 449,485 | 390,014 | 66,120 | 58,964 | 515,605 | 448,978 |
| Due in More than one Year | 3,200,404 | 3,119,825 | 814,265 | 869,395 | 4,014,669 | 3,989,220 |
| <i>Total Liabilities</i> | <u>4,688,830</u> | <u>6,063,995</u> | <u>1,138,077</u> | <u>1,167,767</u> | <u>5,826,907</u> | <u>7,231,762</u> |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes | 838,491 | 973,360 | 0 | 0 | 838,491 | 973,360 |
| Payments in Lieu of Taxes | 125,000 | 114,009 | 0 | 0 | 125,000 | 114,009 |
| <i>Total Deferred Inflows of Resources</i> | <u>963,491</u> | <u>1,087,369</u> | <u>0</u> | <u>0</u> | <u>963,491</u> | <u>1,087,369</u> |
| Net Position | | | | | | |
| Net Investment in Capital Assets | 13,204,389 | 12,937,078 | 15,625,525 | 16,051,512 | 28,829,914 | 28,988,590 |
| Restricted for: | | | | | | |
| Capital Projects | 816,582 | 508,866 | 0 | 0 | 816,582 | 508,866 |
| Debt Service | 33,972 | 0 | 0 | 0 | 33,972 | 0 |
| Streets | 405,594 | 354,637 | 0 | 0 | 405,594 | 354,637 |
| Parks | 261,735 | 291,446 | 0 | 0 | 261,735 | 291,446 |
| Law Enforcement | 91,581 | 222,359 | 0 | 0 | 91,581 | 222,359 |
| Community Environment | 326,694 | 600,043 | 0 | 0 | 326,694 | 600,043 |
| Other Purposes | 43,506 | 48,977 | 0 | 0 | 43,506 | 48,977 |
| Unrestricted | 3,013,020 | 2,253,213 | 18,998,484 | 18,250,621 | 22,011,504 | 20,503,834 |
| <i>Total Net Position</i> | <u>\$18,197,073</u> | <u>\$17,216,619</u> | <u>\$34,624,009</u> | <u>\$34,302,133</u> | <u>\$52,821,082</u> | <u>\$51,518,752</u> |

By comparing assets and deferred outflows of resources and liabilities and deferred inflows of resources, one can see the overall position of the City has remained constant with the prior year as evidenced by the increase in net position for governmental activities. Management continues to diligently plan expenses, staying carefully within the City's revenues in an effort to maintain excellent levels of service within the constraints of the budget.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

In order to further understand what makes up the changes in net position for the current year, the following table gives readers further details regarding the results of activities for the current year. Table 2 shows total revenues, expenses and changes in net position for the fiscal years 2013 and 2012.

(Table 2)
Changes in Net Position

| | Governmental Activities | | Business-Type Activities | | Totals | |
|---|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Program Revenues | | | | | | |
| Charges for Services and Assessments | \$361,063 | \$657,549 | \$4,453,426 | \$3,873,000 | \$4,814,489 | \$4,530,549 |
| Operating Grants and Contributions | 753,307 | 1,200,551 | 0 | 0 | 753,307 | 1,200,551 |
| Capital Grants and Contributions | 211,006 | 68,954 | 0 | 0 | 211,006 | 68,954 |
| <i>Total Program Revenues</i> | <u>1,325,376</u> | <u>1,927,054</u> | <u>4,453,426</u> | <u>3,873,000</u> | <u>5,778,802</u> | <u>5,800,054</u> |
| General Revenues | | | | | | |
| Property Taxes | 931,807 | 959,646 | 0 | 0 | 931,807 | 959,646 |
| Municipal Income Tax | 5,144,381 | 4,373,510 | 0 | 0 | 5,144,381 | 4,373,510 |
| Grants and Entitlements not Restricted to Specific Programs | 338,197 | 488,477 | 0 | 0 | 338,197 | 488,477 |
| Gain on Sale of Capital Assets | 3,066 | 2,622 | 0 | 0 | 3,066 | 2,622 |
| Payments in Lieu of Taxes | 122,797 | 100,411 | 0 | 0 | 122,797 | 100,411 |
| Interest | 75,975 | 108,514 | 8,938 | 0 | 84,913 | 108,514 |
| Other | 649,379 | 398,562 | 88,593 | 52,987 | 737,972 | 451,549 |
| <i>Total General Revenues</i> | <u>7,265,602</u> | <u>6,431,742</u> | <u>97,531</u> | <u>52,987</u> | <u>7,363,133</u> | <u>6,484,729</u> |
| <i>Total Revenues</i> | <u>8,590,978</u> | <u>8,358,796</u> | <u>4,550,957</u> | <u>3,925,987</u> | <u>13,141,935</u> | <u>12,284,783</u> |
| Program Expenses | | | | | | |
| General Government | 1,359,011 | 1,375,653 | 0 | 0 | 1,359,011 | 1,375,653 |
| Security of Persons and Property | 3,553,671 | 3,649,178 | 0 | 0 | 3,553,671 | 3,649,178 |
| Public Health Services | 90,405 | 105,688 | 0 | 0 | 90,405 | 105,688 |
| Transportation | 1,532,710 | 1,867,848 | 0 | 0 | 1,532,710 | 1,867,848 |
| Community Development | 447,442 | 575,718 | 0 | 0 | 447,442 | 575,718 |
| Leisure Time Activities | 511,351 | 477,411 | 0 | 0 | 511,351 | 477,411 |
| Interest and Fiscal Charges | 123,134 | 141,186 | 0 | 0 | 123,134 | 141,186 |
| Water | 0 | 0 | 1,860,639 | 1,759,997 | 1,860,639 | 1,759,997 |
| Wastewater | 0 | 0 | 2,361,242 | 2,398,423 | 2,361,242 | 2,398,423 |
| <i>Total Program Expenses</i> | <u>7,617,724</u> | <u>8,192,682</u> | <u>4,221,881</u> | <u>4,158,420</u> | <u>11,839,605</u> | <u>12,351,102</u> |
| Transfers | 7,200 | 0 | (7,200) | 0 | 0 | 0 |
| <i>Change in Net Position</i> | <u>980,454</u> | <u>166,114</u> | <u>321,876</u> | <u>(232,433)</u> | <u>1,302,330</u> | <u>(66,319)</u> |
| Net Position Beginning of Year | 17,216,619 | 17,050,505 | 34,302,133 | 34,534,566 | 51,518,752 | 51,585,071 |
| Net Position End of the Year | <u>\$18,197,073</u> | <u>\$17,216,619</u> | <u>\$34,624,009</u> | <u>\$34,302,133</u> | <u>\$52,821,082</u> | <u>\$51,518,752</u> |

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

Governmental Activities

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. There was an increase in income tax collections in 2013, mainly due to the recovering economy. The City's income tax rate is currently 1 percent. Residents of the City who work in another community receive a 100 percent credit on income earned outside the City and paid to another municipality.

General revenues from grants and entitlements, such as local government funds, are also revenue generators. The City monitors its source of revenues very closely for fluctuations. Local government funding has slowly been reduced for the past several years and is anticipated to be stagnant in the future. This is a direct result of the planned State budget reduction. Governmental charges for services decreased due to City Council committing a portion of wastewater charges from City residents to finance a storm water study in the prior year. The storm water study will be paid out of a special revenue fund. The study is being conducted to meet Federal and State Environmental Protection agency requirements. The decrease in governmental activities operating grants and contributions was due to the City receiving additional community housing improvement grant monies in 2012 compared to 2013. The increase in other revenue can be attributed to the recognition of a larger portion of the oil and gas lease payment the City received during 2013. The oil and gas lease covers a three year period so the City will recognize a portion of the payment over the three years as it is earned.

General government expenses decreased from 2012, mainly due to wage decreases. Several City employees either retired or left the City during 2013 and were either replaced by entry level employees at lower pay or part-time employees. The transportation department had decreases in costs from 2012, due to a decrease in spending for the summer street maintenance program. The summer street maintenance program expenses were higher in 2012 due to expenses being scaled back in prior years due to lack of funding.

Business-Type Activities

The City operates two business-type activities, the water and wastewater treatment facilities. These two activities generated revenues of \$1,665,866 from water and \$2,876,153 from the wastewater facility. The largest sources of revenue for both water and wastewater treatment facilities in 2013 were charges for services. Water and wastewater expenses for 2013 amounted to \$1,860,639 and \$2,361,242, respectively. The largest expenses are for payroll and employee benefits for both operations.

The City'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. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. Information about the City's governmental funds begins on page 14. The funds are accounted for using the modified accrual method of accounting.

As of the end of 2013, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund, parks special revenue fund, tax increment financing and the income tax capital projects funds. Revenues exceeded expenditures for the year in the general fund due to an increase in municipal income taxes. There was also a decrease in expenditures due to wage decreases through replacing long-standing employees with entry level employees. Expenditures in the park special revenue fund increased over the prior year due to salary increases of 2.75 percent as well as an increase in overtime expenditures during the year. The tax increment financing capital

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

projects fund ended the year with a negative fund balance due to the payment of short-term notes for road construction from the prior year with unearned revenue. The increase in the income tax capital capital projects fund can be attributed to a transfer from the general fund to cover street improvements as well as a decrease in street maintenance expenditures.

Information about the proprietary funds starts on page 20. These funds are accounted for on an accrual basis.

Enterprise funds are handled in the same manner as governmental funds, with the intent to ensure the strength of these funds. These funds had total operating revenue of \$4,542,019 and total operating expenses of \$4,220,838. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases.

General Fund Budgeting Highlights

Budgeting for the operations of the City is done as prescribed by Ohio Revised Code. Essentially the budget is the City's appropriations, which is restricted by the amounts of the anticipated revenues certified by the County Budget Commission in accordance with the Ohio Revised Code. In 2013, actual revenues for the general fund were more than final estimated revenues due to more income taxes collections than actually expected. City Council's actual expenditures were less than final appropriations due to management keeping costs low while still providing the services the citizens expect.

The original revenue and expenditure budget is designed to be very conservative requiring additional spending requests to be approved by Council throughout the year. During the course of 2013, the City amended its general fund budget numerous times, in response to conservative revenue projections being surpassed.

Capital Assets and Debt Administration

Capital Assets

Total capital assets for the governmental activities, net of accumulated depreciation decreased. This decrease can be contributed to an additional year of accumulated depreciation being taken. The decrease was partly offset by the purchase of two new police vehicles as well as the completion of the Lexington Avenue Drainage Repairs project. The Lexington project was partly financed through a grant from the Ohio Public Works Commission.

Total capital assets for the business-type activities, net of accumulated depreciation decreased due to an additional year of accumulated depreciation being taken. The decrease was offset by the continuation of several wastewater construction projects. See Note 11 to the basic financial statements for additional information on capital assets.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

(Table 3)
Capital Assets at December 31
(Net of Accumulated Depreciation)

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|-------------------------|---------------------|--------------------------|---------------------|---------------------|---------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Land | \$4,586,123 | \$4,586,123 | \$564,419 | \$564,419 | \$5,150,542 | \$5,150,542 |
| Construction in Progress | 0 | 89,803 | 918,685 | 680,959 | 918,685 | 770,762 |
| Buildings | 916,378 | 969,019 | 8,643,951 | 9,081,727 | 9,560,329 | 10,050,746 |
| Improvements Other than Buildings | 76,787 | 98,775 | 9,013 | 10,011 | 85,800 | 108,786 |
| Land Improvements | 370,286 | 381,071 | 0 | 0 | 370,286 | 381,071 |
| Machinery and Equipment | 777,057 | 903,617 | 554,580 | 578,097 | 1,331,637 | 1,481,714 |
| Infrastructure | 9,681,646 | 9,945,382 | 5,651,206 | 5,906,824 | 15,332,852 | 15,852,206 |
| Total Capital Assets | <u>\$16,408,277</u> | <u>\$16,973,790</u> | <u>\$16,341,854</u> | <u>\$16,822,037</u> | <u>\$32,750,131</u> | <u>\$33,795,827</u> |

Long-term Obligations

The long-term obligations include general obligation bonds, OPWC loans and compensated absences.

