



CITY OF SALEM
COLUMBIANA COUNTY
DECEMBER 31, 2021

TABLE OF CONTENTS

TITLE	PAGE
Independent Auditor's Report	1
Prepared by Management:	
Management's Discussion and Analysis	5
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities.....	16
Fund Financial Statements:	
Balance Sheet	
Governmental Funds.....	18
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities	19
Statement of Revenues, Expenditures and Changes in Fund Balance Governmental Funds.....	20
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	21
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual General Fund.....	22
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget (Non-GAAP Basis) and Actual Parks Fund	23
Statement of Fund Net Position	
Proprietary Funds	24
Statement of Revenues, Expenses and Changes in Fund Net Position Proprietary Funds.....	25
Statement of Cash Flows	
Proprietary Funds	26
Statement of Fiduciary Net Position	
Custodial Fund	28
Statement of Changes in Fiduciary Net Position Custodial Fund	29
Notes to the Basic Financial Statements	30

CITY OF SALEM
COLUMBIANA COUNTY
DECEMBER 31, 2021

TABLE OF CONTENTS
(Continued)

TITLE	PAGE
Required Supplementary Information:	
Schedule of the City's Proportionate Share of the Net Pension Liability (OPERS) Traditional Plan	86
Schedule of the City's Proportionate Share of the Net Pension Asset (OPERS) Combined Plan.....	88
Schedule of the City's Proportionate Share of the Net OPEB (Asset) Liability (OPERS).....	89
Schedule of the City's Proportionate Share of the Net Pension Liability (OP&F).....	90
Schedule of the City's Proportionate Share of the Net OPEB Liability (OP&F)	92
Schedule of the City's Contributions (OPERS)	94
Schedule of the City's Contributions (OP&F).....	96
Notes to the Required Supplementary Information	98
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	101

OHIO AUDITOR OF STATE
KEITH FABER

88 East Broad Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
(800) 282-0370

INDEPENDENT AUDITOR'S REPORT

City of Salem
Columbiana County
231 South Broadway Ave.
Salem, Ohio 44460

To the City Council:

Report on the Audit of the Financial Statements

Opinions

We have audited 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, Ohio (the City), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General and Parks funds for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Note 23 to the financial statements, the financial impact of COVID-19 and the continuing emergency measures may impact subsequent periods of the City. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2022, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Keith Faber". The signature is written in a cursive style with a large, flowing "K" and "F".

Keith Faber
Auditor of State
Columbus, Ohio

September 16, 2022

This page intentionally left blank.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

The discussion and analysis of the City of Salem's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2021. 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 2021 are as follows:

- The City's overall financial position increased in 2021. Net position for both governmental activities and business-type activities increased mainly as a result of an increase in net capital assets and a decrease in the net pension and net OPEB liabilities. The increase in capital assets was due to additions outpacing current year depreciation and deletions.
- City income tax receipts increased in 2021 compared to 2020 due to a slight improvement in economic conditions. The municipal income tax rate is currently 1.25 percent. The voters passed an additional income tax levy in November 2015 for transportation. 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. In November 2019, the voters approved to continue this 0.25 percent additional tax for an additional 5 years beginning January 1, 2021.
- Capital asset additions for governmental activities consisted of construction in progress, buildings and improvements, land improvements, new equipment and vehicles and street improvements. Business-type capital asset additions consisted of construction in progress, building improvements, various water and sewer equipment and improvements to the wastewater treatment plant.

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
For the Year Ended December 31, 2021
Unaudited

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 2021?" 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, the parks special revenue 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.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

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 2021 as they compare to 2020.

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	Restated 2020	2021	Restated 2020
Assets						
Current and Other Assets	\$8,251,213	\$9,020,912	\$6,465,673	\$7,291,131	\$14,716,886	\$16,312,043
Net Pension Asset	68,566	39,241	50,201	28,733	118,767	67,974
Net OPEB Asset	202,041	0	147,923	0	349,964	0
Capital Assets, Net	24,711,568	23,450,144	33,622,150	32,640,966	58,333,718	56,091,110
<i>Total Assets</i>	<i>33,233,388</i>	<i>32,510,297</i>	<i>40,285,947</i>	<i>39,960,830</i>	<i>73,519,335</i>	<i>72,471,127</i>
Deferred Outflows of Resources						
Deferred Charge on Refunding	3,662	4,639	0	0	3,662	4,639
Pension	1,329,243	1,410,102	183,721	271,715	1,512,964	1,681,817
OPEB	775,836	915,338	82,961	191,149	858,797	1,106,487
<i>Total Deferred Outflows of Resources</i>	<i>\$2,108,741</i>	<i>\$2,330,079</i>	<i>\$266,682</i>	<i>\$462,864</i>	<i>\$2,375,423</i>	<i>\$2,792,943</i>

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

(Table 1)
Net Position

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	Restated 2020	2021	Restated 2020
Liabilities						
Current Liabilities	\$688,687	\$1,462,959	\$227,738	\$420,356	\$916,425	\$1,883,315
Long-term Liabilities						
Due within One Year	459,461	407,864	347,140	345,128	806,601	752,992
Due in More than One Year						
Net Pension Liability	8,462,775	8,891,382	1,205,316	1,626,783	9,668,091	10,518,165
Net OPEB Liability	1,059,424	2,527,803	0	1,134,732	1,059,424	3,662,535
Other Amounts	3,018,229	2,832,637	1,882,648	2,221,982	4,900,877	5,054,619
<i>Total Liabilities</i>	<u>13,688,576</u>	<u>16,122,645</u>	<u>3,662,842</u>	<u>5,748,981</u>	<u>17,351,418</u>	<u>21,871,626</u>
Deferred Inflows of Resources						
Property Taxes	1,131,702	1,080,482	0	0	1,131,702	1,080,482
Payments in Lieu of Taxes	62,784	97,735	0	0	62,784	97,735
Pension	1,414,725	1,258,778	611,247	512,418	2,025,972	1,771,196
OPEB	1,003,603	583,955	486,453	246,143	1,490,056	830,098
<i>Total Deferred Inflows of Resources</i>	<u>3,612,814</u>	<u>3,020,950</u>	<u>1,097,700</u>	<u>758,561</u>	<u>4,710,514</u>	<u>3,779,511</u>
Net Position						
Net Investment in Capital Assets	21,718,451	19,642,541	31,528,618	30,211,704	53,247,069	49,854,245
Restricted for:						
Capital Projects	2,008,566	1,845,196	0	0	2,008,566	1,845,196
Debt Service	51,347	0	0	0	51,347	0
Streets	611,870	484,442	0	0	611,870	484,442
Parks	462,066	409,493	0	0	462,066	409,493
Law Enforcement	94,001	80,085	0	0	94,001	80,085
Community Environment	204,379	203,428	0	0	204,379	203,428
Other Purposes	106,054	71,209	0	0	106,054	71,209
Unrestricted (Deficit)	<u>(7,215,995)</u>	<u>(7,039,613)</u>	<u>4,263,469</u>	<u>3,704,448</u>	<u>(2,952,526)</u>	<u>(3,335,165)</u>
<i>Total Net Position</i>	<u>\$18,040,739</u>	<u>\$15,696,781</u>	<u>\$35,792,087</u>	<u>\$33,916,152</u>	<u>\$53,832,826</u>	<u>\$49,612,933</u>

The net pension liability (NPL) is one of the largest single liabilities reported by the City at December 31, 2021, 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.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

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. Current and other assets decreased from the prior year due mainly to a decrease in cash and cash equivalents resulting from cash disbursements outpacing cash receipts by approximately \$2.3 million as the cost of goods and services continued to rise. Capital assets increased due to additions outpacing current year depreciation and deletions. Current liabilities decreased due to the pay-off of short-term notes. The decrease in long-term liabilities can be attributed primarily to significant decreases in both the net pension and net OPEB liabilities. 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 2021 and 2020.

(Table 2)
Changes in Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Program Revenues						
Charges for Services and Assessments	\$337,326	\$255,314	\$5,760,105	\$4,788,412	\$6,097,431	\$5,043,726
Operating Grants and Contributions	1,387,537	1,726,577	153,000	87,028	1,540,537	1,813,605
<i>Total Program Revenues</i>	<u>1,724,863</u>	<u>1,981,891</u>	<u>5,913,105</u>	<u>4,875,440</u>	<u>7,637,968</u>	<u>6,857,331</u>
General Revenues						
Property Taxes	1,195,448	1,153,098	0	0	1,195,448	1,153,098
Municipal Income Tax	6,359,745	5,943,642	0	0	6,359,745	5,943,642
Grants and Entitlements not Restricted to Specific Programs	291,479	487,113	0	0	291,479	487,113
Payments in Lieu of Taxes	62,783	97,735	0	0	62,783	97,735
Interest	27,892	110,897	12,224	40,002	40,116	150,899
Unrestricted Contributions	36,370	0	0	0	36,370	0
Gain on Sale of Capital Assets	26,148	0	0	0	26,148	0
Other	280,174	169,238	92,625	120,380	372,799	289,618
<i>Total General Revenues</i>	<u>8,280,039</u>	<u>7,961,723</u>	<u>104,849</u>	<u>160,382</u>	<u>8,384,888</u>	<u>8,122,105</u>
<i>Total Revenues</i>	<u>\$10,004,902</u>	<u>\$9,943,614</u>	<u>\$6,017,954</u>	<u>\$5,035,822</u>	<u>\$16,022,856</u>	<u>\$14,979,436</u>

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

(Table 2)
Changes in Net Position (continued)

	Governmental Activities		Business-Type Activities		Totals	
	2021	2020	2021	2020	2021	2020
Program Expenses						
General Government	\$1,173,907	\$1,594,709	\$0	\$0	\$1,173,907	\$1,594,709
Security of Persons and Property	4,667,578	4,784,302	0	0	4,667,578	4,784,302
Public Health Services - Primary Government	0	2,215	0	0	0	2,215
Public Health Services - Intergovernmental	62,474	61,515	0	0	62,474	61,515
Transportation	1,181,217	2,006,154	0	0	1,181,217	2,006,154
Community Development	170,527	449,766	0	0	170,527	449,766
Basic Utility Services	0	78,790	0	0	0	78,790
Leisure Time Activities	350,904	549,522	0	0	350,904	549,522
Interest and Fiscal Charges	74,288	73,558	0	0	74,288	73,558
Water	0	0	1,876,261	2,094,100	1,876,261	2,094,100
Wastewater	0	0	2,245,807	3,732,810	2,245,807	3,732,810
<i>Total Program Expenses</i>	<u>7,680,895</u>	<u>9,600,531</u>	<u>4,122,068</u>	<u>5,826,910</u>	<u>11,802,963</u>	<u>15,427,441</u>
Increase (Decrease) in Net Position before Transfers	2,324,007	343,083	1,895,886	(791,088)	4,219,893	(448,005)
Transfers	19,951	0	(19,951)	0	0	0
<i>Change in Net Position</i>	<u>2,343,958</u>	<u>343,083</u>	<u>1,875,935</u>	<u>(791,088)</u>	<u>4,219,893</u>	<u>(448,005)</u>
Net Position Beginning of Year - Restated	15,696,781	15,353,698	33,916,152	34,707,240	49,612,933	50,060,938
Net Position End of the Year	<u>\$18,040,739</u>	<u>\$15,696,781</u>	<u>\$35,792,087</u>	<u>\$33,916,152</u>	<u>\$53,832,826</u>	<u>\$49,612,933</u>

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 charges for services was due to higher revenues from fees, licenses and permits. The decrease in governmental activities operating grants and contributions was due to less coronavirus grant monies received in the current year. The increase in municipal income tax can be attributed to higher collections during 2021. The decrease in unrestricted grants and entitlements can be attributed to a decrease in refunds from the Bureau of Workers' Compensation. The decrease in interest revenue was due to lower rates of return as well as to lower cash balances.

Program expenses decreased significantly due to changes in the net pension and net OPEB liabilities. Program expenses related to these liabilities were \$793,730 in 2020 versus a negative (\$1,332,396) in 2021.

Program expenses excluding amounts related to the change in the net pension/OPEB liabilities and the related payments subsequent actually increased by approximately \$642,000 due mainly to increases in general government expenses. General government increased due to expenses related to coronavirus safety and relief efforts.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

Business-Type Activities

The City operates two business-type activities, water and wastewater. The largest sources of revenue for both water and wastewater in 2021 were charges for services. The largest expenses are payroll and employee benefits for water and material and supplies for wastewater.

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 2021, 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 parks special revenue fund and the street improvement and the income tax capital improvement capital projects funds. Expenditures continued to outpace revenues for the year in the general fund. The increase in expenditures is due to the continued increases for the cost of goods and services and additional expenditures as a result of the COVID-19 pandemic. The parks fund balance increased due to higher property taxes and charges for services as revenues continued to exceed program costs. Despite an increase in income tax revenues, the street improvement fund balance decreased as expenditures, including the pay-off of short-term notes, exceeded current year revenue. The increase in the income tax capital improvement fund can be attributed to transfers in received.

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 \$6,005,730 and total operating expenses of \$4,061,228. 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 2020, mainly due to decreases in materials and supplies as well as to a drop in personal services resulting from changes in the net pension and net OPEB liabilities.

