



OHIO AUDITOR OF STATE  
**KEITH FABER**





**CITY OF SALEM  
COLUMBIANA COUNTY  
DECEMBER 31, 2019**

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## INDEPENDENT AUDITOR'S REPORT

City of Salem  
Columbiana County  
231 South Broadway Ave.  
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, the discretely presented component unit, 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, 2019, 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 such 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Salem, Columbiana County, Ohio, as of December 31, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

As discussed in Note 22 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Additionally, as discussed in Note 20 the City restated net position due to a correction related to capital assets as of December 31, 2018. We did not modify our opinion regarding these matters.

**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* and schedules of net pension and other post-employment benefit liabilities and pension and other post-employment benefit contributions 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 October 7, 2020, 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.



Keith Faber  
Auditor of State

Columbus, Ohio

October 7, 2020

**City of Salem**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2019*  
*Unaudited*

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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, 2019. 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 2019 are as follows:

- Governmental net position increased in 2019. This increase relates to the increase in capital assets due to current year additions exceeding an additional year of depreciation as well as a decrease in OPEB liabilities. This increase was slightly offset by an increase in the pension liabilities.
- City income tax receipts decreased some in 2019 compared to 2018 for the first year after several years of increases after the .25 percent income tax levy that went into effect January 1, 2016 as well as the improving economy. The voters passed the additional income tax levy at the November 2015 election. The income tax levy is to be used for transportation purposes. The voters passed the income tax levy for a 5 year period with 2016 as the first full year of collections on the income tax levy.
- Total governmental capital assets increased due to several purchases this year including two new police cruisers, a truck for the street department, a vehicle for the park department, equipment for the park, police and fire departments and made improvements to bridges and streets offset by an additional year of accumulated depreciation. The business-type activities capital assets increased due to purchases of one vehicle, various water and sewer equipment and the completion of Ellsworth North water main, Franklin Avenue water main and sanitary sewer replacement, Cold Run Creek water well and phase two of the wastewater treatment plant offset by an additional year of depreciation.
- A review of the enterprise funds reflects an operating gain for the water fund and an operating loss for the wastewater fund. The operating gain for the water fund was due to charges for services exceeding operating expenses. The operating loss for the wastewater fund was due to operating expenses exceeding charges for services. 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.

**City of Salem**  
*Management's Discussion and Analysis*  
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**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 2019?" 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.

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 and the street improvement and income tax capital improvement 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.



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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 City'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.

**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 custodial funds.

**Notes to the Basic 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 2019 as they compare to 2018.

(Table 1)  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
<b>Assets</b>						
Current and Other Assets	\$7,839,235	\$8,782,924	\$12,422,901	\$14,327,783	\$20,262,136	\$23,110,707
Net Pension Asset	20,457	22,816	16,983	17,927	37,440	40,743
Capital Assets, Net	22,990,255	21,042,482	28,500,623	25,102,984	51,490,878	46,145,466
<i>Total Assets</i>	<u>30,849,947</u>	<u>29,848,222</u>	<u>40,940,507</u>	<u>39,448,694</u>	<u>71,790,454</u>	<u>69,296,916</u>
<b>Deferred Outflows of Resources</b>						
Deferred Charge on Refunding	5,616	6,593	0	0	5,616	6,593
Pension	3,166,707	1,545,918	799,209	393,920	3,965,916	1,939,838
OPEB	744,057	768,059	120,643	82,630	864,700	850,689
<i>Total Deferred Outflows of Resources</i>	<u>\$3,916,380</u>	<u>\$2,320,570</u>	<u>\$919,852</u>	<u>\$476,550</u>	<u>\$4,836,232</u>	<u>\$2,797,120</u>

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(Table 1)  
*Net Position*

	Governmental Activities		Business-Type Activities		Total	
	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
<b>Liabilities</b>						
Current Liabilities	\$374,613	\$1,455,894	\$922,086	\$198,600	\$1,296,699	\$1,654,494
Long-term Liabilities						
Due within One Year	345,871	335,719	354,960	361,468	700,831	697,187
Due in More than One Year						
Net Pension Liability	11,224,469	7,951,654	2,577,406	1,449,991	13,801,875	9,401,645
Net OPEB Liability	2,371,548	6,890,353	1,216,785	984,761	3,588,333	7,875,114
Other Amounts	3,420,769	3,619,612	2,533,722	2,890,888	5,954,491	6,510,500
<i>Total Liabilities</i>	<u>17,737,270</u>	<u>20,253,232</u>	<u>7,604,959</u>	<u>5,885,708</u>	<u>25,342,229</u>	<u>26,138,940</u>
<b>Deferred Inflows of Resources</b>						
Property Taxes	1,092,527	1,058,598	0	0	1,092,527	1,058,598
Payments in Lieu of Taxes	144,121	129,492	0	0	144,121	129,492
Pension	159,300	820,595	43,919	368,227	203,219	1,188,822
OPEB	279,411	158,900	3,302	73,359	282,713	232,259
<i>Total Deferred Inflows of Resources</i>	<u>1,675,359</u>	<u>2,167,585</u>	<u>47,221</u>	<u>441,586</u>	<u>1,722,580</u>	<u>2,609,171</u>
<b>Net Position</b>						
Net Investment in Capital Assets	19,653,617	16,443,605	25,736,568	21,984,733	45,390,185	38,428,338
Restricted for:						
Capital Projects	1,672,397	2,818,122	0	0	1,672,397	2,818,122
Streets	540,468	361,804	0	0	540,468	361,804
Parks	338,059	235,057	0	0	338,059	235,057
Law Enforcement	21,889	62,034	0	0	21,889	62,034
Community Environment	176,305	141,610	0	0	176,305	141,610
Other Purposes	39,519	59,938	0	0	39,519	59,938
Unrestricted	(7,088,556)	(10,374,195)	8,471,611	11,613,217	1,383,055	1,239,022
<i>Total Net Position</i>	<u>\$15,353,698</u>	<u>\$9,747,975</u>	<u>\$34,208,179</u>	<u>\$33,597,950</u>	<u>\$49,561,877</u>	<u>\$43,345,925</u>

The net pension liability (NPL) is one of the largest single liabilities reported by the City at December 31, 2019, GASB notes that pension and OPEB obligations, whether funded or unfunded, are part of the “employment exchange” – that is, the employee is trading his or her labor in exchange for wages, benefits, and the promise of a future pension and other postemployment benefits. GASB noted that the unfunded portion of this pension promise is a present obligation of the government, part of a bargained-for benefit to the employee, and should accordingly be reported by the government as a liability since they received the benefit of the exchange; however, the City is not responsible for certain key factors affecting the balance of these liabilities. In Ohio, the employee contribution rates are capped by State statute. A change in these caps requires action of both Houses of the General Assembly and approval of the Governor. Benefit provisions are also determined by State statute. The Ohio Revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients. The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits.

Most long-term liabilities have set repayment schedules or, in the case of compensated absences (i.e. sick and vacation leave), are satisfied through paid time-off or termination payments. There is no repayment schedule for the net pension liability or the net OPEB liability. As explained above, changes in benefits, contribution rates, and return on investments affect the balance of these liabilities, but are outside the control of the local government. In the event that contributions, investment returns, and other changes are insufficient to keep up with required payments, State statute does not assign/identify the responsible party for the unfunded portion.

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*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2019*  
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Due to the unique nature of how the net pension liability and the net OPEB liability are satisfied, these liabilities are separately identified within the long-term liability section of the statement of net position.

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 increased over the prior year. The City had an increase in total assets this year which can be attributed to an increase in capital assets. Current governmental capital assets increased due to current year additions exceeding an additional year of depreciation on the City's capital assets. Total liabilities decreased this year due to a decrease in the net OPEB liability and the continued pay-down of outstanding debt issues, offset by an increase in the net pension liability. 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.

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 2019 and 2018.

(Table 2)  
*Changes in Net Position*

	Governmental Activities		Business-Type Activities		Totals	
	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
<b>Program Revenues</b>						
Charges for Services and Assessments	\$302,840	\$353,386	\$5,041,525	\$4,897,031	\$5,344,365	\$5,250,417
Operating Grants and Contributions	1,026,483	754,056	8,657	1,995	1,035,140	756,051
Capital Grants and Contributions	77,284	28,595	0	0	77,284	28,595
<i>Total Program Revenues</i>	<u>1,406,607</u>	<u>1,136,037</u>	<u>5,050,182</u>	<u>4,899,026</u>	<u>6,456,789</u>	<u>6,035,063</u>
<b>General Revenues</b>						
Property Taxes	1,114,673	1,099,125	0	0	1,114,673	1,099,125
Municipal Income Tax	6,693,235	6,733,297	0	0	6,693,235	6,733,297
Grants and Entitlements not Restricted to Specific Programs	307,267	239,220	0	0	307,267	239,220
Payments in Lieu of Taxes	144,121	129,492	0	0	144,121	129,492
Interest	328,069	221,009	87,051	40,882	415,120	261,891
Gain on Disposal of Capital Assets	8,567	6,465	0	0	8,567	6,465
Other	226,773	556,029	71,198	78,785	297,971	634,814
<i>Total General Revenues</i>	<u>8,822,705</u>	<u>8,984,637</u>	<u>158,249</u>	<u>119,667</u>	<u>8,980,954</u>	<u>9,104,304</u>

**City of Salem**  
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*Unaudited*

(Table 2)  
*Changes in Net Position (continued)*

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
<b>Program Expenses</b>						
General Government	\$1,517,877	\$1,502,563	\$0	\$0	\$1,517,877	\$1,502,563
Security of Persons and Property	881,993	5,282,299	0	0	881,993	5,282,299
Public Health Services	0	145,593	0	0	0	145,593
Transportation	1,280,502	820,567	0	0	1,280,502	820,567
Community Development	289,952	234,133	0	0	289,952	234,133
Leisure Time Activities	663,376	586,319	0	0	663,376	586,319
Interest and Fiscal Charges	91,143	108,314	0	0	91,143	108,314
Intergovernmental	61,515	0	0	0	61,515	0
Water	0	0	1,470,283	2,761,084	1,470,283	2,761,084
Wastewater	0	0	3,101,312	3,169,127	3,101,312	3,169,127
<i>Total Program Expenses</i>	<i>4,786,358</i>	<i>8,679,788</i>	<i>4,571,595</i>	<i>5,930,211</i>	<i>9,357,953</i>	<i>14,609,999</i>
Special Item - Gain on Transfer of Operations	136,162	0	0	0	136,162	0
Transfers	26,607	6,810	(26,607)	(6,810)	0	0
<i>Total Other Financing Sources (Uses)</i>	<i>162,769</i>	<i>6,810</i>	<i>(26,607)</i>	<i>(6,810)</i>	<i>136,162</i>	<i>0</i>
<i>Change in Net Position</i>	<i>5,605,723</i>	<i>1,447,696</i>	<i>610,229</i>	<i>(918,328)</i>	<i>6,215,952</i>	<i>529,368</i>
Net Position Beginning of Year	9,747,975	8,300,279	33,597,950	34,516,278	43,345,925	42,816,557
Net Position End of the Year	\$15,353,698	\$9,747,975	\$34,208,179	\$33,597,950	\$49,561,877	\$43,345,925

**Governmental Activities**

Funding for governmental activities is derived from several sources, the largest of which is the City's municipal income tax. The City's income tax rate is currently 1.25 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. The increase in governmental activities operating grants and contributions was due to more grant monies received in the current year. The decrease in municipal income tax can be attributed to a decrease in collections during 2019 due to timing of income tax collections. The decrease in other revenue can be attributed to less revenue from grindings from street construction and repair as the City used concrete for the 2019 street repairs as well as the expiration of the oil and gas lease payment the City received in the prior three years. The oil and gas lease covered a three year period that expired during 2018 and was not renewed, so 2018 was the final year the City recognized this revenue.

Governmental expenses decreased from 2018, mainly due to a decrease in security of persons and property slightly offset by an increase in transportation expenses. For 2019, OP&F recognized a change in benefit terms for their OPEB plan. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years. These changes contributed to OPEB expense decreasing from \$463,596 in 2018 to a negative OPEB expense of \$4,445,234 for 2019.

**City of Salem**  
*Management's Discussion and Analysis*  
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**Business-Type Activities**

The City operates two business-type activities, the water and wastewater treatment facilities. The largest sources of revenue for both water and wastewater treatment facilities in 2019 were charges for services. 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 with the balance sheet. The funds are accounted for using the modified accrual method of accounting.

As of the end of 2019, the City of Salem's governmental funds reported a positive combined ending fund balance. The City's major governmental funds are the general fund, the street improvement capital projects fund and the income tax capital improvement capital projects fund. Expenditures outpaced revenues for the year in the general fund. The increase in expenditures is due to wage increases during the year of 2.5 percent as well as continued increases for the cost of goods and services. The increase in the street improvement capital projects fund can be attributed to the decrease in debt service expenditures compared to the prior year. The decrease in the income tax capital improvement capital projects fund can be attributed to more expenditures for capital projects.

The proprietary funds are accounted for on an accrual basis.

Proprietary fund reporting focuses on the determination of operating income, changes in net position, financial position and cash flows. These funds had total operating revenue of \$5,121,380 and total operating expenses of \$4,480,540. If expenses were to exceed revenue and dramatically affect net position, the City has the power to increase revenue through rate increases. Proprietary expenses decreased from 2018, mainly due to decreases in materials and supplies and contractual service expenses due to completion of various capital projects.

**General Fund Budgeting Highlights**

Budgeting for the operations of the City is done as prescribed by the 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 2019, actual revenues for the general fund were more than final estimated revenues due in large part to more than anticipated property tax, intergovernmental and interest revenues than originally 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 2019, the City amended its general fund budget numerous times, in response to conservative revenue projections being surpassed.

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**Capital Assets and Debt Administration**

***Capital Assets***

Total capital assets for the governmental activities, net of accumulated depreciation increased. This increase can be attributed to current year additions to capital assets exceeding an additional year of depreciation being taken. The City purchased two new police cruisers, a truck for the street department, a vehicle for the park department, equipment for the park, police and fire departments and made improvements to bridges and streets.

Total capital assets for the business-type activities, net of accumulated depreciation increased due to the current year additions exceeding current year depreciation expense. Current year additions consisted of one vehicle, various water and sewer equipment and the completion of Ellsworth North water main, Franklin Avenue water main and sanitary sewer replacement, Cold Run Creek water well and phase two of the wastewater treatment plant. See Note 11 to the basic financial statements for additional information on capital assets.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	Restated 2018	2019	Restated 2018	2019	Restated 2018
Land	\$4,606,592	\$4,606,592	\$669,334	\$669,334	\$5,275,926	\$5,275,926
Construction in Progress	0	0	956,466	785,309	956,466	785,309
Buildings	727,394	770,891	8,884,872	9,369,018	9,612,266	10,139,909
Improvements Other than Buildings	11,265	11,993	13,642	2,946	24,907	14,939
Land Improvements	315,876	326,384	0	0	315,876	326,384
Machinery and Equipment	1,528,534	1,447,777	999,161	744,352	2,527,695	2,192,129
Infrastructure	15,800,594	13,878,845	16,977,148	13,532,025	32,777,742	27,410,870
Total Capital Assets	\$22,990,255	\$21,042,482	\$28,500,623	\$25,102,984	\$51,490,878	\$46,145,466

**Long-term Obligations**

The long-term obligations include general obligation bonds, OPWC loans, infrastructure improvement notes, compensated absences, net pension and OPEB liability.

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

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation Bonds	\$1,066,387	\$1,269,564	\$2,400,000	\$2,700,000	\$3,466,387	\$3,969,564
OPWC Loans	275,867	288,406	364,055	418,251	639,922	706,657
Infrastructure Improvement Note	2,000,000	2,000,000	0	0	2,000,000	2,000,000
Compensated Absences	424,386	397,361	124,627	134,105	549,013	531,466
Net Pension Liability	11,224,469	7,951,654	2,577,406	1,449,991	13,801,875	9,401,645
Net OPEB Liability	2,371,548	6,890,353	1,216,785	984,761	3,588,333	7,875,114
Total	\$17,362,657	\$18,797,338	\$6,682,873	\$5,687,108	\$24,045,530	\$24,484,446

**City of Salem**  
*Management's Discussion and Analysis*  
*For the Year Ended December 31, 2019*  
*Unaudited*

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The general obligation bonds outstanding were issued for various capital improvements including the street improvements in the area north and south of East State 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 infrastructure improvement note is being paid with monies from the street improvement capital projects fund.

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

The City of Salem's overall legal debt margin was \$21,454,967 on December 31, 2019. For more information about the City's long-term obligations, see Note 15 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 2019. But with the continuing decreasing revenues from Federal and State sources, holding expenses down is a constant challenge.

With House Bill 5 in full affect beginning January 1, 2016, it is crucial that we use our money wisely. It is important that our taxpayers are confident that their City is using their tax dollars as wisely and efficiently as possible. Our goal is to be constantly looking at each department, 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.