(Table 4)
Outstanding Long-term Obligations at Year End

| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------|-------------------------|--------------------|--------------------------|------------------|--------------------|--------------------|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| General Obligation Bonds | \$2,711,996 | \$2,552,475 | \$0 | \$0 | \$2,711,996 | \$2,552,475 |
| OPWC Loans | 565,888 | 613,212 | 716,329 | 770,525 | 1,282,217 | 1,383,737 |
| Compensated Absences | 372,005 | 344,152 | 164,056 | 157,834 | 536,061 | 501,986 |
| Total | <u>\$3,649,889</u> | <u>\$3,509,839</u> | <u>\$880,385</u> | <u>\$928,359</u> | <u>\$4,530,274</u> | <u>\$4,438,198</u> |

The general obligation bonds outstanding were issued for various capital improvements including the street improvements in the area north and south of East Main Street, the Springdale Street Extension and the Pershing and Bentley-Cunningham Connector. The general obligation bonds will be paid from the general obligation and the TIF debt service funds.

The OPWC loans are being paid with monies from the general obligation bond retirement fund and from the water and wastewater enterprise fund user charges.

The overall increase in compensated absences was the result of a higher balance of sick and vacation time held by the City's full-time employees.

The City of Salem's overall legal debt margin was \$19,099,781 on December 31, 2013. For more information about the City's long-term obligations, see Note 14 to the basic financial statements.

Current Financial Issues

The Administration provided strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2013. But with decreasing revenues from Federal and State sources and increasing expenses, the City is going to see some tougher times in the coming years.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2013
Unaudited

With the upcoming budget cuts, it is imperative that we are using our money smarter with less. It is important that our taxpayers are confident that their City is using their tax dollars as wisely and efficiently as possible. Our plan is to look at each department, whether by a performance audit or an internal initiative, to ensure maximum value is being achieved for each dollar spent.

Contacting the City of Salem's Financial Management

This financial report is designed to provide our citizen's, taxpayers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Auditor Betty Brothers at the City of Salem, 231 South Broadway Avenue, Salem, Ohio 44460.

City of Salem, Ohio
Statement of Net Position
December 31, 2013

| | Governmental Activities | Business-Type Activities | Total |
|--|----------------------------|-----------------------------|---------------------|
| Assets | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,924,803 | \$18,223,361 | \$22,148,164 |
| Accrued Interest Receivable | 32,113 | 0 | 32,113 |
| Accounts Receivable | 23,547 | 493,344 | 516,891 |
| Intergovernmental Receivable | 782,400 | 0 | 782,400 |
| Property Taxes Receivable | 1,004,187 | 0 | 1,004,187 |
| Income Taxes Receivable | 1,391,366 | 0 | 1,391,366 |
| Special Assessments Receivable | 0 | 238,845 | 238,845 |
| Materials and Supplies Inventory | 139,975 | 447,896 | 587,871 |
| Prepaid Items | 17,726 | 16,786 | 34,512 |
| Payments in Lieu of Taxes Receivable | 125,000 | 0 | 125,000 |
| Nondepreciable Capital Assets | 4,586,123 | 1,483,104 | 6,069,227 |
| Depreciable Capital Assets, Net | 11,822,154 | 14,858,750 | 26,680,904 |
| <i>Total Assets</i> | <u>23,849,394</u> | <u>35,762,086</u> | <u>59,611,480</u> |
| Liabilities | | | |
| Accounts Payable | 61,215 | 157,375 | 218,590 |
| Accrued Wages | 156,329 | 59,379 | 215,708 |
| Intergovernmental Payable | 133,800 | 40,938 | 174,738 |
| Accrued Interest Payable | 11,570 | 0 | 11,570 |
| Unearned Revenue | 676,027 | 0 | 676,027 |
| Long-Term Liabilities: | | | |
| Due Within One Year | 449,485 | 66,120 | 515,605 |
| Due In More Than One Year | 3,200,404 | 814,265 | 4,014,669 |
| <i>Total Liabilities</i> | <u>4,688,830</u> | <u>1,138,077</u> | <u>5,826,907</u> |
| Deferred Inflows of Resources | | | |
| Property Taxes | 838,491 | 0 | 838,491 |
| Payments in Lieu of Taxes | 125,000 | 0 | 125,000 |
| <i>Total Deferred Inflows of Resources</i> | <u>963,491</u> | <u>0</u> | <u>963,491</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 13,204,389 | 15,625,525 | 28,829,914 |
| Restricted for: | | | |
| Capital Projects | 816,582 | 0 | 816,582 |
| Debt Service | 33,972 | 0 | 33,972 |
| Streets | 405,594 | 0 | 405,594 |
| Parks | 261,735 | 0 | 261,735 |
| Law Enforcement | 91,581 | 0 | 91,581 |
| Community Environment | 326,694 | 0 | 326,694 |
| Other Purposes | 43,506 | 0 | 43,506 |
| Unrestricted | 3,013,020 | 18,998,484 | 22,011,504 |
| <i>Total Net Position</i> | <u>\$18,197,073</u> | <u>\$34,624,009</u> | <u>\$52,821,082</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2013

| | Program Revenues | | | |
|---------------------------------------|---------------------|--|---------------------------------------|-------------------------------------|
| | Expenses | Charges for Services and Assessments | Operating Grants and Contributions | Capital Grants and Contributions |
| Governmental Activities: | | | | |
| General Government | \$1,359,011 | \$79,785 | \$0 | \$0 |
| Security of Persons and Property | 3,553,671 | 183,335 | 30,798 | 211,006 |
| Public Health Services | 90,405 | 58,022 | 4,120 | 0 |
| Transportation | 1,532,710 | 1,132 | 598,652 | 0 |
| Community Development | 447,442 | 6,653 | 80,600 | 0 |
| Leisure Time Activities | 511,351 | 32,136 | 39,137 | 0 |
| Interest and Fiscal Charges | 123,134 | 0 | 0 | 0 |
| <i>Total Governmental Activities</i> | <u>7,617,724</u> | <u>361,063</u> | <u>753,307</u> | <u>211,006</u> |
| Business-Type Activities: | | | | |
| Water | 1,860,639 | 1,601,093 | 0 | 0 |
| Wastewater | 2,361,242 | 2,852,333 | 0 | 0 |
| <i>Total Business-Type Activities</i> | <u>4,221,881</u> | <u>4,453,426</u> | <u>0</u> | <u>0</u> |
| <i>Total</i> | <u>\$11,839,605</u> | <u>\$4,814,489</u> | <u>\$753,307</u> | <u>\$211,006</u> |

General Revenues

Property Taxes Levied for:

General Purposes

Park

Fire

Police

Income Taxes Levied for:

General Purposes

Debt Service

Capital Projects

Grants and Entitlements not Restricted
to Specific Programs

Gain on Sale of Capital Asset

Payments in Lieu of Taxes

Interest

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position Beginning of Year

Net Position End of Year

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position

| <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| (\$1,279,226) | \$0 | (\$1,279,226) |
| (3,128,532) | 0 | (3,128,532) |
| (28,263) | 0 | (28,263) |
| (932,926) | 0 | (932,926) |
| (360,189) | 0 | (360,189) |
| (440,078) | 0 | (440,078) |
| (123,134) | 0 | (123,134) |
| <u>(6,292,348)</u> | <u>0</u> | <u>(6,292,348)</u> |
| 0 | (259,546) | (259,546) |
| 0 | 491,091 | 491,091 |
| <u>0</u> | <u>231,545</u> | <u>231,545</u> |
| <u>(6,292,348)</u> | <u>231,545</u> | <u>(6,060,803)</u> |
| 515,187 | 0 | 515,187 |
| 300,708 | 0 | 300,708 |
| 57,956 | 0 | 57,956 |
| 57,956 | 0 | 57,956 |
| 4,463,282 | 0 | 4,463,282 |
| 308,421 | 0 | 308,421 |
| 372,678 | 0 | 372,678 |
| 338,197 | 0 | 338,197 |
| 3,066 | 0 | 3,066 |
| 122,797 | 0 | 122,797 |
| 75,975 | 8,938 | 84,913 |
| 649,379 | 88,593 | 737,972 |
| <u>7,265,602</u> | <u>97,531</u> | <u>7,363,133</u> |
| <u>7,200</u> | <u>(7,200)</u> | <u>0</u> |
| <u>7,272,802</u> | <u>90,331</u> | <u>7,363,133</u> |
| 980,454 | 321,876 | 1,302,330 |
| <u>17,216,619</u> | <u>34,302,133</u> | <u>51,518,752</u> |
| <u>\$18,197,073</u> | <u>\$34,624,009</u> | <u>\$52,821,082</u> |

City of Salem, Ohio

Balance Sheet

Governmental Funds

December 31, 2013

| | General | Parks | Tax Increment Financing | Income Tax Capital | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|------------------|----------------------------|-----------------------|--------------------------------|--------------------------------|
| Assets | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | \$1,825,188 | \$216,725 | \$0 | \$1,043,855 | \$837,605 | \$3,923,373 |
| Receivables: | | | | | | |
| Property Taxes | 559,109 | 328,528 | 0 | 0 | 116,550 | 1,004,187 |
| Income Taxes | 1,391,366 | 0 | 0 | 0 | 0 | 1,391,366 |
| Accounts | 23,547 | 0 | 0 | 0 | 0 | 23,547 |
| Intergovernmental | 98,667 | 19,532 | 0 | 89,448 | 574,753 | 782,400 |
| Accrued Interest | 32,113 | 0 | 0 | 0 | 0 | 32,113 |
| Interfund Receivable | 18,800 | 0 | 0 | 0 | 5,527 | 24,327 |
| Materials and Supplies Inventory | 84,494 | 0 | 0 | 0 | 55,481 | 139,975 |
| Prepaid Items | 16,495 | 1,231 | 0 | 0 | 0 | 17,726 |
| Payments in Lieu of Taxes Receivable | 0 | 0 | 0 | 0 | 125,000 | 125,000 |
| Restricted Assets: | | | | | | |
| Equity in Pooled Cash and Cash Equivalents | 1,430 | 0 | 0 | 0 | 0 | 1,430 |
| Total Assets | \$4,051,209 | \$566,016 | \$0 | \$1,133,303 | \$1,714,916 | \$7,465,444 |
| Liabilities | | | | | | |
| Accounts Payable | \$36,840 | \$89 | \$0 | \$0 | \$24,286 | \$61,215 |
| Accrued Wages | 124,934 | 8,738 | 0 | 0 | 22,657 | 156,329 |
| Intergovernmental Payable | 82,093 | 7,309 | 0 | 0 | 44,398 | 133,800 |
| Interfund Payable | 0 | 0 | 0 | 0 | 24,327 | 24,327 |
| Unearned Revenue | 34,306 | 0 | 325,000 | 316,721 | 0 | 676,027 |
| Total Liabilities | 278,173 | 16,136 | 325,000 | 316,721 | 115,668 | 1,051,698 |
| Deferred Inflows of Resources | | | | | | |
| Property Taxes | 470,049 | 270,976 | 0 | 0 | 97,466 | 838,491 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 0 | 125,000 | 125,000 |
| Unavailable Revenue | 866,134 | 77,084 | 0 | 0 | 455,595 | 1,398,813 |
| Total Deferred Inflows of Resources | 1,336,183 | 348,060 | 0 | 0 | 678,061 | 2,362,304 |
| Fund Balances | | | | | | |
| Nonspendable | 102,419 | 1,231 | 0 | 0 | 55,481 | 159,131 |
| Restricted | 0 | 200,589 | 0 | 816,582 | 530,728 | 1,547,899 |
| Committed | 11,767 | 0 | 0 | 0 | 371,728 | 383,495 |
| Assigned | 620,543 | 0 | 0 | 0 | 0 | 620,543 |
| Unassigned (Deficit) | 1,702,124 | 0 | (325,000) | 0 | (36,750) | 1,340,374 |
| Total Fund Balances (Deficit) | 2,436,853 | 201,820 | (325,000) | 816,582 | 921,187 | 4,051,442 |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$4,051,209 | \$566,016 | \$0 | \$1,133,303 | \$1,714,916 | \$7,465,444 |