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 2021, actual revenues for the general fund were greater than final estimated revenues due mainly to higher than anticipated income tax revenue. 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 2021, the City amended its general fund budget numerous times, in response to a changes in expenditure projections.

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

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 the current year additions to capital assets including street improvements, new police and fire vehicles and equipment for the service department which were partially offset by an additional year of depreciation.

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 construction in progress, building improvements, various water and sewer equipment and improvements to 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	
	2021	2020	2021	Restated 2020	2021	Restated 2020
Land	\$5,042,432	\$4,606,592	\$669,334	\$669,334	\$5,711,766	\$5,275,926
Construction in Progress	0	735,802	1,614,239	1,514,050	1,614,239	2,249,852
Buildings	616,721	668,269	8,003,031	8,455,054	8,619,752	9,123,323
Improvements Other than Buildings	126,130	124,522	32,740	34,370	158,870	158,892
Land Improvements	300,601	308,700	0	0	300,601	308,700
Machinery and Equipment	2,258,479	1,509,593	1,059,922	1,031,197	3,318,401	2,540,790
Infrastructure	16,367,205	15,496,666	22,242,884	20,936,961	38,610,089	36,433,627
Total Capital Assets	\$24,711,568	\$23,450,144	\$33,622,150	\$32,640,966	\$58,333,718	\$56,091,110

Long-term Obligations

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

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
General Obligation Bonds	\$686,251	\$878,914	\$1,800,000	\$2,100,000	\$2,486,251	\$2,978,914
OWDA Loans	0	0	7,119	9,153	7,119	9,153
OPWC Loans	250,789	263,328	286,413	320,109	537,202	583,437
Infrastructure Improvement Note	1,000,000	1,000,000	0	0	1,000,000	1,000,000
Firetruck Acquisition Note	609,739	670,000	0	0	609,739	670,000
Real Estate Acquisition Note	450,000	0	0	0	450,000	0
Compensated Absences	480,911	428,259	136,256	137,848	617,167	566,107
Net Pension Liability	8,462,775	8,891,382	1,205,316	1,626,783	9,668,091	10,518,165
Net OPEB Liability	1,059,424	2,527,803	0	1,134,732	1,059,424	3,662,535
Total	\$12,999,889	\$14,659,686	\$3,435,104	\$5,328,625	\$16,434,993	\$19,988,311

City of Salem
Management's Discussion and Analysis
For the Year Ended December 31, 2021
Unaudited

The governmental 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 wastewater system improvement bonds were issued 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. The bonds will be paid from the wastewater enterprise fund.

The OWDA loan is being paid with monies from the water enterprise fund user charges.

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

The infrastructure improvement note is being paid with monies from the street improvement capital projects fund.

The firetruck acquisition note is being paid with monies from the general obligation debt service fund.

The real estate acquisition note will be paid from the general obligation debt service 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 \$22,197,385 on December 31, 2021. For more information about the City's long-term obligations, see Note 15 to the basic financial statements.

Current Financial Issues

The City of Salem continues to provide strong fiscal management, holding general operating expenses in check while maintaining City services at a high level in 2021. With the continuing increase in cost of goods and services and decreasing revenue in Federal and State sources, holding expenses down is a constant challenge. It is important that our taxpayers are confident that their City is using their tax dollars as wisely and efficiently as possible.

In 2020 and 2021, our community weathered one of the most difficult periods in recent history. Our City survived and continues to show economic development growth.

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.

Basic Financial Statements

City of Salem, Ohio
Statement of Net Position
December 31, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	City of Salem Health District
Assets				
Equity in Pooled Cash and Cash Equivalents	\$4,681,283	\$4,751,649	\$9,432,932	\$75,732
Accounts Receivable	45,042	998,349	1,043,391	0
Intergovernmental Receivable	605,386	0	605,386	59,575
Internal Balances	(61,919)	61,919	0	0
Property Taxes Receivable	1,182,215	0	1,182,215	0
Income Taxes Receivable	1,488,481	0	1,488,481	0
Special Assessments Receivable	0	125,756	125,756	0
Materials and Supplies Inventory	169,206	487,520	656,726	9,068
Prepaid Items	78,735	40,480	119,215	1,500
Payments in Lieu of Taxes Receivable	62,784	0	62,784	0
Net Pension Asset	68,566	50,201	118,767	3,673
Net OPEB Asset	202,041	147,923	349,964	10,823
Nondepreciable Capital Assets	5,042,432	2,283,573	7,326,005	0
Depreciable Capital Assets, Net	19,669,136	31,338,577	51,007,713	11,137
<i>Total Assets</i>	<u>33,233,388</u>	<u>40,285,947</u>	<u>73,519,335</u>	<u>171,508</u>
Deferred Outflows of Resources				
Deferred Charge on Refunding	3,662	0	3,662	0
Pension	1,329,243	183,721	1,512,964	13,376
OPEB	775,836	82,961	858,797	6,068
<i>Total Deferred Outflows of Resources</i>	<u>2,108,741</u>	<u>266,682</u>	<u>2,375,423</u>	<u>19,444</u>
Liabilities				
Accounts Payable	68,064	87,010	155,074	0
Accrued Wages	165,088	57,439	222,527	5,022
Contracts Payable	0	42,065	42,065	0
Intergovernmental Payable	126,757	25,222	151,979	14,622
Accrued Interest Payable	22,549	16,002	38,551	0
Deposits Held Payable	53,447	0	53,447	0
Unearned Revenue	252,782	0	252,782	0
Long-Term Liabilities:				
Due Within One Year	459,461	347,140	806,601	0
Due In More Than One Year				
Net Pension Liability (See Note 17)	8,462,775	1,205,316	9,668,091	88,195
Net OPEB Liability (See Note 18)	1,059,424	0	1,059,424	0
Other Amounts Due in More than One Year	3,018,229	1,882,648	4,900,877	4,221
<i>Total Liabilities</i>	<u>13,688,576</u>	<u>3,662,842</u>	<u>17,351,418</u>	<u>112,060</u>
Deferred Inflows of Resources				
Property Taxes	1,131,702	0	1,131,702	0
Payments in Lieu of Taxes	62,784	0	62,784	0
Pension	1,414,725	611,247	2,025,972	42,510
OPEB	1,003,603	486,453	1,490,056	34,157
<i>Total Deferred Inflows of Resources</i>	<u>3,612,814</u>	<u>1,097,700</u>	<u>4,710,514</u>	<u>76,667</u>
Net Position				
Net Investment in Capital Assets	21,718,451	31,528,618	53,247,069	11,137
Restricted for:				
Capital Projects	2,008,566	0	2,008,566	0
Debt Service	51,347	0	51,347	0
Streets	611,870	0	611,870	0
Parks	462,066	0	462,066	0
Law Enforcement	94,001	0	94,001	0
Community Environment	204,379	0	204,379	0
Other Purposes	106,054	0	106,054	0
Unrestricted (Deficit)	(7,215,995)	4,263,469	(2,952,526)	(8,912)
<i>Total Net Position</i>	<u>\$18,040,739</u>	<u>\$35,792,087</u>	<u>\$53,832,826</u>	<u>\$2,225</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Activities
For the Year Ended December 31, 2021

	Program Revenues		
	Expenses	Charges for Services and Assessments	Operating Grants and Contributions
Governmental Activities:			
General Government	\$1,173,907	\$44,289	\$202,403
Security of Persons and Property	4,667,578	159,693	76,404
Public Health Services - Intergovernmental	62,474	0	0
Transportation	1,181,217	965	913,310
Community Development	170,527	95,240	173,196
Leisure Time Activities	350,904	37,139	22,224
Interest and Fiscal Charges	74,288	0	0
<i>Total Governmental Activities</i>	<u>7,680,895</u>	<u>337,326</u>	<u>1,387,537</u>
Business-Type Activities:			
Water	1,876,261	2,691,268	0
Wastewater	2,245,807	3,068,837	153,000
<i>Total Business-Type Activities</i>	<u>4,122,068</u>	<u>5,760,105</u>	<u>153,000</u>
<i>Total- Primary Government</i>	<u>\$11,802,963</u>	<u>\$6,097,431</u>	<u>\$1,540,537</u>
Component Unit			
City of Salem Health District	<u>\$201,849</u>	<u>\$119,107</u>	<u>\$163,359</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

Unrestricted Contributions

Gain on Sale of Capital Assets

Other

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

*Net Position Beginning of Year -
Restated (See Note 21)*

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 Health District
(\$927,215)	\$0	(\$927,215)	\$0
(4,431,481)	0	(4,431,481)	0
(62,474)	0	(62,474)	0
(266,942)	0	(266,942)	0
97,909	0	97,909	0
(291,541)	0	(291,541)	0
(74,288)	0	(74,288)	0
(5,956,032)	0	(5,956,032)	0
0	815,007	815,007	0
0	976,030	976,030	0
0	1,791,037	1,791,037	0
(5,956,032)	1,791,037	(4,164,995)	0
0	0	0	80,617
636,306	0	636,306	0
431,774	0	431,774	0
63,684	0	63,684	0
63,684	0	63,684	0
4,603,454	0	4,603,454	0
250,366	0	250,366	0
1,505,925	0	1,505,925	0
291,479	0	291,479	0
62,783	0	62,783	0
27,892	12,224	40,116	0
36,370	0	36,370	16
26,148	0	26,148	0
280,174	92,625	372,799	62
8,280,039	104,849	8,384,888	78
19,951	(19,951)	0	0
8,299,990	84,898	8,384,888	78
2,343,958	1,875,935	4,219,893	80,695
15,696,781	33,916,152	49,612,933	(78,470)
<u>\$18,040,739</u>	<u>\$35,792,087</u>	<u>\$53,832,826</u>	<u>\$2,225</u>

City of Salem, Ohio
Balance Sheet
Governmental Funds
December 31, 2021

	General	Parks	Street Improvement	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Pooled Cash and Cash Equivalents	\$1,465,187	\$461,369	\$445,770	\$1,271,399	\$975,358	\$4,619,083
Receivables:						
Property Taxes	613,875	436,864	0	0	131,476	1,182,215
Income Taxes	1,190,785	0	297,696	0	0	1,488,481
Accounts	40,186	0	0	1,221	3,635	45,042
Intergovernmental	138,682	11,196	0	0	455,508	605,386
Materials and Supplies Inventory	79,492	0	0	0	89,714	169,206
Prepaid Items	62,114	6,644	0	7,525	2,452	78,735
Payments in Lieu of Taxes Receivable	0	0	0	0	62,784	62,784
Restricted Assets:						
Equity in Pooled Cash and Cash Equivalents	62,200	0	0	0	0	62,200
<i>Total Assets</i>	<u>\$3,652,521</u>	<u>\$916,073</u>	<u>\$743,466</u>	<u>\$1,280,145</u>	<u>\$1,720,927</u>	<u>\$8,313,132</u>
Liabilities						
Accounts Payable	\$36,389	\$0	\$15,045	\$0	\$16,630	\$68,064
Accrued Wages	139,453	8,746	0	0	16,889	165,088
Intergovernmental Payable	40,388	5,165	0	0	81,204	126,757
Interfund Payable	0	0	0	0	61,919	61,919
Deposits Held Payable from Restricted Assets	53,447	0	0	0	0	53,447
Accrued Interest Payable	0	0	0	0	157	157
Unearned Revenue	0	0	0	0	252,782	252,782
<i>Total Liabilities</i>	<u>269,677</u>	<u>13,911</u>	<u>15,045</u>	<u>0</u>	<u>429,581</u>	<u>728,214</u>
Deferred Inflows of Resources						
Property Taxes	586,792	419,238	0	0	125,672	1,131,702
Payments in Lieu of Taxes	0	0	0	0	62,784	62,784
Unavailable Revenue	924,884	28,822	199,294	0	300,470	1,453,470
<i>Total Deferred Inflows of Resources</i>	<u>1,511,676</u>	<u>448,060</u>	<u>199,294</u>	<u>0</u>	<u>488,926</u>	<u>2,647,956</u>
Fund Balances						
Nonspendable	150,359	6,644	0	7,525	92,166	256,694
Restricted	0	447,458	529,127	1,272,620	739,829	2,989,034
Committed	202	0	0	0	45,734	45,936
Assigned	901,388	0	0	0	0	901,388
Unassigned (Deficit)	819,219	0	0	0	(75,309)	743,910
<i>Total Fund Balances</i>	<u>1,871,168</u>	<u>454,102</u>	<u>529,127</u>	<u>1,280,145</u>	<u>802,420</u>	<u>4,936,962</u>
<i>Total Liabilities, Deferred Inflows of Resources and Fund Balances</i>	<u>\$3,652,521</u>	<u>\$916,073</u>	<u>\$743,466</u>	<u>\$1,280,145</u>	<u>\$1,720,927</u>	<u>\$8,313,132</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, 2021*