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**City of Salem, Ohio**  
*Statement of Net Position*  
*December 31, 2019*

	Governmental Activities	Business-Type Activities (1)	Total	Component Unit
<b>Assets</b>				
Equity in Pooled Cash and Cash Equivalents	\$3,978,009	\$11,144,675	\$15,122,684	\$41,608
Accrued Interest Receivable	56,644	0	56,644	0
Accounts Receivable	26,015	572,084	598,099	0
Intergovernmental Receivable	570,506	0	570,506	61,515
Internal Balances	(79,703)	79,703	0	0
Property Taxes Receivable	1,134,329	0	1,134,329	0
Income Taxes Receivable	1,779,104	0	1,779,104	0
Special Assessments Receivable	0	192,415	192,415	0
Materials and Supplies Inventory	158,572	396,959	555,531	15,022
Prepaid Items	71,638	37,065	108,703	825
Payments in Lieu of Taxes Receivable	144,121	0	144,121	0
Net Pension Asset	20,457	16,983	37,440	1,158
Nondepreciable Capital Assets	4,606,592	1,625,800	6,232,392	0
Depreciable Capital Assets, Net	18,383,663	26,874,823	45,258,486	1,139
<i>Total Assets</i>	<u>30,849,947</u>	<u>40,940,507</u>	<u>71,790,454</u>	<u>121,267</u>
<b>Deferred Outflows of Resources</b>				
Deferred Charge on Refunding	5,616	0	5,616	0
Pension	3,166,707	799,209	3,965,916	54,493
OPEB	744,057	120,643	864,700	8,227
<i>Total Deferred Outflows of Resources</i>	<u>3,916,380</u>	<u>919,852</u>	<u>4,836,232</u>	<u>62,720</u>
<b>Liabilities</b>				
Accounts Payable	67,737	848,910	916,647	1,519
Accrued Wages	134,096	38,592	172,688	1,989
Intergovernmental Payable	88,314	15,251	103,565	9,505
Accrued Interest Payable	35,720	19,333	55,053	0
Deposits Held and Due to Others	48,746	0	48,746	0
Long-Term Liabilities:				
Due Within One Year	345,871	354,960	700,831	0
Due In More Than One Year				
Net Pension Liability (See Note 17)	11,224,469	2,577,406	13,801,875	175,733
Net OPEB Liability (See Note 18)	2,371,548	1,216,785	3,588,333	82,963
Other Amounts Due in More than One Year	3,420,769	2,533,722	5,954,491	2,873
<i>Total Liabilities</i>	<u>17,737,270</u>	<u>7,604,959</u>	<u>25,342,229</u>	<u>274,582</u>
<b>Deferred Inflows of Resources</b>				
Property Taxes	1,092,527	0	1,092,527	0
Payments in Lieu of Taxes	144,121	0	144,121	0
Pension	159,300	43,919	203,219	2,994
OPEB	279,411	3,302	282,713	225
<i>Total Deferred Inflows of Resources</i>	<u>1,675,359</u>	<u>47,221</u>	<u>1,722,580</u>	<u>3,219</u>
<b>Net Position</b>				
Net Investment in Capital Assets	19,653,617	25,736,568	45,390,185	1,139
Restricted for:				
Capital Projects	1,672,397	0	1,672,397	0
Streets	540,468	0	540,468	0
Parks	338,059	0	338,059	0
Law Enforcement	21,889	0	21,889	0
Community Environment	176,305	0	176,305	0
Other Purposes	39,519	0	39,519	0
Unrestricted (Deficit)	(7,088,556)	8,471,611	1,383,055	(94,953)
<i>Total Net Position</i>	<u>\$15,353,698</u>	<u>\$34,208,179</u>	<u>\$49,561,877</u>	<u>(\$93,814)</u>

1) After internal Deferred Outflows and Inflows have been eliminated

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Activities*  
For the Year Ended December 31, 2019

	Program Revenues			
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
General Government	\$1,517,877	\$50,573	\$4,983	\$0
Security of Persons and Property	881,993	152,082	37,079	0
Transportation	1,280,502	1,069	821,551	77,284
Community Development	289,952	68,198	138,430	0
Leisure Time Activities	663,376	30,918	24,440	0
Interest and Fiscal Charges	91,143	0	0	0
Intergovernmental	61,515			
<i>Total Governmental Activities</i>	<u>4,786,358</u>	<u>302,840</u>	<u>1,026,483</u>	<u>77,284</u>
<b>Business-Type Activities:</b>				
Water	1,470,283	2,498,682	8,657	0
Wastewater	3,101,312	2,542,843	0	0
<i>Total Business-Type Activities</i>	<u>4,571,595</u>	<u>5,041,525</u>	<u>8,657</u>	<u>0</u>
<i>Total- Primary Government</i>	<u>\$9,357,953</u>	<u>\$5,344,365</u>	<u>\$1,035,140</u>	<u>\$77,284</u>
<b>Component Unit</b>				
City of Salem Board of Health	<u>\$194,436</u>	<u>\$105,226</u>	<u>\$131,274</u>	<u>\$0</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

Payments in Lieu of Taxes

Interest

Gain on Disposal of Capital Assets

Other

*Total General Revenues*

Special Item - Gain on Transfer of Operations  
Transfers

*Total General Revenues, Special Items and Transfers*

Change in Net Position

*Net Position Beginning of Year (Restated See Note 20)*

*Net Position End of Year*

See accompanying notes to the basic financial statements

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	City of Salem Board of Health
(\$1,462,321)	\$0	(\$1,462,321)	\$0
(692,832)	0	(692,832)	0
(380,598)	0	(380,598)	0
(83,324)	0	(83,324)	0
(608,018)	0	(608,018)	0
(91,143)	0	(91,143)	0
(61,515)		(61,515)	0
(3,379,751)	0	(3,379,751)	0
0	1,037,056	1,037,056	0
0	(558,469)	(558,469)	0
0	478,587	478,587	0
(3,379,751)	478,587	(2,901,164)	0
0	0	0	42,064
580,299	0	580,299	0
417,325	0	417,325	0
58,524	0	58,524	0
58,525	0	58,525	0
4,482,941	0	4,482,941	0
177,000	0	177,000	0
2,033,294	0	2,033,294	0
307,267	0	307,267	0
144,121	0	144,121	0
328,069	87,051	415,120	0
8,567	0	8,567	0
226,773	71,198	297,971	284
8,822,705	158,249	8,980,954	284
136,162	0	136,162	0
26,607	(26,607)	0	0
8,985,474	131,642	9,117,116	284
5,605,723	610,229	6,215,952	42,348
9,747,975	33,597,950	43,345,925	(136,162)
\$15,353,698	\$34,208,179	\$49,561,877	(\$93,814)

**City of Salem, Ohio**

*Balance Sheet*

*Governmental Funds*

*December 31, 2019*

	<u>General</u>	<u>Street Improvement</u>	<u>Income Tax Capital Improvement</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets</b>					
Equity in Pooled Cash and Cash Equivalents	\$1,586,771	\$759,389	\$593,250	\$979,722	\$3,919,132
Receivables:					
Property Taxes	591,254	0	0	543,075	1,134,329
Income Taxes	1,459,737	319,367	0	0	1,779,104
Accounts	23,590	0	391	2,034	26,015
Intergovernmental	120,890	0	0	449,616	570,506
Accrued Interest	56,644	0	0	0	56,644
Interfund Receivable	10,000	0	0	0	10,000
Materials and Supplies Inventory	85,473	0	0	73,099	158,572
Prepaid Items	65,756	0	0	5,882	71,638
Payments in Lieu of Taxes Receivable	0	0	0	144,121	144,121
Restricted Assets:					
Equity in Pooled Cash and Cash Equivalents	58,877	0	0	0	58,877
<b>Total Assets</b>	<u>\$4,058,992</u>	<u>\$1,078,756</u>	<u>\$593,641</u>	<u>\$2,197,549</u>	<u>\$7,928,938</u>
<b>Liabilities</b>					
Accounts Payable	\$32,102	\$0	\$0	\$35,635	\$67,737
Accrued Wages	115,108	0	0	18,988	134,096
Intergovernmental Payable	18,849	0	0	69,465	88,314
Interfund Payable	0	0	0	89,703	89,703
Deposits Held and Due to Others	48,746	0	0	0	48,746
<b>Total Liabilities</b>	<u>214,805</u>	<u>0</u>	<u>0</u>	<u>213,791</u>	<u>428,596</u>
<b>Deferred Inflows of Resources</b>					
Property Taxes	568,675	0	0	523,852	1,092,527
Payments in Lieu of Taxes	0	0	0	144,121	144,121
Unavailable Revenue	1,027,223	184,568	0	323,913	1,535,704
<b>Total Deferred Inflows of Resources</b>	<u>1,595,898</u>	<u>184,568</u>	<u>0</u>	<u>991,886</u>	<u>2,772,352</u>
<b>Fund Balances</b>					
Nonspendable	161,360	0	0	78,981	240,341
Restricted	0	894,188	593,641	867,179	2,355,008
Committed	738	0	0	62,531	63,269
Assigned	445,579	0	0	0	445,579
Unassigned (Deficit)	1,640,612	0	0	(16,819)	1,623,793
<b>Total Fund Balances</b>	<u>2,248,289</u>	<u>894,188</u>	<u>593,641</u>	<u>991,872</u>	<u>4,727,990</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$4,058,992</u>	<u>\$1,078,756</u>	<u>\$593,641</u>	<u>\$2,197,549</u>	<u>\$7,928,938</u>

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, 2019*

<b>Total Governmental Fund Balances</b>	<b>\$4,727,990</b>
 <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.	22,990,255
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	41,802
Income Taxes	1,105,110
Intergovernmental	<u>388,792</u>
Total	1,535,704
The net pension asset, net pension liability and net OPEB liability are not due and payable in the current period; therefore; the asset, liability and related deferred inflows/outflows are not reported in governmental funds:	
Net Pension Asset	20,457
Deferred Outflows - Pension	3,166,707
Deferred Inflows - Pension	(159,300)
Net Pension Liability	(11,224,469)
Deferred Outflows - OPEB	744,057
Deferred Inflows - OPEB	(279,411)
Net OPEB Liability	<u>(2,371,548)</u>
Total	(10,103,507)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(35,720)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(1,066,387)
OPWC Loans Payable	(275,867)
Compensated Absences	(424,386)
Notes Payable	(2,000,000)
Deferred Charge on Refunding	<u>5,616</u>
Total	<u>(3,761,024)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$15,353,698</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, 2019*

	General	Street Improvement	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Property Taxes	\$579,648	\$0	\$0	\$534,898	\$1,114,546
Municipal Income Taxes	4,493,525	1,335,003	695,568	177,000	6,701,096
Charges for Services	55,451	0	0	20,243	75,694
Fees, Licenses and Permits	129,217	0	0	68,230	197,447
Fines and Forfeitures	16,391	0	0	3,943	20,334
Intergovernmental	287,896	0	0	914,177	1,202,073
Interest	314,143	13,926	0	0	328,069
Rentals	1,920	0	0	0	1,920
Contributions and Donations	20,000	0	0	0	20,000
Special Assessments	0	0	0	7,445	7,445
Payments in Lieu of Taxes	0	0	0	144,121	144,121
Other	40,313	0	21,998	164,462	226,773
<i>Total Revenues</i>	<u>5,938,504</u>	<u>1,348,929</u>	<u>717,566</u>	<u>2,034,519</u>	<u>10,039,518</u>
<b>Expenditures</b>					
Current:					
General Government	1,301,421	0	0	8,612	1,310,033
Security of Persons and Property	3,759,758	0	0	556,007	4,315,765
Transportation	32,120	0	0	777,178	809,298
Community Development	112,795	0	0	129,816	242,611
Leisure Time Activities	0	0	0	536,232	536,232
Intergovernmental	61,515	0	0	0	61,515
Capital Outlay	0	470,078	2,011,304	0	2,481,382
Debt Service:					
Principal Retirement	0	2,000,000	0	215,716	2,215,716
Interest and Fiscal Charges	0	58,219	0	32,446	90,665
<i>Total Expenditures</i>	<u>5,267,609</u>	<u>2,528,297</u>	<u>2,011,304</u>	<u>2,256,007</u>	<u>12,063,217</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>670,895</u>	<u>(1,179,368)</u>	<u>(1,293,738)</u>	<u>(221,488)</u>	<u>(2,023,699)</u>
<b>Other Financing Sources (Uses)</b>					
Sale of Capital Assets	0	0	4,866	3,701	8,567
General Obligation Notes Issued	0	2,000,000	0	0	2,000,000
Transfers In	26,607	0	384,073	548,975	959,655
Transfers Out	(801,099)	0	0	(131,949)	(933,048)
<i>Total Other Financing Sources (Uses)</i>	<u>(774,492)</u>	<u>2,000,000</u>	<u>388,939</u>	<u>420,727</u>	<u>2,035,174</u>
<i>Special Item - Loss on Transfer of Operation</i>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(26,883)</u>	<u>(26,883)</u>
<i>Net Change in Fund Balances</i>	<u>(103,597)</u>	<u>820,632</u>	<u>(904,799)</u>	<u>172,356</u>	<u>(15,408)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,351,886</u>	<u>73,556</u>	<u>1,498,440</u>	<u>819,516</u>	<u>4,743,398</u>
<i>Fund Balances End of Year</i>	<u>\$2,248,289</u>	<u>\$894,188</u>	<u>\$593,641</u>	<u>\$991,872</u>	<u>\$4,727,990</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, 2019*

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**Net Change in Fund Balances - Total Governmental Funds** (\$15,408)

*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 capital outlay exceeded depreciation in the current period:

Capital Asset Additions		
Capital Outlays	2,763,625	
Capital Contributions	77,284	
Current Year Depreciation	<u>(891,743)</u>	
Total		1,949,166

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

Delinquent Property Taxes	127	
Income Taxes	(7,861)	
Intergovernmental	<u>111,677</u>	
Total		103,943

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. 2,215,716

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	499	
Amortization of Loss on Refunding	<u>(977)</u>	
Total		(478)

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. (29,152)

Contractually required contributions are reported as expenditures in governmental funds: however, the statement of net position reports these amounts as deferred outflows:

Pension	718,038	
OPEB	<u>12,984</u>	
Total		731,022

Except for amounts reported as deferred inflows/outflows, changes in the net pension liability are reported as pension expense in the statement of activities:

Pension	(1,806,929)	
OPEB	<u>4,294,798</u>	
Total		2,487,869

Transfer of operation to the City of Salem Board of Health. 163,045

Other financing sources, such as general obligation notes issued in the governmental funds increase long-term liabilities in the statement of net position. (2,000,000)

*Change in Net Position of Governmental Activities* \$5,605,723

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, 2019*

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget Positive (Negative)
<b>Revenues</b>				
Property Taxes	\$570,000	\$570,000	\$579,648	\$9,648
Municipal Income Taxes	4,501,327	4,551,327	4,481,933	(69,394)
Charges for Services	59,466	59,466	59,477	11
Fees, Licenses and Permits	130,800	130,800	129,217	(1,583)
Fines and Forfeitures	20,000	20,000	17,659	(2,341)
Intergovernmental	192,400	192,400	278,075	85,675
Interest	195,000	195,000	247,721	52,721
Rentals	1,920	1,920	1,920	0
Contributions and Donations	20,000	20,000	20,000	0
Special Assessments	200	200	0	(200)
Other	55,190	55,190	23,397	(31,793)
<i>Total Revenues</i>	<u>5,746,303</u>	<u>5,796,303</u>	<u>5,839,047</u>	<u>42,744</u>
<b>Expenditures</b>				
Current:				
General Government	1,502,224	1,555,811	1,298,987	256,824
Security of Persons and Property	3,950,359	3,995,364	3,786,839	208,525
Transportation	28,500	28,500	27,448	1,052
Community Development	150,295	137,605	123,942	13,663
Intergovernmental	61,515	61,515	61,515	0
<i>Total Expenditures</i>	<u>5,692,893</u>	<u>5,778,795</u>	<u>5,298,731</u>	<u>480,064</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>53,410</u>	<u>17,508</u>	<u>540,316</u>	<u>522,808</u>
<b>Other Financing Sources (Uses)</b>				
Advances Out	(7,116)	(10,000)	(10,000)	0
Transfers In	134,573	164,573	26,607	(137,966)
Transfers Out	(637,689)	(921,100)	(801,099)	120,001
<i>Total Other Financing Sources (Uses)</i>	<u>(510,232)</u>	<u>(766,527)</u>	<u>(784,492)</u>	<u>(17,965)</u>
<i>Net Change in Fund Balance</i>	(456,822)	(749,019)	(244,176)	504,843
<i>Fund Balance Beginning of Year</i>	1,822,566	1,822,566	1,822,566	0
Prior Year Encumbrances Appropriated	14,994	14,994	14,994	0
<i>Fund Balance End of Year</i>	<u>\$1,380,738</u>	<u>\$1,088,541</u>	<u>\$1,593,384</u>	<u>\$504,843</u>