See accompanying notes to the basic financial statements

City of Salem, Ohio
*Reconciliation of Total Governmental Fund Balances to
 Net Position of Governmental Activities
 December 31, 2013*

| | |
|---|----------------------------|
| Total Governmental Fund Balances | \$4,051,442 |
| <i>Amounts reported for governmental activities in the statement of net position are different because</i> | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 16,408,277 |
| Other long-term assets are not available to pay for current-period expenditures and therefore are reported as unavailable revenue in the funds: | |
| Delinquent Property Taxes | 165,696 |
| Income Taxes | 700,952 |
| Intergovernmental | <u>532,165</u> |
| Total | 1,398,813 |
| In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due. | (11,570) |
| Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds: | |
| OPWC Loans Payable | (565,888) |
| General Obligation Bonds | (2,711,996) |
| Compensated Absences | <u>(372,005)</u> |
| Total | <u>(3,649,889)</u> |
| <i>Net Position of Governmental Activities</i> | <u><u>\$18,197,073</u></u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2013

| | General | Parks | Tax Increment Financing | Income Tax Capital | Other Governmental Funds | Total Governmental Funds |
|---|--------------------|------------------|----------------------------|-----------------------|--------------------------------|--------------------------------|
| Revenues | | | | | | |
| Property Taxes | \$520,492 | \$302,890 | \$0 | \$0 | \$117,048 | \$940,430 |
| Municipal Income Taxes | 3,990,046 | 0 | 0 | 372,678 | 308,421 | 4,671,145 |
| Special Assessments | 777 | 0 | 0 | 0 | 0 | 777 |
| Charges for Services | 69,395 | 13,365 | 0 | 0 | 38,101 | 120,861 |
| Fees, Licenses and Permits | 169,636 | 10,973 | 0 | 0 | 19,921 | 200,530 |
| Fines and Forfeitures | 30,421 | 0 | 0 | 0 | 676 | 31,097 |
| Intergovernmental | 353,246 | 39,041 | 0 | 211,006 | 1,092,440 | 1,695,733 |
| Interest | 75,966 | 0 | 0 | 0 | 9 | 75,975 |
| Rentals | 0 | 7,798 | 0 | 0 | 0 | 7,798 |
| Payments in Lieu of Taxes | 0 | 0 | 0 | 0 | 122,797 | 122,797 |
| Other | 116,647 | 10,185 | 216,667 | 213,745 | 92,135 | 649,379 |
| <i>Total Revenues</i> | <u>5,326,626</u> | <u>384,252</u> | <u>216,667</u> | <u>797,429</u> | <u>1,791,548</u> | <u>8,516,522</u> |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General Government | 1,248,747 | 0 | 0 | 0 | 88,204 | 1,336,951 |
| Security of Persons and Property | 2,864,766 | 0 | 0 | 0 | 533,826 | 3,398,592 |
| Public Health Services | 0 | 0 | 0 | 0 | 89,890 | 89,890 |
| Transportation | 18,137 | 0 | 0 | 0 | 663,245 | 681,382 |
| Community Development | 113,208 | 0 | 0 | 0 | 332,734 | 445,942 |
| Leisure Time Activities | 0 | 412,289 | 0 | 0 | 51,887 | 464,176 |
| Capital Outlay | 0 | 0 | 12,677 | 473,956 | 0 | 486,633 |
| Debt Service: | | | | | | |
| Principal Retirement | 0 | 0 | 0 | 0 | 262,324 | 262,324 |
| Interest and Fiscal Charges | 0 | 0 | 12,203 | 0 | 117,644 | 129,847 |
| <i>Total Expenditures</i> | <u>4,244,858</u> | <u>412,289</u> | <u>24,880</u> | <u>473,956</u> | <u>2,139,754</u> | <u>7,295,737</u> |
| <i>Excess of Revenues</i> | | | | | | |
| <i>Over (Under) Expenditures</i> | <u>1,081,768</u> | <u>(28,037)</u> | <u>191,787</u> | <u>323,473</u> | <u>(348,206)</u> | <u>1,220,785</u> |
| Other Financing Sources (Uses) | | | | | | |
| Sale of Capital Assets | 1,008 | 0 | 0 | 0 | 4,400 | 5,408 |
| General Obligation Bonds Issued | 0 | 0 | 332,566 | 15,034 | 35,400 | 383,000 |
| Transfers In | 18,597 | 0 | 108,333 | 105,574 | 524,416 | 756,920 |
| Transfers Out | (738,323) | 0 | 0 | 0 | (11,397) | (749,720) |
| <i>Total Other Financing Sources (Uses)</i> | <u>(718,718)</u> | <u>0</u> | <u>440,899</u> | <u>120,608</u> | <u>552,819</u> | <u>395,608</u> |
| <i>Net Change in Fund Balances</i> | 363,050 | (28,037) | 632,686 | 444,081 | 204,613 | 1,616,393 |
| <i>Fund Balances (Deficit)</i> | | | | | | |
| <i>Beginning of Year</i> | <u>2,073,803</u> | <u>229,857</u> | <u>(957,686)</u> | <u>372,501</u> | <u>716,574</u> | <u>2,435,049</u> |
| <i>Fund Balances (Deficit) End of Year</i> | <u>\$2,436,853</u> | <u>\$201,820</u> | <u>(\$325,000)</u> | <u>\$816,582</u> | <u>\$921,187</u> | <u>\$4,051,442</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2013

| | |
|---|--------------------|
| Net Change in Fund Balances - Total Governmental Funds | \$1,616,393 |
|---|--------------------|

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

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 as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period:

| | |
|---------------------------|------------------|
| Capital Asset Additions | 292,289 |
| Current Year Depreciation | <u>(855,460)</u> |

| | |
|-------|-----------|
| Total | (563,171) |
|-------|-----------|

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.

| | |
|--|---------|
| | (2,342) |
|--|---------|

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

| | |
|---------------------------|------------------|
| Delinquent Property Taxes | (8,623) |
| Income Taxes | 473,236 |
| Intergovernmental | <u>(393,223)</u> |

| | |
|-------|--------|
| Total | 71,390 |
|-------|--------|

Repayment of long-term obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

| | |
|--|---------|
| | 262,324 |
|--|---------|

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:

| | |
|---------------------------|--------------|
| Accrued Interest on Bonds | (1,766) |
| Amortization of Premium | <u>8,479</u> |

| | |
|-------|-------|
| Total | 6,713 |
|-------|-------|

Some expenses, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

| | |
|--|----------|
| | (27,853) |
|--|----------|

Other financing sources, such as General Obligation Bond Proceeds in the governmental funds increase long-term liabilities in the statement of net assets.

| | |
|--|------------------|
| | <u>(383,000)</u> |
|--|------------------|

| | |
|--|-------------------------|
| <i>Change in Net Position of Governmental Activities</i> | <u><u>\$980,454</u></u> |
|--|-------------------------|

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|------------------|-------------|-------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$530,000 | \$530,000 | \$520,492 | (\$9,508) |
| Municipal Income Taxes | 3,576,166 | 3,462,507 | 3,866,745 | 404,238 |
| Special Assessments | 2,000 | 2,000 | 777 | (1,223) |
| Charges for Services | 66,500 | 66,500 | 69,902 | 3,402 |
| Fees, Licenses and Permits | 175,450 | 175,450 | 169,636 | (5,814) |
| Fines and Forfeitures | 15,000 | 15,000 | 28,715 | 13,715 |
| Intergovernmental | 212,200 | 212,200 | 398,681 | 186,481 |
| Interest | 55,000 | 55,000 | 73,165 | 18,165 |
| Other | 20,100 | 20,100 | 100,628 | 80,528 |
| <i>Total Revenues</i> | 4,652,416 | 4,538,757 | 5,228,741 | 689,984 |
| Expenditures | | | | |
| Current: | | | | |
| General Government | 1,467,101 | 1,583,744 | 1,260,703 | 323,041 |
| Security of Persons and Property | 2,994,527 | 3,038,571 | 2,876,390 | 162,181 |
| Transportation | 18,357 | 20,357 | 18,057 | 2,300 |
| Community Development | 115,801 | 134,195 | 111,855 | 22,340 |
| <i>Total Expenditures</i> | 4,595,786 | 4,776,867 | 4,267,005 | 509,862 |
| <i>Excess of Revenues Over (Under) Expenditures</i> | 56,630 | (238,110) | 961,736 | 1,199,846 |
| Other Financing Sources (Uses) | | | | |
| Sale of Capital Assets | 0 | 0 | 1,008 | 1,008 |
| Advances In | 10,000 | 10,000 | 14,507 | 4,507 |
| Advances Out | (20,000) | (38,800) | (33,307) | 5,493 |
| Transfers In | 15,000 | 15,000 | 18,597 | 3,597 |
| Transfers Out | (441,909) | (1,861,351) | (1,807,858) | 53,493 |
| <i>Total Other Financing Sources (Uses)</i> | (436,909) | (1,875,151) | (1,807,053) | 68,098 |
| <i>Net Change in Fund Balance</i> | (380,279) | (2,113,261) | (845,317) | 1,267,944 |
| <i>Fund Balance Beginning of Year</i> | 2,636,547 | 2,636,547 | 2,636,547 | 0 |
| Prior Year Encumbrances Appropriated | 14,578 | 14,578 | 14,578 | 0 |
| <i>Fund Balance End of Year</i> | \$2,270,846 | \$537,864 | \$1,805,808 | \$1,267,944 |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Parks Fund
For the Year Ended December 31, 2013

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------|-----------|---|
| | Original | Final | | |
| Revenues | | | | |
| Property Taxes | \$305,000 | \$305,000 | \$302,890 | (\$2,110) |
| Charges for Services | 15,300 | 15,300 | 13,365 | (1,935) |
| Fees, Licenses and Permits | 10,000 | 10,000 | 10,973 | 973 |
| Intergovernmental | 19,500 | 19,500 | 39,041 | 19,541 |
| Rentals | 9,000 | 9,000 | 7,798 | (1,202) |
| Other | 5,500 | 5,500 | 10,185 | 4,685 |
| <i>Total Revenues</i> | 364,300 | 364,300 | 384,252 | 19,952 |
| Expenditures | | | | |
| Current: | | | | |
| Leisure Time Activities | 559,090 | 521,717 | 417,425 | 104,292 |
| <i>Excess of Revenues Under Expenditures</i> | (194,790) | (157,417) | (33,173) | 124,244 |
| Other Financing Sources | | | | |
| Advance In | 6,000 | 6,000 | 0 | (6,000) |
| <i>Net Change in Fund Balance</i> | (188,790) | (151,417) | (33,173) | 118,244 |
| <i>Fund Balance Beginning of Year</i> | 243,758 | 243,758 | 243,758 | 0 |
| <i>Fund Balance End of Year</i> | \$54,968 | \$92,341 | \$210,585 | \$118,244 |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2013