Total Governmental Fund Balances	\$4,936,962
 <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.	24,711,568
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	50,513
Income Taxes	996,469
Intergovernmental	<u>406,488</u>
Total	1,453,470
The net pension asset, net pension liability, net OPEB asset 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	68,566
Deferred Outflows - Pension	1,329,243
Deferred Inflows - Pension	(1,414,725)
Net Pension Liability	(8,462,775)
Net OPEB Asset	202,041
Deferred Outflows - OPEB	775,836
Deferred Inflows - OPEB	(1,003,603)
Net OPEB Liability	<u>(1,059,424)</u>
Total	(9,564,841)
In the statement of activities, interest is accrued on outstanding bonds, whereas in governmental funds, an interest expenditure is reported when due.	(22,392)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(686,251)
OPWC Loans Payable	(250,789)
Compensated Absences	(480,911)
Notes Payable	(2,059,739)
Deferred Charge on Refunding	<u>3,662</u>
Total	<u>(3,474,028)</u>
<i>Net Position of Governmental Activities</i>	<u><u>\$18,040,739</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, 2021

	General	Parks	Street Improvement	Income Tax Capital Improvement	Other Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$636,064	\$431,391	\$0	\$0	\$127,316	\$1,194,771
Municipal Income Taxes	4,615,682	0	1,256,710	220,218	250,366	6,342,976
Charges for Services	59,194	20,817	0	0	135	80,146
Fees, Licenses and Permits	136,380	7,430	0	0	72,420	216,230
Fines and Forfeitures	8,610	0	0	0	260	8,870
Intergovernmental	267,164	22,390	0	0	1,284,419	1,573,973
Interest	23,293	0	4,599	0	0	27,892
Rentals	1,920	8,892	0	1,221	1,221	13,254
Contributions and Donations	36,370	0	0	0	0	36,370
Special Assessments	0	0	0	0	18,826	18,826
Payments in Lieu of Taxes	0	0	0	0	62,783	62,783
Other	41,712	40,728	0	74,689	123,045	280,174
<i>Total Revenues</i>	<u>5,826,389</u>	<u>531,648</u>	<u>1,261,309</u>	<u>296,128</u>	<u>1,940,791</u>	<u>9,856,265</u>
Expenditures						
Current:						
General Government	1,337,855	0	11,000	0	215,796	1,564,651
Security of Persons and Property	3,984,802	0	0	0	564,752	4,549,554
Transportation	24,402	0	197,349	0	824,179	1,045,930
Community Development	130,998	0	0	0	124,682	255,680
Leisure Time Activities	0	463,023	0	0	44,598	507,621
Intergovernmental	62,474	0	0	0	0	62,474
Capital Outlay	0	28,451	1,123,729	827,192	190,931	2,170,303
Debt Service:						
Principal Retirement	0	0	1,000,000	0	265,463	1,265,463
Interest and Fiscal Charges	0	0	28,967	0	38,459	67,426
<i>Total Expenditures</i>	<u>5,540,531</u>	<u>491,474</u>	<u>2,361,045</u>	<u>827,192</u>	<u>2,268,860</u>	<u>11,489,102</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>285,858</u>	<u>40,174</u>	<u>(1,099,736)</u>	<u>(531,064)</u>	<u>(328,069)</u>	<u>(1,632,837)</u>
Other Financing Sources (Uses)						
Sale of Capital Assets	463	14,400	0	19,333	390	34,586
General Obligation Notes Issued	0	0	1,000,000	445,840	4,160	1,450,000
Transfers In	19,951	0	0	300,000	404,000	723,951
Transfers Out	(654,000)	0	0	0	(50,000)	(704,000)
<i>Total Other Financing Sources (Uses)</i>	<u>(633,586)</u>	<u>14,400</u>	<u>1,000,000</u>	<u>765,173</u>	<u>358,550</u>	<u>1,504,537</u>
<i>Net Change in Fund Balances</i>	<u>(347,728)</u>	<u>54,574</u>	<u>(99,736)</u>	<u>234,109</u>	<u>30,481</u>	<u>(128,300)</u>
<i>Fund Balances Beginning of Year</i>	<u>2,218,896</u>	<u>399,528</u>	<u>628,863</u>	<u>1,046,036</u>	<u>771,939</u>	<u>5,065,262</u>
<i>Fund Balances End of Year</i>	<u>\$1,871,168</u>	<u>\$454,102</u>	<u>\$529,127</u>	<u>\$1,280,145</u>	<u>\$802,420</u>	<u>\$4,936,962</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, 2021*

Net Change in Fund Balances - Total Governmental Funds	(\$128,300)
 <i>Amounts reported for governmental activities in the statement of activities are different because</i>	
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	2,229,200
Current Year Depreciation	<u>(951,032)</u>
Total	1,278,168
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal.	
	(16,744)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Delinquent Property Taxes	677
Income Taxes	16,769
Intergovernmental	<u>105,043</u>
Total	122,489
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.	
	1,265,463
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	(5,885)
Amortization of Loss on Refunding	<u>(977)</u>
Total	(6,862)
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.	
	(52,652)
Contractually required contributions are reported as expenditures in governmental funds; however, the statement of net position reports these amounts as deferred outflows:	
Pension	810,469
OPEB	<u>16,987</u>
Total	827,456
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	(589,343)
OPEB	<u>1,094,283</u>
Total	504,940
Other financing sources, such as general obligation notes issued in the governmental funds increase long-term liabilities in the statement of net position.	
	<u>(1,450,000)</u>
<i>Change in Net Position of Governmental Activities</i>	<u><u>\$2,343,958</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
General Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$339,163	\$625,000	\$636,064	\$11,064
Municipal Income Taxes	4,263,877	4,329,716	4,592,346	262,630
Charges for Services	32,424	59,750	62,422	2,672
Fees, Licenses and Permits	70,681	130,250	115,282	(14,968)
Fines and Forfeitures	8,140	15,000	9,440	(5,560)
Intergovernmental	134,725	247,459	269,072	21,613
Interest	37,986	70,000	23,293	(46,707)
Rentals	1,042	1,920	1,920	0
Contributions and Donations	10,853	20,000	20,000	0
Other	28,012	33,500	40,913	7,413
<i>Total Revenues</i>	4,926,903	5,532,595	5,770,752	238,157
Expenditures				
Current:				
General Government	1,440,139	1,543,924	1,374,451	169,473
Security of Persons and Property	3,830,065	4,149,514	3,963,901	185,613
Transportation	26,308	28,500	24,402	4,098
Community Development	277,457	242,430	191,297	51,133
Intergovernmental	64,214	62,474	62,474	0
<i>Total Expenditures</i>	5,638,183	6,026,842	5,616,525	410,317
<i>Excess of Revenues Over (Under) Expenditures</i>	(711,280)	(494,247)	154,227	648,474
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	463	463
Advances In	0	0	10,000	10,000
Transfers In	88,172	92,172	19,951	(72,221)
Transfers Out	(603,337)	(660,131)	(654,000)	6,131
<i>Total Other Financing Sources (Uses)</i>	(515,165)	(567,959)	(623,586)	(55,627)
<i>Net Change in Fund Balance</i>	(1,226,445)	(1,062,206)	(469,359)	592,847
<i>Fund Balance Beginning of Year</i>	1,892,734	1,892,734	1,892,734	0
Prior Year Encumbrances Appropriated	57,513	57,513	57,513	0
<i>Fund Balance End of Year</i>	\$723,802	\$888,041	\$1,480,888	\$592,847

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Revenues, Expenditures and Changes
In Fund Balance - Budget (Non-GAAP Basis) and Actual
Parks Fund
For the Year Ended December 31, 2021

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Property Taxes	\$410,551	\$404,700	\$431,391	\$26,691
Charges for Services	23,333	23,000	20,817	(2,183)
Fees, Licenses and Permits	10,145	10,000	7,430	(2,570)
Intergovernmental	25,361	25,000	22,390	(2,610)
Rentals	12,681	12,500	8,892	(3,608)
Other	24,042	23,700	40,728	17,028
<i>Total Revenues</i>	506,113	498,900	531,648	32,748
Expenditures				
Current:				
Leisure Time Activities	467,765	524,304	462,512	61,792
Capital Outlay	79,462	88,979	29,060	59,919
<i>Total Expenditures</i>	547,227	613,283	491,572	121,711
<i>Excess of Revenues Over (Under) Expenditures</i>	(41,114)	(114,383)	40,076	154,459
Other Financing Sources (Uses)				
Sale of Capital Assets	0	0	14,400	14,400
Advance In	6,087	6,000	0	(6,000)
Advance Out	(2,679)	(3,000)	0	3,000
<i>Total Other Financing Sources (Uses)</i>	3,408	3,000	14,400	11,400
<i>Net Change in Fund Balance</i>	(37,706)	(111,383)	54,476	165,859
<i>Fund Balance Beginning of Year</i>	403,272	403,272	403,272	0
Prior Year Encumbrances Appropriated	2,453	2,453	2,453	0
<i>Fund Balance End of Year</i>	\$368,019	\$294,342	\$460,201	\$165,859

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fund Net Position
Proprietary Funds
December 31, 2021

	Enterprise		
	Water	Wastewater	Total
Assets			
<i>Current Assets:</i>			
Equity in Pooled Cash and Cash Equivalents	\$2,424,483	\$2,327,166	\$4,751,649
Accounts Receivable	467,915	530,434	998,349
Special Assessments Receivable	0	125,756	125,756
Materials and Supplies Inventory	475,648	11,872	487,520
Prepaid Items	19,170	21,310	40,480
Interfund Receivable	0	511,919	511,919
<i>Total Current Assets</i>	<u>3,387,216</u>	<u>3,528,457</u>	<u>6,915,673</u>
<i>Noncurrent Assets:</i>			
Net Pension Asset	23,264	26,937	50,201
Net OPEB Asset	68,550	79,373	147,923
Nondepreciable Capital Assets	605,937	1,677,636	2,283,573
Depreciable Capital Assets, Net	10,977,729	20,360,848	31,338,577
<i>Total Noncurrent Assets</i>	<u>11,675,480</u>	<u>22,144,794</u>	<u>33,820,274</u>
<i>Total Assets</i>	<u>15,062,696</u>	<u>25,673,251</u>	<u>40,735,947</u>
Deferred Outflows of Resources			
Pension	85,016	98,705	183,721
OPEB	38,443	44,518	82,961
<i>Total Deferred Outflows of Resources</i>	<u>123,459</u>	<u>143,223</u>	<u>266,682</u>
Liabilities			
<i>Current Liabilities:</i>			
Accounts Payable	65,327	21,683	87,010
Accrued Wages	27,733	29,706	57,439
Contracts Payable	0	42,065	42,065
Intergovernmental Payable	17,222	8,000	25,222
Interfund Payable	450,000	0	450,000
Accrued Interest Payable	1,582	14,420	16,002
OPWC Loans Payable	33,696	0	33,696
Compensated Absences Payable	6,244	7,200	13,444
General Obligation Bonds Payable	0	300,000	300,000
<i>Total Current Liabilities</i>	<u>601,804</u>	<u>423,074</u>	<u>1,024,878</u>
<i>Long-Term Liabilities (net of current portion):</i>			
OPWC Loans Payable	252,717	0	252,717
OWDA Loans Payable	7,119	0	7,119
Compensated Absences Payable	61,658	61,154	122,812
General Obligation Bonds Payable	0	1,500,000	1,500,000
Net Pension Liability	558,561	646,755	1,205,316
<i>Total Long-Term Liabilities</i>	<u>880,055</u>	<u>2,207,909</u>	<u>3,087,964</u>
<i>Total Liabilities</i>	<u>1,481,859</u>	<u>2,630,983</u>	<u>4,112,842</u>
Deferred Inflows of Resources			
Pension	279,323	331,924	611,247
OPEB	222,874	263,579	486,453
<i>Total Deferred Inflows of Resources</i>	<u>502,197</u>	<u>595,503</u>	<u>1,097,700</u>
Net Position			
Net Investment in Capital Assets	11,290,134	20,238,484	31,528,618
Unrestricted	1,911,965	2,351,504	4,263,469
<i>Total Net Position</i>	<u>\$13,202,099</u>	<u>\$22,589,988</u>	<u>\$35,792,087</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, 2021*

	Enterprise		
	Water	Wastewater	Total
Operating Revenues			
Charges for Services	\$2,691,268	\$3,068,837	\$5,760,105
Intergovernmental	0	153,000	153,000
Other	58,440	34,185	92,625
<i>Total Operating Revenues</i>	<u>2,749,708</u>	<u>3,256,022</u>	<u>6,005,730</u>
Operating Expenses			
Personal Services	331,931	317,752	649,683
Materials and Supplies	418,566	458,558	877,124
Contractual Services	609,129	662,134	1,271,263
Depreciation	501,987	752,748	1,254,735
Other	6,816	1,607	8,423
<i>Total Operating Expenses</i>	<u>1,868,429</u>	<u>2,192,799</u>	<u>4,061,228</u>
<i>Operating Income (Loss)</i>	<u>881,279</u>	<u>1,063,223</u>	<u>1,944,502</u>
Non-Operating Revenue (Expenses)			
Interest	0	12,224	12,224
Interest and Fiscal Charges	(7,832)	(53,008)	(60,840)
<i>Total Non-Operating Revenue (Expenses)</i>	<u>(7,832)</u>	<u>(40,784)</u>	<u>(48,616)</u>
<i>Income (Loss) before Transfers</i>	873,447	1,022,439	1,895,886
Transfers Out	0	(19,951)	(19,951)
<i>Change in Net Position</i>	873,447	1,002,488	1,875,935
<i>Net Position Beginning of Year - Restated (See Note 21)</i>	<u>12,328,652</u>	<u>21,587,500</u>	<u>33,916,152</u>
<i>Net Position End of Year</i>	<u><u>\$13,202,099</u></u>	<u><u>\$22,589,988</u></u>	<u><u>\$35,792,087</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2021