See accompanying notes to the basic financial statements



**City of Salem, Ohio**  
*Statement of Fund Net Position*  
*Proprietary Funds*  
*December 31, 2019*

	Enterprise		
	Water	Wastewater	Total
<b>Assets</b>			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$1,826,352	\$9,318,323	\$11,144,675
Accounts Receivable	296,346	275,738	572,084
Special Assessments Receivable	0	192,415	192,415
Materials and Supplies Inventory	378,748	18,211	396,959
Prepaid Items	18,277	18,788	37,065
Interfund Receivable	0	979,703	979,703
<i>Total Current Assets</i>	<u>2,519,723</u>	<u>10,803,178</u>	<u>13,322,901</u>
<i>Noncurrent Assets:</i>			
Net Pension Asset	7,719	9,264	16,983
Nondepreciable Capital Assets	522,633	1,103,167	1,625,800
Depreciable Capital Assets, Net	<u>11,555,017</u>	<u>15,319,806</u>	<u>26,874,823</u>
<i>Total Noncurrent Assets</i>	<u>12,085,369</u>	<u>16,432,237</u>	<u>28,517,606</u>
<i>Total Assets</i>	<u>14,605,092</u>	<u>27,235,415</u>	<u>41,840,507</u>
<b>Deferred Outflows of Resources</b>			
Pension	363,277	435,932	799,209
OPEB	<u>54,838</u>	<u>65,805</u>	<u>120,643</u>
<i>Total Deferred Outflows of Resources</i>	<u>418,115</u>	<u>501,737</u>	<u>919,852</u>
<b>Liabilities</b>			
<i>Current Liabilities:</i>			
Accounts Payable	15,082	833,828	848,910
Accrued Wages	18,922	19,670	38,592
Intergovernmental Payable	10,887	4,364	15,251
Interfund Payable	900,000	0	900,000
Accrued Interest Payable	0	19,333	19,333
OPWC Loans Payable	43,946	0	43,946
Compensated Absences Payable	4,809	6,205	11,014
General Obligation Bonds Payable	0	300,000	300,000
<i>Total Current Liabilities</i>	<u>993,646</u>	<u>1,183,400</u>	<u>2,177,046</u>
<i>Long-Term Liabilities (net of current portion):</i>			
OPWC Loans Payable	320,109	0	320,109
Compensated Absences Payable	55,098	58,515	113,613
General Obligation Bonds Payable	0	2,100,000	2,100,000
Net Pension Liability	1,171,549	1,405,857	2,577,406
Net OPEB Liability	<u>553,084</u>	<u>663,701</u>	<u>1,216,785</u>
<i>Total Long-Term Liabilities</i>	<u>2,099,840</u>	<u>4,228,073</u>	<u>6,327,913</u>
<i>Total Liabilities</i>	<u>3,093,486</u>	<u>5,411,473</u>	<u>8,504,959</u>
<b>Deferred Inflows of Resources</b>			
Pension	20,711	23,208	43,919
OPEB	<u>1,501</u>	<u>1,801</u>	<u>3,302</u>
<i>Total Deferred Inflows of Resources</i>	<u>22,212</u>	<u>25,009</u>	<u>47,221</u>
<b>Net Position</b>			
Net Investment in Capital Assets	11,713,595	14,022,973	25,736,568
Unrestricted	<u>193,914</u>	<u>8,277,697</u>	<u>8,471,611</u>
<i>Total Net Position</i>	<u>\$11,907,509</u>	<u>\$22,300,670</u>	<u>\$34,208,179</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, 2019*

	Enterprise		
	Water	Wastewater	Total
<b>Operating Revenues</b>			
Charges for Services	\$2,498,682	\$2,542,843	\$5,041,525
Intergovernmental	8,657	0	8,657
Other	38,506	32,692	71,198
<i>Total Operating Revenues</i>	<u>2,545,845</u>	<u>2,575,535</u>	<u>5,121,380</u>
<b>Operating Expenses</b>			
Personal Services	961,177	1,176,833	2,138,010
Materials and Supplies	14,926	358,609	373,535
Contractual Services	4,386	954,876	959,262
Depreciation	470,460	539,123	1,009,583
Other	0	150	150
<i>Total Operating Expenses</i>	<u>1,450,949</u>	<u>3,029,591</u>	<u>4,480,540</u>
<i>Operating Income (Loss)</i>	<u>1,094,896</u>	<u>(454,056)</u>	<u>640,840</u>
<b>Non-Operating Revenue (Expenses)</b>			
Interest	3,421	83,630	87,051
Interest and Fiscal Charges	(5,000)	(71,721)	(76,721)
Loss on Disposal of Capital Assets	(14,334)	0	(14,334)
<i>Total Non-Operating Revenue (Expenses)</i>	<u>(15,913)</u>	<u>11,909</u>	<u>(4,004)</u>
<i>Income (Loss) before Transfers</i>	1,078,983	(442,147)	636,836
Transfers Out	(7,658)	(18,949)	(26,607)
<i>Change in Net Position</i>	1,071,325	(461,096)	610,229
<i>Net Position Beginning of Year Year (Restated See Note 20)</i>	<u>10,836,184</u>	<u>22,761,766</u>	<u>33,597,950</u>
<i>Net Position End of Year</i>	<u>\$11,907,509</u>	<u>\$22,300,670</u>	<u>\$34,208,179</u>

See accompanying notes to the basic financial statements

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**City of Salem, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds*  
For the Year Ended December 31, 2019

	Enterprise		
	Water	Wastewater	Total
<b><i>Increase in Cash and Cash Equivalents</i></b>			
<b>Cash Flows from Operating Activities</b>			
Cash Received from Customers	\$2,526,168	\$2,546,589	\$5,072,757
Intergovernmental Cash Receipts	8,965	359	9,324
Other Cash Receipts	38,506	32,692	71,198
Cash Payments to Employees for Services	(730,470)	(894,917)	(1,625,387)
Cash Payments for Goods and Services	(66,416)	(540,746)	(607,162)
Other Cash Payments	0	(150)	(150)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>1,776,753</u>	<u>1,143,827</u>	<u>2,920,580</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Advances In	0	213,000	213,000
Advances Out	(200,000)	0	(200,000)
Transfers Out	(7,658)	(18,949)	(26,607)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(207,658)</u>	<u>194,051</u>	<u>(13,607)</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Principal Paid on Revenue Bonds	0	(300,000)	(300,000)
Interest Paid on Revenue Bonds	0	(74,018)	(74,018)
Interest Paid on Interfund Loans	(5,000)	0	(5,000)
Payments for Capital Acquisitions	(1,532,033)	(2,889,523)	(4,421,556)
Principal Paid on OWPC Loans	(54,196)	0	(54,196)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(1,591,229)</u>	<u>(3,263,541)</u>	<u>(4,854,770)</u>
<b>Cash Flows from Investing Activities</b>			
Interest on Investments	3,421	83,630	87,051
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	(18,713)	(1,842,033)	(1,860,746)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>1,845,065</u>	<u>11,160,356</u>	<u>13,005,421</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$1,826,352</u>	<u>\$9,318,323</u>	<u>\$11,144,675</u>

(continued)

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Cash Flows*  
*Proprietary Funds (continued)*  
For the Year Ended December 31, 2019

	Enterprise		
	Water	Sewer	Total
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities</b>			
Operating Income (Loss)	\$1,094,896	(\$454,056)	\$640,840
Adjustments:			
Depreciation	470,460	539,123	1,009,583
(Increase) Decrease in Assets:			
Accounts Receivable	27,486	(24,977)	2,509
Special Assessments Receivable	0	28,723	28,723
Intergovernmental Receivable	308	359	667
Materials and Supplies Inventory	1,612	(3,458)	(1,846)
Prepaid Items	362	721	1,083
Net Pension Asset	(2,318)	(2,783)	(5,101)
(Increase) Decrease in Deferred Outflows - Pension	270,511	323,769	594,280
(Increase) Decrease in Deferred Outflows - OPEB	35,364	42,437	77,801
Increase (Decrease) in Liabilities:			
Accounts Payable	(48,258)	776,185	727,927
Accrued Wages	1,293	(762)	531
Compensated Absences Payable	515	(9,993)	(9,478)
Intergovernmental Payable	(1,424)	(1,251)	(2,675)
Net Pension Liability	(1,270)	(1,526)	(2,796)
Net OPEB Liability	30,297	36,356	66,653
Increase (Decrease) in Deferred Inflows - Pension	(93,763)	(93,858)	(187,621)
Increase (Decrease) in Deferred Inflows - OPEB	(9,318)	(11,182)	(20,500)
<i>Total Adjustments</i>	<u>681,857</u>	<u>1,597,883</u>	<u>2,279,740</u>
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u><u>\$1,776,753</u></u>	<u><u>\$1,143,827</u></u>	<u><u>\$2,920,580</u></u>

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Fiduciary Net Position*  
*Custodial Funds*  
*December 31, 2019*

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<b>Assets</b>	
Equity in Pooled Cash and Cash Equivalents	\$2,166
<b>Liabilities</b>	<u>0</u>
<b>Net Position</b>	
Restricted for:	
Individuals and Other Governments	<u><u>\$2,166</u></u>

See accompanying notes to the basic financial statements

**City of Salem, Ohio**  
*Statement of Changes in Fiduciary Net Position*  
*Custodial Funds*  
*For the Year Ended December 31, 2019*

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<b>Additions</b>	
Fines and Forfeitures for Other Governments	\$2,166
<b>Deductions</b>	<u>0</u>
<i>Net Increase (Decrease) in Fiduciary Net Position</i>	2,166
<i>Net Position Beginning of Year</i>	<u>0</u>
<i>Net Position End of Year</i>	<u><u>2,166</u></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, 2019*

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**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 8 Council members, 3 at-large, one for each of the 4 wards and a President of Council, all elected for four 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, Boards, boards and agencies that are not legally separate from the City. For the City of Salem, this includes the agencies and Boards 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 and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

Discretely Presented Component Units – The component unit columns in the financial statements identifies the financial data of the City’s component unit, the City of Salem Board of Health. It is reported separately to emphasize that it is legally separate from the City. Information for the component unit is presented in Note 23.

***City of Salem Board of Health*** – The City of Salem Board of Health (the Board) is a legally separate organization. Among its various duties, the Board provides for the prompt diagnosis and control of communicable diseases. The Board may also inspect businesses where food is manufactured, handled, stored, or offered for sale. The Board is operated by a board with all members being appointed by the City. The rates charged by the Board are subject to the approval of City Council. In addition, the City provides funding to the Board, thus the City can impose will on the Board, and the Board imposes a financial burden to the City. Therefore, the Board is considered a discretely presented component unit of the City of Salem. Separately issued financial statements can be obtained from The City of Salem Board of Health at Kent State City Center, 230 North Lincoln Avenue, Salem, Ohio 44460.

The City participates in the Public Entities Pool of Ohio a Public Entity Risk Pool. This organization is presented in Note 12 to the basic financial statements.

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



**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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**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.

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:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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**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.

**Street Improvement Fund** – The street improvement capital project fund accounts for and reports income tax receipts that are restricted for major street capital projects undertaken by the City.

**Income Tax Improvement 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.

**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 (and other employee benefit) trust funds, investment trust funds, private purpose trust funds, and custodial funds. Trust funds are distinguished from custodial funds by the existence of a trust agreement or equivalent arrangement that has certain characteristics. The City does not have any trust funds. Custodial funds are used to report fiduciary activities that are not required to be reported in a trust fund.

The City's fiduciary funds are custodial funds. The City's Custodial fund collects and distributes cash and financial assets seized through the police department.

### ***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.,

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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 and fiduciary 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. In fiduciary funds, a liability to the beneficiaries of fiduciary activity is recognized when an event has occurred that compels the government to disburse fiduciary resources. Fiduciary fund liabilities other than those to beneficiaries are recognized using the economic resources measurement focus.

For proprietary funds, the statement of changes in fund net position presents increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The statement of cash flows provides information about how the City finances and meets the cash flow needs of its proprietary activities.

Fiduciary funds present a statement of changes in fiduciary net position which reports additions to and deductions from custodial funds.

***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 statements presented for 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, in the recording of deferred outflows/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 7). 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.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position 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. For the City, deferred outflows of resources are reported on the government-wide statement of net position for deferred charges on refunding, pension and OPEB. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pension and OPEB are explained in Notes 17 and 18.

In addition to liabilities, the statements of financial position 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, payments in lieu of taxes, pension, OPEB and unavailable revenue. Property taxes and payment in lieu of taxes represent amounts for which there is an enforceable legal claim as of December 31, 2019, but which were levied to finance fiscal year 2020 operations. These amounts have been recorded as a deferred inflow on both the government-wide statement of net position and the governmental 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, income taxes and intergovernmental grants. These amounts are deferred and recognized as an inflow of resources in the period the amounts become available. The details of these unavailable revenues are identified on the reconciliation of total governmental fund balance to net position of governmental activities found on page 17. Deferred inflows of resources related to pension and OPEB plans are reported on the government-wide statement of net position. (See Notes 17 and 18).

***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 2019, investments were limited to negotiable certificates of deposits. 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 2019 amount to \$314,143, of which \$268,964 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.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond December 31, 2019, 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.

***Special Item***

A special item has been recorded for the transfer of operations from the City of Salem Board of Health.

***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.

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 acquisition 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 are not.

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:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
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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.

***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 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. Bonds and long-term loans are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liability should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plan's fiduciary net position is not sufficient for payment of those benefits.

***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB asset and liability, deferred outflows of resources, and deferred inflows of resources related to pensions/OPEB plans, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plan. For this

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.

***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 mandates 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 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. City Council assigned fund balance to cover a gap between estimated revenue and appropriations in 2020’s budget and for the Shade Tree program.

***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.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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 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. Under Ohio law, premiums on the original issuance of debt are to be deposited to the bond retirement fund to be used for debt retirement and are precluded from being applied to the project fund.

***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 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.

***Interfund Balances***

On the fund financial statements, outstanding interfund loans and unpaid amounts for interfund services are reported as "interfund receivables/payables". Interfund loans which do not represent available expendable



**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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resources are classified as nonspendable fund balance. Interfund balance 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.

***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 custodial funds, are legally required to be budgeted and appropriated. For reporting purposes, various custodial funds, utilized for internal control purposes, have been combined with the general fund and park special revenue fund. These custodial funds are not required to be budgeted and appropriated and therefore are not included in the Accountability and Compliance note (Note 3). 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 - Accountability**

Fund balances at December 31, 2019, included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Fire Pension	\$768
<i>Debt Service Fund</i>	
Tax Increment Financing Bond Retirement	16,051

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

**City of Salem, Ohio**  
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For The Year Ended December 31, 2019

The tax increment financing bond retirement debt service fund deficit is the result of manuscript debt between the tax increment financing bond retirement debt service fund and the wastewater enterprise fund. Once the City has paid down the debt, the deficit will be eliminated.

**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:

Fund Balances	General	Street Improvement	Income Tax Capital	Other Governmental Funds	Total
<b><i>Nonspendable</i></b>					
Prepays	\$65,756	\$0	\$0	\$5,882	\$71,638
Inventory	85,473	0	0	73,099	158,572
Unclaimed Monies	10,131	0	0	0	10,131
<b><i>Total Nonspendable</i></b>	<b>161,360</b>	<b>0</b>	<b>0</b>	<b>78,981</b>	<b>240,341</b>
<b><i>Restricted for</i></b>					
Park Operations	0	0	0	321,793	321,793
Public Safety	0	0	0	117,431	117,431
Community Development	0	0	0	197,997	197,997
Street Maintenance	0	894,188	0	211,032	1,105,220
Capital Improvements	0	0	593,641	0	593,641
Debt Service Payments	0	0	0	18,926	18,926
<b><i>Total Restricted</i></b>	<b>0</b>	<b>894,188</b>	<b>593,641</b>	<b>867,179</b>	<b>2,355,008</b>
<b><i>Committed to</i></b>					
Municipal Events	0	0	0	13,529	13,529
Storm Water Study	0	0	0	44,567	44,567
Capital Improvements	0	0	0	4,435	4,435
Accrued Personal Benefits	738	0	0	0	738
<b><i>Total Committed</i></b>	<b>738</b>	<b>0</b>	<b>0</b>	<b>62,531</b>	<b>63,269</b>
<b><i>Assigned to</i></b>					
Shade Tree Program	624	0	0	0	624
2019 Appropriations	430,142	0	0	0	430,142
Purchases on Order:					
Materials and Supplies	10,869	0	0	0	10,869
Purchased Services	3,944	0	0	0	3,944
<b><i>Total Assigned</i></b>	<b>445,579</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>445,579</b>
<b><i>Unassigned (Deficit)</i></b>	<b>1,640,612</b>	<b>0</b>	<b>0</b>	<b>(16,819)</b>	<b>1,623,793</b>
<b><i>Total Fund Balances</i></b>	<b>\$2,248,289</b>	<b>\$894,188</b>	<b>\$593,641</b>	<b>\$991,872</b>	<b>\$4,727,990</b>

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

**Note 5 - 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. 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:

Net Change in Fund Balances	
	General
GAAP Basis	(\$103,597)
Net Adjustment for Revenue Accruals	(24,288)
Beginning GASB 31 Adjustment	(46,625)
Ending GASB 31 Adjustment	(6,587)
Beginning Unrecorded Cash	3,334
Ending Unrecorded Cash	(25,291)
Net Adjustment for Expenditures Accruals	(16,360)
Encumbrances	(24,762)
Budget Basis	(\$244,176)

**Note 6 - 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.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, or by the financial institutions participation in the Ohio Pooled Collateral System (OPCS), a collateral pool of eligible securities deposited with a qualified trustee and pledged to the Treasurer of State to secure the repayment of all public monies deposited in the financial institution.