| | Enterprise | | |
|--|---------------------|---------------------|---------------------|
| | Water | Wastewater | Total |
| Assets | | | |
| <i>Current Assets:</i> | | | |
| Equity in Pooled Cash and Cash Equivalents | \$3,616,261 | \$14,607,100 | \$18,223,361 |
| Accounts Receivable | 223,945 | 269,399 | 493,344 |
| Special Assessments Receivable | 0 | 238,845 | 238,845 |
| Materials and Supplies Inventory | 408,468 | 39,428 | 447,896 |
| Prepaid Items | 8,943 | 7,843 | 16,786 |
| <i>Total Current Assets</i> | <u>4,257,617</u> | <u>15,162,615</u> | <u>19,420,232</u> |
| <i>Noncurrent Assets:</i> | | | |
| Nondepreciable Capital Assets | 531,333 | 951,771 | 1,483,104 |
| Depreciable Capital Assets, Net | 7,663,885 | 7,194,865 | 14,858,750 |
| <i>Total Noncurrent Assets</i> | <u>8,195,218</u> | <u>8,146,636</u> | <u>16,341,854</u> |
| <i>Total Assets</i> | <u>12,452,835</u> | <u>23,309,251</u> | <u>35,762,086</u> |
| Liabilities | | | |
| <i>Current Liabilities:</i> | | | |
| Accounts Payable | 26,365 | 131,010 | 157,375 |
| Accrued Wages | 27,348 | 32,031 | 59,379 |
| Intergovernmental Payable | 18,496 | 22,442 | 40,938 |
| Compensated Absences Payable | 5,110 | 6,814 | 11,924 |
| OPWC Loans Payable | 54,196 | 0 | 54,196 |
| <i>Total Current Liabilities</i> | <u>131,515</u> | <u>192,297</u> | <u>323,812</u> |
| <i>Long-Term Liabilities (net of current portion):</i> | | | |
| Compensated Absences Payable | 72,424 | 79,708 | 152,132 |
| OPWC Loans Payable | 662,133 | 0 | 662,133 |
| <i>Total Long-Term Liabilities</i> | <u>734,557</u> | <u>79,708</u> | <u>814,265</u> |
| <i>Total Liabilities</i> | <u>866,072</u> | <u>272,005</u> | <u>1,138,077</u> |
| Net Position | | | |
| Net Investment in Capital Assets | 7,478,889 | 8,146,636 | 15,625,525 |
| Unrestricted | 4,107,874 | 14,890,610 | 18,998,484 |
| <i>Total Net Position</i> | <u>\$11,586,763</u> | <u>\$23,037,246</u> | <u>\$34,624,009</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
*Statement of Revenues,
Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended December 31, 2013*

| | Enterprise | | |
|---|---------------------|---------------------|---------------------|
| | Water | Wastewater | Total |
| Operating Revenues | | | |
| Charges for Services | \$1,601,093 | \$2,852,333 | \$4,453,426 |
| Other | 64,773 | 23,820 | 88,593 |
| <i>Total Operating Revenues</i> | <u>1,665,866</u> | <u>2,876,153</u> | <u>4,542,019</u> |
| Operating Expenses | | | |
| Personal Services | 744,847 | 901,860 | 1,646,707 |
| Materials and Supplies | 387,621 | 243,217 | 630,838 |
| Contractual Services | 330,763 | 884,491 | 1,215,254 |
| Depreciation | 393,450 | 329,664 | 723,114 |
| Other | 3,958 | 967 | 4,925 |
| <i>Total Operating Expenses</i> | <u>1,860,639</u> | <u>2,360,199</u> | <u>4,220,838</u> |
| <i>Operating Income (Loss)</i> | <u>(194,773)</u> | <u>515,954</u> | <u>321,181</u> |
| Non-Operating Revenue | | | |
| Interest | 0 | 8,938 | 8,938 |
| Loss on Disposal of Capital Assets | 0 | (1,043) | (1,043) |
| <i>Total Non-Operating Revenue (Expenses)</i> | <u>0</u> | <u>7,895</u> | <u>7,895</u> |
| <i>Income (Loss) before Transfers</i> | (194,773) | 523,849 | 329,076 |
| Transfers Out | (3,600) | (3,600) | (7,200) |
| <i>Change in Net Position</i> | (198,373) | 520,249 | 321,876 |
| <i>Net Position Beginning of Year</i> | <u>11,785,136</u> | <u>22,516,997</u> | <u>34,302,133</u> |
| <i>Net Position End of Year</i> | <u>\$11,586,763</u> | <u>\$23,037,246</u> | <u>\$34,624,009</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2013

| | Enterprise | | |
|---|--------------------|---------------------|---------------------|
| | Water | Wastewater | Total |
| Increase in Cash and Cash Equivalents | | | |
| Cash Flows from Operating Activities | | | |
| Cash Received from Customers | \$1,607,065 | \$2,878,996 | \$4,486,061 |
| Other Cash Receipts | 64,773 | 23,820 | 88,593 |
| Cash Payments to Employees for Services | (753,672) | (885,552) | (1,639,224) |
| Cash Payments for Goods and Services | (696,744) | (1,121,112) | (1,817,856) |
| Other Cash Payments | (3,958) | (967) | (4,925) |
| <i>Net Cash Provided by Operating Activities</i> | <u>217,464</u> | <u>895,185</u> | <u>1,112,649</u> |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers Out | (3,600) | (3,600) | (7,200) |
| Cash Flows from Capital and Related Financing Activities | | | |
| Payments for Capital Acquisitions | (7,714) | (236,260) | (243,974) |
| Principal Paid on OWPC Loans | (54,196) | 0 | (54,196) |
| <i>Net Cash Used for Capital and Related Financing Activities</i> | <u>(61,910)</u> | <u>(236,260)</u> | <u>(298,170)</u> |
| Cash Flows from Investing Activities | | | |
| Interest on Investments | 0 | 14,923 | 14,923 |
| <i>Net Increase in Cash and Cash Equivalents</i> | 151,954 | 670,248 | 822,202 |
| <i>Cash and Cash Equivalents Beginning of Year</i> | <u>3,464,307</u> | <u>13,936,852</u> | <u>17,401,159</u> |
| <i>Cash and Cash Equivalents End of Year</i> | <u>\$3,616,261</u> | <u>\$14,607,100</u> | <u>\$18,223,361</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities | | | |
| Operating Income (Loss) | (\$194,773) | \$515,954 | \$321,181 |
| Adjustments: | | | |
| Depreciation | 393,450 | 329,664 | 723,114 |
| <i>(Increase) Decrease in Assets:</i> | | | |
| Accounts Receivable | 5,972 | 9,611 | 15,583 |
| Special Assessments Receivable | 0 | 17,052 | 17,052 |
| Materials and Supplies Inventory | 12,651 | (1,109) | 11,542 |
| Prepaid Items | (193) | (136) | (329) |
| <i>Increase (Decrease) in Liabilities:</i> | | | |
| Accounts Payable | 9,182 | 7,884 | 17,066 |
| Accrued Wages | 3,891 | 3,495 | 7,386 |
| Compensated Absences Payable | (9,945) | 16,167 | 6,222 |
| Intergovernmental Payable | (2,771) | (3,397) | (6,168) |
| <i>Total Adjustments</i> | <u>412,237</u> | <u>379,231</u> | <u>791,468</u> |
| <i>Net Cash Provided by Operating Activities</i> | <u>\$217,464</u> | <u>\$895,185</u> | <u>\$1,112,649</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fiduciary Assets and Liabilities
Agency Funds
December 31, 2013

| | |
|--|-----------------|
| Assets | |
| Equity in Pooled Cash and Cash Equivalents | <u>\$51,741</u> |
| Liabilities | |
| Undistributed Monies | <u>\$51,741</u> |

See accompanying notes to the basic financial statements

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 1 – Description of the City and Reporting Entity

The City of Salem (the “City”) was incorporated in 1887 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Mayor-Council form of government. The Mayor is elected for a four-year term. There are 7 Council members, 3 at-large and one for each of the 4 wards, all elected for two year staggered terms.

Reporting Entity

A reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements are not misleading. The primary government of the City consists of all funds, departments, boards and agencies that are not legally separate from the City. For the City of Salem, this includes the agencies and departments that provide the following services: police and fire protection, parks and recreation, planning, zoning, street maintenance, health and other governmental services. In addition, the City owns and operates a water treatment and distribution system and a wastewater treatment and collection system which are reported as enterprise funds. The operation of each of these activities is directly controlled by City Council through the budgetary process.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and 1) the City is able to significantly influence the programs or services performed or provided by the organization; or 2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance deficits of, or provide financial support to, the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt, or the levying of taxes. The City has no component units.

The City participates in the Ohio Municipal League Joint Self-Insurance Pool a Public Entity Risk Pool. This organization is presented in Note 16 to the basic financial statements.

The City's management believes these financial statements present all activities for which the City is financially accountable.

Note 2 – Summary of Significant Accounting Policies

The financial statements of the City of Salem have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The more significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements The statement of net position and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the City that are governmental and those that are considered business-type.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

The statement of net position presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental program or business activity is self-financing or draws from the general revenues of the City.

Fund Financial Statements During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as fund balance. The following are the City's major governmental funds:

General Fund - The general fund accounts for and reports all financial resources except those required to be accounted for and reported in another fund. The general fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Parks Fund - The parks special revenue fund accounts for and reports property taxes levied that are restricted for the support of the operation and maintenance of City parks.

Tax Increment Financing Fund - The tax increment financing capital project fund accounts for and reports restricted debt proceeds for City improvement projects.

Income Tax Capital Fund - The income tax capital improvement capital project fund accounts for and reports income tax receipts that are restricted for major capital projects undertaken by the City.

The other governmental funds of the City account for grants and other resources whose use is restricted, committed or assigned to a particular purpose.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service. The City reports no internal service funds.

Enterprise Funds - Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following are the City's major enterprise funds:

Water Fund - The water fund accounts for revenues generated from the charges for distribution of water to the residential and commercial users located within the City.

Wastewater Fund - The wastewater fund accounts for sanitary sewer services to City individuals and commercial users in the City. The costs of providing these services are financed primarily through user charges.

Fiduciary Funds

Fiduciary fund reporting focuses on net position and changes in net position. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The City's fiduciary funds are agency funds. Agency funds are used to account for deposits from individuals who intend to excavate City streets, deposits from developers involved in subdivision construction, health department fees remitted to the State, and insurance monies used for building demolition.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of the City are included on the Statement of Net Position. The Statement of Activities presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position.

Fund Financial Statements All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources and current liabilities and deferred inflows of resources, generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of these funds are included on the statement of fund net position. The statement of revenues, expenses and changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in total net position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements and the statement for the proprietary and fiduciary funds are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred inflows of resources, and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available. Available means that the resources will be collected within the current year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from income taxes is recognized in the year in which the income is earned. Revenue from property taxes is recognized in the year for which the taxes are levied (See Note 8). Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. On the modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at year-end: income tax, state-levied locally shared taxes (including gasoline tax and motor vehicle license fees), fines and forfeitures, interest, grants and rentals.

Unearned Revenue Unearned revenue represents amounts under the accrual and modified accrual basis of accounting for which asset recognition criteria have been met, but for which revenue recognition criteria have not yet been met because such amounts have not yet been earned. The City recognizes unearned revenue for the long-term lease of land throughout the City for oil and gas exploration.

Deferred Outflows/Inflows of Resources In addition to assets, the statements of net position/balance sheet will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of net position/balance sheet report a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the City, deferred inflows of resources include property taxes and unavailable revenue. Property taxes represent amounts for which there is an enforceable legal claim as of December 31, 2013, but which were levied to finance year 2014 operations. The amounts have been recorded as deferred inflow on both the government-wide statement of net position and the government fund financial statements. Unavailable revenue is reported only on the governmental funds balance sheet, and represents receivables which will not be collected within the available period. For the City, unavailable revenue includes delinquent property taxes,

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

income taxes and grants and entitlements. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Cash and Cash Equivalents

To improve cash management, cash received by the City is pooled. Monies for all funds are maintained in this pool. Individual fund integrity is maintained through the City's records. Interest in the pool is presented as "equity in pooled cash and cash equivalents".

During 2013, investments were limited to a repurchase agreement and federal farm credit bank bonds.

Investments are reported at fair value which is based on quoted market prices.

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2013 amount to \$75,966, of which \$68,963 is assigned from other City funds.

Investments with an original maturity of three months or less at the time of purchase and investments of the cash management pool are presented on the financial statements as cash equivalents.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2013, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

Inventories are presented at cost on a first-in, first out basis and are expended/expensed when used. Inventory consists of expendable supplies held for consumption.

Restricted Assets

Assets are reported as restricted when limitations on their use change in nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments or imposed by law through constitutional provisions or enabling legislation. Restricted assets in the general fund represent money set aside for unclaimed monies.