	Enterprise		
	Water	Wastewater	Total
<i>Increase in Cash and Cash Equivalents</i>			
Cash Flows from Operating Activities			
Cash Received from Customers	\$2,533,812	\$2,810,281	\$5,344,093
Intergovernmental Cash Receipts	0	153,000	153,000
Other Cash Receipts	58,440	34,185	92,625
Special Assessments	0	36,053	36,053
Cash Payments to Employees for Services	(859,833)	(961,596)	(1,821,429)
Cash Payments for Goods and Services	(1,095,411)	(1,350,919)	(2,446,330)
Other Cash Payments	(6,816)	(1,607)	(8,423)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>630,192</u>	<u>719,397</u>	<u>1,349,589</u>
Cash Flows from Noncapital Financing Activities			
Advances In	0	258,936	258,936
Advances Out	(250,000)	0	(250,000)
Transfers Out	0	(19,951)	(19,951)
<i>Net Cash Provided by (Used for) Noncapital Financing Activities</i>	<u>(250,000)</u>	<u>238,985</u>	<u>(11,015)</u>
Cash Flows from Capital and Related Financing Activities			
Principal Paid on Revenue Bonds	0	(300,000)	(300,000)
Interest Paid on Revenue Bonds	0	(56,467)	(56,467)
Interest Paid on Interfund Loans	(6,250)	0	(6,250)
Payments for Capital Acquisitions	(202,921)	(2,032,998)	(2,235,919)
Principal Paid on OWDA Loans	(2,034)	0	(2,034)
Principal Paid on OWPC Loans	(33,696)	0	(33,696)
<i>Net Cash Provided by (Used for) Capital and Related Financing Activities</i>	<u>(244,901)</u>	<u>(2,389,465)</u>	<u>(2,634,366)</u>
Cash Flows from Investing Activities			
Interest on Investments	0	12,224	12,224
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	135,291	(1,418,859)	(1,283,568)
<i>Cash and Cash Equivalents Beginning of Year</i>	<u>2,289,192</u>	<u>3,746,025</u>	<u>6,035,217</u>
<i>Cash and Cash Equivalents End of Year</i>	<u>\$2,424,483</u>	<u>\$2,327,166</u>	<u>\$4,751,649</u>

(continued)

City of Salem, Ohio
Statement of Cash Flows
Proprietary Funds (continued)
For the Year Ended December 31, 2021

	Enterprise		
	Water	Sewer	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities			
Operating Income (Loss)	\$881,279	\$1,063,223	\$1,944,502
Adjustments:			
Depreciation	501,987	752,748	1,254,735
(Increase) Decrease in Assets:			
Accounts Receivable	(157,456)	(258,556)	(416,012)
Special Assessments Receivable	0	36,053	36,053
Materials and Supplies Inventory	(87,681)	3,236	(84,445)
Prepaid Items	(502)	(2,140)	(2,642)
Net Pension Asset	(2,748)	(3,181)	(5,929)
Net OPEB Asset	(331,285)	(383,595)	(714,880)
(Increase) Decrease in Deferred Outflows - Pension	106,673	123,728	230,401
(Increase) Decrease in Deferred Outflows - OPEB	68,048	78,983	147,031
Increase (Decrease) in Liabilities:			
Accounts Payable	22,580	(270,893)	(248,313)
Accrued Wages	5,198	1,913	7,111
Contracts Payable	0	42,065	42,065
Compensated Absences Payable	(212)	(1,380)	(1,592)
Intergovernmental Payable	5,993	2,403	8,396
Net Pension Liability	(2,993)	(3,464)	(6,457)
Increase (Decrease) in Deferred Inflows - Pension	(212,646)	(261,481)	(474,127)
Increase (Decrease) in Deferred Inflows - OPEB	(166,043)	(200,265)	(366,308)
<i>Total Adjustments</i>	(251,087)	(343,826)	(594,913)
<i>Net Cash Provided by (Used for) Operating Activities</i>	<u>\$630,192</u>	<u>\$719,397</u>	<u>\$1,349,589</u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Fiduciary Net Position
Custodial Fund
December 31, 2021

Assets	
Equity in Pooled Cash and Cash Equivalents	\$3,185
Liabilities	<u>0</u>
Net Position	
Restricted for:	
Individuals and Other Governments	<u><u>\$3,185</u></u>

See accompanying notes to the basic financial statements

City of Salem, Ohio
Statement of Changes in Fiduciary Net Position
Custodial Fund
For the Year Ended December 31, 2021

Additions	
Fines and Forfeitures for Other Governments	\$2,613
Deductions	
Fines and Forfeitures to Other Governments and Others	<u>256</u>
<i>Net Increase (Decrease) in Fiduciary Net Position</i>	2,357
<i>Net Position Beginning of Year</i>	<u>828</u>
<i>Net Position End of Year</i>	<u><u>\$3,185</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, 2021

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 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 Health District. It is reported separately to emphasize that it is legally separate from the City. Information for the component unit is presented in Note 25.

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

The City participates in a shared risk pool and a jointly governed organizations. These organizations are the Public Entities Pool of Ohio and the Regional Income Tax Agency. These organizations are presented in Notes 12 and 19 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, 2021

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, 2021

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

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

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 accounts for fines and forfeitures collected for the benefit of and distributed to individuals and other governments.

Measurement Focus

Government-wide Financial Statements The government-wide financial statements are prepared using a flow of economic resources measurement focus. All non-fiduciary 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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

Like the government-wide statements, all proprietary 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

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 assets 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 assets 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, 2021, but which were levied to finance fiscal year 2022 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 19. 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."

Investment procedures are restricted by the provisions of the Ohio Revised Code. Interest revenue credited to the general fund during 2021 amount to \$23,293, of which \$16,797 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, 2021

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2021, are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventory

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

Restricted Assets

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

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:

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

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 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 2022'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.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 for water and wastewater 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.

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 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.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. The City recognizes unearned revenue for intergovernmental revenue from grants received before the eligibility requirements are met.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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, 2021, included the following individual fund deficits:

	<u>Deficit Fund Balances</u>
<i>Special Revenue Funds:</i>	
Police Pension	\$22,689
Fire Pension	29,524
<i>Debt Service Fund</i>	
Tax Increment Financing Bond Retirement	23,096

The special revenue funds' deficit is caused by the recognition of expenditures on the modified accrual basis of accounting. The debt service fund had a deficit fund balance due to the recording of an interfund payable. The general fund is liable for any deficits in these fund and provides transfers when cash is required, not when accruals occur.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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	Parks	Street Improvement	Income Tax Capital Improvement	Other Governmental Funds	Total
<i>Nonspendable</i>						
Prepays	\$62,114	\$6,644	\$0	\$7,525	\$2,452	\$78,735
Inventory	79,492	0	0	0	89,714	169,206
Unclaimed Monies	8,753	0	0	0	0	8,753
<i>Total Nonspendable</i>	<u>150,359</u>	<u>6,644</u>	<u>0</u>	<u>7,525</u>	<u>92,166</u>	<u>256,694</u>
<i>Restricted for</i>						
Park Operations	0	447,458	0	0	0	447,458
Public Safety	0	0	0	0	101,737	101,737
Community Development	0	0	0	0	291,762	291,762
Street Maintenance	0	0	0	0	272,591	272,591
Capital Improvements	0	0	529,127	1,272,620	0	1,801,747
Debt Service Payments	0	0	0	0	73,739	73,739
<i>Total Restricted</i>	<u>0</u>	<u>447,458</u>	<u>529,127</u>	<u>1,272,620</u>	<u>739,829</u>	<u>2,989,034</u>
<i>Committed to</i>						
Municipal Events	0	0	0	0	11,176	11,176
Storm Water Study	0	0	0	0	32,023	32,023
Capital Improvements	0	0	0	0	2,535	2,535
Accrued Personal Benefits	202	0	0	0	0	202
<i>Total Committed</i>	<u>202</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>45,734</u>	<u>45,936</u>
<i>Assigned to</i>						
Shade Tree Program	624	0	0	0	0	624
2022 Appropriations	900,764	0	0	0	0	900,764
<i>Total Assigned</i>	<u>901,388</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>901,388</u>
<i>Unassigned (Deficit)</i>	<u>819,219</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(75,309)</u>	<u>743,910</u>
<i>Total Fund Balances</i>	<u><u>\$1,871,168</u></u>	<u><u>\$454,102</u></u>	<u><u>\$529,127</u></u>	<u><u>\$1,280,145</u></u>	<u><u>\$802,420</u></u>	<u><u>\$4,936,962</u></u>

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 and the parks fund are 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:

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

1. Revenues are recorded when received in cash (budget) as opposed to when susceptible to accrual (GAAP).
2. Advances In are operating transactions (budget) as opposed to balance sheet transactions (GAAP).
3. Expenditures are recorded when paid in cash (budget) as opposed to when the liability is incurred (GAAP).
4. Encumbrances are treated as expenditures (budget) rather than restricted, committed or assigned fund balance (GAAP).

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

Net Change in Fund Balances		
	General	Parks
GAAP Basis	(\$347,728)	\$54,574
Net Adjustment for Revenue Accruals	(55,637)	0
Advance In	10,000	0
Net Adjustment for Expenditures Accruals	(30,119)	1,070
Encumbrances	(45,875)	(1,168)
Budget Basis	(\$469,359)	\$54,476

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.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

Note 7 - Receivables

Receivables at December 31, 2021, 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 2021 for real and public utility property taxes represents collections of 2020 taxes.

2021 real property taxes were levied after October 1, 2021, on the assessed value as of January 1, 2021, the lien date. Assessed values are established by State law at 35 percent of appraised market value. 2021 real property taxes are collected in and intended to finance 2022.

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. 2021 public utility property taxes which became a lien December 31, 2020, are levied after October 1, 2021, and are collected in 2022 with real property taxes.

The full tax rate for all City operations for the year ended December 31, 2021, was \$5.70 per \$1,000 of assessed value. The assessed values of real and public utility tangible property upon which 2021 property tax receipts were based are as follows:

Real Property	\$225,905,270
Public Utility Personal Property	13,461,300
Total	<u><u>\$239,366,570</u></u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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, 2021, and for which there was an enforceable legal claim. In governmental funds, the portion of the receivable not levied to finance 2021 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 RITA 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 ended December 31, 2020. In November 2019 voters approved to continue the .25 percent additional tax levy for an additional five years beginning January 1, 2021 to December 31, 2025. The new income tax proceeds are to be restricted for streets, alleys, sidewalks, curbs and storm sewers.

The Regional Income Tax Agency administers and collects income taxes for the City. Payments are remitted monthly net of collection fees of approximately 1.34 percent.

Intergovernmental Receivables

A summary of intergovernmental receivables follows:

	Amounts
Governmental Activities	
Gasoline and Municipal Cents per Gallon	\$332,084
Local Government	98,325
Homestead and Rollback	53,485
Permissive Tax	45,484
Motor Vehicle License Tax	44,461
U.S. Department of Treasury	29,100
Ohio Bureau of Worker's Compensation	1,249
Columbiana County	1,138
Mahoning County	60
	60
Total Governmental Activities	\$605,386

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Payments in Lieu of Taxes

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

Note 8 – Tax Abatements

As of December 31, 2021, 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 15th 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, 2021.