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 and Government National Mortgage Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. No-load money market mutual funds consisting exclusively of obligations described in (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
4. Time certificates of deposit or savings or deposit accounts including, but not limited to, passbook accounts;
5. Bonds and other obligations of the State of Ohio, and, with certain limitations including a requirement for maturity within ten years from the date of settlement, bonds and other obligations of political subdivisions of the State of Ohio, if training requirements have been met;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain bankers' acceptances (for a period not to exceed one hundred eighty days) and commercial paper notes (for a period not to exceed two hundred seventy days) in an amount not to exceed 40 percent of the interim monies available for investment at any one time if training requirements have been met; and
8. Written repurchase agreements in the securities described in (1) or (2) provided that the market value of the securities subject to the repurchase agreement must exceed 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.

**City of Salem, Ohio**  
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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.

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.

The City has passed an ordinance allowing the City to invest monies not required to be used for a 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**

Investments are reported at fair value. As of December 31, 2019, the City had the following investments:

Measurement/Investment	Measurement Amount	Maturity	Moody Rating	Percent of Total Investments
Fair Value - Level Two Inputs Negotiable Certificates of Deposit	<u>\$1,951,587</u>	Less than One Year	N/A	100.00%

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The above chart identifies the City's recurring fair value measurements as of December 31, 2019. All of the City's investments are valued using methodologies that incorporate market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. Market indicators and industry and economic events are also monitored, which could require the need to acquire further market data. (Level 2 inputs).

**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's investment policy states that no more than ten percent of the City's total investment portfolio will be invested in a single security type or with a single financial institution for a period of no longer than twelve months. The City is in the process of updating their investment policy to prevent this issue in the future.

**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 Negotiable CDS are exposed to custodial credit risk in that

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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 a \$250,000 limit on investments unless collateralized in a different manner to guarantee no loss of principal.

**Note 7 - Receivables**

Receivables at December 31, 2019, 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 2019 for real and public utility property taxes represents collections of 2018 taxes.

2019 real property taxes were levied after October 1, 2019, on the assessed value as of January 1, 2019, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2019 real property taxes are collected in and intended to finance 2020.

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. 2019 public utility property taxes which became a lien December 31, 2018, are levied after October 1, 2019, and are collected in 2020 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2019, was \$5.70 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2019 property tax receipts were based are as follows:

Real Property	\$224,819,360
Public Utility Personal Property	11,344,650
Total	<u><u>\$236,164,010</u></u>

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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, 2019, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2019 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 1.25 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. One percent of the income tax proceeds is distributed 82.5 percent to the general fund while the remaining 17.5 percent is distributed first to the general obligation bond retirement fund to cover debt payments then any remaining amount goes into the income tax capital improvement fund. The additional .25 percent income tax will be received by the street improvement capital projects fund for a five year period that started January 1, 2016 and ending December 31, 2020. The new income tax proceeds will be restricted for streets, alleys, sidewalks, curbs and storm sewers.

***Intergovernmental Receivables***

A summary of intergovernmental receivables follows:

	Amounts
<b>Governmental Activities</b>	
Gasoline and Municipal Cents per Gallon	\$338,301
Homestead and Rollback	52,455
Local Government	78,822
Motor Vehicle License Tax	45,115
Permissive Tax	42,308
Ohio Department of Treasury	3,943
Salem City Schools	4,064
Mahoning County	30
Columbiana County	2,527
Ohio Bureau of Worker's Compensation	2,868
State of Ohio	73
	\$570,506
Total Governmental Activities	

***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

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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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 8 – Tax Abatements**

As of December 31, 2019, the City of Salem provides tax incentives under the Community Reinvestment Area (CRA).

***Real Estate Tax Abatements***

In 1981, the City established a Community Reinvestment Area comprised of the Central and Northwest Industrial Area. In 2017, an ordinance was passed that opened up the Community Reinvestment Area to the rest of the City of Salem that had not been covered under the previous resolutions. Under this program, the City of Salem authorizes incentives through passage of public resolutions, based upon each business' investment and job creation commitment. To qualify for abatement, the work must be done in an abated area, a Salem City Zoning Permit must be obtained, a Community Reinvestment Tax Abatement application must be completed and filed with the Zoning Office before December 15<sup>th</sup> of the year the project is completed. The abatement equals an agreed upon percentage of the additional property tax resulting from the increase in assessed value as a result of the improvements. The amount of the abatement is deducted from the recipient's property tax bill. The establishment of the Community Reinvestment Area gave the City the ability to maintain and expand business located in the City and create new jobs.

***Current Tax Abatement Activity***

The City of Salem currently has one active CRA abatement. The City considers projects based on program criteria specified by the Ohio Revised Code. The City adheres to State prescribed minimum investment and job creation for determining the application of abatement for projects.

Below is the information relevant to the disclosure of those programs for the year ended December 31, 2019.

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) For the year 2019 (In Actual Dollars)
<i>Community Reinvestment Area (CRA)</i>	
- Commercial/Industrial	\$7,312



**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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**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 will 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 Anthem. Dental and vision insurance is provided through Anthem. 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 American United Life Insurance. 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, 2019.

**City of Salem, Ohio**  
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**Note 11 - Capital Assets**

Capital asset activity for the year ended December 31, 2019, was as follows:

	Restated Balance 12/31/2018	Additions	Deductions	Balance 12/31/2019
<b>Governmental Activities</b>				
<i>Capital Assets not being Depreciated:</i>				
Land	\$4,606,592	\$0	\$0	\$4,606,592
<i>Capital Assets being Depreciated:</i>				
Buildings	2,373,304	5,915	0	2,379,219
Improvements Other Than Buildings	478,803	0	0	478,803
Land Improvements	643,037	0	0	643,037
Machinery and Equipment	4,433,036	410,844	(125,385) ^	4,718,495
Infrastructure	28,864,307	2,424,150	0	31,288,457
Total Capital Assets being Depreciated	36,792,487	2,840,909	(125,385)	39,508,011
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,602,413)	(49,412)	0	(1,651,825)
Improvements Other Than Buildings	(466,810)	(728)	0	(467,538)
Land Improvements	(316,653)	(10,508)	0	(327,161)
Machinery and Equipment	(2,985,259)	(328,694)	123,992 ^	(3,189,961)
Infrastructure	(14,985,462)	(502,401)	0	(15,487,863)
Total Accumulated Depreciation	(20,356,597)	(891,743) *	123,992	(21,124,348)
Total Capital Assets being Depreciated, Net	16,435,890	1,949,166	(1,393)	18,383,663
Governmental Activities Capital Assets, Net	\$21,042,482	\$1,949,166	(\$1,393)	\$22,990,255

\*Depreciation expense was charged to governmental activities as follows:

General Government	\$20,773
Security of Persons and Property	234,563
Transportation	592,732
Leisure Time Activities	43,675
Total Depreciation Expense	<u>\$891,743</u>

During 2019, radio equipment was donated to the City valued at \$77,284. The City has recorded this as a capital contribution.

^ The City of Salem transferred all the Board assets and operations to the City of Salem Board of Health during 2019. The assets transferred included machinery and equipment net of depreciation in the amount of \$1,393. See Note 21 for further details of the transfer of operations.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2019

	Balance 12/31/2018	Additions	Deductions	Balance 12/31/2019
<b>Business Type Activities:</b>				
<b><i>Capital Assets not being Depreciated:</i></b>				
Land	\$669,334	\$0	\$0	\$669,334
Construction in Progress	785,309	3,238,242	(3,067,085)	956,466
<b>Total Capital Assets not being Depreciated</b>	<b>1,454,643</b>	<b>3,238,242</b>	<b>(3,067,085)</b>	<b>1,625,800</b>
<b><i>Capital Assets being Depreciated:</i></b>				
Buildings	22,333,126	0	(19,120)	22,314,006
Improvements Other Than Buildings	100,073	11,064	0	111,137
Machinery and Equipment	9,039,251	370,547	(23,088)	9,386,710
Infrastructure	18,010,517	3,868,788	0	21,879,305
<b>Total Capital Assets being Depreciated</b>	<b>49,482,967</b>	<b>4,250,399</b>	<b>(42,208)</b>	<b>53,691,158</b>
<b><i>Less Accumulated Depreciation:</i></b>				
Buildings	(12,964,108)	(469,812)	4,786	(13,429,134)
Improvements Other Than Buildings	(97,127)	(368)	0	(97,495)
Machinery and Equipment	(8,294,899)	(115,738)	23,088	(8,387,549)
Infrastructure	(4,478,492)	(423,665)	0	(4,902,157)
<b>Total Accumulated Depreciation</b>	<b>(25,834,626)</b>	<b>(1,009,583)</b>	<b>27,874</b>	<b>(26,816,335)</b>
<b>Total Capital Assets being Depreciated, Net</b>	<b>23,648,341</b>	<b>3,240,816</b>	<b>(14,334)</b>	<b>26,874,823</b>
<b>Business Type Activities Capital Assets, Net</b>	<b>\$25,102,984</b>	<b>\$6,479,058</b>	<b>(\$3,081,419)</b>	<b>\$28,500,623</b>

**Note 12 - Public Entity Risk Pool**

***Risk Sharing Authority***

***Property and Liability***

The City belongs to the Public Entities Pool of Ohio (PEP), a risk-sharing pool available to Ohio local governments. PEP provides property and casualty coverage for its members. York Risk Pooling Services, Inc. (YORK), functions as the administrator of PEP and provides underwriting, claims, loss control, risk management, and reinsurance services for PEP. PEP is a member of the American Public Entity Excess Pool (APEEP), which is administered by YORK. Member governments pay annual contributions to fund PEP. PEP pays judgments, settlements and other expenses resulting from covered claims that exceed the members' deductibles.

***Casualty and Property Coverage***

APEEP provides PEP with an excess risk-sharing program. Under this arrangement, PEP retains insured risks up to an amount specified in the contracts. At December 31, 2019, the Pool retained \$500,000 for casualty claims and \$250,000 for property claims. The Board of Directors and York periodically review the financial strength of the Pool and other market conditions to determine the appropriate level of risk the Pool will retain.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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The aforementioned casualty and property reinsurance agreements do not discharge PEP's primary liability for claims payments on covered losses. Claims exceeding coverage limits are the obligation of the respective PEP member.

***Financial Position***

PEP's financial statements (for which an independent audit is still ongoing) conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2019:

<u>Casualty and Property Coverage</u>	<u>2019</u>
Assets	\$54,973,597
Liabilities	<u>16,440,940</u>
Net Position - Unrestricted	<u><u>\$38,532,657</u></u>

At December 31, 2019, the liabilities above include unknown amounts of estimated incurred claims payable. The casualty coverage assets and net position above include approximately \$13.7 million of unpaid claims to be billed to approximately 553 member governments in the future, as of December 31, 2019. These amounts will be included in future contributions from members when the related claims are due for payment. This payable includes subsequent year's contributions due if the City terminates participation, as described in the last paragraph below.

Based on discussions with PEP, the expected rates PEP charges to compute member contributions, which are used to pay claims as they become due, are not expected to change significantly from those used to determine the historical contributions detailed below. By contract, the annual liability of each member is limited to the amount of financial contributions required to be made to PEP for each year of membership.

This was the second year the City was a member of the PEP. The contribution for 2019 was \$113,597.

After completing one year of membership, members may withdraw on each anniversary date of the date they joined PEP, provided they give written notice to PEP 60 days in advance of the anniversary date. Upon withdrawal, members are eligible for a full or partial refund of their capital contributions, minus the subsequent year's budgetary contribution. Withdrawing members have no other future obligations to the pool. Also upon withdrawal, payments for all casualty claims and claim expenses become the sole responsibility of the withdrawing member, regardless of whether a claim occurred or was reported prior to withdrawal.

**Note 13 – Interfund Transfers and Balances**

***Interfund Transfers***

Interfund transfers for the year ended December 31, 2019, consisted of the following:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
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<u>Transfer To</u>	<u>Transfer From</u>						<u>Total</u>
	<u>General</u>	<u>Other Governmental</u>	<u>Total Governmental</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total Business-Type</u>	
<b>Governmental Funds</b>							
Major Fund:							
General Fund	\$0	\$0	\$0	\$7,658	\$18,949	\$26,607	\$26,607
Income Tax Capital Improvement	299,999	84,074	384,073	0	0	0	384,073
Nonmajor Funds:							
Police Pension Fund	195,100	0	195,100	0	0	0	195,100
Fire Pension Fund	191,000	0	191,000	0	0	0	191,000
Street Construction Maintenance and Repair Fund	115,000	0	115,000	0	0	0	115,000
Park Fund	0	47,875	47,875	0	0	0	47,875
Grand Total	<u>\$801,099</u>	<u>\$131,949</u>	<u>\$933,048</u>	<u>\$7,658</u>	<u>\$18,949</u>	<u>\$26,607</u>	<u>\$959,655</u>

The transfers to the police pension, fire pension and street construction maintenance and repair special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds. The transfers from the general fund and the tax increment financing debt service fund to the income tax capital improvement fund were to assist in covering costs of capital projects. The transfer from the industrial park development capital projects fund to the park special revenue fund was for debt payments. The water and wastewater enterprise funds transferred revenue to the general fund to cover the future payment of accrued personnel benefits.

***Interfund Balances***

On February 10, 2017, the City issued \$110,000 in manuscript debt for a 12 year period at a rate of 1.00 percent. The City has purchased this debt. The City has identified the wastewater enterprise fund as the fund that received the proceeds and the tax increment financing debt service fund as the fund that purchased the debt. For reporting purposes, these transactions are reflected as an interfund receivable and an interfund payable in the respective funds. During 2018, the City returned \$17,297 in unspent proceeds leaving a balance of \$92,703. During 2019, the City retired \$13,000 leaving a balance of \$79,703.

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Tax Increment Financing Debt Service	<u>Wastewater</u>
	<u>\$79,703</u>

Principal and interest requirements to maturity on this manuscript debt are as follows:

	<u>Principal</u>	<u>Interest</u>
2020	\$8,848	\$926
2021	8,936	837
2022	9,026	748
2023	9,116	658
2024	9,207	566
2025-2029	<u>34,570</u>	<u>1,431</u>
Total	<u>\$79,703</u>	<u>\$5,166</u>

**City of Salem, Ohio**  
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On May 30, 2018, the City issued \$1,100,000 in manuscript debt for a 5 year period at a rate of 2.50 percent. The City has purchased this debt. The City has identified the wastewater enterprise fund as the fund that received the proceeds and the water enterprise fund as the fund that purchased the debt. For reporting purposes, these transactions are reflected as an interfund receivable and an interfund payable in the respective funds. Proceeds were used for waterline improvements. During 2019, the City retired \$200,000 leaving a balance of \$900,000. The remaining principal and interest are due on May 30, 2023.

<u>Interfund Payable</u>	<u>Interfund Receivable</u>
Water	<u>Wastewater</u>
	<u>\$900,000</u>

The \$10,000 interfund receivable in the general fund is for an advance made to the design review board special revenue fund.

**Note 14 – Note Debt**

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

	<u>Balance 12/31/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/2019</u>
Infrastructure Improvement Note, Series 2018	\$1,000,000	\$0	\$1,000,000	\$0
Real Estate Acquisition Note, Series 2018	47,500	0	47,500	0
Total	<u>\$1,047,500</u>	<u>\$0</u>	<u>\$1,047,500</u>	<u>\$0</u>

In 2019, the City retired \$1,000,000 in Infrastructure Improvement notes. These notes were issued at an interest rate of 2.5 percent and were retired on April 30, 2019.

In 2019, the City retired \$47,500 in Real Estate Acquisition notes. These notes were issued at an interest rate of 4.0 percent and were retired on February 7, 2019.

The notes were backed by the full faith and credit of the City of Salem and matured within one year.