Capital Assets

General capital assets are capital assets which are associated with and generally arise from governmental activities. They generally result from expenditures in the governmental funds. General capital assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the enterprise funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. The City was able to estimate the historical cost for the initial reporting of infrastructure by backtrending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$1,000 with the exception of land as land was included regardless of cost. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life or not. Interest incurred during the construction of proprietary fund capital assets is also capitalized.

All capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

| Description | Governmental and Business-Type Activities Estimated Lives |
|-----------------------------------|---|
| Buildings | 20 - 50 years |
| Improvements other than Buildings | 50 - 67 years |
| Land Improvements | 80 years |
| Machinery and Equipment | 3 - 20 years |
| Infrastructure | 50 - 100 years |

The City reports infrastructure consisting of roadways, sanitary and storm sewers, bridges and culverts, waterlines, traffic signals and sidewalks and includes infrastructure acquired prior to December 31, 1980.

Interfund Balances

On fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables." Interfund balances amounts are eliminated in the statement of net position, except for any net residual amounts due between governmental and business-type activities, which are presented as internal balances.

Compensated Absences

Vacation benefits are accrued as a liability as the benefits are earned if the employee's rights to receive the compensation are attributable to services already rendered and it is probable that the City will compensate the employees for the benefits through paid time off or some other means. The City records a liability for all accumulated unused vacation time when earned for all employees.

Sick leave benefits are accrued as a liability using the vesting method. The liability includes the employees who are currently eligible to receive termination benefits and those the City has identified as probable of receiving payment in the future. The amount is based on accumulated sick leave and employee's wage rates at year end, taking into consideration any limits in the City's termination policy. The City records a liability for accumulated unused sick leave for all employees after five years of service.

The entire compensated absences liability is reported on the government-wide financial statements.

On the governmental fund financial statements, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignations and

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

retirements. These amounts are recorded in the account “matured compensated absences payable” in the fund(s) from which the employees who have resigned or retired will be paid.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments and compensated absences that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term loans are recognized as a liability on the governmental fund financial statements when due.

Fund Balance

Fund balance is divided into five classifications based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions or enabling legislation (City Ordinances).

Enabling legislation authorizes the City to assess, levy, charge, or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement that those resources be used only for the specific purposes stipulated in the legislation. Legal enforceability means the City can be compelled by an external party-such as citizens, public interest groups, or the judiciary to use resources created by enabling legislation only for the purposes specified by the legislation.

Committed The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action (ordinance or resolution, as both are equally binding) of City Council. Those committed amounts cannot be used for any other purpose unless City Council removes or changes the specified use by taking the same type of action (ordinance or resolution, as both are equally binding) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process. Constraints imposed on the use of committed amounts are imposed by City Council, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered to be legally enforceable. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. These amounts are assigned by the City Council. In the general fund, assigned

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

amounts represent intended uses established by policies of the Council or a City official delegated that authority by ordinance, or by State Statute. State statute authorizes the City Auditor to assign balance for purchases on order provided such amounts have been lawfully appropriated.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit fund balance.

The City applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Net Position

Net position represents the difference between all other elements in a statement of financial position. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through enabling legislation or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Net position restricted for other purposes include resources restricted for health services, elderly bus fare, the community block grant program and cemetery maintenance.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are charges for services and rentals for water and sewer services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund. Revenues and expenses which do not meet these definitions are reported as non-operating.

Bond Premiums

On the government-wide financial statements, bond premiums are deferred and amortized over the term of the bonds using straight line method. Bond premiums are presented as an increase of the face amount of the general obligation bonds payable. On fund financial statements, bond premiums are receipted in the year the bonds are issued.

Internal Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues. Internal events that are allocations of overhead expenses from one function to another or within the same function are eliminated on the Statement of Activities. Interfund payments for services provided and used are not eliminated.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Process

All funds, except agency funds, are legally required to be budgeted and appropriated. The major documents prepared are the tax budget, the certificate of estimated resources, and the appropriations resolution, all of which are prepared on the budgetary basis of accounting. The tax budget demonstrates a need for existing or increased tax rates. The certificate of estimated resources establishes a limit on the amount Council may appropriate. The appropriation resolution is Council's authorization to spend resources and sets annual limits on expenditures plus encumbrances at the level of control selected by Council. The legal level of control has been established by Council at the object level by department for all funds. Budgetary modification may only be made by resolution of the City Council at the legal level of control. Authority to further allocate Council appropriations within the object level has been given to the City Auditor.

The certificate of estimated resources may be amended during the year if projected increases or decreases in revenue are identified by the City Auditor. The amounts reported as the original and final budgeted amounts on the budgetary statements reflect the amounts on the certificate of estimated resources when the original and final appropriations were enacted by Council.

The appropriation resolution is subject to amendment throughout the year with the restriction that appropriations cannot exceed estimated resources. The amounts reported as the original budgeted amounts reflect the first appropriation resolution for that fund that covered the entire year, including amounts automatically carried forward from prior years. The amounts reported as the final budgeted amounts represent the final appropriation amounts passed by Council during the year.

Note 3 - Change in Accounting Principle

For year 2013, the City has implemented Governmental Accounting Standard Board (GASB) Statement No. 61, "The Financial Reporting Entity: Omnibus."

GASB Statement No. 61 modifies existing requirements for the assessment of potential component units in determining what should be included in the financial reporting entity, and financial reporting entity display and disclosure requirements. These changes were incorporated in the City's 2013 financial statements; however, there was no effect on beginning net position/fund balance.

Note 4 - Fund Balances

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the City is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

| Fund Balances | General | Park | Tax Increment Financing | Income Tax Capital | Other Governmental Funds | Total |
|---|--------------------|------------------|----------------------------|--------------------------|--------------------------------|--------------------|
| <i>Nonspendable</i> | | | | | | |
| Prepays | \$16,495 | \$1,231 | \$0 | \$0 | \$0 | \$17,726 |
| Inventory | 84,494 | 0 | 0 | 0 | 55,481 | 139,975 |
| Unclaimed Monies | 1,430 | 0 | 0 | 0 | 0 | 1,430 |
| <i>Total Nonspendable</i> | 102,419 | 1,231 | 0 | 0 | 55,481 | 159,131 |
| <i>Restricted for</i> | | | | | | |
| Park Operations | 0 | 200,589 | 0 | 0 | 0 | 200,589 |
| Public Safety | 0 | 0 | 0 | 0 | 91,581 | 91,581 |
| Community Development | 0 | 0 | 0 | 0 | 142,617 | 142,617 |
| Street Maintenance | 0 | 0 | 0 | 0 | 176,992 | 176,992 |
| Capital Improvements | 0 | 0 | 0 | 816,582 | 0 | 816,582 |
| Debt Service Payments | 0 | 0 | 0 | 0 | 119,538 | 119,538 |
| <i>Total Restricted</i> | 0 | 200,589 | 0 | 816,582 | 530,728 | 1,547,899 |
| <i>Committed to</i> | | | | | | |
| Municipal Events | \$0 | \$0 | \$0 | \$0 | \$26,938 | \$26,938 |
| Storm Water Study | 0 | 0 | 0 | 0 | 151,160 | 151,160 |
| Capital Improvements | 0 | 0 | 0 | 0 | 186,365 | 186,365 |
| Health Department | 0 | 0 | 0 | 0 | 7,265 | 7,265 |
| Accrued Personal Benefits | 11,767 | 0 | 0 | 0 | 0 | 11,767 |
| <i>Total Committed</i> | 11,767 | 0 | 0 | 0 | 371,728 | 383,495 |
| <i>Assigned to</i> | | | | | | |
| Shade Tree Program | 3 | 0 | 0 | 0 | 0 | 3 |
| 2014 Appropriations | 617,936 | 0 | 0 | 0 | 0 | 617,936 |
| Purchases on Order | 2,604 | 0 | 0 | 0 | 0 | 2,604 |
| <i>Total Assigned</i> | 620,543 | 0 | 0 | 0 | 0 | 620,543 |
| <i>Unassigned (Deficit)</i> | 1,702,124 | 0 | (325,000) | 0 | (36,750) | 1,340,374 |
| <i>Total Fund Balances (Deficit)</i> | \$2,436,853 | \$201,820 | (\$325,000) | \$816,582 | \$921,187 | \$4,051,442 |

Note 5 - Accountability

Fund balances at December 31, 2013, included the following individual fund deficits:

| | <u>Deficit Fund Balances</u> |
|-------------------------------|------------------------------|
| <i>Major Fund:</i> | |
| Tax Increment Financing | \$325,000 |
| <i>Special Revenue Funds:</i> | |
| Police Pension | 18,312 |
| Fire Pension | 18,438 |

The tax increment financing capital projects fund deficit is the result of the City spending unearned revenue. Once the city is able to recognize the revenue as earned, the deficit will be eliminated.

The special revenue funds' deficits are caused by the recognition of expenditures on the modified accrual basis of accounting. The general fund is liable for any deficit in these funds and provides transfers when cash is required, not when accruals occur.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 6 - Budgetary Basis of Accounting

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget (Non-GAAP Basis) and Actual for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are as follows:

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
3. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).
4. Unrecorded cash represents amounts received but not reported by the City on the operating statements (budget), but which is reported on the GAAP basis operating statement.
5. Advances-in and Advances-out are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
6. Budgetary revenues and expenditures for the shade tree fund is classified to the general fund for GAAP reporting.

The following table summarized the adjustments necessary to reconcile the GAAP basis statements to the budgetary basis statements for the general fund:

| | General | Parks |
|---|-------------|------------|
| GAAP Basis | \$363,050 | (\$28,037) |
| Net Adjustment for Revenue Accruals | (94,862) | 0 |
| Beginning Unrecorded Cash | (318) | 0 |
| Ending Unrecorded Cash | (3,205) | 0 |
| Advance In | 14,507 | 0 |
| Net Adjustment for Expenditures Accruals | 6,442 | 1,004 |
| Excess of Revenues Under Expenditures | | |
| Shade Tree | 2 | 0 |
| Reclassification of Transfer of Unearned Revenue to various Capital Projects Funds | (1,069,535) | 0 |
| Advance Out | (33,307) | 0 |
| Encumbrances | (28,091) | (6,140) |
| Budget Basis | (\$845,317) | (\$33,173) |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 7 - Deposits and Investments

The City has chosen to follow State statutes and classify monies held by the City into three categories.

Active deposits are public deposits determined to be necessary to meet current demands upon the City treasury. Active deposits must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim monies. Interim monies are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Interim monies held by the City can be deposited or invested in the following securities:

1. United States Treasury bills, bonds, notes, or any other obligation or security issued by the United States Treasury, or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including, but not limited to, Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement exceeds the principal value of the agreement by at least two percent and be marked to market daily, and the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
6. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations;
7. The State Treasurer's investment pool (STAR Ohio); and
8. Certain bankers' acceptances and commercial paper notes for a period not to exceed one hundred eighty days in an amount not to exceed 25 percent of the interim monies available for investment at any one time.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

The City may also invest any monies not required to be used for a specific period of six months or more in the following:

1. Bonds of the State of Ohio;
2. Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest, or coupons;
3. Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City and must be purchased with the expectation that it will be held to maturity.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Custodial Credit Risk Custodial credit risk for deposits is the risk that, in the event of failure of the counterparty, the City will not be able to recover deposits or collateral securities that are in the possession of an outside party. At year end, \$10,710,447 of the City's bank balance of \$18,219,945 was uninsured and uncollateralized. Although the securities were held by the pledging financial institutions' trust department and all statutory requirements for the deposit of money had been followed, noncompliance with Federal requirements could potentially subject the City to a successful claim by the FDIC.

The City has no deposit policy for custodial credit risk beyond the requirements of State statute. Ohio law requires that deposits be either insured or be protected by eligible securities pledged to and deposited either with the City or a qualified trustee by the financial institution as security for repayment, or by a collateral pool of eligible securities deposited with a qualified trustee and pledged to secure the repayment of all public monies deposited in the financial institution whose market value at all times shall be at least one hundred five percent of the deposits being secured.