Tax Abatement Program	Total Amount of Taxes Abated (Incentives Abated) For the year 2021 (In Actual Dollars)
<i>Community Reinvestment Area (CRA)</i>	
- Commercial/Industrial	\$10,641

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 and three permanent part-time dispatchers 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, 2021.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 11 - Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	Balance 12/31/2020	Additions	Deductions	Balance 12/31/2021
Governmental Activities				
<i>Capital Assets not being Depreciated:</i>				
Land	\$4,606,592	\$435,840	\$0	\$5,042,432
Construction in Progress	735,802	55,703	(791,505)	0
<i>Total Capital Assets not being Depreciated</i>	<u>5,342,394</u>	<u>491,543</u>	<u>(791,505)</u>	<u>5,042,432</u>
<i>Capital Assets being Depreciated:</i>				
Buildings	2,373,100	1,497	0	2,374,597
Improvements Other Than Buildings	572,564	8,227	(3,660)	577,131
Land Improvements	646,337	2,520	0	648,857
Machinery and Equipment	5,062,708	1,189,393	(517,573)	5,734,528
Infrastructure	31,466,947	1,327,525	0	32,794,472
Total Capital Assets being Depreciated	<u>40,121,656</u>	<u>2,529,162</u>	<u>(521,233)</u>	<u>42,129,585</u>
<i>Less Accumulated Depreciation:</i>				
Buildings	(1,704,831)	(53,045)	0	(1,757,876)
Improvements Other Than Buildings	(448,042)	(6,619)	3,660	(451,001)
Land Improvements	(337,637)	(10,619)	0	(348,256)
Machinery and Equipment	(3,553,115)	(423,763)	500,829	(3,476,049)
Infrastructure	(15,970,281)	(456,986)	0	(16,427,267)
<i>Total Accumulated Depreciation</i>	<u>(22,013,906)</u>	<u>(951,032) *</u>	<u>504,489</u>	<u>(22,460,449)</u>
Total Capital Assets being Depreciated, Net	<u>18,107,750</u>	<u>1,578,130</u>	<u>(16,744)</u>	<u>19,669,136</u>
Governmental Activities Capital Assets, Net	<u>\$23,450,144</u>	<u>\$2,069,673</u>	<u>(\$808,249)</u>	<u>\$24,711,568</u>

*Depreciation expense was charged to governmental activities as follows:

General Government	\$27,536
Security of Persons and Property	323,657
Transportation	547,027
Leisure Time Activities	52,812
Total Depreciation Expense	<u>\$951,032</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

	Restated Balance 12/31/2020	Additions	Deductions	Balance 12/31/2021
Business Type Activities:				
<i>Capital Assets not being Depreciated:</i>				
Land	\$669,334	\$0	\$0	\$669,334
Construction in Progress	1,514,050	2,129,217	(2,029,028)	1,614,239
Total Capital Assets not being Depreciated	2,183,384	2,129,217	(2,029,028)	2,283,573
<i>Capital Assets being Depreciated:</i>				
Buildings	22,356,182	20,955	0	22,377,137
Improvements Other Than Buildings	132,882	0	0	132,882
Machinery and Equipment	9,528,761	180,252	(26,375)	9,682,638
Infrastructure	26,418,764	1,934,523	0	28,353,287
Total Capital Assets being Depreciated	58,436,589	2,135,730	(26,375)	60,545,944
<i>Less Accumulated Depreciation:</i>				
Buildings	(13,901,128)	(472,978)	0	(14,374,106)
Improvements Other Than Buildings	(98,512)	(1,630)	0	(100,142)
Machinery and Equipment	(8,497,564)	(151,527)	26,375	(8,622,716)
Infrastructure	(5,481,803)	(628,600)	0	(6,110,403)
Total Accumulated Depreciation	(27,979,007)	(1,254,735)	26,375	(29,207,367)
Total Capital Assets being Depreciated, Net	30,457,582	880,995	0	31,338,577
Business Type Activities Capital Assets, Net	\$32,640,966	\$3,010,212	(\$2,029,028)	\$33,622,150

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, 2021, 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.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Financial Position

PEP’s financial statements conform to generally accepted accounting principles, and preliminarily show the following assets, liabilities and net position at December 31, 2021:

Casualty and Property Coverage	2021
Assets	\$41,996,850
Liabilities	14,974,099
Net Position - Unrestricted	\$27,022,751

At December 31, 2021, the liabilities above include unknown amounts of estimated incurred claims payable. The casualty coverage assets and net position above include approximately \$13.9 million of unpaid claims to be billed to approximately 589 member governments in the future, as of December 31, 2021. 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 fourth year the City was a member of the PEP. The contribution for 2021 was \$144,726.

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, 2021, consisted of the following:

Transfer To	Transfer From			Total
	General	Other Governmental Funds	Wastewater	
Governmental Funds				
Major Funds:				
General	\$0	\$0	\$19,951	\$19,951
Income Tax Capital Improvement	250,000	50,000	0	300,000
Other Governmental Funds:				
Police Pension Fund	210,000	0	0	210,000
Fire Pension Fund	194,000	0	0	194,000
Grand Total	\$654,000	\$50,000	\$19,951	\$723,951

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

The transfers to the police pension and fire pension special revenue funds were to move unassigned balances to support programs and projects accounted for in other funds. The transfer from the debt service fund to the income tax capital improvement fund was to assist in covering costs of capital projects. The transfer from the wastewater fund to the general fund was for accrued personal benefits owed to employees.

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. As of December 31, 2021, the City has retired \$30,784.

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	<u>Wastewater</u>
Tax Increment Financing Debt Service	<u>\$61,919</u>

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

	<u>Principal</u>	<u>Interest</u>
2022	\$9,026	\$748
2023	9,116	658
2024	9,207	566
2025	9,299	474
2026	9,392	381
2027-2029	<u>15,879</u>	<u>576</u>
Total	<u>\$61,919</u>	<u>\$3,403</u>

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 2021, the City retired \$250,000 leaving a balance of \$450,000. The remaining principal and interest are due on May 30, 2023.

	<u>Interfund Receivable</u>
<u>Interfund Payable</u>	<u>Wastewater</u>
Water	<u>\$450,000</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 14 – Note Debt

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

	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021
Infrastructure Improvement Note, Series 2020	\$1,000,000	\$0	(\$1,000,000)	\$0

The infrastructure improvement note for \$1,000,000 was retired during 2021. These notes had an interest rate of 2.18 percent.

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
Governmental Activities:			
<i>General Obligation Bonds:</i>			
Various Purpose Bonds, Series A	2.59 %	\$328,000	2023
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 Notes from Direct Placement</i>			
Infrastructure Improvement Note, Series 2020	2.18	1,000,000	2021
Infrastructure Improvement Note, Series 2021	1.25	1,000,000	2022
Firetruck Acquisition Note	2.35	670,000	2025
Real Estate Acquisition Note	2.30	450,000	2026
Business-Type Activities:			
<i>OPWC Loans from Direct Borrowings</i>			
Roosevelt Ave Water Tank	0.00	673,917	2030
<i>OWDA Loan from Direct Borrowing</i>			
Asset Management Plan	NA	10,170	2025
Wastewater System Improvement Bond	2.90	3,000,000	2027

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

A schedule of changes in bonds and other long-term obligations of the City during 2021 follows:

	Amount Outstanding 12/31/2020	Additions	Deletions	Amount Outstanding 12/31/2021	Amounts Due In One Year
Governmental Activities Obligations:					
<i>General Obligation Bonds</i>					
Various Purpose Bonds, Series A	\$69,633	\$0	(\$37,663)	\$31,970	\$31,970
Various Purpose Refunding Bonds, Series 2014	809,281	0	(155,000)	654,281	160,000
Total General Obligation Bonds	<u>878,914</u>	<u>0</u>	<u>(192,663)</u>	<u>686,251</u>	<u>191,970</u>
<i>OPWC Loan from Direct Borrowings</i>					
East Pershing Street Improvement	263,328	0	(12,539)	250,789	12,539
<i>Other Long-term Liabilities:</i>					
Net Pension Liability					
OPERS	2,221,945	0	(575,659)	1,646,286	0
OP&F	6,669,437	147,052	0	6,816,489	0
Total Net Pension Liability:	<u>8,891,382</u>	<u>147,052</u>	<u>(575,659)</u>	<u>8,462,775</u>	<u>0</u>
Net OPEB Liability					
OPERS	1,549,868	0	(1,549,868)	0	0
OP&F	977,935	81,489	0	1,059,424	0
Total Net OPEB Liability:	<u>2,527,803</u>	<u>81,489</u>	<u>(1,549,868)</u>	<u>1,059,424</u>	<u>0</u>
<i>Long-term Notes from Direct Placement</i>					
Infrastructure Improvement Notes	1,000,000	1,000,000	(1,000,000)	1,000,000	0
Firetruck Acquisition Notes	670,000	0	(60,261)	609,739	61,631
Real Estate Acquisition Notes	0	450,000	0	450,000	0
Compensated Absences	428,259	199,609	(146,957)	480,911	193,321
Total Other Long-term Liabilities	<u>13,517,444</u>	<u>1,878,150</u>	<u>(3,332,745)</u>	<u>12,062,849</u>	<u>254,952</u>
<i>Total Governmental Activities Obligations</i>	<u>\$14,659,686</u>	<u>\$1,878,150</u>	<u>(\$3,537,947)</u>	<u>\$12,999,889</u>	<u>\$459,461</u>

	Amount Outstanding 12/31/2020	Additions	Deletions	Amount Outstanding 12/31/2021	Amounts Due In One Year
Business-Type Activities:					
<i>OPWC Loans from Direct Borrowings</i>					
Roosevelt Ave Water Tank	\$320,109	\$0	(\$33,696)	\$286,413	\$33,696
<i>OWDA Loan from Direct Borrowing</i>					
Asset Management Plan	9,153	0	(2,034)	7,119	0
Wastewater System Improvement Bond	<u>2,100,000</u>	<u>0</u>	<u>(300,000)</u>	<u>1,800,000</u>	<u>300,000</u>
<i>Other Long-term Liabilities:</i>					
Net Pension Liability - OPERS:					
Water	753,875	0	(195,314)	558,561	0
Sewer	872,908	0	(226,153)	646,755	0
Total Net Pension Liability - OPERS	<u>1,626,783</u>	<u>0</u>	<u>(421,467)</u>	<u>1,205,316</u>	<u>0</u>
Net OPEB Liability - OPERS:					
Water	525,850	0	(525,850)	0	0
Sewer	608,882	0	(608,882)	0	0
Total Net OPEB Liability - OPERS	<u>1,134,732</u>	<u>0</u>	<u>(1,134,732)</u>	<u>0</u>	<u>0</u>
Compensated Absences	137,848	9,840	(11,432)	136,256	13,444
Total Other Long-term Liabilities	<u>2,899,363</u>	<u>9,840</u>	<u>(1,567,631)</u>	<u>1,341,572</u>	<u>13,444</u>
<i>Total Business-Type Activities Obligations</i>	<u>\$5,328,625</u>	<u>\$9,840</u>	<u>(\$1,903,361)</u>	<u>\$3,435,104</u>	<u>\$347,140</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

In 2021, the City issued \$1,000,000 in long term Infrastructure Improvement notes through direct placement. These notes were issued at an interest rate of 1.25 percent and mature on April 29, 2022.

In 2021, the City issued \$450,000 in long term Real Estate Acquisition notes through direct placement. These notes were issued at an interest rate of 2.30 percent and mature on October 28, 2026.

In 2020, the City issued \$1,000,000 in long term Infrastructure Improvement notes through direct placement. These notes were issued at an interest rate of 2.18 percent and matured on April 30, 2021.

In 2020, the City issued \$670,000 in Firetruck Acquisition notes through direct placement for the purchase of a new firetruck. These notes were issued at an interest rate of 2.35 percent and retire on April 3, 2025. The notes will be paid from the income tax capital improvement fund.

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

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 2.90 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 \$250,789 related to governmental activities and \$286,413 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.

The City's outstanding OWDA loan from direct borrowings of \$7,119 contains provisions that in the event of default (1) the amount of such default shall bear interest at the default rate from the due date until the date of payment, (2) if any of the charges have not been paid within 30 days, in addition to the interest calculated at the default rate, a late charge of 1 percent on the amount of each default shall also be paid to the OWDA, and (3) for each additional 30 days during which the charges remain unpaid, the City shall continue to pay an additional late charge of 1 percent on the amount of the default until such charges are paid. The OWDA loan will be paid from the water enterprise fund user service charges.

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

The City has pledged future revenues, net of operating expenses, to repay OPWC and OWDA 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 are expected to require 2.38 percent of net revenues. The total principal remaining to be paid on the loans is \$286,413. Principal paid for the current year and total net revenues were \$35,730 and \$1,503,488, respectively.

A line of credit have been established with the Ohio Water Development Authority in the amount of \$10,170 in the water fund. Since the loan repayment schedules have not yet been finalized, a repayment schedule is not included in the schedule of debt service requirements. Until a final repayment schedule is available, the City is paying based on estimates. The balance of these loans is as follow:

	Balance December 31, 2021	Line of Credit
OWDA Loans Not Finalized:		
Asset Management Plan	\$7,119	\$10,170

The City's overall legal debt margin was \$22,197,385 at December 31, 2021. Principal and interest requirements to retire long-term obligations outstanding at December 31, 2021, are as follows:

Governmental Activities:

	General Obligation Bonds		From Direct Placement Firetruck Acquisition Notes		From Direct Placement Real Estate Acquisition Notes		From Direct Borrowings OPWC Loan
	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2022	\$191,970	\$17,612	\$61,631	\$14,330	\$0	\$10,350	\$12,539
2023	160,000	12,128	63,080	12,882	0	10,350	12,539
2024	165,000	8,207	64,562	11,399	0	10,350	12,539
2025	169,281	4,165	420,466	9,882	0	10,350	12,539
2026	0	0	0	0	450,000	10,350	12,539
2027-2031	0	0	0	0	0	0	62,695
2032-2036	0	0	0	0	0	0	62,699
2037-2041	0	0	0	0	0	0	62,700
Total	\$686,251	\$42,112	\$609,739	\$48,493	\$450,000	\$51,750	\$250,789

Business-Type Activities:

	Wastewater System Improvement Bonds		From Direct Borrowings OPWC Loans
	Principal	Interest	
2022	\$300,000	\$48,428	\$33,696
2023	300,000	39,617	33,696
2024	300,000	30,901	33,696
2025	300,000	21,993	33,696
2026	300,000	13,181	33,696
2027-2030	300,000	4,370	117,933
Total	\$1,800,000	\$158,490	\$286,413

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Conduit Debt

The City has issued Revenue Bonds to provide financial assistance to the City's hospital facilities. The monies are used primarily for upgrades to these facilities. In addition, the City has issued bonds to provide the necessary funds for the construction of a community recreation center. During 2013, the hospital revenue bonds were refunded. At December 31, 2021, the outstanding bonds have a principal amount outstanding of \$42,100,000. 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 2021, the City contracted with the Public Entities Pool of Ohio (PEP) for various types of insurance as follows:

<u>Type</u>	<u>Coverage</u>
Bodily Injury and Property	\$8,000,000
Law Enforcement	8,000,000
Emergency Medical Services	8,000,000
Fire Damage Legal	8,000,000
Personal and Advertising Injury	8,000,000
Public Officials	8,000,000
Employee Benefit	1,000,000
Municipal Attorney & Law Directors	8,000,000
Stop Gap	8,000,000
Medical Payments	5,000
Automobile	8,000,000
Uninsured/Underinsured Motorist	100,000
Canine	40,000
Abuse/Molestation	8,000,000

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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 employee – 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.