**City of Salem, Ohio**  
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**Note 15 - Long-Term Obligations**

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

Debt Issue	Interest Rate	Original Issue	Year of Maturity
<b>Governmental Activities:</b>			
<i>General Obligation Bonds:</i>			
Various Purpose Bonds, Series A	2.59 %	\$328,000	2023
Various Purpose Bonds, Series B	2.52	55,000	2020
Various Purpose Refunding Bonds	2.45	1,540,000	2025
<i>OPWC Loan from Direct Borrowing</i>			
East Pershing Street Improvement	0.00	376,179	2042
<i>Long Term Note</i>			
Infrastructure Improvement Note	2.50	2,000,000	2020
<b>Business-Type Activities:</b>			
<i>OPWC Loans from Direct Borrowings</i>			
Stewart Road Water Tank	0.00	\$410,000	2020
Roosevelt Ave Water Tank	0.00	673,917	2030
Wastewater System Improvement Bond	2.90	3,000,000	2027

A schedule of changes in bonds and other long-term obligations of the City during 2019 follows:

	Amount Outstanding 12/31/2018	Additions	Deletions	Amount Outstanding 12/31/2019	Amounts Due In One Year
<b>Governmental Activities Obligations:</b>					
<i>General Obligation Bonds</i>					
Various Purpose Bonds, Series A	\$146,751	\$0	(\$39,645)	\$107,106	\$32,265
Various Purpose Bonds, Series B	13,532	0	(13,532)	0	0
Various Purpose Refunding Bonds, Series 2014	1,109,281	0	(150,000)	959,281	150,000
Total General Obligation Bonds	<u>1,269,564</u>	<u>0</u>	<u>(203,177)</u>	<u>1,066,387</u>	<u>182,265</u>
<i>OPWC Loan from Direct Borrowings</i>					
East Pershing Street Improvement	288,406	0	(12,539)	275,867	12,540
<i>Other Long-term Liabilities:</i>					
Net Pension Liability					
OPERS	1,845,443	1,259,157	0	3,104,600	0
OP&F	6,106,211	2,013,658	0	8,119,869	0
Total Net Pension Liability:	<u>7,951,654</u>	<u>3,272,815</u>	<u>0</u>	<u>11,224,469</u>	<u>0</u>
Net OPEB Liability					
OPERS	1,253,333	212,333	0	1,465,666	0
OP&F	5,637,020	0	(4,731,138)	905,882	0
Total Net OPEB Liability:	<u>6,890,353</u>	<u>212,333</u>	<u>(4,731,138)</u>	<u>2,371,548</u>	<u>0</u>
Infrastructure Improvement Notes	2,000,000	2,000,000	(2,000,000)	2,000,000	0
Compensated Absences	397,361	160,706	(133,681)	424,386	151,066
<i>Total Governmental Activities Obligations</i>	<u>\$18,797,338</u>	<u>\$5,645,854</u>	<u>(\$7,080,535)</u>	<u>\$17,362,657</u>	<u>\$345,871</u>

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2019

	Amount Outstanding 12/31/2018	Additions	Deletions	Amount Outstanding 12/31/2019	Amounts Due In One Year
<b>Business-Type Activities:</b>					
<i>OPWC Loans from Direct Borrowings</i>					
Stewart Road Water Tank	\$30,750	\$0	(\$20,500)	\$10,250	\$10,250
Roosevelt Ave Water Tank	387,501	0	(33,696)	353,805	33,696
Total Ohio Public Works Commission	418,251	0	(54,196)	364,055	43,946
Wastewater System Improvement Bond	2,700,000	0	(300,000)	2,400,000	300,000
<i>Other Long-term Liabilities:</i>					
Net Pension Liability - OPERS:					
Water	659,087	512,462	0	1,171,549	0
Sewer	790,904	614,953	0	1,405,857	0
Total Net Pension Liability - OPERS	1,449,991	1,127,415	0	2,577,406	0
Net OPEB Liability - OPERS:					
Water	447,618	105,466	0	553,084	0
Sewer	537,143	126,558	0	663,701	0
Total Net OPEB Liability - OPERS	984,761	232,024	0	1,216,785	0
Compensated Absences	134,105	794	(10,272)	124,627	11,014
Total Other Long-term Liabilities	2,568,857	1,360,233	(10,272)	3,918,818	11,014
<i>Total Business-Type Activities Obligations</i>	<u>\$5,687,108</u>	<u>\$1,360,233</u>	<u>(\$364,468)</u>	<u>\$6,682,873</u>	<u>\$354,960</u>

In 2019, the City issued \$2,000,000 in long term Infrastructure Improvement notes. These notes were issued at an interest rate of 2.5 percent and mature on April 30, 2020.

In 2018, the City issued \$2,000,000 in long term Infrastructure Improvement notes. These notes were issued at an interest rate of 2.5 percent and matured on April 30, 2019.

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.

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.

On September 30, 2014, the City issued \$1,540,000 in general obligation bonds to refund a portion of the 2005 general obligation various purpose improvement bonds. The bonds were issued for an eleven year period with a final maturity at December 1, 2025.

In 2017, the City issued \$3,000,000 in wastewater system improvement bonds for the purpose of paying the cost of constructing and installing improvements comprising the Snyder Road Sanitary Sewer Improvement Project and other wastewater system improvements in the City. These bonds were issued at an interest rate of 2.897 percent and mature on March 20, 2027. The bonds will be paid from the wastewater enterprise fund.

The City's outstanding OPWC loans from direct borrowings of \$275,867 related to governmental activities and \$364,055 related to business-type activities contain provisions that in an event of default (1) OPWC may apply late fees of 8 percent per year, (2) loans more than 60 days late will be turned over to the Attorney General's office for collection, and as provided by law, the OPWC may require that such payment be taken from the City's share of the City undivided local government fund, and (3) the outstanding amounts shall, at OPWC's option, become immediately due and payable. OPWC loans will be paid from water and wastewater enterprise fund user service charges and monies from the general obligation bond retirement fund.



**City of Salem, Ohio**  
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There is no repayment schedule for the net pension/OPEB liabilities, however, employer pension contributions are made from the fund benefiting from their service. For additional information related to the net pension/OPEB liabilities see Notes 17 and 18. Compensated absences will be paid from the general fund, the street construction maintenance and repair and the parks special revenue funds and the water and wastewater 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 \$364,055. Principal paid for the current year and total net revenues were \$54,196 and \$1,550,150 respectively.

The City's overall legal debt margin was \$21,454,967 at December 31, 2019. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2019, are as follows:

Governmental Activities:

	General Obligation Bonds		From Direct Borrowings
	Principal	Interest	OPWC Loan
2020	\$182,265	\$26,788	\$12,540
2021	188,106	22,272	12,539
2022	193,969	17,612	12,539
2023	167,765	12,806	12,539
2024	165,000	8,207	12,539
2025-2029	169,282	4,165	62,695
2030-2034	0	0	62,697
2035-2039	0	0	62,700
2040-2041	0	0	25,079
Total	<u>\$1,066,387</u>	<u>\$91,850</u>	<u>\$275,867</u>

Business-Type Activities:

	Wastewater System Improvement Bonds		From Direct Borrowings
	Principal	Interest	OPWC Loans
2020	\$300,000	\$66,245	\$43,946
2021	300,000	57,240	33,696
2022	300,000	48,428	33,696
2023	300,000	39,616	33,696
2024	300,000	30,901	33,696
2025-2029	900,000	39,544	168,478
2030	0	0	16,847
Total	<u>\$2,400,000</u>	<u>\$281,974</u>	<u>\$364,055</u>

**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

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
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the necessary funds for the construction of a community recreation center. During 2013, the hospital revenue bonds were refunded. At December 31, 2019, the outstanding bonds have a principal amount outstanding of \$46,620,000. 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 16 - 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 2019, the City contracted with the Public Entities Pool of Ohio (PEP) for various types of insurance as follows:

Type	Coverage
Bodily Injury and Property	\$7,000,000
Law Enforcement	7,000,000
Emergency Medical Services	7,000,000
Fire Damage Legal	7,000,000
Personal and Advertising Injury	7,000,000
Public Officials	7,000,000
Employee Benefit	1,000,000
Municipal Attorney & Law Directors	7,000,000
Stop Gap	7,000,000
Medical Payments	5,000
Automobile	7,000,000
Uninsured/Underinsured Motorist	100,000
Canine	40,000
Abuse/Molestation	7,000,000

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 17 - Defined Benefit Pension Plans**

The Statewide retirement systems provide both pension benefits and other postemployment benefits (OPEB).

***Net Pension Liability (Asset) /Net OPEB Liability (Asset)***

The net pension liability (asset) and the net OPEB liability (asset) reported on the statement of net position represent liabilities to employees for pensions and OPEB, respectively. Pensions/OPEB are a component of exchange transactions—between an employer and its employees—of salaries and benefits for employee services. Pensions/OPEB are provided to an employee—on a deferred-payment basis—as part of the total compensation package offered by an employer for employee services each financial period. The obligation to sacrifice resources for pensions is a present obligation because it was created as a result of employment exchanges that already have occurred.

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The net pension/OPEB liability (asset) represent the City's proportionate share of each pension/OPEB plan's collective actuarial present value of projected benefit payments attributable to past periods of service, net of each pension/OPEB plan's fiduciary net position. The net pension/OPEB liability (asset) calculation is dependent on critical long-term variables, including estimated average life expectancies, earnings on investments, cost of living adjustments and others. While these estimates use the best information available, unknowable future events require adjusting these estimates annually.

Ohio Revised Code limits the City's obligation for this liability to annually required payments. The City cannot control benefit terms or the manner in which pensions are financed; however, the City does receive the benefit of employees' services in exchange for compensation including pension and OPEB.

GASB 68/75 assumes the liability is solely the obligation of the employer, because (1) they benefit from employee services; and (2) State statute requires funding to come from these employers. All pension contributions to date have come solely from these employers (which also includes pension costs paid in the form of withholdings from employees). The retirement systems may allocate a portion of the employer contributions to provide for these OPEB benefits. In addition, health care plan enrollees pay a portion of the health care costs in the form of a monthly premium. State statute requires the retirement systems to amortize unfunded pension liabilities within 30 years. If the pension amortization period exceeds 30 years, each retirement system's board must propose corrective action to the State legislature. Any resulting legislative change to benefits or funding could significantly affect the net pension/OPEB liability (asset). Resulting adjustments to the net pension/OPEB liability (asset) would be effective when the changes are legally enforceable. The Ohio revised Code permits, but does not require the retirement systems to provide healthcare to eligible benefit recipients.

The proportionate share of each plan's unfunded benefits is presented as a *net pension/OPEB asset* or a long-term *net pension/OPEB liability* on the accrual basis of accounting. Any liability for the contractually-required pension/OPEB contribution outstanding at the end of the year is included in *intergovernmental payable* on both the accrual and modified accrual bases of accounting. The remainder of this note includes the required pension disclosures. See Note 18 for the required OPEB disclosures.

***Plan Description – Ohio Public Employees Retirement System (OPERS)***

Plan Description - City employees, other than full-time police and firefighters, participate 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 and the combined plan is a combination cost-sharing, multiple-employer defined benefit/defined contribution pension plan.

OPERS provides retirement, disability, survivor and death benefits, and annual cost of living adjustments to members of the traditional and combined plans. Authority to establish and amend benefits is provided by Chapter 145 of the Ohio Revised Code. OPERS issues a stand-alone financial report that includes financial statements, required supplementary information and detailed information about OPERS' fiduciary net position that may be obtained by visiting <https://www.opers.org/financial/reports.shtml>, by writing to the Ohio Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215-4642, or by calling 800-222-7377.

Senate Bill (SB) 343 was enacted into law with an effective date of January 7, 2013. In the legislation, members in the traditional and combined plans were categorized into three groups with varying provisions of the law applicable to each group. The following table provides age and service requirements for retirement and the retirement formula applied to final average salary (FAS) for the three member groups under the traditional and combined plans as per the reduced benefits adopted by SB 343 (see OPERS CAFR referenced above for additional information, including requirements for reduced and unreduced benefits):

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<b>Group A</b> Eligible to retire prior to January 7, 2013 or five years after January 7, 2013	<b>Group B</b> 20 years of service credit prior to January 7, 2013 or eligible to retire ten years after January 7, 2013	<b>Group C</b> Members not in other Groups and members hired on or after January 7, 2013
<b>State and Local</b>	<b>State and Local</b>	<b>State and Local</b>
<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 60 with 60 months of service credit or Age 55 with 25 years of service credit	<b>Age and Service Requirements:</b> Age 57 with 25 years of service credit or Age 62 with 5 years of service credit
<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 30 years and 2.5% for service years in excess of 30	<b>Traditional Plan Formula:</b> 2.2% of FAS multiplied by years of service for the first 35 years and 2.5% for service years in excess of 35
<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 30 years and 1.25% for service years in excess of 30	<b>Combined Plan Formula:</b> 1% of FAS multiplied by years of service for the first 35 years and 1.25% for service years in excess of 35

FAS represents the average of the three highest years of earnings over a member's career for Groups A and B. Group C is based on the average of the five highest years of earnings over a member's career.

Members who retire before meeting the age and years of service credit requirement for unreduced benefits receive a percentage reduction in the benefit amount.

When a traditional plan benefit recipient has received benefits for 12 months, current law provides for an annual cost of living adjustment (COLA). This COLA is calculated on the base retirement benefit at the date of retirement and is not compounded. Members retiring under the combined plan receive a cost-of-living adjustment on the defined benefit portion of their pension benefit. For those retiring prior to January 7, 2013, current law provides for a 3 percent COLA. For those retiring subsequent to January 7, 2013, beginning in calendar year 2019, current law provides that the COLA will be based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

Defined contribution plan benefits are established in the plan documents, which may be amended by the Board. Member-directed plan and combined plan members who have met the retirement eligibility requirements may apply for retirement benefits. The amount available for defined contribution benefits in the combined plan consists of the member's contributions plus or minus the investment gains or losses resulting from the member's investment selections. Combined plan members wishing to receive benefits must meet the requirements for both the defined benefit and defined contribution plans. Member-directed participants must have attained the age of 55, have money on deposit in the defined contribution plan and have terminated public service to apply for retirement benefits. The amount available for defined contribution benefits in the member-directed plan consists of the members' contributions, vested employer contributions and investment gains or losses resulting from the members' investment selections. Employer contributions and associated investment earnings vest over a five-year period, at a rate of 20 percent each year. At retirement, members may select one of several distribution options for payment of the vested balance in their individual OPERS accounts. Options include the annuitization of the benefit (which includes joint and survivor options), partial lump-sum payments (subject to limitations), a rollover of the vested account balance to another financial institution, receipt of entire account balance, net of taxes withheld, or a combination of these options.

Funding Policy - The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

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	State and Local
<b>2019 Statutory Maximum Contribution Rates</b>	
Employer	14.0 %
Employee *	10.0 %
 <b>2019 Actual Contribution Rates</b>	
Employer:	
Pension **	14.0 %
Post-employment Health Care Benefits **	0.0
Total Employer	14.0 %
Employee	10.0 %

\* Member contributions within the combined plan are not used to fund the defined benefit retirement allowance.

\*\* These pension and employer health care rates are for the traditional and combined plans. The employer contributions rate for the member-directed plan is allocated 4 percent for health care with the remainder going to pension.

For 2019, The City's contractually required contribution was \$383,671 for the traditional plan, \$20,316 for the combined plan and \$5,169 for the member-directed plan. Of these amounts, \$29,577 is reported as an intergovernmental payable for the traditional plan, \$1,566 for the combined plan, and \$387 for the member-directed plan.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – City full-time police and firefighters participate in Ohio Police and Fire Pension Fund (OP&F), a cost-sharing, multiple-employer defined benefit pension plan administered by OP&F. OP&F provides retirement and disability pension 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 and detailed information about OP&F fiduciary net position. The report that may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

Upon attaining a qualifying age with sufficient years of service, a member of OP&F may retire and receive a lifetime monthly pension. OP&F offers four types of service retirement: normal, service commuted, age/service commuted and actuarially reduced. Each type has different eligibility guidelines and is calculated using the member's average annual salary. The following discussion of the pension formula relates to normal service retirement.

For members hired after July 1, 2013, the minimum retirement age is 52 for normal service retirement with at least 25 years of service credit. For members hired on or before after July 1, 2013, the minimum retirement age is 48 for normal service retirement with at least 25 years of service credit.

The annual pension benefit for normal service retirement is equal to a percentage of the allowable average annual salary. The percentage equals 2.5 percent for each of the first 20 years of service credit, 2.0 percent for each of the next five years of service credit and 1.5 percent for each year of service credit in excess of 25 years. The maximum pension of 72 percent of the allowable average annual salary is paid after 33 years of

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service credit (see OP&F CAFR referenced above for additional information, including requirements for Deferred Retirement Option Plan provisions and reduced and unreduced benefits).

Under normal service retirement, retired members who are at least 55 years old and have been receiving OP&F benefits for at least one year may be eligible for a cost-of-living allowance adjustment. The age 55 provision for receiving a COLA does not apply to those who are receiving a permanent and total disability benefit, surviving beneficiaries, and statutory survivors. Members participating in the DROP program have separate eligibility requirements related to COLA.

Members retiring under normal service retirement, with less than 15 years of service credit on July 1, 2013, will receive a COLA equal to either 3 percent or the percent increase, if any, in the Consumer Price Index over the 13 month period ending on September 30<sup>th</sup> of the immediately preceding year, whichever is less. The COLA amount for members with at least 15 years of service credit as of July 1, 2013, is equal to 3 percent of their base pension or disability benefit.