Investments

Investments are reported at fair value. As of December 31, 2013, the City had the following investments:

| | <u>Fair Value</u> | <u>Maturity</u> | <u>Moody Rating</u> | <u>Percent of Total Investments</u> |
|--|--------------------|-----------------------|-------------------------|---|
| Repurchase Agreement | | | | |
| Federal Home Loan Mortgage Corporate Bonds | \$3,079,003 | Daily | Aaa | 75.56% |
| Federal Farm Credit Bank Bonds | 995,921 | Less than Three Years | Aaa | 24.44% |
| Total Portfolio | <u>\$4,074,924</u> | | | |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Interest Rate Risk As a means of limiting its exposure to fair value losses caused by rising interest rates, the City's investment policy requires that operating funds be invested primarily in short-term investments maturing within five years from the date of purchase and that the City's investment portfolio be structured so that securities mature to meet cash requirements for ongoing operations and/or long-term debt payments. The stated intent of the policy is to avoid the need to sell securities prior to maturity.

Credit Risk The Moody's ratings of the City's investments are listed in the table above. The City has no investment policy that addresses credit risk.

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 Federal Home Loan Mortgage Corporate Bonds underlying the repurchase agreement and Federal Farm Credit Bank Bonds are exposed to custodial credit risk in that they are uninsured, unregistered, and held by the counterparty. The City has no investment policy dealing with investment custodial risk beyond the requirement in state statute that prohibits payment for investments prior to the delivery of the securities representing such investments to the treasurer or qualified trustee.

Concentration of Credit Risk The City places no limit on the amount it may invest in any one issuer.

Note 8 - Receivables

Receivables at December 31, 2013, consisted primarily of municipal income taxes, property and other taxes, payments in lieu of taxes, intergovernmental receivables arising from entitlements and shared revenues, special assessments, and accounts (billings for utility service).

All receivables, except property and income taxes, are expected to be received within one year. Property and income taxes, although ultimately collectible, include some portion of delinquencies that will not be collected within one year.

No allowance for doubtful accounts has been recorded because uncollectible amounts are expected to be insignificant and collected within one year. All special assessments are expected to be collected within one year and none are delinquent.

Property Taxes

Property taxes include amounts levied against all real and public utility property located in the City. Property tax revenue received during 2013 for real and public utility property taxes represents collections of 2012 taxes.

2013 real property taxes were levied after October 1, 2013, on the assessed value as of January 1, 2013, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2013 real property taxes are collected in and intended to finance 2014.

Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31, with the remainder payable by June 20. Under certain circumstances, State statute permits later payment dates to be established.

Public utility tangible personal property currently is assessed at varying percentages of true value; public utility real property is assessed at 35 percent of true value. 2013 public utility property taxes which became a lien December 31, 2012, are levied after October 1, 2013, and are collected in 2014 with real property taxes.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

The full tax rate for all City operations for the year ended December 31, 2013, was \$5.40 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2013 property tax receipts were based are as follows:

| | |
|----------------------------------|---------------|
| Real Property | \$206,018,250 |
| Public Utility Personal Property | 5,963,910 |
| Total | \$211,982,160 |

The County Treasurer collects property taxes on behalf of all taxing districts in the county, including the City. The County Auditor periodically remits to the City its portion of the taxes collected. Property taxes receivable represents real and public utility property taxes and outstanding delinquencies which were measurable as of December 31, 2013, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2013 operations is offset to deferred inflows of resources – property taxes. On the accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue while on the modified accrual basis the revenue has been reported as deferred inflows of resources – unavailable revenue.

Income Taxes

The City levies a municipal income tax of one percent on gross salaries, wages, commissions and other personal service compensation earned by residents of the City and on the earnings of nonresidents working within the City. This tax also applies to the net income of businesses operating within the City. Residents of the City are granted a credit up to the amount owed for taxes paid to other municipalities.

Employers within the City are required to withhold income tax on employee compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. All income tax proceeds are received by the general fund, the income tax capital improvement fund, general obligation bond retirement fund and tax increment financing debt service fund.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

| | Amounts |
|---|-----------|
| Governmental Activities | |
| Gasoline and Municipal Cents per Gallon | \$207,073 |
| CHIPS Grant | 203,862 |
| OPWC Grant | 89,448 |
| Local Government | 63,922 |
| Homestead and Rollback | 61,349 |
| Motor Vehicle License Tax | 46,135 |
| Permissive Tax | 42,789 |
| Ohio Housing Trust Fund Grant | 40,084 |
| Local Government Innovation Grant | 24,180 |
| Commercial Activity Tax | 3,254 |
| Liquor Control Tax | 304 |
| Total | \$782,400 |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Payments in Lieu of Taxes

According to state law, the City has established several tax incremental financing districts within the City under which the City has granted property tax exemptions and agreed to construct certain infrastructure improvements. The property owners have agreed to make payments to the City to help pay the cost of the infrastructure improvements. The amount of those payments generally reflects all or a portion of the property taxes which the property owners would have paid if the property had not been declared exempt. The property owners' contractual promise to make these payments in lieu of taxes generally continues until the costs of the improvement have been paid or the agreement expires, whichever occurs first. Future development by these owners or others may result in subsequent agreements to make payments in lieu of taxes and may therefore spread the costs of the improvements to a larger number of property owners.

Note 9 – Other Employee Benefits

Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and State laws. Employees earn ten to twenty-five days of vacation per year, depending upon length of service. Earned unused vacation time is paid upon termination of employment. Employees earn sick leave at a rate of 0.06 per hour worked. Sick leave accrual is continuous, without limit. Upon retirement or death, an employee can be paid for 25 percent of accumulated, unused sick leave up to a maximum of 320 hours.

Insurance

The City provides medical, prescription, dental, and vision insurances for all full-time employees as well as the Mayor, Auditor and Law Director. Medical/surgical and prescription insurance is provided through Medical Mutual. Dental insurance is provided through Lincoln Financial and vision insurance is provided through Vision Service Plan (VSP). The City pays monthly premiums up to a maximum amount, per union agreements. The additional premium costs are paid by the employee. City premiums are paid from the same funds that pay the employees' salaries.

Life insurance is provided to full-time employees through Lincoln Financial. Full-time employees receive \$25,000 term life coverage. The City pays the total monthly premium.

Note 10 - Contingencies

Litigation

The City is party to legal proceedings. The City management is of the opinion that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

Grants

The City received financial assistance from federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the City at December 31, 2013.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2013, was as follows:

| | Balance 12/31/2012 | Additions | Deductions | Balance 12/31/2013 |
|---|-----------------------|--------------------|--------------------|-----------------------|
| Governmental Activities | | | | |
| <i>Capital Assets not being Depreciated:</i> | | | | |
| Land | \$4,586,123 | \$0 | \$0 | \$4,586,123 |
| Construction in Progress | 89,803 | 228,333 | (318,136) | 0 |
| <i>Total Capital Assets not being Depreciated</i> | <u>4,675,926</u> | <u>228,333</u> | <u>(318,136)</u> | <u>4,586,123</u> |
| <i>Capital Assets being Depreciated:</i> | | | | |
| Buildings | 2,274,772 | 0 | 0 | 2,274,772 |
| Improvements Other Than Buildings | 481,581 | 0 | 0 | 481,581 |
| Land Improvements | 639,229 | 0 | 0 | 639,229 |
| Machinery and Equipment | 3,267,814 | 63,956 | (96,054) | 3,235,716 |
| Infrastructure | 22,627,840 | 318,136 | 0 | 22,945,976 |
| Total Capital Assets being Depreciated | <u>29,291,236</u> | <u>382,092</u> | <u>(96,054)</u> | <u>29,577,274</u> |
| <i>Less Accumulated Depreciation:</i> | | | | |
| Buildings | (1,305,753) | (52,641) | 0 | (1,358,394) |
| Improvements Other Than Buildings | (382,806) | (21,988) | 0 | (404,794) |
| Land Improvements | (258,158) | (10,785) | 0 | (268,943) |
| Machinery and Equipment | (2,364,197) | (188,174) | 93,712 | (2,458,659) |
| Infrastructure | (12,682,458) | (581,872) | 0 | (13,264,330) |
| <i>Total Accumulated Depreciation</i> | <u>(16,993,372)</u> | <u>(855,460) *</u> | <u>93,712</u> | <u>(17,755,120)</u> |
| Total Capital Assets being Depreciated, Net | <u>12,297,864</u> | <u>(473,368)</u> | <u>(2,342)</u> | <u>11,822,154</u> |
| Governmental Activities Capital Assets, Net | <u>\$16,973,790</u> | <u>(\$245,035)</u> | <u>(\$320,478)</u> | <u>\$16,408,277</u> |

*Depreciation expense was charged to governmental activities as follows:

| | |
|----------------------------------|------------------|
| General Government | \$15,858 |
| Security of Persons and Property | 138,477 |
| Public Health Services | 253 |
| Transportation | 653,285 |
| Leisure Time Activities | 47,587 |
| Total Depreciation Expense | <u>\$855,460</u> |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

| | Balance 12/31/2012 | Additions | Deductions | Balance 12/31/2013 |
|---|-----------------------|--------------------|------------------|-----------------------|
| Business Type Activities: | | | | |
| Capital Assets not being Depreciated: | | | | |
| Land | \$564,419 | \$0 | \$0 | \$564,419 |
| Construction in Progress | 680,959 | 237,726 | 0 | 918,685 |
| <i>Total Capital Assets not being Depreciated</i> | <u>1,245,378</u> | <u>237,726</u> | <u>0</u> | <u>1,483,104</u> |
| Capital Assets being Depreciated: | | | | |
| Buildings | 20,740,386 | 0 | 0 | 20,740,386 |
| Improvements Other Than Buildings | 102,073 | 0 | 0 | 102,073 |
| Machinery and Equipment | 7,885,323 | 6,248 | (2,845) | 7,888,726 |
| Infrastructure | 10,031,027 | 0 | 0 | 10,031,027 |
| Total Capital Assets being Depreciated | <u>38,758,809</u> | <u>6,248</u> | <u>(2,845)</u> | <u>38,762,212</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings | (11,658,659) | (437,776) | 0 | (12,096,435) |
| Improvements Other Than Buildings | (92,062) | (998) | 0 | (93,060) |
| Machinery and Equipment | (7,307,226) | (28,722) | 1,802 | (7,334,146) |
| Infrastructure | (4,124,203) | (255,618) | 0 | (4,379,821) |
| <i>Total Accumulated Depreciation</i> | <u>(23,182,150)</u> | <u>(723,114)</u> | <u>1,802</u> | <u>(23,903,462)</u> |
| Total Capital Assets being Depreciated, Net | <u>15,576,659</u> | <u>(716,866)</u> | <u>(1,043)</u> | <u>14,858,750</u> |
| Business Type Activities Capital Assets, Net | <u>\$16,822,037</u> | <u>(\$479,140)</u> | <u>(\$1,043)</u> | <u>\$16,341,854</u> |

Note 12 – Notes Payable

The City's note activity, including amounts outstanding and interest rates, is as follows:

| | Balance 12/31/12 | Additions | Reductions | Balance 12/31/13 |
|--------------------------|---------------------|------------|------------------|---------------------|
| Street Improvement 1.70% | <u>\$953,500</u> | <u>\$0</u> | <u>\$953,500</u> | <u>\$0</u> |

During 2013, the City retired the \$953,500 Street Improvement note.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Note 13 – Interfund Transfers and Balances

Interfund Transfers

Interfund transfers for the year ended December 31, 2013, consisted of the following:

| Transfer To | Transfer From | | | | | |
|-----------------------------------|----------------------|-----------------|--------------------|------------------|----------------|------------------|
| | Governmental Funds | | | Enterprise Funds | | |
| | General Fund | FEMA | Total Governmental | Water | Wastewater | Total Enterprise |
| Governmental Funds | | | | | | |
| Major Fund: | | | | | | |
| General Fund | \$0 | \$11,397 | \$11,397 | \$3,600 | \$3,600 | \$7,200 |
| Tax Increment Financing | 108,333 | 0 | 108,333 | 0 | 0 | 0 |
| Income Tax Capital | 105,574 | 0 | 105,574 | 0 | 0 | 0 |
| Nonmajor Funds: | | | | | | |
| Police Pension Fund | 166,680 | 0 | 166,680 | 0 | 0 | 0 |
| Fire Pension Fund | 154,827 | 0 | 154,827 | 0 | 0 | 0 |
| Street Construction | | | | | | |
| Maintenance and Repair Fund | 110,000 | 0 | 110,000 | 0 | 0 | 0 |
| Health Fund | 36,909 | 0 | 36,909 | | | |
| Local Government Innovation Fund | 6,000 | 0 | 6,000 | 0 | 0 | 0 |
| Reserve Balance - Fire Truck Fund | 50,000 | 0 | 50,000 | 0 | 0 | 0 |
| Grand Total | \$738,323 | \$11,397 | \$749,720 | \$3,600 | \$3,600 | \$7,200 |

The transfer to the tax increment financing and income tax capital improvement fund moves unassigned balance to finance capital improvements. The transfers to the police pension, fire pension, street construction maintenance and repair, health, local government innovation and reserve balance – fire truck special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds. The transfer from the FEMA special revenue fund to the general fund was to move grant monies to cover FEMA salaries initially paid for out of the general fund. The water and wastewater enterprise fund transferred revenue to the general fund to cover the future payment of accrued personnel benefits.