The net pension/OPEB liability (asset) represents 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.

The 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 health care 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)

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. Participating employers are divided into state, local, law

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

enforcement and public safety divisions. While members in the state and local divisions may participate in all three plans, law enforcement and public safety divisions exist only within the traditional 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 Annual Comprehensive Financial Report referenced above for additional information, including requirements for reduced and unreduced benefits):

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

Final Average Salary (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. The initial amount of a member's pension benefit is vested upon receipt of the initial benefit payment for calculation of an annual cost-of-living adjustment.

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 who retired prior to January 7, 2013, the cost of living adjustment is 3 percent. For those retiring on or after January 7, 2013, beginning in calendar year 2019, the adjustment is based on the average percentage increase in the Consumer Price Index, capped at 3 percent.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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. When members choose to annuitize their defined contribution benefit, the annuitized portion of the benefit is reclassified to a defined benefit.

Beginning in 2022, the Combined Plan will be consolidated under the Traditional Pension Plan (defined benefit plan) and the Combined Plan option will no longer be available for new hires beginning in 2022.

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

	State and Local
2021 Statutory Maximum Contribution Rates	
Employer	14.0 %
Employee *	10.0 %
2021 Actual Contribution Rates	
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.

Employer contribution rates are actuarially determined and are expressed as a percentage of covered payroll.

For 2021, the City's contractually required contribution was \$401,327 for the traditional plan, \$22,473 for the combined plan and \$15,075 for the member-directed plan. Of these amounts, \$43,709 is reported as an intergovernmental payable for the traditional plan, \$2,447 for the combined plan, and \$1,641 for the member-directed plan.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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

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 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 service credit (see OP&F Annual Comprehensive Financial Report 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.

The COLA amount for members who have 15 or more years of service credit as of July 1, 2013, and members who are receiving a pension benefit that became effective before July 1, 2013, will be equal to 3.0 percent of the member's base pension benefit.

The COLA amount for members who have less than 15 years of service credit as of July 1, 2013, and members whose pension benefit became effective on or after July 1, 2013, will be equal to a percentage of the member's base pension benefit where the percentage is the lesser of 3.0% or the percentage increase in the consumer price index, if any, over the twelve-month period that ends on the thirtieth day of September of the immediately preceding year, rounded to the nearest one-tenth of one percent.

Members who retired prior to July 24, 1986, or their surviving beneficiaries under optional plans are entitled to cost-of-living allowance increases. The annual increase is paid on July 1st of each year. The annual COLA increase is \$360 under a Single Life Annuity Plan with proportional reductions for optional payment plans.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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

	Police	Firefighters
2021 Statutory Maximum Contribution Rates		
Employer	19.50 %	24.00 %
Employee	12.25 %	12.25 %
 2021 Actual Contribution Rates		
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 \$565,801 for 2021. Of this amount, \$66,105 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, 2020, 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, 2020, and was determined by rolling forward the total pension liability as of January 1, 2020, to December 31, 2020. 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:

	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
Proportion of the Net Pension Liability/Asset:				
Current Measurement Date	0.01925741%	0.04114352%	0.09999120%	
Prior Measurement Date	0.01947178%	0.03259782%	0.09900400%	
Change in Proportionate Share	-0.00021437%	0.00854570%	0.00098720%	
Proportionate Share of the:				
Net Pension Liability	\$2,851,602		\$6,816,489	\$9,668,091
Net Pension Asset	0	(118,767)	0	(118,767)
Pension Expense	(56,188)	884	567,667	512,363

2021 pension expense for the member-directed defined contribution plan was \$15,075. The aggregate pension expense for all pension plans was \$527,438 for 2021.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

At December 31, 2021, 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
Deferred Outflows of Resources				
Differences between expected and actual experience	\$0	\$0	\$284,952	\$284,952
Changes of assumptions	0	7,417	114,316	121,733
Changes in proportion and differences between City contributions and proportionate share of contributions	0	1,698	114,980	116,678
City contributions subsequent to the measurement date	401,327	22,473	565,801	989,601
Total Deferred Outflows of Resources	\$401,327	\$31,588	\$1,080,049	\$1,512,964
Deferred Inflows of Resources				
Differences between expected and actual experience	\$119,285	\$22,407	\$265,550	\$407,242
Net difference between projected and actual earnings on pension plan investments	1,111,472	17,662	330,645	1,459,779
Changes in proportion and differences between City contributions and proportionate share of contributions	89,487	14,664	54,800	158,951
Total Deferred Inflows of Resources	\$1,320,244	\$54,733	\$650,995	\$2,025,972

\$989,601 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 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending December 31:	OPERS Traditional Plan	OPERS Combined Plan	OP&F	Total
2022	(\$548,749)	(\$10,262)	(\$10,307)	(\$569,318)
2023	(166,835)	(7,159)	161,513	(12,481)
2024	(453,073)	(11,233)	(284,775)	(749,081)
2025	(151,587)	(6,167)	(22,024)	(179,778)
2026	0	(3,647)	18,846	15,199
Thereafter	0	(7,150)	0	(7,150)
Total	(\$1,320,244)	(\$45,618)	(\$136,747)	(\$1,502,609)

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the value 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, 2020, 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, 2020, are presented as follows:

	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>
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	.5 percent, simple through 2021, then 2.15 percent, simple	.5 percent, simple through 2021, 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 2020, the OPERS Board adopted a change in COLA for Post-January 7, 2013 retirees, changing it from 1.4 percent simple through 2020 then 2.15 simple to .5 percent simple through 2021 then 2.15 percent simple.

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 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 long-term expected 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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

percentage, adjusted for inflation. Best estimates of arithmetic real rates of return were provided by the Board's investment consultant. For each major asset class that is included in the Defined Benefit portfolio's target asset allocation as of December 31, 2020, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	25.00 %	1.32 %
Domestic Equities	21.00	5.64
Real Estate	10.00	5.39
Private Equity	12.00	10.42
International Equities	23.00	7.36
Other investments	9.00	4.75
Total	100.00 %	5.43 %

Discount Rate The discount rate used to measure the total pension liability was 7.2 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.

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:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
City's proportionate share of the net pension liability (asset):			
OPERS Traditional Plan	\$5,439,448	\$2,851,602	\$699,814
OPERS Combined Plan	(82,698)	(118,767)	(145,648)

Changes between the Measurement Date and the Reporting Date During 2021, the OPERS Board lowered the investment rate of return from 7.2 percent to 6.9 along with certain other changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

Actuarial Assumptions – OP&F

OP&F's total pension liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, 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 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 are: 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, 2020, are presented as follows:

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
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	3.25 percent per annum, compounded annually, consisting of Inflation rate of 2.75 percent plus productivity increase rate of 0.5 percent
Cost of Living Adjustments	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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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 Buck 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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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, 2020, are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Cash and Cash Equivalents	- %	0.00 %
Domestic Equity	21.00	4.10
Non-US Equity	14.00	4.80
Private Markets	8.00	6.40
Core Fixed Income *	23.00	0.90
High Yield Fixed Income	7.00	3.00
Private Credit	5.00	4.50
U.S. Inflation Linked Bonds*	17.00	0.70
Midstream Energy Infrastructure	5.00	5.60
Real Assets	8.00	5.80
Gold	5.00	1.90
Private Real Estate	12.00	5.30
Total	<u>125.00 %</u>	

Note: Assumptions are geometric.

* levered 2.5x

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 1.25 times due to the application of leverage in certain fixed income asset classes.

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	\$9,489,427	\$6,816,489	\$4,579,511

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 18 - Defined Benefit OPEB Plans

See Note 17 for a description of the net OPEB liability (asset).

Plan Description – Ohio Public Employees Retirement System (OPERS)

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 (HRA) to qualifying benefit recipients of both the traditional pension and the combined plans. Currently, Medicare-eligible retirees are able to select medical and prescription drug plans from a range of options and may elect optional vision and dental plans. Retirees and eligible dependents enrolled in Medicare Parts A and B have the option to enroll in a Medicare supplemental plan with the assistance of the OPERS Medicare Connector. The OPERS Medicare Connector is a relationship with a vendor selected by OPERS to assist retirees, spouses and dependents with selecting a medical and pharmacy plan. Monthly allowances, based on years of service and the age at which the retiree first enrolled in OPERS coverage, are deposited into an HRA. For non-Medicare retirees and eligible dependents, OPERS sponsors medical and prescription coverage through a professionally managed self-insured plan. An allowance to offset a portion of the monthly premium is offered to retirees and eligible dependents. The allowance is based on the retiree's years of service and age when they first enrolled in OPERS coverage.

Medicare-eligible retirees who choose to become re-employed or survivors who become employed in an OPERS-covered position are prohibited from participating in an HRA. For this group of retirees, OPERS sponsors secondary coverage through a professionally managed self-insured program. Retirees who enroll in this plan are provided with a monthly allowance to offset a portion of the monthly premium. Medicare-eligible spouses and dependents can also enroll in this plan as long as the retiree is enrolled.

OPERS provides a monthly allowance for health care coverage for eligible retirees and their eligible dependents. The base allowance is determined by OPERS.

The health care 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 separation, member directed plan participants may be eligible for reimbursement of qualified medical expenses from their vested RMA balance.

Effective January 1, 2022, OPERS will discontinue the group plans currently offered to non-Medicare retirees and re-employed retirees. Instead, eligible non-Medicare retirees will select an individual medical plan. OPERS will provide a subsidy or allowance via an HRA allowance to those retirees who meet health care eligibility requirements. Retirees will be able to seek reimbursement for plan premiums and other qualified medical expenses. These changes are reflected in the December 31, 2020, measurement date health care valuation.

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. Current retirees eligible (or who become eligible prior to January 1, 2022) to participate in the OPERS health care program will continue to be eligible after January 1, 2022. Eligibility requirements will change for those retiring after January 1,

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

2022, with differing eligibility requirements for Medicare retirees and non-Medicare retirees. 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' Annual Comprehensive Financial Report referenced later 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.

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, OPERS no longer allocated a portion of its employer contributions to health care for the traditional plan and the combined plan.

Employer contribution rates are expressed as a percentage of the earnable salary of active members. In 2021, 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. For 2021, OPERS did not allocate any employer contribution to health care for members in the Traditional Pension Plan and 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 2021 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 \$6,030 for 2021. Of this amount, \$656 is reported as an intergovernmental payable.

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

The City contributes to the Ohio Police and Fire Pension Fund (OP&F) sponsored health care program, a cost-sharing, multiple-employer defined post-employment health care plan administered by 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.

OP&F contracted with a vendor who assists eligible retirees in choosing health care plans that are available where they live (both Medicare-eligible and pre-65 populations). A stipend funded by OP&F is available to these members through a Health Reimbursement Arrangement and can be used to reimburse retirees for qualified health care expenses.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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.

OP&F maintains funds for health care in two separate accounts: one account for health care benefits and one account for Medicare Part B reimbursements. A separate health care trust accrual account is maintained for health care benefits under IRS Code Section 115 trust. IRS Code Section 401(h) account is maintained for Medicare Part B reimbursements.

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 or by writing to the Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43215-5164.