Funding Policy – The Ohio Revised Code (ORC) provides statutory authority for member and employer contributions as follows:

	Police	Firefighters
<b>2019 Statutory Maximum Contribution Rates</b>		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 <b>2019 Actual Contribution Rates</b>		
Employer:		
Pension	19.00 %	23.50 %
Post-employment Health Care Benefits	0.50	0.50
Total Employer	19.50 %	24.00 %
 Employee	 12.25 %	 12.25 %

Employer contribution rates are expressed as a percentage of covered payroll. The City's contractually required contribution to OP&F was \$497,303 for 2019. Of this amount, \$57,607 is reported as an intergovernmental payable.

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

The net pension liability (asset) for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. OP&F's total pension liability was measured as of December 31, 2018, and was determined by rolling forward the total pension liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net pension liability (asset) was based on the City's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the City's defined benefit pension plans:

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	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportion of the Net Pension Liability/Asset:				
Current Measurement Date	0.02074636%	0.03348052%	0.09947600%	
Prior Measurement Date	<u>0.02037582%</u>	<u>0.02903113%</u>	<u>0.09949100%</u>	
Change in Proportionate Share	<u>0.00037054%</u>	<u>0.00444939%</u>	<u>-0.00001500%</u>	
Proportionate Share of the:				
Net Pension Liability	\$5,682,006	\$0	\$8,119,869	\$13,801,875
Net Pension Asset	0	37,440	0	37,440
Pension Expense	1,275,962	9,931	1,103,050	2,388,943

2019 pension expense for the member-directed defined contribution plan was \$5,169. The aggregate pension expense for all pension plans was \$2,394,112 for 2019.

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
<b>Deferred Outflows of Resources</b>				
Differences between expected and actual experience	\$263	\$0	\$333,613	\$333,876
Changes of assumptions	494,632	8,361	215,269	718,262
Net difference between projected and actual earnings on pension plan investments	771,207	8,065	1,000,361	1,779,633
Changes in proportion and differences between City contributions and proportionate share of contributions	74,770	611	157,474	232,855
City contributions subsequent to the measurement date	<u>383,671</u>	<u>20,316</u>	<u>497,303</u>	<u>901,290</u>
Total Deferred Outflows of Resources	<u>\$1,724,543</u>	<u>\$37,353</u>	<u>\$2,204,020</u>	<u>\$3,965,916</u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience	\$74,609	\$15,291	\$7,583	\$97,483
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>3,509</u>	<u>3,408</u>	<u>98,819</u>	<u>105,736</u>
Total Deferred Inflows of Resources	<u>\$78,118</u>	<u>\$18,699</u>	<u>\$106,402</u>	<u>\$203,219</u>

\$901,290 reported as deferred outflows of resources related to pension resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Year Ending December 31:	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
2020	\$563,782	\$930	\$502,913	\$1,067,625
2021	268,761	(681)	284,165	552,245
2022	71,543	(512)	305,064	376,095
2023	358,668	2,015	476,120	836,803
2024	0	(1,301)	32,053	30,752
Thereafter	0	(2,113)	0	(2,113)
<b>Total</b>	<b>\$1,262,754</b>	<b>(\$1,662)</b>	<b>\$1,600,315</b>	<b>\$2,861,407</b>

**Actuarial Assumptions - OPERS**

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation. The total pension liability was determined by an actuarial valuation as of December 31, 2018, using the following actuarial assumptions applied to all periods included in the measurement in accordance with the requirements of GASB 67. Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of December 31, 2018, are presented below.

	OPERS Traditional Plan	OPERS Combined Plan
Wage Inflation	3.25 percent	3.25 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 8.25 percent including wage inflation
COLA or Ad Hoc COLA:		
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple
Investment Rate of Return	7.2 percent	7.2 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 7.5 percent to 7.2 percent. This change was effective beginning with the 2018 valuation.

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement



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back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term rate of return on defined benefit investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio, and the Defined Contribution portfolio. The Defined Benefit portfolio contains the investment assets for the Traditional Pension Plan, the defined benefit component of the Combined Plan and the annuitized accounts of the Member-Directed Plan. Within the Defined Benefit portfolio, contributions into the plans are all recorded at the same time, and benefit payments all occur on the first of the month. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Defined Benefit portfolio was a loss of 2.94 percent for 2018.

The allocation of investment assets with the Defined Benefit portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the defined benefit pension plans. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	23.00 %	2.79 %
Domestic Equities	19.00	6.21
Real Estate	10.00	4.90
Private Equity	10.00	10.81
International Equities	20.00	7.83
Other investments	18.00	5.50
Total	100.00 %	5.95 %

**Discount Rate** For 2018, the discount rate used to measure the total pension liability was 7.2 percent for the traditional plan and the combined plan. For 2017, the discount rate used to measure the total pension liability was 7.5 percent for the traditional plan and the combined plan. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers are made at the contractually required rates, as actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefits payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments for the traditional pension plan, combined plan and member-directed plan was applied to all periods of projected benefit payments to determine the total pension liability.

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***Sensitivity of the City's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate*** The following table presents the City's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

<b>City's proportionate share of the net pension liability (asset)</b>	<b>1% Decrease (6.20%)</b>	<b>Current Discount Rate (7.20%)</b>	<b>1% Increase (8.20%)</b>
OPERS Traditional Plan	\$8,393,977	\$5,682,006	\$3,428,336
OPERS Combined Plan	(12,388)	(37,440)	(55,578)

***Actuarial Assumptions – OP&F***

OP&F's total pension liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total pension liability is determined by OP&F's actuaries in accordance with GASB Statement No. 67, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future. Assumptions considered were: withdrawal rates, disability retirement, service retirement, DROP elections, mortality, percent married and forms of the payment, DROP interest rate, CPI-based COLA, investment returns, salary increases and payroll growth.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, prepared as of January 1, 2018, are presented below.

Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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Age	Police	Fire
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

Age	Police	Fire
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block approach and assumes a time horizon, as defined in the Statement of Investment Policy. A forecasted rate of inflation serves as the baseline for the return expected. Various real return premiums over the baseline inflation rate have been established for each asset class. The long-term expected nominal rate of return has been determined by calculating a weighted averaged of the expected real return premiums for each asset class, adding the projected inflation rate and adding the expected return from rebalancing uncorrelated asset classes. Best estimates of the long-term expected geometric real rates of return for each major asset class included in OP&F's target asset allocation as of December 31, 2018, are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.80 %
Domestic Equity	16.00	5.50
Non-US Equity	16.00	5.90
Private Markets	8.00	8.40
Core Fixed Income *	23.00	2.60
High Yield Fixed Income	7.00	4.80
Private Credit	5.00	7.50
U.S. Inflation Linked Bonds*	17.00	2.30
Master Limited Partnerships	8.00	6.40
Real Assets	8.00	7.00
Private Real Estate	12.00	6.10
Total	120.00 %	

Note: Assumptions are geometric.

\* levered 2x

OP&F's Board of Trustees has incorporated the risk parity concept into OP&F's asset liability valuation with the goal of reducing equity risk exposure, which reduces overall Total Portfolio risk without sacrificing return, and creating a more risk-balanced portfolio based on their relationship between asset classes and economic environments. From the notional portfolio perspective above, the Total Portfolio may be levered up to 1.2 times due to the application of leverage in certain fixed income asset classes.

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**Discount Rate** The total pension liability was calculated using the discount rate of 8.00 percent. The projection of cash flows used to determine the discount rate assumed the contributions from employers and from the members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earning were calculated using the longer-term assumed investment rate of return of 8.00 percent. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, a long-term expected rate of return on pension plan investments was applied to all periods of projected benefits to determine the total pension liability.

**Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate** Net pension liability is sensitive to changes in the discount rate, and to illustrate the potential impact, the following table presents the net pension liability calculated using the discount rate of 8.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (7.00 percent), or one percentage point higher (9.00 percent) than the current rate.

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
City's proportionate share of the net pension liability	\$10,673,010	\$8,119,869	\$5,986,353

**Note 18 - Defined Benefit OPEB Plans**

See Note 17 for a description of the net OPEB liability

**Plan Description – Ohio Public Employees Retirement System (OPERS)**

Plan Description - The 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 trust, which funds multiple health care plans including medical coverage, prescription drug coverage and deposits to a Health Reimbursement Arrangement to qualifying benefit recipients of both the traditional pension and the combined plans. This trust is also used to fund health care for member-directed plan participants, in the form of a Retiree Medical Account (RMA). At retirement or refund, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

In order to qualify for postemployment health care coverage, age and service retirees under the traditional pension and combined plans must have twenty or more years of qualifying Ohio service credit with a minimum age of 60, or generally 30 years of qualifying service at any age. Health care coverage for disability benefit recipients and qualified survivor benefit recipients is available. The health care coverage provided by OPERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 75. See OPERS’ CAFR referenced below for additional information.

The Ohio Revised Code permits, but does not require, OPERS to provide health care to its eligible benefit recipients. Authority to establish and amend health care coverage is provided to the Board in Chapter 145 of the Ohio Revised Code.

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Disclosures for the health care plan are presented separately in the OPERS financial report. Interested parties may obtain a copy by visiting <https://www.opers.org/financial/reports.shtml>, by 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 the statutory authority allowing public employers to fund postemployment health care through their contributions to OPERS. When funding is approved by OPERS' Board of Trustees, a portion of each employer's contribution to OPERS is set aside to fund OPERS health care plans. Beginning in 2018, health care was no longer being funded.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2019, state and local employers contributed at a rate of 14.0 percent of earnable salary and public safety and law enforcement employers contributed at 18.1 percent. These are the maximum employer contribution rates permitted by the Ohio Revised Code. Active member contributions do not fund health care.

Each year, the OPERS Board determines the portion of the employer contribution rate that will be set aside to fund health care plans. As recommended by OPERS' actuary, beginning January 1, 2018, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan. The OPERS Board is also authorized to establish rules for the retiree or their surviving beneficiaries to pay a portion of the health care provided. Payment amounts vary depending on the number of covered dependents and the coverage selected. The employer contribution as a percentage of covered payroll deposited into the RMA for participants in the Member-Directed Plan for 2019 was 4.0 percent.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll. The City's contractually required contribution was \$2,067 for 2019. Of this amount, \$159 is reported as an intergovernmental payable.

***Plan Description – Ohio Police & Fire Pension Fund (OP&F)***

Plan Description – The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored healthcare program, a cost-sharing, multiple-employer defined post-employment health care plan administered by a third-party provider. This program is not guaranteed and is subject to change at any time upon action of the Board of Trustees. On January 1, 2019, OP&F implemented a new model for health care. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements.

A retiree is eligible for the OP&F health care stipend unless they have access to any other group coverage including employer and retirement coverage. The eligibility of spouses and dependent children could increase the stipend amount. If the spouse or dependents have access to any other group coverage including employer or retirement coverage, they are not eligible for stipend support from OP&F. Even if an OP&F member or their dependents are not eligible for a stipend, they can use the services of the third-party administrator to select and enroll in a plan. The stipend provided by OP&F meets the definition of an Other Post Employment Benefit (OPEB) as described in Governmental Accounting Standards Board (GASB) Statement No. 75.

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. The report may be obtained by visiting the OP&F website at [www.op-f.org](http://www.op-f.org) or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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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 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 percent of covered payroll for police and fire employer units, respectively. The Ohio Revised Code states that the employer contribution may not exceed 19.5 percent of covered payroll for police employer units and 24 percent of covered payroll for fire employer units. Active members do not make contributions to the OPEB Plan.

The Board of Trustees is authorized to allocate a portion of the total employer contributions for retiree health care benefits. For 2019, the portion of employer contributions allocated to health care was 0.5 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.

The OP&F Board of Trustees is also 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 contractually required contribution to OP&F was \$11,854 for 2019. Of this amount, \$1,374 is reported as an intergovernmental payable.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. OP&F's total OPEB liability was measured as of December 31, 2018, and was determined by rolling forward the total OPEB liability as of January 1, 2018, to December 31, 2018. The City's proportion of the net OPEB liability was based on the City's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<u>OPERS</u>	<u>OP&amp;F</u>	
Proportion of the Net OPEB Liability:			
Current Measurement Date	0.020575%	0.0994760%	
Prior Measurement Date	<u>0.019992%</u>	<u>0.0994910%</u>	
Change in Proportionate Share	<u>0.0005830%</u>	<u>-0.0000150%</u>	
			<u>Total</u>
Proportionate Share of the Net OPEB Liability	\$2,682,451	\$905,882	\$3,588,333
OPEB Expense	\$275,327	(\$4,445,234)	(\$4,169,907)

At December 31, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$908	\$0	\$908
Changes of assumptions	86,485	469,565	556,050
Net difference between projected and actual earnings on OPEB plan investments	122,975	30,665	153,640
Changes in proportion and differences between City contributions and proportionate share of contributions	53,524	86,657	140,181
City contributions subsequent to the measurement date	<u>2,067</u>	<u>11,854</u>	<u>13,921</u>
Total Deferred Outflows of Resources	<u><u>\$265,959</u></u>	<u><u>\$598,741</u></u>	<u><u>\$864,700</u></u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$7,278	\$24,270	\$31,548
Changes of assumptions	0	250,791	250,791
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>0</u>	<u>374</u>	<u>374</u>
Total Deferred Inflows of Resources	<u><u>\$7,278</u></u>	<u><u>\$275,435</u></u>	<u><u>\$282,713</u></u>

\$13,921 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending December 31:	<u>OPERS</u>	<u>OP&amp;F</u>	<u>Total</u>
2020	\$127,195	\$54,988	\$182,183
2021	46,574	54,988	101,562
2022	20,895	54,988	75,883
2023	61,950	64,262	126,212
2024	0	49,640	49,640
Thereafter	<u>0</u>	<u>32,586</u>	<u>32,586</u>
Total	<u><u>\$256,614</u></u>	<u><u>\$311,452</u></u>	<u><u>\$568,066</u></u>

***Actuarial Assumptions - OPERS***

Actuarial valuations of an ongoing plan involve estimates of the values of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and cost trends. Actuarially determined amounts are subject to continual review or modification as actual results are compared with past expectations and new estimates are made about the future.

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Projections of health care costs for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of coverage provided at the time of each valuation and the historical pattern of sharing of costs between OPERS and plan members. The total OPEB liability was determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018. The actuarial valuation used the following actuarial assumptions applied to all prior periods included in the measurement in accordance with the requirements of GASB 74:

Wage Inflation	3.25 percent
Projected Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation
Single Discount Rate:	
Current measurement date	3.96 percent
Prior Measurement date	3.85 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	3.71 percent
Prior Measurement date	3.31 percent
Health Care Cost Trend Rate:	
Current measurement date	10.0 percent, initial 3.25 percent, ultimate in 2029
Prior Measurement date	7.25 percent, initial 3.25 percent, ultimate in 2028
Actuarial Cost Method	Individual Entry Age Normal

In October 2018, the OPERS Board adopted a change in the investment return assumption, reducing it from 6.5 percent to 6.0 percent. This change was effective for the 2018 valuation.

Pre-retirement mortality rates are based on the RP-2014 Employees mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates are based on the RP-2014 Healthy Annuitant mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Post-retirement mortality rates for disabled retirees are based on the RP-2014 Disabled mortality table for males and females, adjusted for mortality improvement back to the observation period base year of 2006. The base year for males and females was then established to be 2015 and 2010, respectively. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to all of the above described tables.

The most recent experience study was completed for the five year period ended December 31, 2015.

The long-term expected rate of return on health care investment assets was determined using a building-block method in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected real rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adjusted for inflation.

During 2018, OPERS managed investments in three investment portfolios: the Defined Benefit portfolio, the Health Care portfolio and the Defined Contribution portfolio. The Health Care portfolio includes the assets for health care expenses for the Traditional Pension Plan, Combined Plan and Member-Directed Plan eligible members. Within the Health Care portfolio, contributions into the plans are assumed to be received continuously throughout the year based on the actual payroll payable at the time contributions are made, and



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health care-related payments are assumed to occur mid-year. Accordingly, the money-weighted rate of return is considered to be the same for all plans within the portfolio. The annual money-weighted rate of return expressing investment performance, net of investment expenses and adjusted for the changing amounts actually invested, for the Health Care portfolio was a loss of 5.6 percent for 2018.

The allocation of investment assets within the Health Care portfolio is approved by the Board of Trustees as outlined in the annual investment plan. Assets are managed on a total return basis with a long-term objective of continuing to offer a sustainable health care program for current and future retirees. OPERS' primary goal is to achieve and maintain a fully funded status for the benefits provided through the defined pension plans. Health care is a discretionary benefit. The table below displays the Board-approved asset allocation policy for 2018 and the long-term expected real rates of return:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)</u>
Fixed Income	34.00 %	2.42 %
Domestic Equities	21.00	6.21
Real Estate Investment Trust	6.00	5.98
International Equities	22.00	7.83
Other investments	17.00	5.57
Total	<u>100.00 %</u>	<u>5.16 %</u>

**Discount Rate** A single discount rate of 3.96 percent was used to measure the OPEB liability on the measurement date of December 31, 2018. A single discount rate of 3.85 percent was used to measure the OPEB liability on the measurement date of December 31, 2017. Projected benefit payments are required to be discounted to their actuarial present value using a single discount rate that reflects (1) a long-term expected rate of return on OPEB plan investments (to the extent that the health care fiduciary net position is projected to be sufficient to pay benefits), and (2) tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date (to the extent that the contributions for use with the long-term expected rate are not met). This single discount rate was based on an expected rate of return on the health care investment portfolio of 6.00 percent and a municipal bond rate of 3.71 percent. The projection of cash flows used to determine this single discount rate assumed that employer contributions will be made at rates equal to the actuarially determined contribution rate. Based on these assumptions, the health care fiduciary net position and future contributions were sufficient to finance health care costs through 2031. As a result, the long-term expected rate of return on health care investments was applied to projected costs through the year 2031, and the municipal bond rate was applied to all health care costs after that date.

**Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate**

The following table presents the City's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the City's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

	<u>1% Decrease (2.96%)</u>	<u>Current Discount Rate (3.96%)</u>	<u>1% Increase (4.96%)</u>
City's proportionate share of the net OPEB liability	\$3,431,855	\$2,682,451	\$2,086,477

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***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate*** Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuary's project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
City's proportionate share of the net OPEB liability	\$2,578,418	\$2,682,451	\$2,802,270

***Actuarial Assumptions – OP&F***

OP&F's total OPEB liability as of December 31, 2018, is based on the results of an actuarial valuation date of January 1, 2018, and rolled-forward using generally accepted actuarial procedures. The total OPEB liability is determined by OP&F's actuaries in accordance with GASB Statement No. 74, as part of their annual valuation. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, salary increases, disabilities, retirements and employment terminations. Actuarially determined amounts are subject to continual review and potential modifications, as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employers and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employers and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Actuarial calculations reflect a long-term perspective. For a newly hired employee, actuarial calculations will take into account the employee's entire career with the employer and also take into consideration the benefits, if any, paid to the employee after termination of employment until the death of the employee and any applicable contingent annuitant. In many cases, actuarial calculations reflect several decades of service with the employer and the payment of benefits after termination.

Key methods and assumptions used in the latest actuarial valuation, reflecting experience study results, are presented below.

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Valuation Date	January 1, 2018, with actuarial liabilities rolled forward to December 31, 2018
Actuarial Cost Method	Entry Age Normal
Investment Rate of Return	8.0 percent
Projected Salary Increases	3.75 percent to 10.5 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Single discount rate:	
Current measurement date	4.66 percent
Prior measurement date	3.24 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

The most recent experience study was completed for the five year period ended December 31, 2016.

The OP&F health care plan follows the same asset allocation and long-term expected real rate of return for each major asset class as the pension plan, see Note 17.

**Discount Rate** For 2019, the total OPEB liability was calculated using the discount rate of 4.66 percent. For 2018, the total OPEB liability was calculated using the discount rate of 3.24 percent. The projection of cash flows used to determine the discount rate assumed the contribution from employers and from members would be computed based on contribution requirements as stipulated by State statute. Projected inflows from investment earnings were calculated using the longer-term assumed investment rate of return of 8 percent. Based on those assumptions, OP&F's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, a municipal bond rate of 4.13 percent at December 31, 2018 and 3.16 percent at December 31, 2017, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 4.66 percent for 2018 and 3.24 percent for 2017. The municipal bond rate was determined using the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. The OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments until

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2031. The long-term expected rate of return on health care investments was applied to projected costs through 2031, and the municipal bond rate was applied to all health care costs after that date.

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***  
 Net OPEB liability is sensitive to changes in the discount rate, and to illustrate the potential impact the following table presents the net OPEB liability calculated using the discount rate of 4.66 percent, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.66 percent), or one percentage point higher (5.66 percent) than the current rate.

	1% Decrease (3.66%)	Current Discount Rate (4.66%)	1% Increase (5.66%)
City's proportionate share of the net OPEB liability	\$1,103,611	\$905,882	\$739,905

***Sensitivity of the City's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate***  
 The total OPEB liability is based on a medical benefit that is a flat dollar amount; therefore, it is unaffected by a health care cost trend rate. An increase or decrease in the trend rate would have no effect on the total OPEB liability.

**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:

<b>Governmental Funds</b>		<b>Proprietary Funds</b>	
General	\$24,762	Water	\$149,164
Other Government Funds	260,234	Wastewater	<u>6,583,512</u>
Total Governemntal Funds	<u>\$284,996</u>		<u>\$6,732,676</u>
		<b>Custodial Funds</b>	<u>\$449</u>

**Note 20 – Change in Accounting Principle and Restatement of Net Position**

The Governmental Accounting Standards Board (GASB) recently issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The City evaluated implementing these certain GASB pronouncements based on the guidance in GASB 95.

For 2019, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, and related guidance from (GASB) Implementation Guide No. 2019-2, *Fiduciary Activities*.

For 2019, the City also implemented the Governmental Accounting Standards Board's (GASB) *Implementation Guide No. 2018-1*. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position/fund balance.

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GASB Statement No. 84 established specific criteria for identifying activities that should be reported as fiduciary activities and clarifies whether and how business type activities should report their fiduciary activities. Due to the implementation of GASB Statement No. 84, the City will no longer be reporting agency funds. At December 31, 2018, the City's agency funds reported assets and liabilities of \$56,780. The City reviewed its agency funds and certain funds will be reported in the new fiduciary fund classification of custodial funds, while other funds have been reclassified as governmental funds. These fund reclassifications had no effect on fund balance but resulted in the restatement of the City's financial statements.

GASB Statement 88 improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. These changes were incorporated in the City's 2019 financial statements; however, there was no effect on beginning net position/fund balance.

***Restatement of Net Position***

During 2019, it was determined that capital assets were understated due to a higher amount of accumulated depreciation reported on the financial statements than on their supporting documentation. The restatement of capital assets had the following effect on net position as of December 31, 2018:

	Water Enterprise Fund	Wastewater Enterprise Fund	Total Enterprise Funds
Net Position, December 31, 2018	\$9,050,829	\$22,434,861	\$31,485,690
Adjustments:			
Capital Assets	1,785,355	326,905	2,112,260
Restated Position, December 31, 2018	\$10,836,184	\$22,761,766	\$33,597,950

The restatement of capital assets had the following effect on net position as of December 31, 2018:

	Governmental Activities	Business Type Activities
Net Position December 31, 2018	\$9,144,952	\$31,485,690
Adjustments:		
Capital Assets	603,023	2,112,260
Restated Net Position December 31, 2018	\$9,747,975	\$33,597,950

Also related to the implementation of GASB 84, the City will no longer be reporting agency funds, at December 31, 2018, agency funds reported assets and liabilities of \$56,780.

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**Note 21 – Transfer of Operations**

Consistent with the provisions of Ohio Revised Code Section 3709.36, the City of Salem’s Board of Health was reorganized as a legally separate organization (City of Salem Board of Health) rather than continuing to operate as a department of the City. This change was effective January 1, 2019 and is being accounted for by the City as a transfer of operations. The Board is reported as a discretely presented component unit of the City of Salem. For 2019, the City is reporting a special item of \$136,162 for the gain on transfer of operations on the statement of activities and \$26,883 for the loss on transfer of operations on the statement of revenues, expenditures and changes in fund balances. Other than the special item, the City did not report any revenues or expenditures/expenses related to the Board.

**Note 22 – Subsequent Events**

The United States, the State of Ohio, and the City declared a state of emergency in March 2020 due to the global Coronavirus Disease 2019 (COVID-19) pandemic. The financial impact of COVID-19 and the ensuing emergency measures will impact subsequent periods of the City. The City’s investment portfolio and the investments of the pension and other employee benefit plans in which the City participates have incurred a significant decline in fair value, consistent with the general decline in financial markets. However, because the values of individual investments fluctuate with market conditions, and due to market volatility, the amount of losses that will be recognized in subsequent periods, if any, cannot be determined. In addition, the impact on the City’s future operating costs, revenues, and any recovery from emergency funding, either federal or state, cannot be estimated.

On April 30, 2020, the City rolled \$2,000,000 of the infrastructure improvement note at a rate of 2.18 percent. The notes will mature April 30, 2021.

**Note 23 – City of Salem Board of Health**

***Description of Reporting Entity***

The City of Salem Board of Health, (the Board) is a legally separate organization formed by the City of Salem Mayor and Council. Among its various duties, the Board provides for the prompt diagnosis and control of communicable diseases. The Board may also inspect businesses where food is manufactured, handled, stored, or offered for sale.

***Summary of Significant Accounting Policies***

The financial statements of the Board have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

***Basis of Presentation***

The Board’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.

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***Fund Accounting***

The Board 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. All of the Board's general fund is a governmental fund.

***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 are prepared using the accrual basis of accounting.

***Measurement Focus***

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and deferred outflows of resources and liabilities and deferred inflows of resources associated with the operation of the Board 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.

***Revenues – Exchange and Non-exchange 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.

Non-exchange transactions, in which the Board receives value without directly giving equal value in return, include grants. Revenue from grants are 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 Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis.

***Deferred Outflows/Inflows of Resources*** In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represent 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 financial position 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.

***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.

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***Cash and Cash Equivalents***

The City of Salem Auditor is custodian for the Board's deposits. The City's deposit and investment pool holds the Board's assets, valued at the City Auditor's reported carrying amount.

***Prepaid Items***

Payments made to vendors for services that will benefit periods beyond the current year, 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 Items***

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

***Capital Assets***

All of the Board's capital assets are general capital assets generally resulting from expenditures in governmental funds. These assets are reported in the governmental activities column on the government-wide statement of net position but are not reported on the fund financial statements.

All capital assets are capitalized at cost and updated for additions and reductions during the year. Donated capital assets are recorded at their acquisition value on the date donated. The Board maintains a capitalization threshold of six hundred dollars. 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 are not capitalized.

All capital assets are depreciated, except land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Furniture, Fixtures and Equipment	3 - 20 years

***Compensated Absences***

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 Board 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 Board's termination policy. The Board records a liability for accumulated unused sick leave for all employees

***Pensions/Other Postemployment Benefits (OPEB)***

For purposes of measuring the net pension/OPEB asset/liabilities, deferred outflows of resources and deferred inflows of resources related to pensions/OPEB, and pension/OPEB expense, information about the fiduciary net position of the pension/OPEB plans and additions to/deductions from their fiduciary net position have been determined on the same basis as they are reported by the pension/OPEB plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. The pension/OPEB plans report investments at fair value.



**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

***Accrued Liabilities and Long-Term Obligations***

All payables, accrued liabilities and long-term obligations are reported in the government-wide 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 judgment 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. Bonds, loans, and capital leases are recognized as a liability on the governmental fund financial statements when due. Net pension/OPEB liabilities should be recognized in the governmental funds to the extent that benefit payments are due and payable and the pension/OPEB plans' fiduciary net position is not sufficient for payment of those benefits.

***Receivables***

Receivables at December 31, 2019, consisted of an intergovernmental receivable in the amount \$61,515 from a grant from the City of Salem.

***Capital Assets***

Capital asset activity for the year ended December 31, 2019, was as follows:

	Balance 12/31/2018	Additions	Deductions	Balance 12/31/2019
<b><i>Capital Assets being Depreciated</i></b>				
Furniture, Fixtures and Equipment	\$9,453	\$0	\$0	\$9,453
<b><i>Less: Accumulated Depreciation</i></b>				
Furniture, Fixtures and Equipment	(8,060)	(254)	0	(8,314)
<b><i>Total Capital Assets, Net</i></b>	<b>\$1,393</b>	<b>(\$254)</b>	<b>\$0</b>	<b>\$1,139</b>

Property and equipment owned by the Board consists of furniture and equipment with an original cost of \$9,453 and accumulated depreciation of \$8,314 with an ending net value of \$1,139 at December 31, 2019. Depreciation expense amounted to \$254 for 2019.

***Operating Lease***

During 2016, the Board entered into an operating lease with Kent State University, Salem Campus, for the period of June 1, 2016 to May 31, 2017, renewable annually, for the use of office space for the Board. The terms of the lease require payment in two installments in the amount of \$2,700.

***Long-Term Obligations***

The Board has long-term obligations consisting of net pension liability of \$175,733, net OPEB liability of \$82,963 and accrued compensated absences of \$2,873 at December 31, 2019.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

***Net Pension Liability***

The City of Salem Board of Health participates in the Ohio Public Employees Retirement System (OPERS). See Note 17 for a description of the net pension liability. For 2019, The Board's contractually required contribution was \$11,866 for the traditional plan, \$628 for the combined plan and \$160 for the member-directed plan. Of these amounts, \$921 is reported as an intergovernmental payable for the traditional plan, \$49 for the combined plan, and \$12 for the member-directed plan.

***Pension Liabilities (Asset), Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

The net pension liability (asset) for OPERS was measured as of December 31, 2018, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The Board's proportion of the net pension liability (asset) was based on the Board's share of contributions to the pension plan relative to the contributions of all participating entities. Following is information related to the proportionate share and pension expense of the Board's defined benefit pension plans:

	<u>OPERS</u> <u>Traditional Plan</u>	<u>OPERS</u> <u>Combined Plan</u>	<u>Total</u>
Proportion of the Net Pension Liability/Asset:			
Current Measurement Date	0.00064164%	0.00103548%	
Prior Measurement Date	<u>0.00063018%</u>	<u>0.00089787%</u>	
Change in Proportionate Share	<u>0.00001146%</u>	<u>0.00013761%</u>	
Proportionate Share of the:			
Net Pension Liability	\$175,733	\$0	\$175,733
Net Pension Asset	0	1,158	1,158
Pension Expense	39,463	306	39,769

2019 pension expense for the member-directed defined contribution plan was \$160. The aggregate pension expense for all pension plans was \$39,929 for 2019.

At December 31, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
For The Year Ended December 31, 2019

	OPERS Traditional Plan	OPERS Combined Plan	Total
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$8	\$0	\$8
Changes of assumptions	15,298	259	15,557
Net difference between projected and actual earnings on pension plan investments	23,852	249	24,101
Changes in proportion and differences between County contributions and proportionate share of contributions	2,314	19	2,333
Department contributions subsequent to the measurement date	11,866	628	12,494
<b>Total Deferred Outflows of Resources</b>	<b>\$53,338</b>	<b>\$1,155</b>	<b>\$54,493</b>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$2,307	\$473	\$2,780
Changes in proportion and differences between Department contributions and proportionate share of contributions	109	105	214
<b>Total Deferred Inflows of Resources</b>	<b>\$2,416</b>	<b>\$578</b>	<b>\$2,994</b>

\$12,494 reported as deferred outflows of resources related to pension resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability or increase to the net pension asset in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

	OPERS Traditional Plan	OPERS Combined Plan	Total
Year Ending December 31:			
2020	\$17,438	\$29	\$17,467
2021	8,313	(22)	8,291
2022	2,213	(16)	2,197
2023	11,092	62	11,154
2024	0	(40)	(40)
Thereafter	0	(64)	(64)
<b>Total</b>	<b>\$39,056</b>	<b>(\$51)</b>	<b>\$39,005</b>

***Sensitivity of the Board's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate*** The following table presents the Board's proportionate share of the net pension liability (asset) calculated using the current period discount rate assumption of 7.2 percent, as well as what the Board's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (6.2 percent) or one-percentage-point higher (8.2 percent) than the current rate:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
<b>Department's proportionate share of the net pension liability (asset)</b>			
OPERS Traditional Plan	\$259,608	\$175,733	\$106,031
OPERS Combined Plan	(383)	(1,158)	(1,719)

***Net Other Postemployment Benefits Liability***

See Note 17 and 18 for a description of the net OPEB liability. The Board's contractually required contribution was \$64 for 2019. Of this amount, \$5 is reported as an intergovernmental payable.

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

The net OPEB liability and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2017, rolled forward to the measurement date of December 31, 2018, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The County's proportion of the net OPEB liability was based on the County's share of contributions to the retirement plan relative to the contributions of all participating entities. Following is information related to the proportionate share and OPEB expense:

	<b>OPERS</b>
Proportion of the Net OPEB Liability:	
Current Measurement Date	0.000636%
Prior Measurement Date	0.000618%
Change in Proportionate Share	0.0000180%
Proportionate Share of the Net OPEB Liability	\$82,963
OPEB Expense	\$8,515

At December 31, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

	OPERS
<b>Deferred Outflows of Resources</b>	
Differences between expected and actual experience	\$28
Changes of assumptions	2,675
Net difference between projected and actual earnings on OPEB plan investments	3,803
Changes in proportion and differences between Board contributions and proportionate share of contributions	1,657
Department contributions subsequent to the measurement date	64
Total Deferred Outflows of Resources	\$8,227
 <b>Deferred Inflows of Resources</b>	
Differences between expected and actual experience	\$225

\$64 reported as deferred outflows of resources related to OPEB resulting from Board contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	OPERS
Year Ending December 31:	
2020	\$3,933
2021	1,443
2022	646
2023	1,916
Total	\$7,938

***Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate***

The following table presents the Board's proportionate share of the net OPEB liability calculated using the single discount rate of 3.96 percent, as well as what the Board's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is one-percentage-point lower (2.96 percent) or one-percentage-point higher (4.96 percent) than the current rate:

	1% Decrease (2.96%)	Current Discount Rate (3.96%)	1% Increase (4.96%)
Department's proportionate share of the net OPEB liability	\$106,140	\$82,963	\$64,530

***Sensitivity of the Board's Proportionate Share of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate***

Changes in the health care cost trend rate may also have a significant impact on the net OPEB liability. The following table presents the net OPEB liability calculated using the assumed trend rates, and the expected net OPEB liability if it were calculated using a health care cost trend rate that is 1.0 percent lower or 1.0 percent higher than the current rate.