Interfund Balances

Interfund balances at December 31, 2013, consist of a rehabilitation special revenue fund advance of \$5,527 to the community housing improvement special revenue fund and a general fund advance of \$18,800 to the design review board special revenue fund due to the timing of the receipt of grant monies at year end.

Note 14 - Long-Term Obligations

Original issue amounts and interest rates of the City’s debt issues are as follows:

| <u>Debt Issue</u> | <u>Interest Rate</u> | <u>Original Issue</u> | <u>Year of Maturity</u> |
|--|----------------------|-----------------------|-------------------------|
| Business-Type Activities: | | | |
| <i>Ohio Public Works Commission Loan</i> | | | |
| Stewart Road Water Tank | 0.00 % | \$410,000 | 2020 |
| Roosevelt Ave Water Tank | 0.00 | 673,917 | 2030 |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

| Debt Issue | Interest Rate | Original Issue | Year of Maturity |
|---|---------------|----------------|------------------|
| Governmental Activities: | | | |
| <i>General Obligation Bonds:</i> | | | |
| Various Purpose Improvement Bonds | 3.10 - 4.15 % | \$2,380,000 | 2025 |
| Street Improvement TIF Bonds | 4.00 - 5.12 | 985,000 | 2020 |
| Various Purpose Bonds, Series A | 2.59 | 328,000 | 2023 |
| Various Purpose Bonds, Series B | 2.52 | 55,000 | 2020 |
| <i>Ohio Public Works Commission Loan</i> | | | |
| South East Boulevard Improvement | 0.00 | 261,838 | 2018 |
| Cunningham Road & Bentley Drive Improvement | 0.00 | 259,936 | 2021 |
| East Pershing Street Improvement | 0.00 | 376,179 | 2042 |

A schedule of changes in bonds and other long-term obligations of the City during 2013 follows:

| | Amount | | | Amount | |
|---|---------------------------|------------------|--------------------|---------------------------|-------------------------------|
| | Outstanding 12/31/2012 | Additions | Deletions | Outstanding 12/31/2013 | Amounts Due In One Year |
| Business-Type Activities: | | | | | |
| <i>Ohio Public Works Commission</i> | | | | | |
| Stewart Road Water Tank | \$164,000 | \$0 | (\$20,500) | \$143,500 | \$20,500 |
| Roosevelt Ave Water Tank | 606,525 | 0 | (33,696) | 572,829 | 33,696 |
| Total Ohio Public Works Commission | 770,525 | 0 | (54,196) | 716,329 | 54,196 |
| Compensated Absences | 157,834 | 10,990 | (4,768) | 164,056 | 11,924 |
| <i>Total Business-Type Activities Obligations</i> | <u>\$928,359</u> | <u>\$10,990</u> | <u>(\$58,964)</u> | <u>\$880,385</u> | <u>\$66,120</u> |
| Governmental Activities Obligations: | | | | | |
| <i>General Obligation Bonds</i> | | | | | |
| Various Purpose Improvement | \$1,755,000 | \$0 | (\$105,000) | \$1,650,000 | \$105,000 |
| Premium on Various Purpose Improvement | 65,135 | 0 | (5,011) | 60,124 | 0 |
| Street Improvement TIF | 715,000 | 0 | (110,000) | 605,000 | 125,000 |
| Premium on Street Improvement TIF | 17,340 | 0 | (3,468) | 13,872 | 0 |
| Various Purpose Bonds, Series A | 0 | 328,000 | 0 | 328,000 | 24,118 |
| Various Purpose Bonds, Series B | 0 | 55,000 | 0 | 55,000 | 6,403 |
| Total General Obligation Bonds | <u>2,552,475</u> | <u>383,000</u> | <u>(223,479)</u> | <u>2,711,996</u> | <u>260,521</u> |
| <i>Ohio Public Works Commission Loan</i> | | | | | |
| South East Boulevard Improvement | 96,006 | 0 | (17,456) | 78,550 | 17,456 |
| Cunningham Road & Bentley Drive Improvement | 147,297 | 0 | (17,329) | 129,968 | 17,329 |
| East Pershing Street Improvement | 369,909 | 0 | (12,539) | 357,370 | 12,539 |
| Total Ohio Public Works Commission Loan | <u>613,212</u> | <u>0</u> | <u>(47,324)</u> | <u>565,888</u> | <u>47,324</u> |
| Compensated Absences | 344,152 | 155,542 | (127,689) | 372,005 | 141,640 |
| <i>Total Governmental Activities Obligations</i> | <u>\$3,509,839</u> | <u>\$538,542</u> | <u>(\$398,492)</u> | <u>\$3,649,889</u> | <u>\$449,485</u> |

In 2005, the City issued \$2,380,000 of general obligation bonds for various capital improvement projects. General obligation bonds will be paid from the general obligation debt service fund.

In 2007, the City issued \$985,000 of general obligation bonds. These bonds are tax increment financing bonds and are being use to finance street improvements in the area north and south of East Main Street. General obligation bonds will be paid from the TIF debt service fund.

In 2013, the City issued \$328,000 of general obligation bonds for the cost of constructing and installing improvements comprising the Springdale Street extension project. General obligations bonds will be paid from the general obligation debt service fund.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

In 2013, the City issued \$55,000 of general obligation bonds for the cost of constructing and installing improvements comprising the Pershing Phase I project and the Bentley-Cunningham Connector, Phase IV project. General obligations bonds will be paid from the general obligation debt service fund.

OPWC loans will be paid from water and wastewater enterprise fund user service charges and monies from the general obligation bond retirement fund. Compensated absences will be paid from the following funds: the general fund, the street construction maintenance and repair and the parks special revenue funds and the water and sewer enterprise funds.

The City has pledged future revenues, net of operating expenses, to repay OPWC loans in the water fund. The debt is payable solely from net revenues and are payable through 2030. Annual principal and interest payments on the debt issues required less than 100 percent of net revenues. The total principal remaining to be paid on the loans is \$716,329. Principal paid for the current year and total net revenues were \$54,196 and \$198,677 respectively.

The City's overall legal debt margin was \$19,099,781 at December 31, 2013. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2013, are as follows:

Business-Type Activities:

| | OPWC Loans |
|-----------|---------------|
| 2014 | \$54,196 |
| 2015 | 54,196 |
| 2016 | 54,196 |
| 2017 | 54,196 |
| 2018 | 54,196 |
| 2019-2023 | 209,480 |
| 2024-2028 | 168,479 |
| 2029-2030 | 67,390 |
| Total | \$716,329 |

Governmental Activities:

| | General Obligation Bonds | | OPWC Loan |
|-----------|--------------------------|-----------|--------------|
| | Principal | Interest | Principal |
| 2014 | \$260,521 | \$119,286 | \$47,324 |
| 2015 | 292,995 | 105,052 | 47,324 |
| 2016 | 313,981 | 93,179 | 47,323 |
| 2017 | 329,992 | 81,506 | 47,323 |
| 2018 | 166,028 | 63,058 | 38,596 |
| 2019-2023 | 929,483 | 203,185 | 106,018 |
| 2024-2028 | 345,000 | 24,699 | 62,695 |
| 2029-2033 | 0 | 0 | 62,695 |
| 2034-2038 | 0 | 0 | 62,700 |
| 2039-2042 | 0 | 0 | 43,890 |
| Total | \$2,638,000 | \$689,965 | \$565,888 |

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Conduit Debt

The City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. In addition, the City has issued bonds to provide the necessary funds for the construction of a community recreation center. During 2013, the hospital revenue bonds were refunded. At December 31, 2013, the outstanding bonds have a principal amount outstanding of \$58,655,000. The City is not obligated in any way to pay debt charges on the bonds from any of its funds, and therefore they have been excluded entirely for the City's debt presentation. There has not been any condition of default under the bonds or the related financing documents.

Note 15 - Risk Management

Property and Liability

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. During 2013, the City contracted with the Ohio Municipal League Joint Self-Insurance Pool for various types of insurance as follows:

| <u>Type</u> | <u>Coverage</u> |
|------------------------------------|-----------------|
| Bodily Injury and Property | \$5,000,000 |
| Law Enforcement | 5,000,000 |
| Emergency Medical Services | 5,000,000 |
| Fire Damage Legal | 100,000 |
| Personal and Advertising Injury | 5,000,000 |
| Public Officials | 5,000,000 |
| Employee Benefit | 1,000,000 |
| Municipal Attorney & Law Directors | 1,000,000 |
| Stop Gap | 5,000,000 |
| Medical Payments | 5,000 |
| Automobile | 5,000,000 |
| Uninsured/Underinsured Motorist | 100,000 |

Claims have not exceeded this coverage in any of the past three years and there has been no significant reduction in commercial coverage in any of the past three years.

Workers' Compensation

The City pays the State Workers' Compensation System a premium based on a rate per \$100 of salaries. This rate is calculated based on accident history and administrative costs.

Note 16 - Public Entity Risk Pool

Risk Sharing Authority

The City belongs to the Ohio Municipal League Joint Self-Insurance Pool, (the "Pool"), an unincorporated non-profit association available to municipal corporations and their instrumentalities. The Pool was established in 1987 and is administered under contract by the Ohio Municipal League to provide a program of property and casualty insurance for its member organizations through the State of Ohio.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

The Pool's general objectives are to formulate, develop and administer a program of insurance, to obtain lower costs for that coverage, and to develop a comprehensive loss control program on behalf of the member political subdivisions. Political subdivisions joining the Pool may withdraw at the end of any coverage period upon 60 days prior written notice to the Pool. Under agreement, members who terminate participation in the Pool, as well as current members, are subject to a supplemental assessment or a refund, at the discretion of the Board of Trustees, depending on the ultimate loss experience of all the entities it insures of each coverage year. To date there have been no assessments or refunds due to the limited period of time that the Pool has been in existence and the nature of the coverage that is afforded to the participants. The City contributed \$114,078 to the Pool in 2013.

Each participant makes an annual "contribution" to the Pool for the coverage they are provided based on rates established by the Pool using anticipated and actual results of operation of the various coverage provided. Participants are also charged a "surplus contribution" used to build the Pools net assets account to fund the activities of the Pool.

In ordinary course of business, the Pool cedes a portion of its expenses to other insurers. These arrangements limit the Pool's maximum net loss on individual risks. Treaty basis casualty excess of loss contracts in force at December 31, 2013 generally protects the Pool against losses subject to a deductible of lesser of \$100,000 per location or \$100,000 per occurrence. The Pool is, and the participants are, contingently liable should any reinsurer become unable to meet its obligation under the reinsurance agreements.