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 2021, 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 \$13,506 for 2021. Of this amount, \$1,571 is reported as an intergovernmental payable.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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

The net OPEB liability (asset) and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, 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, 2020, and was determined by rolling forward the total OPEB liability as of January 1, 2020, to December 31, 2020. 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&F</u>	<u>Total</u>
Proportion of the Net OPEB Asset/Liability:			
Current Measurement Date	0.01964347%	0.09999120%	
Prior Measurement Date	<u>0.01943589%</u>	<u>0.09900400%</u>	
Change in Proportionate Share	<u>0.00020758%</u>	<u>0.00098720%</u>	
Proportionate Share of the:			
Net OPEB Asset	(\$349,964)	\$0	(\$349,964)
Net OPEB Liability	\$0	\$1,059,424	\$1,059,424
OPEB Expense	(\$2,138,159)	\$112,268	(\$2,025,891)

At December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>OPERS</u>	<u>OP&F</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes of assumptions	\$172,047	\$585,273	\$757,320
Changes in proportion and differences between City contributions and proportionate share of contributions	18,144	63,797	81,941
City contributions subsequent to the measurement date	<u>6,030</u>	<u>13,506</u>	<u>19,536</u>
Total Deferred Outflows of Resources	<u>\$196,221</u>	<u>\$662,576</u>	<u>\$858,797</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$315,841	\$174,748	\$490,589
Changes of assumptions	567,046	168,892	735,938
Net difference between projected and actual earnings on OPEB plan investments	186,395	39,370	225,765
Changes in proportion and differences between City contributions and proportionate share of contributions	<u>35,140</u>	<u>2,624</u>	<u>37,764</u>
Total Deferred Inflows of Resources	<u>\$1,104,422</u>	<u>\$385,634</u>	<u>\$1,490,056</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

\$19,536 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 or an increase to the net OPEB asset in 2022. 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:	OPERS	OP&F	Total
2022	(\$492,238)	\$56,385	(\$435,853)
2023	(319,028)	65,708	(253,320)
2024	(81,000)	51,009	(29,991)
2025	(21,965)	54,100	32,135
2026	0	17,983	17,983
Thereafter	0	18,251	18,251
Total	(\$914,231)	\$263,436	(\$650,795)

Actuarial Assumptions – OPERS

Actuarial valuations of an ongoing plan involve estimates of the value 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 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, 2019, rolled forward to the measurement date of December 31, 2020. 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	6.00 percent
Prior Measurement date	3.16 percent
Investment Rate of Return	6.00 percent
Municipal Bond Rate:	
Current measurement date	2.00 percent
Prior Measurement date	2.75 percent
Health Care Cost Trend Rate:	
Current measurement date	8.5 percent, initial 3.50 percent, ultimate in 2035
Prior Measurement date	10.5 percent, initial 3.50 percent, ultimate in 2030
Actuarial Cost Method	Individual Entry Age

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. Postretirement mortality rates are

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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. Postretirement 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 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 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. Best estimates of arithmetic rates of return were provided by OPERS investment consultant. For each major asset class that is included in the Health Care's portfolio's target asset allocation as of December 31, 2019, these best estimates are summarized in the following table:

Asset Class	Target Allocation	Weighted Average Long-Term Expected Real Rate of Return (Arithmetic)
Fixed Income	34.00 %	1.07 %
Domestic Equities	25.00	5.64
Real Estate Investment Trust	7.00	6.48
International Equities	25.00	7.36
Other investments	9.00	4.02
Total	100.00 %	4.43 %

Discount Rate A single discount rate of 6.0 percent was used to measure the OPEB liability on the measurement date of December 31, 2020. A single discount rate of 3.16 percent was used to measure the OPEB liability on the measurement date of December 31, 2019. 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 2.00 percent (Fidelity Index's "20-Year Municipal GO AA Index"). 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 2120. As a result, the actuarial assumed long-term expected rate of return on health care investments was applied to projected costs through the year 2120, the duration of the projection period through which projected health care payments are fully funded.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate The following table presents the City’s proportionate share of the net OPEB liability (asset) calculated using the single discount rate of 6.00 percent, as well as what the City’s proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
City's proportionate share of the net OPEB liability (asset)	(\$87,021)	(\$349,964)	(\$566,125)

Sensitivity of the City’s Proportionate Share of the Net OPEB Liability (Asset) 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 (asset). The following table presents the net OPEB liability (asset) calculated using the assumed trend rates, and the expected net OPEB liability (asset) 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 2021 is 8.50 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 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 3.50 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 (asset)	(\$358,493)	(\$349,964)	(\$340,421)

Changes between the Measurement Date and the Reporting Date During 2021, the OPERS Board made various changes to assumptions for the actuarial valuation as of December 31, 2021. The effects of these changes are unknown.

Actuarial Assumptions – OP&F

OP&F’s total OPEB liability as of December 31, 2020, is based on the results of an actuarial valuation date of January 1, 2020, 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 as follows:

Valuation Date	January 1, 2020, with actuarial liabilities rolled forward to December 31, 2020
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	3.25 percent
Blended discount rate:	
Current measurement date	2.96 percent
Prior measurement date	3.56 percent
Cost of Living Adjustments	2.2 percent simple

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 Buck Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

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 Buck 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 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.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Discount Rate For 2020, the total OPEB liability was calculated using the discount rate of 2.96 percent. For 2019, the total OPEB liability was calculated using the discount rate of 3.56 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 2.12 percent at December 31, 2020 and 2.75 percent at December 31, 2019, was blended with the long-term rate of 8 percent, which resulted in a blended discount rate of 2.96 percent for 2020 and 3.56 percent for 2019. 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 2037. The long-term expected rate of return on health care investments was applied to projected costs through 2037, 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 (asset) calculated using the discount rate of 2.96 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 (1.96 percent), or one percentage point higher (3.96 percent) than the current rate.

	1% Decrease (1.96%)	Current Discount Rate (2.96%)	1% Increase (3.96%)
City's proportionate share of the net OPEB liability (asset)	\$1,321,040	\$1,059,424	\$843,620

Sensitivity of the City's Proportionate Share of the Net OPEB Liability (Asset) 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 - Jointly Governed Organization

Regional Income Tax Agency

The Regional Income Tax Agency (RITA) is a regional council of governments formed to establish a central collection facility for the purpose of administering the income tax laws of the members and for the purpose of the collection of income taxes on behalf of each member. RITA currently has approximately 350 members in the council of governments. Each member has one representative to the council of governments and is entitled to one vote on items under consideration. RITA is administered by a nine-member board of trustees elected by the members of the council of governments. The board exercises total control over RITA's operation including budgeting, appropriating, contracting and designating management. Each participant's degree of control is limited to its representation on the council. For 2021, the City paid RITA \$90,399 for income tax collection services.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 20 – Encumbrances

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

Governmental Funds		Proprietary Funds	
General	\$45,875	Water	\$443,069
Parks	1,168	Wastewater	<u>825,242</u>
Street Improvement	224,043		<u><u>\$1,268,311</u></u>
Income Tax Capital Improvement	431,309		
Other Government Funds	<u>212,662</u>		
Total Governemntal Funds	<u><u>\$915,057</u></u>		

Note 21 – Change in Accounting Principle and Restatement of Net Position

Change in Accounting Principle

The City is implementing *Implementation Guide No. 2019-1*. These changes were incorporated in the City’s 2021 financial statements; however, there was no effect on beginning net position/fund balance.

Restatement of Net Position

During 2021, it was determined that net capital assets for business-type activities were understated at December 31, 2020. The restatement for net capital assets had the following effect on net position for business-type activities as reported at December 31, 2020:

	Business-type Activities		
	Water	Wastewater	Total
Net Position December 31, 2020	\$12,328,652	\$21,088,439	\$33,417,091
Adjustments:			
Capital Assets, Net	0	499,061	499,061
Restated Net Position December 31, 2020	<u>\$12,328,652</u>	<u>\$21,587,500</u>	<u>\$33,916,152</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Note 22 – Asset Retirement Obligations

The Governmental Accounting Standard Board's (GASB) Statement No. 83, *Certain Asset Retirement Obligations*, provides guidance related to asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Ohio Revised Code Section 6111.44 requires the City to submit any changes to their sewerage system to the Ohio EPA for approval. Through this review process, the City would be responsible to address any public safety issues associated with their waste water treatment facilities. Any ARO associated with these public safety issues are not reasonably estimable. Currently, there is significant uncertainty as to what public safety items would need addressed; therefore, a reliable estimated amount could not be determined.

Note 23 – COVID-19

The United States and the State of Ohio declared a state of emergency in March of 2020 due to the COVID-19 pandemic. Ohio's state of emergency ended in June, 2021 while the national state of emergency continues. During 2021, the City received COVID-19 funding. The financial impact of COVID-19 and the continuing emergency measures will impact subsequent periods of the City. The impact on the City's future operating costs, revenues, and additional recovery from emergency funding, either federal or state, cannot be estimated.

Note 24 – Subsequent Event

On April 29, 2022, the City rolled \$1,000,000 of the infrastructure improvement note at a rate of 2.60 percent. The notes will mature April 28, 2023.

Note 25 – City of Salem Health District

Description of Reporting Entity

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

Summary of Significant Accounting Policies

The financial statements of the District 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 District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Fund Accounting

The District 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 District'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 District 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 District 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 District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District 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.

Cash and Cash Equivalents

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

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

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 expensed/expensed when used. Inventory consists of expendable supplies held for consumption.

Capital Assets

All of the District'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.

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 District 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. 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>
Buildings and Improvements	30-75 years
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 District 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 District's termination policy. The District 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, 2021

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. 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, 2021, consisted of an intergovernmental receivable in the amount \$59,575 from a grant from the City of Salem.

Capital Assets

Capital asset activity for the year ended December 31, 2021, was as follows:

	Balance 12/31/2020	Additions	Deductions	Balance 12/31/2021
<i>Capital Assets being Depreciated</i>				
Buildings and Improvements	\$2,215	\$0	\$0	\$2,215
Furniture, Fixtures and Equipment	17,096	3,000	0	20,096
<i>Total Capital Assets being Depreciated</i>	19,311	3,000	0	22,311
<i>Less: Accumulated Depreciation</i>				
Buildings and Improvements	(55)	(111)	0	(166)
Furniture, Fixtures and Equipment	(9,285)	(1,723)	0	(11,008)
<i>Total Accumulated Depreciation</i>	(9,340)	(1,834) *	0	(11,174)
<i>Total Capital Assets, Net</i>	\$9,971	\$1,166	\$0	\$11,137

The District's increase in capital assets was due to purchases made during 2021 including a laptop and tablet, partially offset by current year depreciation resulting in an ending net value of \$11,137 at December 31, 2021.

Operating Lease

During 2016, the District 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 District. The terms of the lease require payment in two installments in the amount of \$2,700.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Long-Term Obligations

The District has long-term obligations consisting of net pension liability of \$88,195 and accrued compensated absences of \$4,221 at December 31, 2021.

Net Pension Liability

The City of Salem Health District participates in the Ohio Public Employees Retirement System (OPERS). See Note 17 for a description of the net pension liability. For 2021, the District's contractually required contribution was \$12,412 for the traditional plan, \$695 for the combined plan and \$466 for the member-directed plan. Of these amounts, \$1,996 is reported as an intergovernmental payable for the traditional plan, \$112 for the combined plan, and \$105 for the member-directed plan.

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, 2020, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability (asset) was based on the District'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 District's defined benefit pension plans:

	<u>OPERS Traditional Plan</u>	<u>OPERS Combined Plan</u>	<u>Total</u>
Proportion of the Net Pension Liability/Asset:			
Current Measurement Date	0.00059559%	0.00127248%	
Prior Measurement Date	<u>0.00060222%</u>	<u>0.00100818%</u>	
Change in Proportionate Share	<u>-0.00000663%</u>	<u>0.00026430%</u>	
Proportionate Share of the:			
Net Pension Liability	\$88,195	\$0	\$88,195
Net Pension Asset	0	3,673	3,673
Pension Expense	(1,738)	26	(1,712)

2021 pension expense for the member-directed defined contribution plan was \$466. The aggregate pension expense for all pension plans was (\$1,246) for 2021.

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to defined benefit pensions from the following sources:

	OPERS <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>	<u>Total</u>
Deferred Outflows of Resources			
Changes of assumptions	\$0	\$230	\$230
Changes in proportion and differences between District contributions and proportionate share of contributions	0	39	39
District contributions subsequent to the measurement date	<u>12,412</u>	<u>695</u>	<u>13,107</u>
Total Deferred Outflows of Resources	<u>\$12,412</u>	<u>\$964</u>	<u>\$13,376</u>
Deferred Inflows of Resources			
Differences between expected and actual experience	\$3,689	\$693	\$4,382
Net difference between projected and actual earnings on pension plan investments	34,375	547	34,922
Changes in proportion and differences between District contributions and proportionate share of contributions	<u>2,768</u>	<u>438</u>	<u>3,206</u>
Total Deferred Inflows of Resources	<u>\$40,832</u>	<u>\$1,678</u>	<u>\$42,510</u>

\$13,107 reported as deferred outflows of resources related to pension resulting from District 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 2022. 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 <u>Traditional Plan</u>	OPERS <u>Combined Plan</u>	<u>Total</u>
Year Ending December 31:			
2022	(\$16,973)	(\$318)	(\$17,291)
2023	(5,157)	(222)	(5,379)
2024	(14,013)	(348)	(14,361)
2025	(4,689)	(191)	(4,880)
2026	0	(111)	(111)
Thereafter	<u>0</u>	<u>(219)</u>	<u>(219)</u>
Total	<u>(\$40,832)</u>	<u>(\$1,409)</u>	<u>(\$42,241)</u>

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Sensitivity of the District's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate The following table presents the District'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 District'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:

	1% Decrease (6.20%)	Current Discount Rate (7.20%)	1% Increase (8.20%)
District's proportionate share of the net pension liability (asset)			
OPERS Traditional Plan	\$168,230	\$88,195	\$21,644
OPERS Combined Plan	(2,558)	(3,673)	(4,505)

Net Other Postemployment Benefits Liability

See Note 17 and 18 for a description of the net OPEB liability. The District's contractually required contribution was \$187 for 2021. Of this amount, \$30 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 (asset) and total OPEB liability for OPERS were determined by an actuarial valuation as of December 31, 2019, rolled forward to the measurement date of December 31, 2020, by incorporating the expected value of health care cost accruals, the actual health care payment, and interest accruals during the year. The District's proportion of the net OPEB liability (asset) was based on the District'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:

	OPERS
Proportion of the Net OPEB Liability:	
Current Measurement Date	0.00060753%
Prior Measurement Date	0.00060111%
Change in Proportionate Share	0.00000642%
Proportionate Share of the:	
Net OPEB Asset	(\$10,823)
OPEB Expense	(\$66,126)

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

At December 31, 2021, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	OPERS
Deferred Outflows of Resources	
Changes of assumptions	\$5,320
Changes in proportion and differences between District contributions and proportionate share of contributions	561
District contributions subsequent to the measurement date	187
Total Deferred Outflows of Resources	\$6,068
Deferred Inflows of Resources	
Differences between expected and actual experience	\$9,768
Changes of assumptions	17,538
Net difference between projected and actual earnings on OPEB plan investments	5,765
Changes in proportion and differences between District contributions and proportionate share of contributions	1,086
Total Deferred Inflows of Resources	\$34,157

\$187 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability or an increase to the net OPEB asset in 2022. 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:	
2022	(\$15,224)
2023	(9,867)
2024	(2,505)
2025	(680)
Total	(\$28,276)

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) to Changes in the Discount Rate The following table presents the District's proportionate share of the net OPEB liability (asset) calculated using the single discount rate of 6.00 percent, as well as what the District's proportionate share of the net OPEB liability (asset) would be if it were calculated using a discount rate that is one-percentage-point lower (5.00 percent) or one-percentage-point higher (7.00 percent) than the current rate:

	1% Decrease (5.00%)	Current Discount Rate (6.00%)	1% Increase (7.00%)
District's proportionate share of the net OPEB liability (asset)	(\$2,691)	(\$10,823)	(\$17,509)

City of Salem, Ohio
Notes to the Basic Financial Statements
For The Year Ended December 31, 2021

Sensitivity of the District's Proportionate Share of the Net OPEB Liability (Asset) 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 (asset). The following table presents the net OPEB liability (asset) calculated using the assumed trend rates, and the expected net OPEB liability (asset) 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 2021 is 8.50 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 3.50 percent in the most recent valuation.