**City of Salem, Ohio**  
*Notes to the Basic Financial Statements*  
*For The Year Ended December 31, 2019*

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Retiree health care valuations use a health care cost-trend assumption that changes over several years built into the assumption. The near-term rates reflect increases in the current cost of health care; the trend starting in 2019 is 10.00 percent. If this trend continues for future years, the projection indicates that years from now virtually all expenditures will be for health care. A more reasonable alternative is that in the not-too-distant future, the health plan cost trend will decrease to a level at, or near, wage inflation. On this basis, the actuaries project premium rate increases will continue to exceed wage inflation for approximately the next decade, but by less each year, until leveling off at an ultimate rate, assumed to be 3.25 percent in the most recent valuation.

	1% Decrease	Current Health Care Cost Trend Rate Assumption	1% Increase
Department's proportionate share of the net OPEB liability	\$79,745	\$82,963	\$86,668

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## Required Supplementary Information

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**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Liability*  
*Ohio Public Employees Retirement System - Traditional Plan*  
*Last Six Years (1)*

	2019	2018	2017	2016
City's Proportion of the Net Pension Liability	0.02074636%	0.02037582%	0.02035300%	0.02139100%
City's Proportionate Share of the Net Pension Liability	\$5,682,006	\$3,295,434	\$4,621,821	\$3,705,192
City's Covered Payroll	\$2,801,307	\$2,775,923	\$2,631,075	\$2,662,293
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	202.83%	118.71%	175.66%	139.17%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.70%	84.66%	77.25%	81.08%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.



<u>2015</u>	<u>2014</u>
0.02084400%	0.02084400%
\$2,514,019	\$2,457,236
\$2,555,433	\$2,389,663
98.38%	102.83%
86.45%	86.36%

**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Asset*  
*Ohio Public Employees Retirement System - Combined Plan*  
*Last Two Years (1)*

	<u>2019</u>	<u>2018</u>
City's Proportion of the Net Pension Asset	0.03348052%	0.02903113%
City's Proportionate Share of the Net Pension Asset	\$37,440	\$40,743
City's Covered Payroll	\$143,193	\$122,569
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	-26.15%	-33.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	126.64%	137.28%

(1) Amounts for the combined plan are not presented prior to 2018 as the City's participation in this plan was considered immaterial in previous years.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net OPEB Liability*  
*Ohio Public Employees Retirement System - OPEB Plan*  
*Last Three Years (1)*

	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.020575%	0.019992%	0.020290%
City's Proportionate Share of the Net OPEB Liability	\$2,682,451	\$2,238,094	\$2,049,359
City's Covered Payroll	\$2,974,325	\$2,919,567	\$2,804,067
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	90.19%	76.66%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.33%	54.14%	54.04%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year.

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net Pension Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Six Years (1)*

	2019	2018	2017	2016
City's Proportion of the Net Pension Liability	0.0994760%	0.0994910%	0.0968740%	0.1004440%
City's Proportionate Share of the Net Pension Liability	\$8,119,869	\$6,106,211	\$6,135,900	\$6,461,633
City's Covered Payroll	\$2,268,909	\$2,195,764	\$2,099,783	\$2,047,305
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	357.88%	278.09%	292.22%	315.62%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.07%	70.91%	68.36%	66.77%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2014 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

2015	2014
0.0972756%	0.0972756%
\$5,039,282	\$4,737,627
\$1,934,895	\$1,828,582
260.44%	259.09%
71.71%	73.00%

**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Proportionate Share of the*  
*Net OPEB Liability*  
*Ohio Police and Fire Pension Fund*  
*Last Three Years (1)*

	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.0994760%	0.0994910%	0.0968740%
City's Proportionate Share of the Net OPEB Liability	\$905,882	\$5,637,020	\$4,598,391
City's Covered Payroll	\$2,268,909	\$2,195,764	\$2,099,783
City's Proportionate Share of the Net OPEB Liability as a Percentage of its Covered Payroll	39.93%	256.72%	218.99%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	46.57%	14.13%	15.96%

(1) Although this schedule is intended to reflect information for ten years, information prior to 2017 is not available. An additional column will be added each year

Amounts presented for each year were determined as of the City's measurement date which is the prior year end.

See accompanying notes to the required supplementary information.

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**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Public Employees Retirement System*  
*Last Seven Years (1)*

	2019	2018	2017	2016
<b>Net Pension Liability - Traditional Plan</b>				
Contractually Required Contribution	\$383,671	\$392,183	\$360,870	\$315,729
Contributions in Relation to the Contractually Required Contribution	<u>(383,671)</u>	<u>(392,183)</u>	<u>(360,870)</u>	<u>(315,729)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,740,507	\$2,801,307	\$2,775,923	\$2,631,075
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net Pension Liability - Combined Plan</b>				
Contractually Required Contribution	\$20,316	\$20,667	\$15,934	\$14,669
Contributions in Relation to the Contractually Required Contribution	<u>(20,316)</u>	<u>(20,667)</u>	<u>(15,934)</u>	<u>(14,669)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$145,114	\$143,193	\$122,569	\$122,242
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.43%</u>	<u>13.00%</u>	<u>12.00%</u>
<b>Net OPEB Liability - OPEB Plan (3)</b>				
Contractually Required Contribution	\$2,067	\$1,230	\$29,828	\$57,096
Contributions in Relation to the Contractually Required Contribution	<u>(2,067)</u>	<u>(1,230)</u>	<u>(29,828)</u>	<u>(57,096)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (2)	\$2,937,296	\$2,974,325	\$2,919,567	\$2,804,067
OPEB Contributions as a Percentage of Covered Payroll	<u>0.07%</u>	<u>0.04%</u>	<u>1.02%</u>	<u>2.04%</u>

(1) Information prior to 2013 is not available.

(2) The OPEB plan includes the members from the traditional plan, the combined plan and the member directed plan. The member directed pension plan is a defined contribution pension plan; therefore, the pension side is not included above.

(3) Information prior to 2016 is not available.

See accompanying notes to the required supplementary information.



2015	2014	2013
\$319,475	\$306,652	\$310,656
(319,475)	(306,652)	(310,656)
\$0	\$0	\$0
\$2,662,293	\$2,555,433	\$2,389,663
12.00%	12.00%	13.00%
\$15,172	\$14,397	\$14,111
(15,172)	(14,397)	(14,111)
\$0	\$0	\$0
\$126,433	\$119,975	\$108,546
12.00%	12.00%	13.00%

**City of Salem, Ohio**  
*Required Supplementary Information*  
*Schedule of the City's Contributions*  
*Ohio Police and Fire Pension Fund*  
*Last Ten Years*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Net Pension Liability</b>				
Contractually Required Contribution	\$497,303	\$476,024	\$459,876	\$440,794
Contributions in Relation to the Contractually Required Contribution	<u>(497,303)</u>	<u>(476,024)</u>	<u>(459,876)</u>	<u>(440,794)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$2,370,914	\$2,268,909	\$2,195,764	\$2,099,783
Pension Contributions as a Percentage of Covered Payroll	<u>20.98%</u>	<u>20.98%</u>	<u>20.94%</u>	<u>20.99%</u>
<b>Net OPEB Liability</b>				
Contractually Required Contribution	\$11,854	\$11,344	\$10,979	\$10,499
Contributions in Relation to the Contractually Required Contribution	<u>(11,854)</u>	<u>(11,344)</u>	<u>(10,979)</u>	<u>(10,499)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
OPEB Contributions as a Percentage of Covered Payroll	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>	<u>0.50%</u>
Total Contributions as a Percentage of Covered Payroll	<u>21.48%</u>	<u>21.48%</u>	<u>21.44%</u>	<u>21.49%</u>

(1) The City's covered payroll is the same for Pension and OPEB.

See accompanying notes to the required supplementary information.

2015	2014	2013	2012	2011	2010
\$430,900	\$407,092	\$327,489	\$265,348	\$255,073	\$258,492
<u>(430,900)</u>	<u>(407,092)</u>	<u>(327,489)</u>	<u>(265,348)</u>	<u>(255,073)</u>	<u>(258,492)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,047,305	\$1,934,895	\$1,828,582	\$1,799,399	\$1,723,989	\$1,745,815
<u>21.05%</u>	<u>21.04%</u>	<u>17.91%</u>	<u>14.75%</u>	<u>14.80%</u>	<u>14.81%</u>
\$10,237	\$9,675	\$66,134	\$121,460	\$116,370	\$117,843
<u>(10,237)</u>	<u>(9,675)</u>	<u>(66,134)</u>	<u>(121,460)</u>	<u>(116,370)</u>	<u>(117,843)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<u>0.50%</u>	<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>	<u>6.75%</u>	<u>6.75%</u>
<u>21.55%</u>	<u>21.54%</u>	<u>21.53%</u>	<u>21.50%</u>	<u>21.55%</u>	<u>21.56%</u>

**City of Salem, Ohio**  
*Notes to the Required Supplementary Information*  
For the year ended December 31, 2019

**Changes in Assumptions – OPERS Pension**

Amounts reported beginning in 2019 incorporate changes in assumptions used by OPERS in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and in 2016 and prior are presented below:

	2019	2017	2016 and prior
Wage Inflation	3.25 percent	3.25 percent	3.75 percent
Future Salary Increases, including inflation	3.25 to 10.75 percent including wage inflation	3.25 to 10.75 percent including wage inflation	4.25 to 10.05 percent including wage inflation
COLA or Ad Hoc COLA:			
Pre-January 7, 2013 Retirees	3 percent, simple	3 percent, simple	3 percent, simple
Post-January 7, 2013 Retirees	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.15 percent, simple	3 percent, simple through 2018, then 2.8 percent, simple
Investment Rate of Return	7.2 percent	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age

Amounts reported beginning in 2017 use mortality rates based on the RP-2014 Healthy Annuitant mortality table. For males, Healthy Annuitant Mortality tables were used, adjusted for mortality improvement back to the observation period base of 2006 and then established the base year as 2015. For females, Healthy Annuitant Mortality tables were used, adjusted for mortality improvements back to the observation period base year of 2006 and then established the base year as 2010. The mortality rates used in evaluating disability allowances were based on the RP-2014 Disabled mortality tables, adjusted for mortality improvement back to the observation base year of 2006 and then established the base year as 2015 for males and 2010 for females. Mortality rates for a particular calendar year for both healthy and disabled retiree mortality tables are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Amounts reported for 2016 and prior use mortality rates based on the RP-2000 Mortality Table projected 20 years using Projection Scale AA. For males, 105 percent of the combined healthy male mortality rates were used. For females, 100 percent of the combined healthy female mortality rates were used. The mortality rates used in evaluating disability allowances were based on the RP-2000 mortality table with no projections. For males 120 percent of the disabled female mortality rates were used set forward two years. For females, 100 percent of the disabled female mortality rates were used.

**City of Salem, Ohio**  
*Notes to the Required Supplementary Information*  
*For the year ended December 31, 2019*

**Changes in Assumptions – OP&F Pension**

Amounts reported beginning in 2018 incorporate changes in assumptions used by OP&F in calculating the total pension liability in the latest actuarial valuation. These new assumptions compared with those used in 2017 and prior are presented below:

	<u>Beginning in 2018</u>	<u>2017 and Prior</u>
Valuation Date	January 1, 2017, with actuarial liabilities rolled forward to December 31, 2017	January 1, 2016, with actuarial liabilities rolled forward to December 31, 2016
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Investment Rate of Return	8.0 percent	8.25 percent
Projected Salary Increases	3.75 percent to 10.5 percent	4.25 percent to 11 percent
Payroll Growth	Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent	Inflation rate of 3.25 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	3.00 percent simple; 2.2 percent simple for increased based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increased based on the lesser of the increase in CPI and 3 percent

Amounts reported beginning in 2018 use valuation, mortality for non-disabled participants is based on the RP-2014 Total Employee and Healthy Annuitant Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
67 or less	77 %	68 %
68-77	105	87
78 and up	115	120

Amounts reported beginning in 2018 use valuation, mortality for disabled retirees is based on the RP-2014 Disabled Mortality Tables rolled back to 2006, adjusted according to the rates in the following table, and projected with the Conduent Modified 2016 Improvement Scale.

<u>Age</u>	<u>Police</u>	<u>Fire</u>
59 or less	35 %	35 %
60-69	60	45
70-79	75	70
80 and up	100	90

Amounts reported for 2017 and prior use valuation, rates of death were based on the RP2000 Combined Table, age-adjusted as follows. For active members, set back six years. For disability retirements, set forward five years for police and three years for firefighters. For service retirements, set back zero years for police and two years for firefighters. For beneficiaries, set back zero years. The rates are applied on a fully generational basis, with a base year of 2009, using mortality improvement Scale AA.

**City of Salem, Ohio**  
*Notes to the Required Supplementary Information*  
*For the year ended December 31, 2019*

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**Changes in Assumptions – OPERS OPEB**

For 2019, the single discount rate changed from 3.85 percent to 3.96 percent and the municipal bond rate changed from 3.31 percent to 3.71 percent. For 2019, the health care cost trend rate was 10 percent, initial; 3.25 ultimate in 2029. For 2018, the health care cost trend rate was 7.25 percent, initial; 3.25 percent ultimate in 2028.

For 2018, the single discount rate changed from 4.23 percent to 3.85 percent.

**Changes in Assumptions – OP&F OPEB**

For 2019, the single discount rate changed from 3.24 percent to 4.66 percent.

For 2018, the single discount rate changed from 3.79 percent to 3.24 percent.

**Changes in Benefit Terms – OP&F OPEB**

For 2019, OP&F recognized a change in benefit terms. Under this new model, OP&F provides eligible retirees with a fixed stipend earmarked to pay for health care and Medicare Part B reimbursements. This new model replaced the self-insured health care plan used in prior years.

# OHIO AUDITOR OF STATE KEITH FABER



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EastRegion@ohioauditor.gov

## 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 South Broadway Ave.  
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, the discretely presented component unit, 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, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated October 7, 2020, wherein we noted the City included a disclosure regarding the potential financial impact of COVID-19 and the continuing emergency measures, and the restatement of net position due to a correction related to capital assets as of December 31, 2018.

### ***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 report is not suitable for any other purpose.



Keith Faber  
Auditor of State

Columbus, Ohio

October 7, 2020



**CITY OF SALEM  
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS  
DECEMBER 31, 2019**

<b>OTHER – FINDINGS FOR RECOVERY</b>
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We identified the following other issue related to Findings for Recovery. This issue did not impact our GAGAS report.

**FINDING NUMBER 2019-001**

**Finding for Recovery Repaid Under Audit**

The City paid Matthew Hoopes for 320 hours of sick leave on his severance check dated February 5, 2019. Per review of the City's Termination Benefit's Policy, regular full-time City Employees who are in good standing at the time of their retirement or separation from active service may choose to be paid in cash for one-fourth the value of his/her earned by unused sick leave credit with a max payment not to exceed 320 hours. The number of days calculated shall be multiplied times the employee's hourly rate at the time of his/her retirement. In addition, an employee will be paid at his/her current hourly rate of pay for all earned vacation and compensatory time credit at the time of separation. Matthew Hoopes had 1,103.16 hours of sick leave upon retirement. His sick leave accrual payment should have been 275.79 hours per his time off accrual report and the negotiated agreements.

This resulted to an overpayment of a gross amount of \$1,744.53

In accordance with the forgoing facts, and pursuant to Ohio Rev. Code § 117.28, a Finding for Recovery for public money received for an improper public purpose is hereby issued against Matthew Hoopes, for \$1,744.53 and in favor of the City of Salem's Water Fund.

The \$1,744.53 overpayment was repaid on March 19, 2020 by Matthew Hoopes with a check for \$1,174.54 the remaining amount was collected through refiling the Federal, State and Local withholdings.

The City should verify severance payment calculations match the negotiated agreement prior to severance payout.

**Official's Response:** Once the error was found, the overpayment was repaid immediately. Tighter controls have been modified to ensure this will not happen again.

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# OHIO AUDITOR OF STATE KEITH FABER



**CITY OF SALEM**

**COLUMBIANA COUNTY**

**AUDITOR OF STATE OF OHIO CERTIFICATION**

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



**Certified for Release 11/5/2020**

88 East Broad Street, Columbus, Ohio 43215  
Phone: 614-466-4514 or 800-282-0370

This report is a matter of public record and is available online at  
[www.ohioauditor.gov](http://www.ohioauditor.gov)