Note 17 - Defined Benefit Pension Plans

Ohio Public Employees Retirement System

Plan Description – The City participates in the Ohio Public Employees Retirement System (OPERS). OPERS administers three separate pension plans. The Traditional Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan. The Member-Directed Plan is a defined contribution plan in which the member invests both member and employer contributions (employer contributions vest over five years at 20 percent per year). Under the Member-Directed Plan, members accumulate retirement assets equal to the value of the member and vested employer contributions plus any investment earnings. The Combined Plan is a cost-sharing, multiple-employer defined benefit pension plan. Under the Combined Plan, OPERS invests employer contributions to provide a formula retirement benefit similar in nature to, but less than, the Traditional Pension Plan benefit. Member contributions, the investment of which is self-directed by the members, accumulate retirement assets in a manner similar to the Member-Directed Plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost-of-living adjustments to members of the Traditional Pension and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The Ohio Revised Code provides statutory authority for member and employer contributions and currently limits the employer contribution to a rate not to exceed 14 percent of covered payroll for state and local employer units and 18.1 percent of covered payroll for law enforcement and public safety employer units. Member contribution rates, as set forth in the Ohio Revised Code, are not to exceed 10 percent of covered payroll for members in State and local divisions and 12 percent for public safety members and 12.6 percent for law enforcement members. For the year ended December 31, 2013, members

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

in state and local divisions contributed 10 percent of covered payroll while public safety and law enforcement members contributed 12 percent and 12.6 percent, respectively. Effective January 1, 2014, the member contribution rates for law enforcement increased to 13 percent. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the Traditional Pension Plan. For 2013, member and employer contribution rates were consistent across all three plans.

The City's 2013 contribution rate was 14.0 percent, except for those plan members in law enforcement or public safety, for whom the City's contribution was 18.10 percent of covered payroll. The portion of employer contributions used to fund pension benefits is net of post-employment health care benefits. For 2013, the portion of employer contribution allocated to health care was 1.00 percent for members in the Traditional Plan and the Combined Plan. Effective January 1, 2014, the portion of employer contributions allocated to health care increased to 2 percent. Employer contribution rates are actuarially determined.

The City's required contributions for pension obligations to the Traditional Pension and Combined Plans for the years ended December 31, 2013, 2012 and 2011 were \$325,852, \$245,032 and \$240,458, respectively. For 2013, 91.72 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011. Contributions to the Member-Directed Plan for 2013 were \$6,202 made by the City and \$4,787 made by the plan members.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164.

Funding Policy – Employer and employee contributions rates are set by the Ohio Revised Code. From January 1, 2013, thru July 1, 2013, plan members were required to contribute 10 percent of their annual covered salary. From July 2, 2013, thru December 31, 2013, plan members were required to contribute 10.75 percent of their annual covered salary. Throughout 2013, employers were required to contribute 19.5 percent and 24 percent respectively for police officers and firefighters.

The OP&F Pension Fund is authorized by the Ohio Revised Code to allocate a portion of the employer contributions to retiree health care benefits. For January 1, 2013, thru May 31, 2013, the portion of employer contributions used to fund pension benefits was 14.81 percent of covered payroll for police officers and 19.31 percent of covered payroll for firefighters. For June 1, 2013, thru December 31, 2013, the portion of employer contributions used to fund pension benefits was 16.65 percent of covered payroll for police officers and 21.15 percent of covered payroll for firefighters. The City's contributions to the OP&F for police and firefighters were \$159,675 and \$167,814 for the year ended December 31, 2013, \$127,637 and \$137,711 for the year ended December 31, 2012, and \$119,893 and \$135,180 for the year ended December 31, 2011, respectively. For 2013, 90.21 percent for police and 90.32 percent for firefighters has been contributed with the balance for both police and firefighters being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

Social Security System

Effective July 1, 1991, all employees not otherwise covered by the Ohio Public Employees Retirement System or the Ohio Police and Fire Pension Fund have an option to choose Social Security or the Ohio Public Employees Retirement System. As of December 31, 2012 the mayor, the treasurer and one member of Council have elected Social Security. The contribution rate is 6.2 percent of wages.

Note 18 – Postemployment Benefits

Ohio Public Employees Retirement System

Plan Description – Ohio Public Employees Retirement System (OPERS) administers three separate pension plans: The Traditional Pension Plan—a cost-sharing, multiple-employer defined benefit pension plan; the Member-Directed Plan—a defined contribution plan; and the Combined Plan—a cost-sharing, multiple-employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

OPERS maintains a cost-sharing multiple-employer defined benefit post-employment health care plan for qualifying members of both the Traditional Pension and the Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage. The plan includes a medical plan, prescription drug program and Medicare Part B premium reimbursement.

In order to qualify for post-employment health care coverage, age-and-service retirees under the Traditional Pension and Combined Plans must have 10 or more years of qualifying Ohio service credit. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The Ohio Revised Code permits, but does not mandate, OPERS to provide health care benefits to its eligible members and beneficiaries. Authority to establish and amend benefits is provided in Chapter 145 of the Ohio Revised Code.

Disclosures for the health care plan are presented separately in the OPERS financial report which may be obtained by visiting <https://www.opers.org/investments/cafr.shtml>, writing to OPERS, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 614-222-5601 or 800-222-7377.

Funding Policy – The post-employment health care plan was established under, and is administrated in accordance with, Internal Revenue Code 401(h). The Ohio Revised Code provides the statutory authority requiring public employers to fund post-retirement health care through contributions to OPERS. A portion of each employer’s contribution to OPERS is set aside for the funding of post-retirement health care.

Employer contribution rates are expressed as a percentage of the covered payroll of active members. In 2013, state and local employers contributed at a rate of 14.0 percent of covered payroll, and public safety and law enforcement employers contributed at 18.10 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code.

Each year, the OPERS Retirement Board determines the portion of the employer contribution rate that will be set aside for funding of post-employment health care benefits. For 2013, the portion of employer contributions allocated to health care for members in the Traditional Plan and the Combined Plan was 1.0 percent. Effective January 1, 2014, the portion of employer contributions allocated to healthcare was raised to 2 percent for both plans, as recommended by the OPERS Actuary.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

The OPERS Retirement Board is also authorized to establish rules for the payment of a portion of the health care benefits provided, by the retiree or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected. Active members do not make contributions to the post-employment health care plan.

The City's contributions allocated to fund post-employment health care benefits for the years ended December 31, 2013, 2012 and 2011 were \$25,066, \$98,013 and \$96,183, respectively. For 2013, 91.72 percent has been contributed with the balance being reported as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Changes to the health care plan were adopted by the OPERS Board of Trustees on September 19, 2012, with a transition plan commencing January 1, 2014. With the recent passage of pension legislation under SB 343 and the approved health care changes, OPERS expects to be able to consistently allocate 4 percent of the employer contributions toward the health care fund after the end of the transition period.

Ohio Police and Fire Pension Fund

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing multiple-employer defined post-employment health care plan administered by OP&F. OP&F provides health care benefits including coverage for medical, prescription drugs, dental, vision, Medicare Part B Premium and long-term care to retirees, qualifying benefit recipients and their eligible dependents.

OP&F provides access to post-retirement health care coverage for any person who receives or is eligible to receive a monthly service, disability, or survivor benefit check or is a spouse or eligible dependent child of such person. The health care coverage provided by OP&F meets the definition of an Other Post-Employment Benefit (OPEB) as described in GASB Statement No. 45.

The Ohio Revised Code allows, but does not mandate OP&F to provide OPEB benefits. Authority for the OP&F Board of Trustees to provide health care coverage to eligible participants and to establish and amend benefits is codified in Chapter 742 of the Ohio Revised Code.

OP&F issues a publicly available financial report that includes financial information and required supplementary information for the plan. That report may be obtained by writing to OP&F, 140 East Town Street, Columbus, Ohio 43215-5164. That report is also available on OP&F's website at www.op-f.org.

Funding Policy – The Ohio Revised Code provides for contribution requirements of the participating employers and of plan members to the OP&F defined benefit pension plan. Participating employers are required by Ohio Revised Code to contribute to the pension plan at rates expressed as percentages of the payroll of active pension plan members, currently, 19.5 percent and 24.0 percent of covered payroll for police and fire employers, respectively. Active members do not make contributions to the OPEB Plan.

OP&F maintains funds for health care in two separate accounts. One for health care benefits under an IRS Code Section 115 trust and one for Medicare Part B reimbursements administrated as an Internal Revenue Code 401(h) account, both of which are within the defined benefit pension plan, under the authority granted by the Ohio Revised Code to the OP&F Board of Trustees.

The Board of Trustees is authorized to allocate a portion of the total employer contributions made into the pension plan to the Section 115 trust and the Section 401(h) account as the employer contribution for retiree health care benefits. For January 1, 2013, thru May 31, 2013, the employer contribution allocated to the health care plan was 4.69 percent of covered payroll. For June 1, 2013, thru December 31, 2013, the

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2013

employer contribution allocated to the health care plan was 2.85 percent of covered payroll. The amount of employer contributions allocated to the health care plan each year is subject to the Trustees' primary responsibility to ensure that pension benefits are adequately funded and is limited by the provisions of Sections 115 and 401(h).

The OP&F Board of Trustees also is authorized to establish requirements for contributions to the health care plan by retirees and their eligible dependents, or their surviving beneficiaries. Payment amounts vary depending on the number of covered dependents and the coverage selected.

The City's contributions to OP&F which were allocated to fund post-employment health care benefits for police and firefighters were \$35,950 and \$29,666 for the year ended December 31, 2013, \$67,572 and \$53,887 for the year ended December 31, 2012, and \$63,473 and \$52,897 for the year ended December 31, 2011. For 2013, 90.21 percent has been contributed for police and 90.32 percent has been contributed for firefighters with the balance for both police and firefighters being report as an intergovernmental payable. The full amount has been contributed for 2012 and 2011.

Note 19 – Encumbrances

Encumbrances are commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized to extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At the year end the amount of encumbrances expected to be honored upon performance by the vendor in the next year were as follows:

| Governmental Funds | | Proprietary Funds | |
|---------------------------|------------------|--------------------------|--------------------|
| General | \$28,091 | Water | \$245,401 |
| Parks | 6,140 | Wastewater | 3,067,473 |
| Income Tax Capital | 70,596 | | <u>\$3,312,874</u> |
| Other Government Funds | 173,319 | | |
| Total Governemntal Funds | <u>\$278,146</u> | | |



Dave Yost • Auditor of State

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY GOVERNMENT AUDITING STANDARDS

City of Salem
Columbiana County
231 S. Broadway Avenue
Salem, Ohio 44460

To the City Council:

We have audited, in accordance with auditing standards generally accepted in the United States and the Comptroller General of the United States' *Government Auditing Standards*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 25, 2014.

Internal Control Over Financial Reporting

As part of our financial statement audit, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances to the extent necessary to support our opinion on the financial statements, but not to the extent necessary to opine on the effectiveness of the City's internal control. Accordingly, we have not opined on it.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, when performing their assigned functions, to prevent, or detect and timely correct misstatements. A *material weakness* is a deficiency, or combination of internal control deficiencies resulting in a reasonable possibility that internal control will not prevent or detect and timely correct a material misstatement of the City's financial statements. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all internal control deficiencies that might be material weaknesses or significant deficiencies. Given these limitations, we did not identify any deficiencies in internal control that we consider material weaknesses. However, unidentified material weaknesses may exist.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, opining on compliance with those provisions was not an objective of our audit and accordingly, we do not express an opinion. The results of our tests disclosed no instances of noncompliance or other matters we must report under *Government Auditing Standards*.

Purpose of this Report

This report only describes the scope of our internal control and compliance testing and our testing results, and does not opine on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed under *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Dave Yost
Auditor of State
Columbus, Ohio

August 25, 2014



Dave Yost • Auditor of State

CITY OF SALEM

COLUMBIANA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
SEPTEMBER 23, 2014**