	Current Health Care Cost Trend Rate		
	1% Decrease	Assumption	1% Increase
District's proportionate share of the net OPEB liability (asset)	(\$11,087)	(\$10,823)	(\$10,528)

Required Supplementary Information

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 Eight Years (1)

	2021	2020	2019	2018
City's Proportion of the Net Pension Liability	0.01925741%	0.01947178%	0.02074636%	0.02037582%
City's Proportionate Share of the Net Pension Liability	\$2,851,602	\$3,848,728	\$5,682,006	\$3,295,434
City's Covered Payroll	\$2,710,314	\$2,740,507	\$2,801,307	\$2,775,923
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	105.21%	140.44%	202.83%	118.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	86.88%	82.17%	74.70%	84.66%

(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.

2017	2016	2015	2014
0.02035300%	0.02139100%	0.02084400%	0.02084400%
\$4,621,821	\$3,705,192	\$2,514,019	\$2,457,236
\$2,631,075	\$2,662,293	\$2,555,433	\$2,389,663
175.66%	139.17%	98.38%	102.83%
77.25%	81.08%	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 Four Years (1)

	2021	2020	2019	2018
City's Proportion of the Net Pension Asset	0.04114352%	0.03259782%	0.03348052%	0.02903113%
City's Proportionate Share of the Net Pension Asset	\$118,767	\$67,974	\$37,440	\$40,743
City's Covered Payroll	\$181,321	\$145,114	\$143,193	\$122,569
City's Proportionate Share of the Net Pension Asset as a Percentage of its Covered Payroll	-65.50%	-46.84%	-26.15%	-33.24%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	157.67%	145.28%	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 (Asset) Liability
Ohio Public Employees Retirement System - OPEB Plan
Last Five Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB (Asset) Liability	0.01964347%	0.01943589%	0.02057467%	0.01999170%	0.02029000%
City's Proportionate Share of the Net OPEB (Asset) Liability	(\$349,964)	\$2,684,600	\$2,682,451	\$2,238,094	\$2,049,359
City's Covered Payroll	\$2,968,810	\$2,937,296	\$2,974,325	\$2,919,567	\$2,804,067
City's Proportionate Share of the Net OPEB (Asset) Liability as a Percentage of its Covered Payroll	-11.79%	91.40%	90.19%	76.66%	73.09%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	115.57%	47.80%	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 Eight Years (1)

	2021	2020	2019	2018
City's Proportion of the Net Pension Liability	0.09999120%	0.09900400%	0.09947600%	0.09949100%
City's Proportionate Share of the Net Pension Liability	\$6,816,489	\$6,669,437	\$8,119,869	\$6,106,211
City's Covered Payroll	\$2,470,743	\$2,370,914	\$2,268,909	\$2,195,764
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	275.89%	281.30%	357.88%	278.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.65%	69.89%	63.07%	70.91%

(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.

2017	2016	2015	2014
0.09687400%	0.10044400%	0.09727560%	0.09727560%
\$6,135,900	\$6,461,633	\$5,039,282	\$4,737,627
\$2,099,783	\$2,047,305	\$1,934,895	\$1,828,582
292.22%	315.62%	260.44%	259.09%
68.36%	66.77%	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 Five Years (1)

	2021	2020	2019	2018	2017
City's Proportion of the Net OPEB Liability	0.09999120%	0.09900400%	0.09947600%	0.09949100%	0.09687400%
City's Proportionate Share of the Net OPEB Liability	\$1,059,424	\$977,935	\$905,882	\$5,637,020	\$4,598,391
City's Covered Payroll	\$2,470,743	\$2,370,914	\$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	42.88%	41.25%	39.93%	256.72%	218.99%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	45.40%	47.08%	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.

This page intentionally left blank.

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

	2021	2020	2019	2018
Net Pension Liability - Traditional Plan				
Contractually Required Contribution	\$401,327	\$379,444	\$383,671	\$392,183
Contributions in Relation to the Contractually Required Contribution	<u>(401,327)</u>	<u>(379,444)</u>	<u>(383,671)</u>	<u>(392,183)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$2,866,621	\$2,710,314	\$2,740,507	\$2,801,307
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>
Net Pension Liability - Combined Plan				
Contractually Required Contribution	\$22,473	\$25,385	\$20,316	\$20,667
Contributions in Relation to the Contractually Required Contribution	<u>(22,473)</u>	<u>(25,385)</u>	<u>(20,316)</u>	<u>(20,667)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll	\$160,521	\$181,321	\$145,114	\$143,193
Pension Contributions as a Percentage of Covered Payroll	<u>14.00%</u>	<u>14.00%</u>	<u>14.00%</u>	<u>14.43%</u>
Net OPEB Liability - OPEB Plan (3)				
Contractually Required Contribution	\$6,030	\$3,087	\$2,067	\$1,230
Contributions in Relation to the Contractually Required Contribution	<u>(6,030)</u>	<u>(3,087)</u>	<u>(2,067)</u>	<u>(1,230)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (2)	\$3,177,892	\$2,968,810	\$2,937,296	\$2,974,325
OPEB Contributions as a Percentage of Covered Payroll	<u>0.19%</u>	<u>0.10%</u>	<u>0.07%</u>	<u>0.04%</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.

<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$360,870	\$315,729	\$319,475	\$306,652	\$310,656
<u>(360,870)</u>	<u>(315,729)</u>	<u>(319,475)</u>	<u>(306,652)</u>	<u>(310,656)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,775,923	\$2,631,075	\$2,662,293	\$2,555,433	\$2,389,663
<u>13.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>
\$15,934	\$14,669	\$15,172	\$14,397	\$14,111
<u>(15,934)</u>	<u>(14,669)</u>	<u>(15,172)</u>	<u>(14,397)</u>	<u>(14,111)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$122,569	\$122,242	\$126,433	\$119,975	\$108,546
<u>13.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>12.00%</u>	<u>13.00%</u>
\$29,828	\$57,096			
<u>(29,828)</u>	<u>(57,096)</u>			
<u>\$0</u>	<u>\$0</u>			
\$2,919,567	\$2,804,067			
<u>1.02%</u>	<u>2.04%</u>			

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

	2021	2020	2019	2018
Net Pension Liability				
Contractually Required Contribution	\$565,801	\$518,197	\$497,303	\$476,024
Contributions in Relation to the Contractually Required Contribution	<u>(565,801)</u>	<u>(518,197)</u>	<u>(497,303)</u>	<u>(476,024)</u>
Contribution Deficiency (Excess)	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
City Covered Payroll (1)	\$2,701,085	\$2,470,743	\$2,370,914	\$2,268,909
Pension Contributions as a Percentage of Covered Payroll	<u>20.95%</u>	<u>20.97%</u>	<u>20.98%</u>	<u>20.98%</u>
Net OPEB Liability				
Contractually Required Contribution	\$13,506	\$12,353	\$11,854	\$11,344
Contributions in Relation to the Contractually Required Contribution	<u>(13,506)</u>	<u>(12,353)</u>	<u>(11,854)</u>	<u>(11,344)</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>21.45%</u>	<u>21.47%</u>	<u>21.48%</u>	<u>21.48%</u>

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

See accompanying notes to the required supplementary information.

2017	2016	2015	2014	2013	2012
\$459,876	\$440,794	\$430,900	\$407,092	\$327,489	\$265,348
<u>(459,876)</u>	<u>(440,794)</u>	<u>(430,900)</u>	<u>(407,092)</u>	<u>(327,489)</u>	<u>(265,348)</u>
<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
\$2,195,764	\$2,099,783	\$2,047,305	\$1,934,895	\$1,828,582	\$1,799,399
<u>20.94%</u>	<u>20.99%</u>	<u>21.05%</u>	<u>21.04%</u>	<u>17.91%</u>	<u>14.75%</u>
\$10,979	\$10,499	\$10,237	\$9,675	\$66,134	\$121,460
<u>(10,979)</u>	<u>(10,499)</u>	<u>(10,237)</u>	<u>(9,675)</u>	<u>(66,134)</u>	<u>(121,460)</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>0.50%</u>	<u>0.50%</u>	<u>3.62%</u>	<u>6.75%</u>
<u>21.44%</u>	<u>21.49%</u>	<u>21.55%</u>	<u>21.54%</u>	<u>21.53%</u>	<u>21.50%</u>

City of Salem, Ohio
Notes to the Required Supplementary Information
For the Year Ended December 31, 2021

Changes in Assumptions – OPERS Pension – Traditional Plan

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 prior years are presented as follows:

	2019	2018 and 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	see below	see below	see below
Investment Rate of Return	7.2 percent	7.5 percent	8 percent
Actuarial Cost Method	Individual Entry Age	Individual Entry Age	Individual Entry Age

The assumptions related COLA or Ad Hoc COLA for Post-January 7, 2013 Retirees are as follows:

COLA or Ad Hoc COLA, Post-January 7, 2013 Retirees:

2021	0.5 percent, simple through 2021 then 2.15 percent, simple
2020	1.4 percent, simple through 2020 then 2.15 percent, simple
2017 through 2019	3.0 percent, simple through 2018 then 2.15 percent, simple
2016 and prior	3.0 percent, simple through 2018 then 2.80 percent, simple

Amounts reported beginning in 2017 use 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.

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, 2021

Changes in Assumptions – OPERS Pension – Combined Plan

For 2021 and 2020, the Combined Plan had the same change in COLA or Ad Hoc COLA for Post-January 2, 2013 retirees as the Traditional Plan. For 2019, the investment rate of return changed from 7.5 percent to 7.2 percent.

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 as follows:

	Beginning in 2018	2017 and Prior
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	2.2 percent simple for increases based on the lesser of the increase in CPI and 3 percent	3.00 percent simple; 2.6 percent simple for increases 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 Buck/Conduent Modified 2016 Improvement Scale. Rates for surviving beneficiaries are adjusted by 120 percent.

Age	Police	Fire
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 Buck/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

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, 2021

Changes in Assumptions – OPERS OPEB

Investment Return Assumption:	
Beginning in 2019	6.00 percent
2018	6.50 percent
Municipal Bond Rate:	
2021	2.00 percent
2020	2.75 percent
2019	3.71 percent
2018	3.31 percent
Single Discount Rate:	
2021	6.00 percent
2020	3.16 percent
2019	3.96 percent
2018	3.85 percent
Health Care Cost Trend Rate:	
2021	8.5 percent, initial 3.5 percent, ultimate in 2035
2020	10.5 percent, initial 3.5 percent, ultimate in 2030
2019	10.0 percent, initial 3.25 percent, ultimate in 2029
2018	7.5 percent, initial 3.25 percent, ultimate in 2028

Changes in Assumptions – OP&F OPEB

Blended Discount Rate:	
2021	2.96 percent
2020	3.56 percent
2019	4.66 percent
2018	3.24 percent

Changes in Benefit Terms – OPERS OPEB

On January 15, 2020, the Board approved several changes to the health care plan offered to Medicare and non-Medicare retirees in efforts to decrease costs and increase the solvency of the health care plan. These changes are effective January 1, 2022, and include changes to base allowances and eligibility for Medicare retirees, as well as replacing OPERS-sponsored medical plans for non-Medicare retirees with monthly allowances, similar to the program for Medicare retirees. These changes are reflected in 2021.

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



88 East Broad Street
Columbus, Ohio 43215
ContactUs@ohioauditor.gov
(800) 282-0370

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 of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the 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, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 16, 2022. We also noted the financial impact of COVID-19 and the continuing emergency measures which may impact subsequent periods of the City.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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



Keith Faber
Auditor of State
Columbus, Ohio

September 16, 2022

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 10/18/2022

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